



August 10, 2006

An Open Letter to Governor Arnold Schwarzenegger: Hiking the Minimum Wage Will Cost Californians Jobs

Dear Governor Schwarzenegger:

On behalf of the more than 65,000 California members of the National Taxpayers Union, I urge you to refrain from signing legislation (SB 1162 and AB 1835) that would raise the state's minimum wage to \$7.75 (a 15 percent boost) and provide automatic increases tied to inflation. At \$2.60 more than the federal minimum, this wage hike would create a higher rate than in any other state and would cost California's economy billions of dollars in lost jobs and investments by making it more expensive to do business here.

Economic study after economic study has shown that minimum wages – and by extension, any increase in them – do more harm than good, particularly to the very workers they aim to protect. Not only do higher minimum wages fail to raise overall wage levels, they actually reduce overall employment by making unskilled and teenage workers more expensive to hire. Worse, by raising the cost of labor to businesses, minimum wage hikes raise inflation, which sticks all consumers with an unnecessary and economically unhealthy “tax hike.” Employers may also be left with no choice but to get rid of less skilled employees, or simply pick up and move elsewhere.

One common misperception among the general public is that workers tend to remain at the minimum wage over the long run. According to research by William Even of Miami University of Ohio and David Macpherson of Florida State University, of the youngest and most inexperienced workers (age 16-18), 11.6 percent earn the minimum wage. As workers age, however, this proportion shrinks dramatically – 99.3 percent earn more than the minimum at ages 46-55. The percentage of those earning the minimum wage also declines as workers achieve higher levels of education: from 6.2 percent for those who have not finished high school to just 1.5 percent for high school graduates.

Businesses in California already face high taxes and a poor business climate. Yet another hike in the cost of doing business could spur an exodus to Nevada, Arizona, and other states where the overhead is far lower. We urge you to let the marketplace work for employers, employees, and taxpayers by keeping expensive government mandates out of the picture.

Sincerely,

Kristina Rasmussen
Senior Government Affairs Manager