

PASADENA MINIMUM WAGE INCREASE

First and foremost, do not enact a Pasadena Minimum Wage Ordinance without first thoroughly analyzing:

1. The nature of the workforce and the business sector in Pasadena,
2. The impacts the Ordinance would have on the workers and the various business sectors.

Because the size and composition of the lower wage workforce is very different in different jurisdictions, the impact and benefit (if any) of implementing a single higher minimum wage regime will vary. Consequently, the rationale for imposing a higher minimum wage in one jurisdiction is not a justification to impose and will not have the same effect, as imposing the same the same higher minimum wage in another jurisdiction.

Basic Economic Principle: When the cost of doing something is increased (such as employing workers at the very lowest end of the wage scale), less of it will be done. In this case, other things remaining the same, fewer employees at the proposed higher minimum wage rate will be employed.

Range of potential impacts: A minimum wage increase will result in at least one, or more likely a combination, of the following

- Fewer workers at the lowest end of the pay scale will be employed
- The price of the goods or services the low wage workers produce will be raised
- Lower wage workers will be required to be more productive (i.e., produce more in a given time)
- Incentives to automate and reduce the number of low wage workers will increase
- Business activity that requires the proposed more expensive low wage workers will decline or flee to a jurisdiction without the higher minimum wage

Job losses: Fewer workers will be asked to produce more because it will be required to justify paying those workers higher wages. Lower skilled or potential entry level workers will be most adversely affected; the very workers who an increase in the minimum wage is supposed to help. With more expensive labor, businesses will seek out more ways to eliminate jobs through automation, etc.

Wage ladder effect and total impact: Wages of workers earning more than the minimum would have to be raised to preserve a spread sufficient enough to reflect their greater productivity, skill, etc. The total impact on the cost of labor to a business could be a multiple of the increase in wages for just the workers at the bottom of the wage scale who would get an increase.

Increased costs to consumers: If demand for a product is strong enough, it may be possible for businesses to increase the prices of their goods to all consumers. Similar to inflation, this would have the same effect as reducing the income of everyone who did not directly benefit by having their wage increased.

Business profits squeeze and business flight: If the same number of workers are required to be paid more but they still produce the same amount of product, business profits will fall if prices for the product cannot be raised to fully offset the increased labor cost. Businesses will have an incentive to flee, to reduce operations, or not to expand operations in jurisdictions with a higher minimum wage.

Reduction in real estate values and tax revenue: If businesses cannot pass on to consumers the increased wage costs, businesses may have to reduce the rents they are willing to pay to offset the

higher low end wages that have to be paid. That in turn would lower real estate values and ultimately reduce real estate tax revenues.

Businesses most affected: Businesses that have larger numbers of lower wage or lower skill workers would be the most directly and adversely affected. Examples are retail, restaurants, various low skill service industries, and hospitality. Non-profits that employ many part-time workers in jobs at the lower end of the wage scale would also experience large adverse impacts.

Exemption: It would be irrational to not exempt jobs (principally restaurant service staff) in which tips are a major component of the worker's compensation.

Periodic adjustments: Do not incorporate a periodic CPI adjustment. If there is to be any adjustment, it should be the lower of CPI or the general increase in wages. Minimum wage workers should not get mandated pay increases that could be higher than the growth in workers' wages in general.