

# **Rising Tides: Researching Giving the Working Poor a Raise in Los Angeles County: Presentation to the Los Angeles County Board of Supervisors**

By  
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With  
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It is an honor and a pleasure to address the Board of Supervisors on such a critically important issue. Los Angeles is long overdue in addressing the wages and living standards of working families, many of whom, despite living in one of the world's richest regions, are also living in poverty. This is an especially pressing issue for county government, since two-thirds of the households that are below the poverty-line in LA County are located outside of the city of Los Angeles' borders. These households are also heavily concentrated in pockets of poverty throughout the county.

As the County of Los Angeles considers its course of action and needed research, we are fortunate to have a number of important recent studies on the economic impact associated with the proposed increase of minimum wages in the City of Los Angeles to either \$13.25 or \$15.25 and hour.<sup>2</sup> In the short amount of time I have to speak to you this morning, I will draw on these studies to make some comparative points on the importance of addressing the issue of low wage labor in LA County and how best to develop an effective strategy for raising the wages of our lowest income residents in order to create a more prosperous, equitable, and economically sustainable region. While the macro results look very promising for the city and region as a whole, it is important to closely study particular segments of the low wage labor force. Specifically, those employed by small business and the owners of small businesses, both of

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<sup>2</sup> In *Los Angeles Rising: A City that Works for Everyone*, the Economic Roundtable and the UCLA Labor Center found that raising the City of Los Angeles' minimum wage to \$15.25 would increase 723,000 workers' earnings by \$5.9 billion in total. They also estimate that the minimum wage increase would create 24,875 new jobs in the City of Los Angeles and 46,400 jobs in total. In addition they estimate that the wage increase would generate \$960 million in new tax revenue.

In *The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options*, researchers at UC Berkeley's Institute for Research on Labor and Employment provide demographic detail on the population that will benefit from minimum wage reform in addition to detailed analyses of the economic costs and benefits. In the City of Los Angeles, they found that a large majority of affected workers would be adults (with a median age of 33) and that a disproportionate number of affected workers would be members of low-income families, live in low-income parts of the city, and be people of color. In addition, they estimated that more than half of latino/a workers in Los Angeles would experience a wage increase.

whom may require special transitory assistance in order to take the most advantage of, and make the maximum contribution to, this important economic and policy initiative.

First, there is no question as to the acute need to address what has become a growing crisis of stagnant wages for low-income workers throughout LA County, including the City of LA and other municipalities. Any study evaluating potential changes in wage policy should begin here, with comparative data on the county and its cities.

**Table 1**

**Profile of the Minimum Wage Labor Force in Los Angeles City and County**

	Los Angeles County, California		City of Los Angeles, California	
	Number of Workers or Households	% of Labor Force or Households	Number of Workers or Households	% of Labor Force or Households
<b>Total Labor Force Participatnts</b>	4,489,974		1,787,083	
<b>Foreign Born Workers</b>	674,101	15.0%	341,616	19.12%
<b>Native Workers</b>	1,063,123	23.7%	483,515	27.06%
<b>Households with total income below poverty level</b>	295,877	13.63%	137,549	17.20%
Female Headed Household	134,236	6.2%	63,728	7.97%
Householder worked full-time, year-round in the past 12 months	20,448	0.9%	10,214	1.28%
Householder worked part-time or part-year in the past 12 months	46,368	2.1%	22,114	2.77%
Householder did not work in the past 12 months	67,420	1.5%	31,400	3.93%

Increasing the minimum wage would disproportionately benefit the foreign-born (see footnote 1). While in both the City and County of Los Angeles there are more native-born than foreign-born workers living below the poverty line, a higher percent of the foreign-born are living in poverty. In LA County, 19% of the foreign-born are living below the poverty line compared to 17% of the native-born. The difference is even more pronounced in the city where 23% of foreign-born workers are living in poverty compared to only 9% of the native-born.

A significant minority of households “working in poverty” are headed by women and especially women of color. These households are the most vulnerable to economic shocks and would benefit greatly from an increase in the minimum wage.

Raising the minimum wage would have many positive macro-economic impacts, especially at this phase of the business cycle’s recovery and especially if the wage policy is implemented and coordinated regionally. Such regional coordination and implementation strategies, as opposed to strictly municipal reforms, are ideal because they reduce distortions and enhance regional multipliers. Despite using a wide variety of modeling techniques, it is important to note that nearly all of the studies analyzing proposals to increase Los Angeles’ minimum wage found slight net positive improvements in most macro-economic indicators (see the reports cited in footnote 1).

**Table 2**

## Firms in Los Angeles City and County by Firm Size and Employees

Firm Size	Los Angeles County				Los Angeles City	
	Firms	Employees	% of Establishments	% of Employees	% of Establishments	% of Employees
Total	249,625	3,661,816				
Establishments with 1 to 4 employees	149,512	279,139	60%	8%	55%	7%
Establishments with 5 to 9 employees	40,538	277,509	16%	8%	15%	7%
Establishments with 10 to 19 employees	27,851	408,554	11%	11%	10%	10%
Establishments with 20 to 49 employees	19,585	369,383	8%	10%	7%	9%
Establishments with 50 to 99 employees	6,924	507,850	3%	14%	3%	15%
Establishments with 100 to 249 employees	3,710	353,749	1%	10%	2%	13%
Establishments with 250 to 499 employees	953	279,596	0.4%	8%	0.4%	8%
Establishments with 500 to 999 employees	330	338,860	0.1%	9%	0.1%	7%
Establishments with 1,000 employees or more	222	651,315	0.1%	18%	0.1%	20%

In addition to quantifying the macro impacts, the proposed study should examine workers' wages in relation to specific industries and firm sizes in order to crystalize the issues of adjustment that they may face. For the vast majority of firms there will be no major direct or indirect impacts which cannot be absorbed through a variety of means including slight price increases, new technology, and more in-depth employee training. In addition, increased payroll costs will be absorbed by the benefits of higher regional wages such as reduced turnover, more investment in worker skills, and the increased spending power of low-wage workers. Even many "small firms" are actually in high value-added sectors and are selling into high-income growth markets.

There is however a specific groups of small firms which will have the most severe challenges. Small, non corporate, minority/women owned firms selling into predominantly low-income markets will not be able to easily absorb the higher payroll costs through the benefits of higher wages (low price elasticity of product demand). Such firms may have very few options other than severely cutting back in employment or risking closure.

This is a valid concern, and something the study you are calling for should certainly address. Clearly some small businesses can readily afford a wage increase, but independently-owned, non-franchise businesses with low-income customers will have a much more difficult time absorbing the payroll costs of a government mandated wage increase.

It is not clear whether these kinds of businesses will benefit enough from increased sales, because their low-income customers will have more to spend, will offset the extra payroll expenses they'll face. One thing that might help is phasing in the wage increases for such businesses. This would allow time for the vast majority of their customer base's wages to increase, before they experience any increase in payroll costs.

This tiered timetable would be especially effective because while businesses with fewer than 10 employees make up the majority of businesses in L.A. County, only a small percentage of the workforce is employed in these businesses. According to the Economic Roundtable report *Los Angeles Rising* only about 10% of workers in the City of Los Angeles work in a business with fewer than 10 employees (see attached document and table 2). Of that 10% of the workforce, only a fraction would be minimum wage workers.

So we must take very seriously the costs to mom-and-pop businesses, but we also must recognize that these firms employ only a small percentage of the county’s workers. Of course these workers still deserve to be protected, and this is where something like a phase-in strategy might help. This is the kind of question your study should answer.

Transitional programs for small businesses – technical assistance, loans, etc. could be very helpful. To sustain wage increases, these businesses will have to increase their productivity. We can help them.

Ensuring more Los Angeles County residents receive the Earned Income Tax Credit (EITC) ---about \$5,000 a year in many cases---would tremendously help workers. Unfortunately, many of those eligible do not take advantage of the tax credit. This is a great opportunity we should talk about in tandem with our minimum wage discussion.

**Table 3**

**Participation in and Funding for Government Services**

	State	Los Angeles County
<b>Earned Income Tax Credit</b>		
Available Funds	\$7,100,000,000	\$2,157,100,000
Participation rate	71%	Estimated to be Under 80%
Participants	2,726,000	769,347
Estimated Remander	\$2,059,000,000	\$431,420,000
<b>CALFRESH</b>		
Available Funds	\$7,600,000,000	\$2,109,278,921
Participation rate	63%	59%
Participants	\$4,159,031.00	\$1,157,679
Estimated Remander	\$2,812,000,000	\$864,804,358
<b>California Alternative Rates for Energy</b>		
Available Funds	\$1,500,000,000	\$457,873,645
Participation rate	97%	89%
Participants	n/a	n/a
Estimated Remander	\$45,000,000	\$51,526,096
<b>Total Remaning Funds</b>	<b>\$4,916,000,000</b>	<b>\$1,347,750,454</b>

The EITC is not the only government program that can help minimum wage workers; especially those who work for small family-owned businesses and whose wage increases would be delayed by a phase-in strategy. While almost all eligible participants are enrolled in California’s utilities discount program, CALFRESH has a much lower participation rate. In addition to pushing for a livable minimum wage and supporting small businesses in Los Angeles County, we should also be encouraging our counties low-income workers to access the resources that are available to them. This would allow the wages that they already earn to go further, and in many cases it would result in greater funding for the services and their providers.

Parallel to the discussion of a mandatory minimum wage increases should be a discussion of deferred action in Los Angeles County. President Obama’s Deferred Action for Childhood Arrivals (DACA) program has had a significant impact on the wages of one LA County’s most financially marginalized populations, and his Deferred Action for Parental Accountability (DAPA) program will have an even greater impact in the future.

**Table 4**

**Economic Impact of DACA and DAPA in Los Angeles City and County**

	<b>Los Angeles County</b>	<b>City of Los Angeles</b>
<b>Potentially Eligible Applicants</b>	466,000	199,600
<b>Labor Income Increase (Millions \$)</b>	\$1,642	\$703
<b>Total New Tax Revenue (Millions \$)</b>	\$1,130	\$484
Personal Taxes	\$268	\$115
Business Taxes	\$480	\$206
Sales Taxes	\$381	\$163
<b>Total Employment Growth (Thousands)</b>	38.5	16.5
Direct Employment Gain	21.3	9.1
Indirect Employment Gain	7.8	3.3
Induced Employment Gain	9.5	4.1

If both programs reach full enrollment, we estimate that Los Angeles County’s 466,000 DAPA and DACA beneficiaries will experience a collective wage increase of between \$1.6 and \$3 billion dollars. Assuming these beneficiaries work forty hours a week, this wage increase would constitute an increase of between \$1.68 and \$3.09 an hour. Market forces rather than a government mandate would drive this wage increase. Given work permits, undocumented workers would be able to earn the true market value of their labor, either through negotiating better wages with their employer or moving to a better paying position.

For the small business owners that currently employ potential DACA and DAPA beneficiaries, this wage increase would effectively lessen the economic shock of a minimum wage hike. DACA and DAPA related wage growth would create a de-facto tiered wage growth timeline. The businesses serving DACA and DAPA beneficiaries would benefit from their increased spending power, and if those businesses employed DACA and DAPA beneficiaries this increased revenue may help them absorb the increased payroll costs of DACA and DAPA and those of an eventually minimum wage increase.

Conclusion:

- 1) Onwards with Wage Increase
- 2) Create special program for particular small businesses

- 3) Pursue major effort to transitional social services
- 4) Push DAPA DACA

**Dr. Hinojosa's Statement to the Los Angeles County Board of Supervisors:**

**Supervisor Solis:** Thank you, professor Hinojosa. What can you tell me about the characteristics of minimum wage workers most likely to be affected?

**Professor Hinojosa:** In Los Angeles County, women with children comprise the largest group of minimum wage workers.

**Supervisor Solis:** I am concerned very small, “mom and pop” businesses in my district might be unduly burdened by a minimum wage hike – and that burden could lead to hours cut or job losses for the workers we’re trying to help. How much of a danger is there?

**Professor Hinojosa:** This is a valid concern, and something the study you are calling for should certainly address. Clearly some small businesses can readily afford a wage increase; some can’t – particularly independently owned, non-franchise businesses with low-income customers.

It’s not clear how much those kinds of businesses will benefit from increased sales, because their low-income customers will have more to spend – versus the extra payroll expenses they’ll face. One thing that might help is phasing in the wage increases for such businesses.

One thing to note is that while businesses with fewer than 10 employees make up the majority of businesses in L.A. County, only a small percentage of the workforce is employed in those kinds of businesses – **about 10% of workers in Los Angeles County** (see attached document). Of that 10% of the workforce, only a fraction would be minimum wage workers.

So we must take very seriously the costs to mom-and-pop businesses. But we also must recognize that only a small percentage of workers would potentially be affected – and of course those workers deserve to be protected. This is where something like a phase-in might help. This is the kind of question your study should answer.

Transitional programs for small businesses – technical assistance, loans, etc. could be very helpful. To sustain wage increases, these businesses will have to increase their productivity. We can help them.

Ensuring more Los Angeles County residents receive the Earned Income Tax Credit –about \$5,000 a year in many cases—would tremendously help workers. Unfortunately, many of those eligible do not take advantage of the tax credit. This is a great opportunity we should talk about in tandem with our minimum wage discussion.