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Item No.: 1

~~Item~~ Commentation from the
Chief
Legislative
Analyst.

**Technical Review of 3 Studies Related to
the Citywide Minimum Wage Proposal:
(1) *Beacon* (2) *Berkeley* (3) *Economic Roundtable***

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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
 - *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:
 - *Some, but not many large increases in minimum wage analyzed in past*
 - *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

→ *Non-profits dependent on fixed government reimbursement rates*

3 studies disagree on exemptions: partly a practical issue

→ Exceptions trade off a) complexity & enforcement issues

b) reduction in coverage of minimum wages

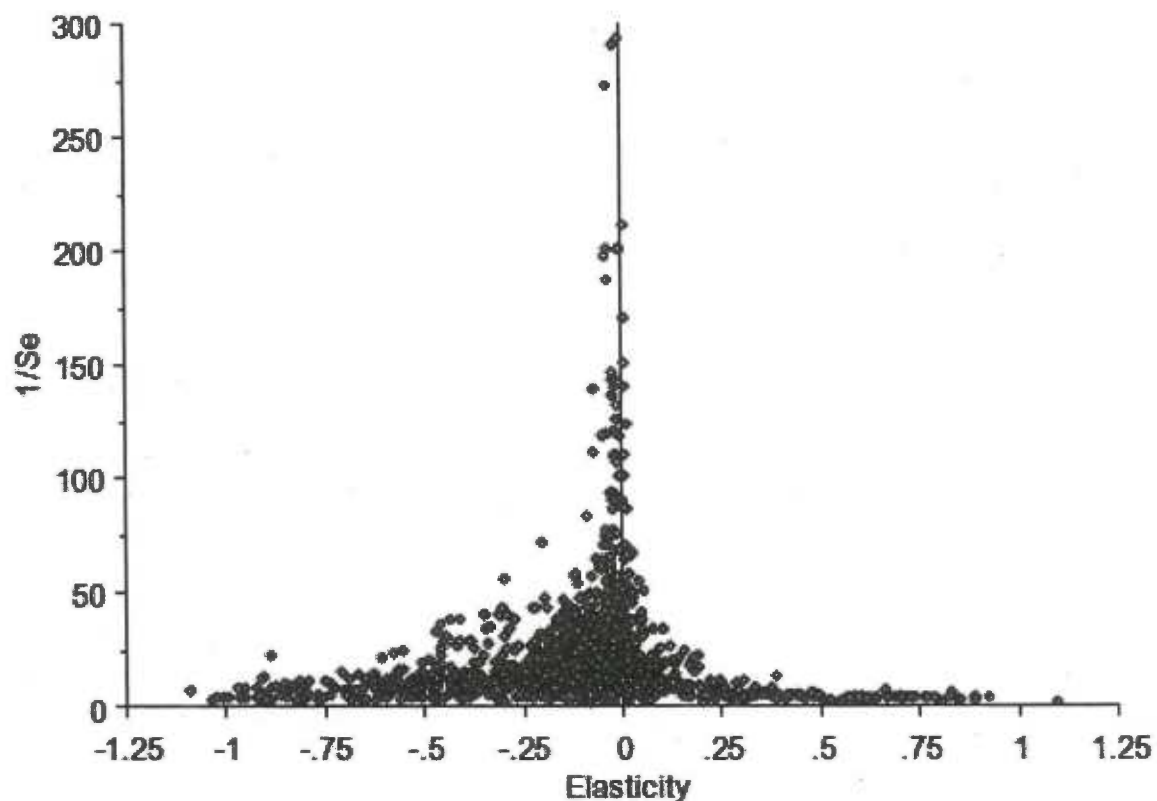
c) support for potentially adversely affected groups

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