



LOS ANGELES RISING

A City That Works for Everyone

March 2015



A report by Economic Roundtable
UCLA Labor Center
UCLA Institute for Research on Labor and Employment



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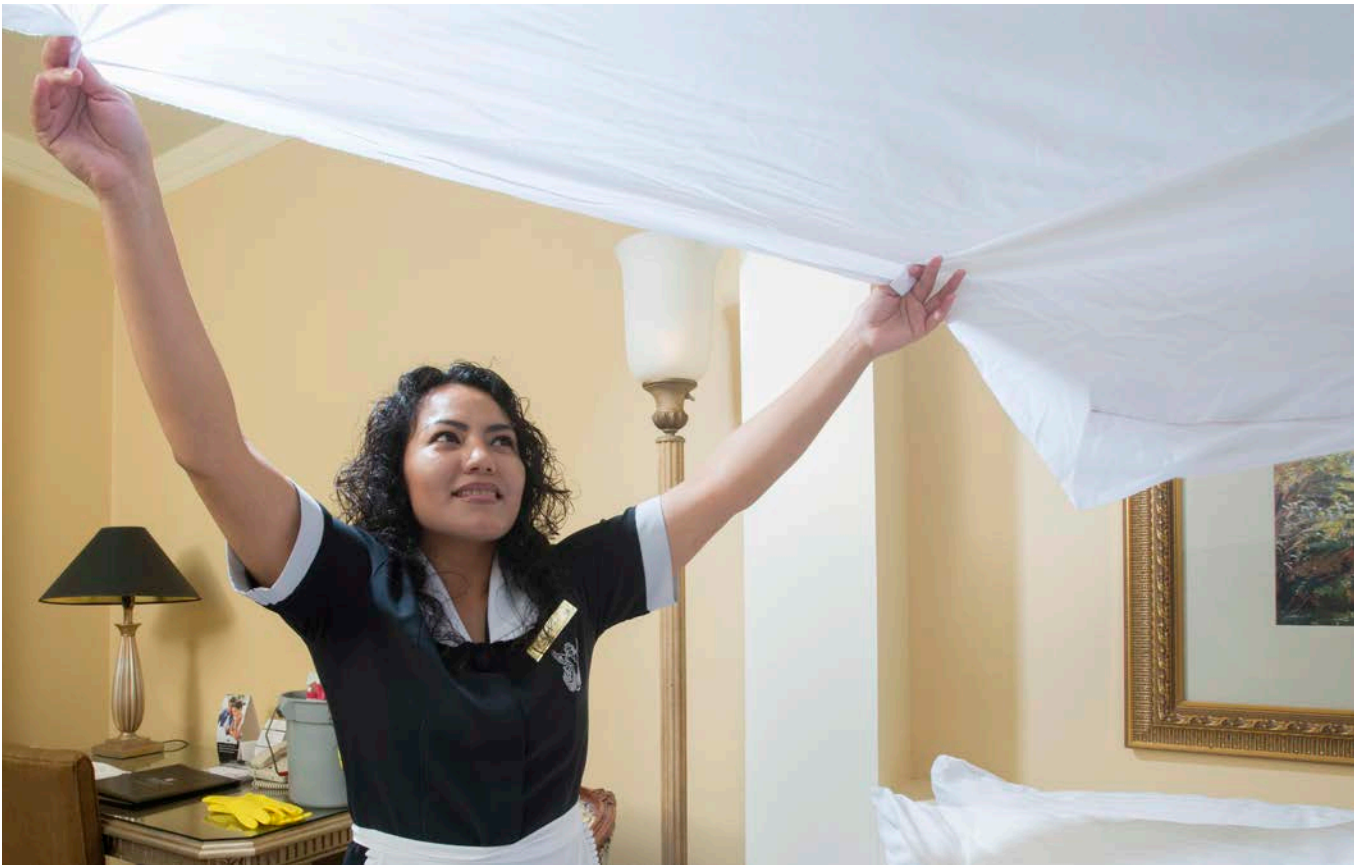
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Executive Summary

Los Angeles Rising: A City That Works for Everyone

For many, Los Angeles evokes images of year-round sunshine and celebrity, a dream city of wealth and possibility. Yet in reality, half of L.A. residents living in poverty are employed, showing that low wages drive poverty as much as unemployment does.

This report assesses the benefits and consequences of raising Los Angeles's minimum wage to \$15.25. The result will be an increase of \$5.9 billion in wages with a stimulus effect for the region. Paying fair wages will be an adjustment for some businesses, but the result will be a bigger, more sustainable and inclusive economy for Los Angeles.

A Low Wage City with a High Cost of Living

Los Angeles is a low-wage city with a high cost of living.

- » 723,000 employed, working-age adults earn less than \$15.25 an hour. Twenty-two percent of those earning below \$15.25 live in poverty.
- » Workers today earn less in purchasing power than they did 35 years ago. Wages for low-wage earners, such as restaurant workers and retail cashiers, have lost a third of their buying power over the past 30 years.
- » 67 percent of Los Angeles households make just 29 percent of the city's income, while 7 percent hold 31 percent of the city's income.

Wage growth has not kept pace with costs.

- » Next to comparable cities, the cost of living in Los Angeles is among the highest. Yet, Angelenos earn less than in any other comparable city.
- » San Francisco's cost of living is 20 percent higher, yet median earnings are 70 percent higher. Dallas's cost of living is 30 percent lower, yet median earnings are the same. Chicago's cost of living is 10 percent lower, yet median earnings are 20 percent higher.
- » Wage theft, or violations of basic labor laws, exacerbates already low wages. More than half of garment workers and one-third of janitorial, retail, and private household workers report minimum wage violations.

A Stimulus Effect for the Region

A \$15.25 raise in minimum wage will increase earnings by \$5.9 billion for 723,000 workers in 2019. Workers aren't the only ones who benefit from having more earnings in their pockets. Businesses throughout the Los Angeles region will reap the rewards of increased spending by households. The multiplier impacts of \$15.25 results in increased spending at neighborhood, service-oriented businesses such as health care, restaurants, and retail.

The stimulus effects for the region include:

- » Every dollar increase in the minimum wage results in \$1.12 stimulus to the economy.
- » The region will create 46,400 new jobs, of which 24,875 will be in the City of Los Angeles.
- » State and local governments will receive \$414 million in added revenue and the federal government \$546 million.
- » Public assistance expenditures will be reduced by \$313 million a year because higher wages will lift workers out of poverty.

Resilient Industries

Industries in Los Angeles are predominantly resilient. Many industries have few low-wage workers. Most that do employ low-wage workers are providing services to more affluent residents who can adjust to price increases that may result from a higher minimum wage. In these industries, Los Angeles residents provide services to other Los Angeles residents, but do not earn enough to make ends meet.

- » 4/5 of low-wage jobs are doing face-to-face work that requires a physical presence in Los Angeles.
- » Only 12 percent of low-wage jobs produce goods that leave the local economy.

Evidence from studies of wage increases in Los Angeles and in other cities indicates that businesses are able to make adjustments to moderate wage with minimal increases in price and negligible impacts on employee hours and benefits. Savings from lower turnover costs and increased productivity help balance the cost to businesses.

Los Angeles' wage increase to \$15.25 is beyond the scope of past research, but because it is spread over five years there are readily available tools for monitoring and managing effects of the series of stepped wage increases. We identified seven industries that particularly important to monitor during the five annual increments of wage increases:

- » Textile and apparel manufacturing
- » Temps, guards, and janitors
- » Home health care services
- » Residential care and nursing facilities
- » Child day care services
- » Restaurants and bars
- » Personal and repair services

These industries account for roughly a fifth of the jobs in Los Angeles. We see strength among firms with over 100 employees in the seven industries that can help businesses adjust to higher labor costs through investments in technology and human capital. Six of the seven industries are in the service sector where consumer demand is expected to support necessary price increases.

Geography of Opportunity

Mapping impacts and benefits, we found that raising the minimum wage will geographically address inequality. In particular, it has strong benefits on low-income areas in the region. Many businesses that will feel the impact from higher wage are located in higher income, economically resilient areas. Many businesses in low-income areas are likely to benefit from a surge in purchasing power of low-income workers.

Because Los Angeles is a deeply integrated, multi-sited economy, the benefits will spread beyond the city's boundaries to the broader region.

- » Raising the wage will have a particularly strong ripple effect in low-income areas where people receiving the wage raise live.
- » In South Los Angeles, for example, over 60,000 workers will see a wage increase. Families in these areas will circulate this added income into the local economy.

Raising the minimum wage will be an engine for economic recovery in low-income neighborhoods and build a more inclusive, sustainable economy across the city.

The labor force that finds jobs in Los Angeles is over a hundred times larger than that in neighboring cities with the largest flows of workers across the city line. This means that LA's action to raise the minimum wage is likely to influence wage levels beyond its borders as businesses compete to attract and retain competent workers. There is a strong prospect that higher wages will strengthen the city's capacity to attract the most capable workers, pressuring neighboring businesses and cities to increase their minimum wage levels to avoid losing their most productive labor force to Los Angeles.

Expanding Opportunities Parallel to Raising the Wage

Two separate reform initiatives will act in parallel to help raise the wage floor and boost employment and earnings for Los Angeles workers: (1) the Deferred Action for Childhood Arrivals (DACA) and Deferred Action for Parents of Americans and Lawful Permanent Residents (DAPA), and (2) Proposition 47, the Safe Neighborhoods and Schools Act.

Both programs will improve employment and earnings opportunities for low wage workers, independent of the \$15.25 increase.

- » DAPA and DACA are projected to raise wages for 15,000 eligible workers above the \$15.25 threshold.
- » We estimate that over 10,000 eligible persons in Los Angeles City will reduce their convictions under Proposition 47 and gain access to much broader employment opportunities.
- » Expanded employment opportunities are projected to add \$13.8 million in annual earnings for communities most impacted by mass incarceration.

Consequence of Inaction

Without action to raise the wage floor, the problems caused by incomes that are inadequate to sustain working families will become more acute. The cost of living is continuing to rise in Los Angeles and labor market projections by the California Employment Development Department show that the number of low-wage jobs will grow faster than the number of mid- and high-wage jobs. Inaction will mean that the share of the labor force that does not receive sustaining pay will grow and the gap between stagnating low wages and the cost of a basic standard of living in Los Angeles will continue to widen.

Toward a Smart, Enforceable Policy

Analyzing the approaches of other municipalities to raising and enforcing their minimum wage, we recommend the following best practices:

- » Phase minimum wage increases to allow the city to adapt.
- » Allow minimum wage to keep up with the cost of living.
- » Apply the raised wage to all workers with no exemptions or deferrals.
- » Enforce the wage with strong tools to enforce the wage, including a funded city authority to address claims, meaningful sanctions, and protection from retaliation.

We include tools to create a data dashboard to closely monitor the economic impacts of raising the wage, so the City can monitor and remedy any unintended effects.

Why LA Needs a Raise



Raising the minimum wage to \$15.25 will provide social and economic benefits to our region. LA will see a \$5.9 billion increase in worker earnings. Paying fair wages will be an adjustment for some businesses, but the result will be a bigger, more sustainable, and more inclusive economy for Los Angeles.

LA is Ahead in Inequality, But Lags in Wage Growth

67% of Los Angeles households make just 29% of the city's income, while 7% of households hold 31% of the city's income.

The wages of restaurant workers and retail cashiers have lost **one third** of their buying power over the past 30 years.



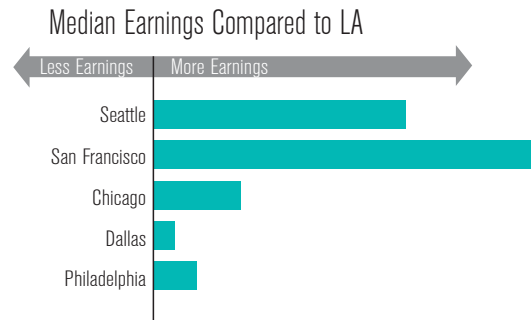
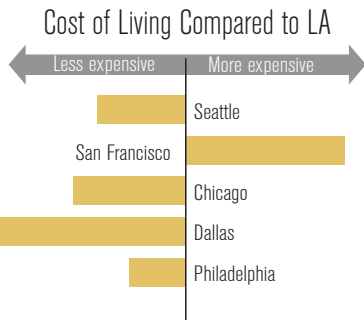
1979 = \$1



2015 = 68¢

LA's Wages Are Low, but the Cost of Living is High

Los Angeles is a low-wage city with a high cost of living. Though rent, food, and transportation costs are high, Angelenos earn less than in any other other comparable city.



A Stimulus Effect for the Region



Raising the wage to \$15.25/hour will put **\$5.9 billion** into pockets of LA workers. These earnings will have a ripple effect across the local economy.

Every dollar increase in minimum wage generates **\$1.12** in economic stimulus.

More money to spend at local businesses.



Adds **\$414 million** in tax revenue.

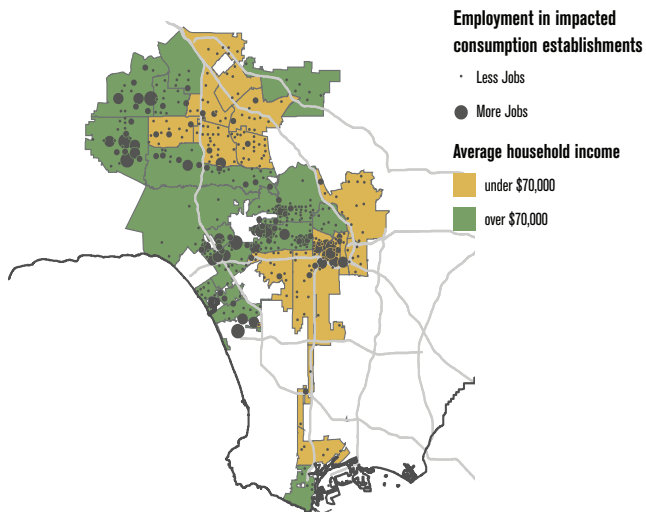


Creates **46,400 jobs** for LA region, concentrated in the consumer-oriented industries, such as restaurants, hospitals, groceries, and retail.

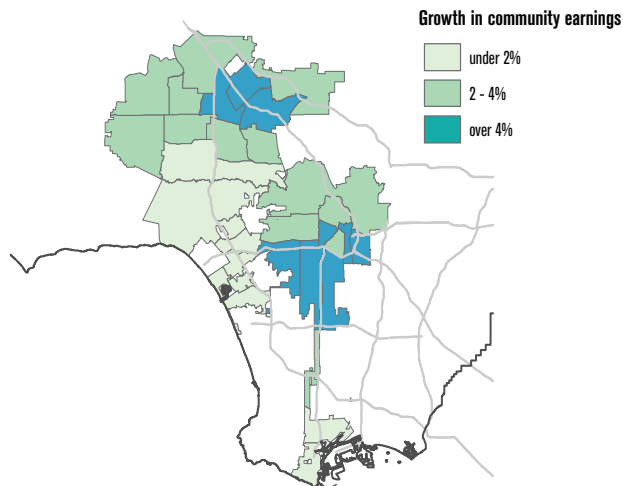


Address Inequality Across the City

Many businesses that will feel the impact from raising the wage are located in high income, economically resilient areas.



Raising the minimum wage will produce a surge in purchasing power that will reverberate throughout the region, especially low-income communities.



Industries Are Resilient

Many of LA's low wage jobs are service jobs that are difficult to outsource or have high consumer demand. In these industries, Angelenos provide services to other Angelenos, but do not earn enough to make ends meet.

80% of low wage jobs are face-to-face work.



Only 12% produce goods that leave the local economy.







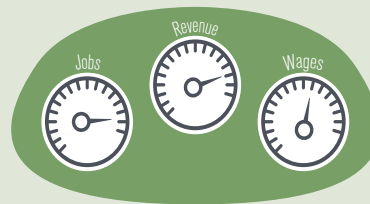
Multiple studies show that businesses are able to make adjustments with minimal job losses and price increases. Employees stay longer at work and are more productive.

Though some businesses will face challenges, the shared economic growth is worth it.

Toward a Smart, Enforceable Policy

To create a smart, enforceable policy, it's important to:

-  Phase minimum wage increases to allow the city to adapt
-  Allow minimum wage to keep up with the cost of living
-  Apply the raised wage to as many Angelenos as possible
-  Have strong tools to enforce the wage



We have the tools to closely monitor the economic impacts of raising the wage, so we can shift and adapt to any adverse effects.