Technical Review of 3 Studies Related to the Citywide Minimum Wage Proposal:

(1) Beacon (2) Berkeley (3) Economic Roundtable

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Los Angeles City Council, Economic Development Committee Meeting

May 5, 2015
Main Components of Three Studies Submitted

1st Will Review our Assessment of Core Content of 3 Studies

(1) How many workers will see pay increases & how much?
(2) Are there negative employment consequences?
(3) How does the case of the City of Los Angeles differ?

2nd Will Briefly Summarize Some Recommendations for Implementation of Minimum Wage Policy

→ Monitoring, Small Firms, Non-Profits

Will Summarize Results of Studies for 2 Scenarios Analyzed by 3 Studies:

(1) $13.25 by 2017 and (2) $15.25 by 2019
Our Review Comes to Three Broad Conclusions:

(1) 3 studies are in **broad agreement** that a large fraction of workers in Los Angeles will receive a substantial pay raise.

(2) 3 studies **disagree on the impact on employment**. We find the Berkeley report the most thorough and its finding consistent with a broad literature.

(3) However, we caution that **uncertainty** about the effects remains. More negative effects cannot be excluded based on the existing literature.

This uncertainty is **lower** with the smaller of the two proposed increases.
Number of Workers Affected & Earnings Increases

*Studies Count the Number of Workers Earning Less Than the New Minimum*

→ Different ways to impute City wage distribution resulting in different counts

**Findings of 3 Studies Are in Comparable Range of Magnitude**

→ 2017: Fraction Affected – 30-40%  
2019: Fraction Affected – 40-50%

→ 2017: Mean Wage Increase $3.2-4K  
2019: Mean Wage Increase ~$5K

**Effects of Minimum Wages Substantial Compared to Other Cities**

San Francisco ($15) = 23%, Oakland ($12.25) = 25%, Chicago ($13) = 31%
What Are 3 Studies Findings on Employment & Why Are The Findings Different?

Projected Changes of Employment by Three Studies for 2017 Scenario:

(1) Beacon: -70,000 (2) Berkeley: -1,500 (3) Econ. Roundtable: +30,000

Why Are Findings So Different?

1) Two Different Approaches Used: Likely Not Key Source of Disagreement
2) Choices of Parameters & Estimates from Previous Studies

Why Difficult to Choose Among Existing Studies of Minimum Wage?

→ Many studies find zero effects, several find negative, some find positive
→ Consistent with broad range of contrasting predictions from economic models about effect of minimum wage
Summary of Our Discussion of Employment Estimates of the 3 Studies

Our Overall Conclusion of Discussion of 3 Studies, Partly Based on Own Estimates Drawing on Previous Work:

- Berkeley study based on standard model, well-motivated choices, consistent with broad existing literature

- There is a risk of more negative effects, likely smaller than in Beacon study

  \[ \text{Large negative effects of Beacon due to choice of very negative estimate} \]

- Large positive effects of Economic Roundtable not impossible based on prior literature, but unlikely

- Uncertainty in these predictions remains, especially in case of Los Angeles:

  \[ \text{Some, but not many large increases in minimum wage analyzed in past} \]

  \[ \text{LA's complex geography adds additional a layer of uncertainty} \]
What Are Potential Effects Across Boundaries?

The Special Situation in Los Angeles: LA City is embedded in a complex and integrated economy. All three studies address this point explicitly.

Summary of Findings from Berkeley Report:

→ Prices in Los Angeles will rise, but based on past evidence average price rise small, but will differ by industry

→ Given travel costs are high, driving around searching for lower prices unlikely to be worth it.

→ Given past evidence, mobility rates of firms out of City might be small, at least in the short run

→ Workers living outside of the City of Los Angeles will benefit

Overall Studies Account for LA’s Geography, at Least in Short Run

→ Longer-Effects are more uncertain as firms may move or substitute labor
Aspects of Implementation Addressed in 3 Studies

1. Monitoring, Data Collection, Complementary Programs

- 2 studies agree that effect of minimum wage should be monitored
- Need to have concrete steps for monitoring of minimum wage effects
  - Establish data-collection framework based on new & existing data: a) harness existing city-owned data, b) collect new data
  - Consider establishing commission to study the minimum wage
  - Further study the potential usefulness of adjustments to the minimum wage schedule in the future
- Work with community to develop complementary programs for affected workers and firms
Aspects of Implementation Addressed in 3 Studies

2. Considering Exceptions of Particular Businesses

(1) Small Firms: 3 studies agree: small firms potentially more vulnerable
   Difficult to decide what ‘small’ firms are
   Careful of exempting too many workers

(2) Non Profits: 3 studies agree: some non-profits likely more vulnerable
   \[\text{Non-profits dependent on fixed government reimbursement rates}\]
   3 studies disagree on exemptions: partly a practical issue
   \[\rightarrow\] Exceptions trade off
   a) complexity & enforcement issues
   b) reduction in coverage of minimum wages
   c) support for potentially adversely affected groups
Our Review Comes to Three Broad Conclusions:

(1) A large fraction of workers in Los Angeles will receive substantial increases in pay due to a rise in the minimum wage

→ Minimum wage is likely to significantly improving living standards

→ If past is guidance, also likely to lower income inequality

(2) We find the Berkeley report the most thorough and its finding of small employment effects are consistent with a broad literature

(3) However, we caution that uncertainty as to the effects remains. More negative effects cannot be excluded based on the existing literature.

→ This risks are smaller with the lower of the two proposed increases

→ We strongly endorse monitoring and appropriate data collection.

→ A more gradual phase in may further alleviate pressures for businesses.
Previous Findings on Employment Effects: Negative, Close to Zero, Positive – Parameter Choice Matters

FIGURE 2
Trimmed Funnel Graph of Estimated Minimum-Wage Effects ($n = 1,424$).
How is it possible that minimum wage increases have negligible effects on employment?

→ ‘Classical’ Approach:

• Workers treated like physical inputs (yeast, flour, water)
  • Firm behavior changes as a result of the cost increase
  • No behavior change on the part of workers

→ Several alternative Approaches:

• Worker and firm behavior changes when wages increase
  • Worker productivity rises & turnover falls
  • Less productive firms may be pushed to ‘high road’ practices

→ Not entirely surprising many studies find small employment effects

→ In contrast, minimum wages found to matter for income inequality
Our Replication of Beacon’s Approach to Estimate the Effect of Minimum Wages on Employment

We Replicated Simplified Version of Beacon’s Approach

→ Use method of recent report of Congressional Budget Office

→ Assess to what extent results depend on choice of previous estimates

→ Choose range of estimates from meta-analysis of over 1000 estimates

→ For moderate but conservative estimates from prior literature find somewhat larger negative employment effects than Berkeley, but smaller effects Beacon