BEACON ECONOMICS

Analysis. Answers

An Analysis of the Los Angeles City Minimum Wage Proposal

March 2015

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Date: 3/24/15

Submitted in Econ. Dev. Committee

Council File No: 14-1371, 14-1371-S1, 14-1371-S2

Item No.: 1

Communication from Beacon Economics

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

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

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 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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