Caution needed on minimum wage in unincorporated L.A. County: Guest commentary

By Michael Saltsman

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After signing a bill to create a $15 minimum wage in the Los Angeles city limits, Mayor Eric Garcetti cautioned that a wage floor this high isn't right for every city or state.

Unfortunately, his caution didn't extend to the unincorporated areas of Los Angeles County. In July, with the mayor's encouragement, three of the county's five supervisors voted to proceed with an ordinance to raise the wage in the county's unincorporated areas on the same schedule as Los Angeles proper.

It's a bad policy decision based on emotion rather than evidence. But now that it's moving forward, the supervisors owe it to the businesses they represent to craft an ordinance that's uniquely suited to the county's unincorporated areas.

With financial support from the county, my organization commissioned scholars affiliated with the University of Kentucky and Carnegie Mellon University to study the businesses and employees in the county's unincorporated areas. One clear conclusion that emerged from this analysis is that substantial demographic differences exist between the county's incorporated and unincorporated counterparts.

For instance, while they share an identical gender distribution and average age, employees in the county's unincorporated areas are 10 percentage points less likely to have a college degree, and six percentage points more likely to have no high school diploma. Among those who earn less than $15 an hour, just 10 percent hold a college degree, and nearly 40 percent have difficulty speaking English.

The study also found that a $15 minimum wage would have broad reach in the county's unincorporated areas. Over half of the employees residing there currently earn less than $15 an hour. By the time the wage floor is fully phased in, more than 80 percent of businesses in the unincorporated areas — representing a surprisingly wide range of industries — will be affected by it. The vast majority of these businesses have fewer than 20 employees, and for each employee receiving a raise, the average additional wage bill will be $9,725.

In crafting the $15 ordinance, then, the county's supervisors need to be sensitive to the challenges faced by these mostly small businesses and the less-educated people they employ. The county's current plan is to give these businesses one additional year to reach the $15 floor, but this accommodation is so minor as to be meaningless. A more meaningful delay would give these employers at least three to four more years to adapt to the higher labor costs. Similarly, a training provision that permits employers to pay a lower wage to younger employees would reduce the likelihood that less-experienced jobseekers are shut out of the job market when the starting wage is increased to $30,000 per year, full-time.

Of course, neither of these changes eliminates the risk of serious disruption in the labor market in the county's unincorporated areas. More than 400 of the employers located here were surveyed as part of our report, with four-in-five indicating that they'd have to raise pay in response to a $15 minimum wage. Among for-profit companies, 42 percent reported that they'd very likely reduce employees' hours in response to the wage mandate, and 35 percent reported that they'd very likely reduce staffing levels. (Notably, a survey requested by Supervisors Solis and Knabe of the county's small businesses found a similar result, with 28 percent reporting a likely reduction in jobs.)

Most concerning for the county supervisors should be the risk of business relocation. More than 40 percent of the businesses surveyed were located near the border of an incorporated city where a $15 minimum wage would not apply. Not surprisingly, then, one-in-five reported that they were very likely to relocate in response to such a drastic wage change. (The risk was particularly acute for manufacturing businesses, which are less tied to a specific geography.) For other businesses, relocation isn't an option: Ten percent of surveyed businesses reported that they were very likely to close because of a $15 wage mandate.

Cushioning the blow that these employers see on the horizon isn't easy, and the county's best option — to forgo the drastic increase altogether — wouldn't be acceptable to three of the five elected supervisors. Instead, the county could consider an approach that some businesses advocated for in Los Angeles proper, which includes other forms of compensation in the final $15 wage calculation. That could include tip income, health care spending, or other forms of non-wage compensation.

It might be controversial, but it's also a chance for the county to set an example for other municipalities considering dramatic minimum wage increases. It's possible to help employees while giving due consideration to the unintended consequences they might experience due to an ill-considered wage mandate.

Michael Saltsman is research director at the Employment Policies Institute, which receives support from businesses, foundations and individuals.