An Analysis of the Los Angeles City Minimum Wage Proposal
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Overview

• What we agree on
  – The City of Los Angeles has a working poor problem
    • Large proportion of low skilled workers
    • Lingering effects of the Great Recession
    • Long term changes in the demand for low skilled labor
    • Rapidly rising housing costs driven by a lack of supply
  – Finding solutions to this issue is good for everyone
    • Businesses and government benefit as well

• The disagreement is in how to tackle the issue
  – The minimum wage proposal has a bad return
    • The benefits are too diffuse, offset by job losses
    • The costs to the city economy and budget too high
Who Benefits?

- The matching problem: the working poor in LAC are families whose primary income earner is earning less that $15.25 per hour, but not all workers in LAC earning less than this are among the City’s working poor
  - 52% of these workers live in households without children.
  - 30% of these workers are less than 26 years old.
  - 43% of these workers live in households where the total annual income is greater than $55,000—the county median
  - 11% of these workers hold a Bachelor Degree or more
  - 19% of these workers are in occupations that very often provide tip or commission income (i.e. waiters or sales positions) that is above and beyond the base
  - 45% of these workers don’t live in the City of Los Angeles

- The net result: Less than $1 out of $4 will actually go to those Los Angeles City residents who would actually qualify as the working poor
The Housing Conundrum

- The biggest source of distress for households in Los Angeles is the rising cost of housing
  - 50% of renters use over 35% of the income to pay for housing
  - Rental prices are rising rapidly

- You can’t fix a supply problem by increasing demand
  - The issue in California is the lack of new housing
  - Increasing wages without increasing supply will only lead to even higher prices
  - Those not receiving the benefits of higher wages will be left even farther behind
What are the costs to business?

Base increase in labor costs as % of revenues for selected industries

<table>
<thead>
<tr>
<th>NAICS</th>
<th>Industry</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>812</td>
<td>Personal services</td>
<td>7.7%</td>
<td>11.5%</td>
</tr>
<tr>
<td>722</td>
<td>Food services</td>
<td>8.1%</td>
<td>12.2%</td>
</tr>
<tr>
<td>561</td>
<td>Administrative services</td>
<td>7.1%</td>
<td>9.4%</td>
</tr>
<tr>
<td>623</td>
<td>Nursing and residential care</td>
<td>5.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>713</td>
<td>Amusement and recreation</td>
<td>5.1%</td>
<td>6.9%</td>
</tr>
<tr>
<td>624</td>
<td>Social assistance</td>
<td>5.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>485</td>
<td>Ground passenger transport</td>
<td>4.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>315</td>
<td>Apparel manufacturing</td>
<td>3.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>721</td>
<td>Accommodation</td>
<td>3.2%</td>
<td>4.4%</td>
</tr>
<tr>
<td>452</td>
<td>General merchandise</td>
<td>2.9%</td>
<td>4.7%</td>
</tr>
<tr>
<td>23</td>
<td>Construction</td>
<td>2.9%</td>
<td>4.3%</td>
</tr>
<tr>
<td>493</td>
<td>Warehousing and storage</td>
<td>2.7%</td>
<td>3.5%</td>
</tr>
<tr>
<td>337</td>
<td>Furniture manufacturing</td>
<td>2.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>712</td>
<td>Museums and similar</td>
<td>2.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>445</td>
<td>Food and beverage stores</td>
<td>2.1%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

In total 40% of the City’s employment base will be impacted.
Impact on Businesses

- Businesses cannot absorb these cost increases
  - Shift to less labor intensive production
  - Raise prices / lose business
  - Those closer to a city border will be more impacted
    - 35% of businesses are within 2 miles of another city
  - The companies serving lower income neighborhoods will be more impacted
    - Already working with smaller margins

- Reduction in City competitiveness
  - New establishments have a choice of where to locate
  - Some of those in these impacted industries will be incentivized to locate outside city borders
The local impact

• The Impact on the City and it’s economy
  – Employment growth in the City will be cut from 150,000 jobs over the next 5 years to 10,000 to 77,000
  – Other workers will see a reduction in total income because of fewer hours worked
  – These estimates implicitly include the feedback effect of higher wages for workers who keep their job
  – City revenue growth reduced by a third over the same period
  – Sales and Gross Receipt taxes most impacted.

• The impact on workers
  – One third of job losses will occur for workers under 25
  – One third of job losses will occur for workers who do not have a high school diploma
  – Undocumented workers likely to be harmed as well
Basic points of difference

• Hypothesis: Raising the minimum wage in the City can have a net positive impact on the City economy
  – Reality: Much of the positive impact of higher wages will fall outside the city. All the negative impact on employment, prices and small business will be inside the city
  – Reality: raising the minimum wage is a transfer from consumers and businesses to lower hourly wage workers. Transfers redistribute the pie, they don’t increase the size of it

• Hypothesis: Higher minimum wages in LA City will push wages up in other surrounding cities
  – Reality: Job reductions in the City will increase the supply of labor in the county and put downward pressure on wages
Basic points of difference

• Hypothesis: Raising the minimum wage is good for businesses because of reduced turnover and productivity gains
  – Reality: Businesses understand what is best for their success, and are capable of (and do) make these choices

• Hypothesis: Businesses will want to locate to the City of Los Angeles because of better productivity
  – Reality: A minimum wage hike is the equivalent of a tax on City businesses that reduces demand to operate here
  – Reality: There is an active debate in mainstream economic literature as to the magnitude of the negative impact of a higher minimum wage. There is no credible work suggesting raising the minimum wage can increase employment
Conclusions

- We applaud efforts to help those families struggling in Los Angeles
  - This debate is not about ‘we’ vs. ‘they’
  - Is the minimum wage the right mechanism? We think the answer is clearly no, particularly in its current form.
  - The benefits miss many who need help, and may actually cause harm to these families
  - The costs to the City’s economy are significant, and the impact on the budget very real

- Just ask
  - Talk to small businesses in your district. Find out how this will impact their ability to do business.
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  - Ports & Infrastructure Analysis
  - Economic Impact Analysis
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