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POLICY BRIEF
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The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options

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A Report to the Los Angeles City Council

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Executive Summary

The Los Angeles City Council is considering a citywide minimum wage increase to $13.25 by 2017 and $15.25 by 2019, followed by annual increases indexed to inflation. In this prospective study, we assess the economic impact of the proposal on workers, businesses and the city's economy, and analyze a range of policy design options.

Our below findings are based on a mid-range scenario for future wage and inflation growth in Los Angeles. If actual economic growth turns out to be stronger or weaker than in this scenario, our assessment would change accordingly.

Effects on Workers

- The proposed policy would result in significant benefits to workers and their families. By 2017, we estimate that 542,000 workers in Los Angeles, or 37.8 percent of the covered workforce, will receive a wage increase from the proposed law. These estimates include a ripple effect in which some workers who earn above the new minimum wage also receive an increase. Average annual earnings will increase by 20.4 percent, or $3,200 (in 2014 dollars).
- By 2019, we estimate that 609,000, or 41.3 percent of the covered workforce, will receive a wage increase from the proposed law. Average annual earnings will increase by 30.2 percent, or $4,800 (in 2014 dollars).
- The large majority of affected workers will be adults with a median age of 33 (only 3 percent are teens).
- The proposed minimum wage increase will disproportionately benefit workers of color, who represent over 80 percent of affected workers. In particular, we estimate that more than half of Latino/a workers in Los Angeles will receive a pay increase.
- The median annual earnings of affected workers ($16,600 in 2014 dollars) is about half of the median income for all workers in Los Angeles. Affected workers are disproportionately employed in part-time and part-year jobs, and are also less likely to have health insurance through their employer.
- Affected workers disproportionately live in low-income families; on average, affected workers bring home more than half of their family's income.
- Affected workers live disproportionately in the lower-income areas of the city. These areas will experience much greater earnings gains than the city as a whole.
- The research literature suggests that there may be downstream benefits from the proposed wage increase, such as improved health outcomes for both workers and their children, and increases in children's school achievement and cognitive and behavioral outcomes.

Effects on Businesses

- We estimate that the majority of workers getting a raise from the proposed law are employed in the private, for-profit sector. Four industries alone account for half of the affected workforce by 2019: food services, which is largely restaurants (17.3 percent), health care and social assistance (12.9

percent), retail trade (14.0 percent), and administrative and waste management services, such as temp agencies and janitorial and security contractors (9.4 percent).

- We estimate that about 40 percent of affected workers are employed at firms with fewer than 50 employees. At the other end of the size range, close to 40 percent of affected workers are employed at firms with 500 employees or more.
- Minimum wage increases do not affect all industries equally. For example, we estimate that 79.7 percent of workers in the restaurant industry will receive a wage increase by 2019; that figure is only 19.1 percent in Professional and Scientific Services industries.
- Overall, we estimate that firms' operating costs will increase by 0.5 percent by 2017 and 0.9 percent by 2019 as a result of the proposed law; these are cumulative estimates and will be spread over several years. The largest increases will occur in food services, administrative and waste management services, and apparel manufacturing.
- We estimate that 6 percent of the workers projected to receive increases are employed in one of Los Angeles' 2,500 nonprofit organizations. The impact of the proposed law varies considerably across the nonprofit sector, with the largest effects in residential care and early care and education.

Costs and Benefits for Los Angeles' Economy

- On the cost side, we find that employers will pass on their increased operating costs to consumers via prices, after accounting for savings from reduced employee turnover. As a result of these price increases, consumer demand in Los Angeles will decrease by $592 million by 2017 and $1.128 billion by 2019 (nominal dollars).
- While price increases reduce consumer demand, increases in low-wage workers' wages will have the opposite effect. On the benefits side, we estimate that the total wage increase from the proposed law (net of reductions in public assistance and lost worker income due to reductions in consumer demand) will be $1.361 billion by 2017 and $2.381 billion by 2019 (nominal dollars). These increased incomes generate further spending benefits through multiplier effects.
- The costs of the proposed minimum wage law will be concentrated in Los Angeles City, but the full benefits will be realized throughout Los Angeles County, because more than half of the affected workers live, and therefore spend most of their increased earnings, outside the city.
    1. *Los Angeles City*: Combining costs and benefits and taking into account multiplier effects, we estimate a cumulative net reduction in GDP of $135 million by 2017 and $315 billion by 2019, or 0.1 percent compared to a scenario with no city minimum wage increase. These effects on the level of economic activity correspond to a cumulative net reduction in employment in Los Angeles City of 1,552 jobs by 2017 and 3,472 jobs by 2019, or 0.1 and 0.2 percent of all employment, respectively. These employment changes are quite small when compared to projected job growth of 2.5 percent a year in the city.
    2. *Los Angeles County*: Combining costs and benefits and taking into account multiplier effects, we estimate a cumulative net increase in employment of 3,666 jobs by 2017 and 5,262 jobs by 2019 at the county level.
- These are cumulative estimates, which will be spread over a number of years; 2017 estimates will be spread over 2015-2017, and 2019 estimates will be spread over 2015-2019.

- We project a nominal increase in sales and business tax receipts for the City of $2.6 million in 2017 and $4.7 million in 2019. We were not able to project increases in costs to the City budget.
- Previous research suggests that business relocations in the Los Angeles area are more determined by real estate prices and access to consumer markets than by differences in labor costs. Wages are likely to rise just outside of Los Angeles City as businesses there will want to hold on to their workforce. The low levels of retail vacancy rates inside and near Los Angeles City will also mitigate any net business exodus.
- Recent research also suggests that any business closures stimulated by minimum wage increases tend to be offset by additional new businesses.

Policy Assessment

- We find that the benefits of the proposed minimum wage law will largely outweigh the costs in Los Angeles City, and when the larger region is considered, the net impact of the law will be positive.
- The high density of low-wage jobs in Los Angeles means that the benefits of raising the minimum wage will be considerable; it also means that the risks of unintended effects are greater, especially at higher wage levels.
- In implementing a local minimum wage ordinance of the proposed magnitude, it will be essential to monitor the program as it develops. Support will be needed for small businesses and nonprofit agencies to make the transition toward higher wages, and to secure increases in reimbursement rates for nonprofits funded through government subsidies.
- Finally, given the high rates of workplace violations in Los Angeles, the goals of the minimum wage proposal will be realized only by including robust enforcement language in the law, creating a city enforcement agency, and implementing good enforcement practices and policies.

Our goal in this report has been to provide the Los Angeles City Council the best information available as it weighs these competing factors in designing the best policy for the city's workers, businesses and residents.