

Local Minimum Wage Analysis

LA City Council Management System File: 14-371 – Establishment of Minimum Wage in LA
SUMMARY: The new ordinance increasing the minimum wage in Los Angeles to \$15 an hour by 2020 will have both positive and negative effects upon the city, the surrounding area, and most importantly the citizens, depending upon the specific circumstances for various situations. Overall, it seems as though the effects will be more negative than positive.

STATUS: June 13th, 2015 – Signed into law by Mayor Eric Garcetti

ANALYSIS: The most significant stated benefits from an increased minimum wage are an increased living standard due to greater purchasing power and general economic stimulus from consumers having more disposable income to spend. However, these two benefits aimed at reducing poverty in Los Angeles are largely dependent upon many factors not changing. These include prices, employment numbers, affordable housing, and existing profit margins, among others.

Although consumers would seem to have greater purchasing power from an increased minimum wage, businesses will raise prices to help offset increased labor costs. This will serve to nullify consumers' increased purchasing power, should these consumers even keep their jobs in the first place. This includes general consumer goods, but also housing prices, as California's price of living continues to grow. In addition, this increased minimum wage law could be seen simply as an inflationary adjustment spread out over a period of five years. Prices may rise as a result of inflation over the same time period; coupled with price increases to offset increased labor costs, consumers may actually have reduced purchasing power when compared to before.

Businesses' labor costs will inevitably increase as a result of this law. The slow incremental wage increase is designed to help businesses by providing an adjustment period, but may ultimately still be harmful to some businesses. In addition, most firms operate with a wage ladder, meaning that all wages in the business must increase as a result of a higher minimum wage. Should costs exceed revenues, employees will either have their hours reduced or possibly even be laid off. Businesses would likely start with those at the bottom of the wage ladder, hurting those supposedly benefitting the most from a higher minimum wage. This affects small businesses, the main creator of new jobs in the economy, much more than larger businesses and corporations. These small businesses are more likely to employ minimum wage employees and are less flexible when it comes to managing increased costs.

Those workers in labor dependent industries with small profit-margins will be affected drastically. These businesses will be incentivized to mechanize and automate their work processes in order to reduce employee labor costs, reducing employment while also possibly resulting in reduced quality of goods. These can include jobs in manufacturing, for example.

Food services, nursing and residential care, and textile and apparel manufacturing will all be hit heavily by increased labor costs. Apparel and manufacturing businesses already outsource a large amount of labor to foreign labor markets due to higher labor costs in the United States: an increased minimum wage would only further hurt U.S. employees by reducing their overall employment.

Small businesses with fewer than 25 employees are already given an exemption allowing them one more year than larger businesses to implement these new minimum wage laws. Further exemptions may be necessary in order to support these groups during the adjustment period. Small businesses with lower profit-margins and non-profit groups may require additional support, diverting government resources from other possible avenues.

In addition, many unskilled workers will have a harder time finding employment opportunities, as businesses will be less incentivized to hire these workers at a higher wage rate. In addition, many retailers and restaurant businesses rely upon teenage, part-time workers. Having an increased minimum wage law would reduce businesses' incentives to hire these workers and prevent these young citizens from obtaining valuable early work experience, hurting them in the future. What is not often mentioned when discussing an increased minimum wage is the possible effect upon employee benefits and protections, such as pension and healthcare benefits. Increased wages may cause some employers to reduce or discontinue these protections that are valued much more highly than a simple wage increase, hurting those workers supposedly benefitting from a much higher minimum wage.

In addition to laying off workers, many local businesses may re-locate in order to escape the higher labor costs associated with Los Angeles' minimum wage law. This will result in reduced job growth in the city while also reducing the revenue stream for the city itself. This is relevant to Pasadena, as many of the surrounding cities may offer more attractive business locations based upon prospective labor costs stemming from a higher minimum wage. Should other cities not increase the minimum wage, those areas could attract some businesses to re-locate there in order to save on labor costs. However, it must still be economically viable to do so. Re-locating can be a costly process and not only results in multiple conventional costs, but also results in the loss of customers and similar associated costs.

RECOMMENDATION: Based on the above analysis, the proposed increase of minimum wage would seem to offer more drawbacks than benefits.

Although consumers would theoretically have more disposable income and possibly be able to increase their standard of living, this is contingent upon them retaining and maintaining the same level of employment while prices also remain the same. Because many businesses may have to adjust their employment practices and prices as a result of increased costs from an increased minimum wage, these employees may not actually benefit as much as originally thought. They may end up working fewer hours than before or even have their employment terminated in some cases.

Small businesses are an important part of any economy. They are the entities that will be most harmed by an increased minimum wage law, as their profit margins are generally smaller and their capabilities make it difficult to adjust to a large overall wage increase across the firm's entire wage ladder. This will result in reduced employment growth and make it more difficult for unskilled workers to find employment opportunities in the future.

This proposed minimum wage law is designed to reduce poverty in Los Angeles and provide an economic stimulus. However, it does not seem like an increased minimum wage law would accomplish this goal. Based on my above analysis, I recommend that the Pasadena Chamber of Commerce not adopt an increased minimum wage.

Sources:

Beacon Economics – Cost-Benefit Analysis: Los Angeles Minimum Wage Proposal (March 2015)

UC Berkeley Labor Center – Minimum Wage & Living Wage (Resource Page)

Los Angeles County Economic Development Corporation (LAEDC) – Considering Minimum Wage Policy in Los Angeles County: Reviewing Recent Research and Assessing Potential Implications (June 2015)