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Minimum wage hike worries some Merced officials

Study says twice as many workers will be impacted in Merced as in wealthier counties

Uneducated, those who lack skills will be impacted the most, UC Merced economist says

Minimum wage increase may cause some Valley residents to leave, small businesses to close

BY BRIANNA CALIX
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Gov. Jerry Brown signed a bill into law on Monday raising the statewide minimum wage to $15 by 2022, calling a living wage morally and politically sensible while still questioning if the higher rate will make sense economically.

The bill's enactment comes one week after Brown, Democratic lawmakers and labor leaders announced an agreement on the wage increase, averting a brawl on the November ballot.

In Merced, local officials worry the increase could worsen the county's double-digit unemployment rate and shutter small businesses, while economists are looking at the short-term and long-term effects.

"The reality is that in some areas of the state, $15 may not be high enough," said Assemblyman Adam Gray, D-Merced, last week in a statement. "But in other areas, like Merced, we will suffer. ... We have small businesses, family farms and so many hardworking Californians striving for a better life. And when the rents and cost of living begin to reflect those in the big cities, my constituents will have no choice but to uproot their families and leave."

Gray was one of two Democrats to vote against the wage hike.

The Democratic-controlled Legislature passed the measure quickly last week, and on partisan lines. While labor unions and their Democratic allies celebrated the bill's passage, no Republican supported it in either house.

Republicans and business groups said rising wages will force employers to increase prices or to cut costs by laying off workers or reducing their hours.

Greg Wright, an economist at UC Merced, said that, in the short term, small businesses will have to get "creative" with how they use the labor force.

"Maybe that means more part-time work where they can call people on short notice and let people leave on short



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notice," Wright said. "It may be so onerous that some businesses may go out of business."

Wright also said soon after the increased wage goes into effect, it's likely the county will see unemployment rates go up: "The best-case scenario, in the short run, would be a very small increase in the unemployment rate."

In the short run, Wright said the Central Valley "absolutely" will feel the negative effects more than other places.

Research on the economic effect of a minimum wage increase is mixed, with findings ranging from little or no impact on employment rates, on one hand, to rising unemployment, on the other.

Mark Hendrickson, director of community and economic development for Merced County, pointed to a study done by University of Pacific's Center for Business & Policy Research that shows double the number of Merced County workers will be impacted compared to wealthier counties, such as San Francisco.

Agriculture is one of the most affected industries, the study says, with 90 percent of farm laborers being impacted.

"This may lead to costs that our businesses simply cannot afford, causing them to contract rather than grow," Hendrickson said.

In the long run, Wright said, those who will earn the $15 wage will have more income and more money to spend, thus creating more jobs, in theory.

Traditional minimum wage jobs may be replaced through technology such as robots, eliminating many jobs for those without education or many skills, Wright said.

Based on that theory, Wright agreed the higher minimum wage could increase income inequality.

In Merced County, the median household in 2014 made about $43,000 annually. More than 20 percent of all families were below the poverty level, according to data from the U.S. Census Bureau. In February, the latest numbers available, Merced County's unemployment rate was 12.6 percent, compared with the statewide rate of 5.5 percent.

"In the long run, we can't say anything is clear," Wright said. "What really should happen is a lot of these people (in the Valley) should move. When the economy has shocks like this, people move to places that are hit less hard.

"But lots of people won't move however bad it gets."

If all goes well, Wright said the new $15 rate should create a more efficient economy because it will increase productivity.

The measure will not come without a cost. According to the state Department of Finance, a $15 minimum wage would cost California about $4 billion a year.

The Sacramento Bee contributed to this report.

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Assemblyman Adam Gray in a statement last week

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