

## Minimum Wage Analysis

**SUMMARY:** The Pasadena Chamber of Commerce should not support a minimum wage increase in the city of Pasadena to \$15 per hour by 2020.

### **ANALYSIS:**

#### **1. Is raising the minimum wage to \$15 per hour by 2020 good for Pasadena and the members of the Pasadena Chamber of Commerce?**

Raising the minimum wage to \$15 per hour by 2020 is not an economically sound decision for Pasadena and the members of the Pasadena Chamber of Commerce. Due to the underlying nature of employment in Pasadena, as well as the business environment in the city, the economic costs of raising the minimum wage will outweigh the economic benefits.

Pasadena and LA differ across a variety of economic indicators that signal that LA is a much more viable and realistic candidate for the \$15 minimum wage than Pasadena, and that Pasadena cannot simply follow their minimum wage plan. Firstly, LA residents have a median income per capita of \$27,000 and a median household income of \$55,000, while Pasadena compares at \$41,000 and \$68,000, respectively. LA residents spend an average of 47% of their income on rent, while in Pasadena, 40% of residents give 35% of their income. Finally, before the minimum wage hike in LA, 46% of workers were living under \$15 per hour, while only 15% of workers in Pasadena live under this wage. Additionally, more LA residents are on government assistance than Pasadena residents. Through this initial comparison, there are many more workers in LA that benefit and then contribute back to the LA economy through a wage increase, but in Pasadena, the effects on wage earners would be drastically different.

Finally, less than 15% of workers in Pasadena live in Pasadena, compared to 35% in LA. (2010 U.S. Census figures report that 13,745 workers in Pasadena reside in Pasadena.) The majority of Pasadena residents work elsewhere where the minimum wage may or not be \$15 per hour. As a cost-benefit analysis depends both on the impact to business and the response of those benefiting from the wage increase, Pasadena residents are likely to bear the burden of a minimum wage hike through increased costs to businesses, while limitedly benefiting from the effects of increased wages due to the limited amount of workers that live in Pasadena, and the small amount of workers making less than \$15.

#### **2. What will be the potential impacts on local businesses?**

While raising the minimum wage to \$15 may not be significant for some businesses within the Pasadena Chamber, such as larger, high wage and high profit retaining firms, for many local, smaller businesses that are relatively dependent on labor, raising the minimum wage becomes very significant. For example, in the non-profit sector, where there is less flexibility in shifting revenue due to reliance on grants or donations, layoffs will be inevitable in order to mitigate the high labor costs. Additionally, local businesses that have wage ladders may feel obligated to raise worker wages across the board to keep hierarchy of pay. Analyses have shown that this 'ripple effect' can add 150% of the cost of a minimum wage increase, which will greatly affect smaller local businesses. Overall, particularly with smaller, local businesses, wages are set in accordance with the businesses operating costs. Intervening in how a small local business sets its

wages can have large effects on the amount of employees it can continue to pay, as well as with other aspects of operation.

**3. What will be the potential impacts on Pasadena's competitiveness to recruit and retain businesses? (Especially if our local competitors – Burbank, Glendale, Alhambra, Arcadia, Monrovia) do not increase the minimum wage there**

Because the majority (85%) of Pasadena residents work outside the city, businesses in the city will not be able to successfully pass higher labor costs onto consumers that are receiving higher minimum wage. Thus, according to the Beacon Economics analysis, business will have two options – either change their structure of employment in order to keep up with the higher costs associated with labor, or move outside the city. Additionally, it is possible that since such a high percentage of Pasadena workers live outside Pasadena, they will receive these wage hikes from Pasadena, and they will pass off their increased earnings to other competing cities.

**4. Should there be any exemptions?**

**a. If so, who and why?**

There should be exemptions on training periods, nonprofits, small businesses, and if possible, restaurants that have employees that receive second incomes through tips. If a full exemption within these categories is not possible, Pasadena should follow the LA model and allow at least small businesses and non-profits to take extra time to phase in. For these three categories, it is often difficult to offset the costs of an increase in wages compared to larger more established companies. In addition, restaurants with high tip earners are included in potential exemptions because only 8% of Pasadena Chamber members are restaurants. This is a small percentage of businesses in Pasadena; therefore the impact of exemptions for restaurants will be small.

**5. Who will benefit from the increase?**

**a. How and why?**

Due to the nature of Pasadena employment, raising the minimum wage will grant financial gains to workers that should not be the focus of inequality policy issues. Pasadena has a widening inequality issue that cannot be ignored. In 2012, the richest 1/5<sup>th</sup> of Pasadena households earned 53% of the income, and the poorest 1/5<sup>th</sup> earn 2.3% of the income. A high percentage of these low-income workers are working outside the city. Thus, those that will be getting a raise inside the city will probably not be primary income earners, live in households with a total income greater than the median household, and will be households without children, according to the Beacon Economics study. So while there will be those that will benefit from an increase in wages, it will not help those that need it most – low wage earners that are most likely working outside the city of Pasadena in the first place. There will be, of course, modest benefits for low-income residents that do not lose their jobs.

**6. Who will be hurt by the increase?**

**a. How and why?**

Businesses that have high labor costs will be hurt by the increase. Nearly all Pasadena low-wage jobs that have high labor costs are in retail, restaurants, hotels, education and health care. According to the California Restaurant Association, labor costs currently account for about 40% of a restaurants operating costs, and a minimum wage increases to just \$13 per hour would represent an increase in labor costs to 60%. After the wage increases in 2007, 58% of restaurant

operators increased menu prices and 41% reduced employee hours. However, considering that 11% of Pasadena Chamber members are businesses that would fall under those that would be the most hurt by this increase (restaurants, and small local retailers), Pasadena Chamber members will on the whole, not be a major portion of those that will be greatly affected by the increase. But, low income members of Pasadena that live in the city that will be working for these high-risk chamber members will be affected. Additionally, low-skilled workers will be affected by this increase. Due to the costs associated with raising wages on small businesses, many Pasadena residents will lose their jobs, and according to existing literature on minimum wage policy, low-skilled workers will generally be the first to face layoffs.

### **CONCLUSION:**

To conclude, raising the minimum wage in the same way that LA is doing will not be good for the Pasadena Chamber Members nor the economy of Pasadena at large. Pasadena is structurally different in terms of employment to many cities that have instigated a wage hike (San Francisco, Los Angeles, Seattle, etc.) making the costs outweigh the benefits. I suggest a smaller wage hike, an extension of the phase in period, or an elimination of the minimum wage for non-profits and small businesses, or restaurants with tip earners in order to set a minimum compensation level in order to help low wage earners in Pasadena. It is important to not generalize in our implementation of minimum wages across the country. While \$15 per hour may work for some cities, each city is different in both the breakdown of industry and employment, and a minimum wage will affect each city very differently. While increasing the minimum wage will be important to combat income inequality in Pasadena's future, I do not propose that Pasadena can simply follow the structure of LA's minimum wage when the cities are so different.

Therefore, I do not think that the Pasadena Chamber of Commerce should support an increase of the minimum wage in Pasadena to \$15 per hour by 2020.