

Why Pasadena Needs a Minimum Wage



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Testimonial from a Pasadena worker and resident, January 16, 2015

I'm a hotel housekeeper at a hotel in Pasadena. I've lived in Pasadena since 2008 with my 10 year old son. I spend all day cleaning hotel rooms. The work is really is hard. There is a lot of pressure to move fast and lifting the beds and getting everything done is really, really hard. The management continually adds new details to the room. I try to do the cleaning well, but which is it: quality or quantity? I try to do both, but it's impossible. There used to be more people on staff to get things done like cleaning the windows. Now it's just us.

My pay is not enough to support my son and myself and I work 40 hours per week. I live paycheck to paycheck. Pasadena is expensive! So I have a second job cleaning houses and apartments on my days off or after work. But sometimes the schedule at the hotel changes, and I have to cancel clients. I try to get at least 20 hours cleaning houses, but it's exhausting. I start working at 6:30am, and come home late in the day. Sometimes I see the older housekeepers, and I see how tired they are. It's so much harder for them. And I wonder, will this be me?

Why Pasadena needs a minimum wage - summary

Pasadena's has a substantial low-wage workforce

- Many Pasadena residents earn low wages: 22,000 individuals, 32% of residents in the labor force -- earn less than \$15 per hour. Most of these low-wage earners work full-time and all year around
- Many Pasadena-based workers earn low wages: an estimated 15,000 individuals, about 15% of all those who work in Pasadena -- earn less than \$15 per hour
- Most low-wage earners work in retail, restaurants, education and health care

Pasadena's minimum wage workers don't get by

- Pasadena's official poverty rate is over 16%, higher than the national level
- Over one-quarter of Pasadena renters spend more than 50% of income on rent
- Getting by is getting harder: in 2013 one-fifth of Pasadena households had incomes below \$25,000 per year, more than in 2007.

Pasadena needs an expanded minimum wage ordinance for all workers with a path to \$15 per hour with a COLA built in

- \$15.00 will bring households *closer* to the \$23.00 per hour needed for a minimum standard of living for a family of four in Pasadena
- Businesses will benefit from lower employee turnover and increased spending by families who live here and buy locally.

Will it cost jobs? Repeated economic studies show that a higher minimum wages has no significant effect on jobs. Businesses are able to adjust to a minimum wage that applies to all employers. In many cases employers benefit from steadier more productive employees.

Will it help the economy? A \$15 per hour minimum wage will inject over \$150 million into the Pasadena economy, creating over 1000 new jobs.

Will it cause businesses to move? Nearly all Pasadena low-wage jobs are in retail, restaurants, hotels, education and health care, businesses than will stay in Pasadena.

Will it raise prices? Some businesses, particularly restaurants that have high labor costs, may raise prices—but only slightly. Studies show that the typical hamburger would rise by only 10 to 30 cents based on this proposal

Don't we *also* need a higher regional, State or national minimum wage? Of course. Other California cities have already raised their minimum wage. We should follow the lead of San Francisco, San Jose, Berkeley, Richmond, Oakland, San Diego, and likely Los Angeles while pressing for regional, statewide and national increases.

Minimum wage reform is sweeping the nation

The minimum wage varies dramatically across the United States. At \$9 per hour the California minimum wage is higher than the national \$7.25 minimum wage. And some California cities have done even better (see table below). However, compared to other industrialized countries, the U.S. is far behind the minimum wage in the United Kingdom (\$10), Germany (\$11), France (\$12), and Australia (\$17).

Congress passed the first federal minimum wage law (\$.25/hour) in 1938. However, unlike Social Security and some military pay, the federal minimum wage is not automatically adjusted for inflation. As a result, the minimum wage has lost buying power. The minimum wage in 1968 of \$1.60, adjusted for inflation, would be over \$10 today. If the minimum wage kept up with rising US productivity--as it did prior to 1970-- workers today would receive well over \$20 per hour. Prices have risen faster than the minimum wage. As a result, minimum wage workers have seen their standard of living decline by 40%.

Minimum wage in the U.S., California, selected cities and adjusted for inflation and productivity

Minimum wage		
U.S.	\$7.25	Set in 2009
U.S. for tipped workers	\$2.13	Applies in 19 states, not California
California	\$9.00	To go to \$10 in 2016
San Francisco	\$12.25	To go to \$15 in 2018
San Jose, Sunnyvale, Mountain View	\$10.30	
Oakland	\$12.25	Begins March 2015
Richmond	\$9.60	To go to \$12.30 in 2017
Berkeley	\$10.00	To go to \$12.53 in 2016
Inflation adjusted	\$10.86	If 1968 minimum wage kept up with inflation
Productivity and inflation adjusted	\$21.72	If 2012 minimum wage kept up with productivity and inflation since 1968

Low wages in Pasadena

The low minimum wage contributes to rising inequality. Nationally, the share of income going to the poorest 20% of U.S. households fell from to 3.2% of all income in 2013 from 4.3% in 1976. At the same time the well-to-do have increased their share of income. The top

5% of US households gained 22.2% of all income in 2013, up from 16.6% in 1976. Wealth is far more unequal: the top 10% of households garner over 75% of the country's wealth and the top 1/1000 have over 20% of the wealth, triple the percentage in the 1970s.

In Pasadena, inequality is even greater. While the richest 5% of Pasadena households -- those with household incomes above about \$300,000--receive 22.96% of all income. In contrast, the poorest one-fifth -- those with incomes below \$30,000 -- have only 2.39% of all residents' income. That is the second lowest level of all California cities.

Incomes shares of the top and bottom in U.S. and Pasadena

Income share	U.S.	Pasadena
Top 5%	22.2%	22.96%
Bottom 20%	3.2%	2.39%

Source: U.S. Census, American Community Survey 2012

Over 22,000 of the nearly 70,000 employed Pasadena residents earn less than \$15 per hour. These low-wage workers are not teenagers employed over the summer: 80% of the low-wage earners work year-round and 62% work full-time and year-round.

Pasadena residents making less than \$15 per hour work in many different sectors of the economy, but they are concentrated in a few industries. Retail trade is the largest low-wage employer with more than 3,000 workers. In other words, more than one-half of the retail labor force earning less than \$15 per hour. In food and drink services, over 70% of the workforce, about 2,500 Pasadenans, earns less than \$15 per hour. Health care and education also have significant number of low wage workers who earn under \$15 per hour.

Pasadena low wage residents by sector of work

	Pasadena residents earning less than \$15/hour	
Total with at least \$500 annual income	22,515	32% of working residents
Full-time, full-year workers	11,857	62% of low-wage residents
Full-year workers (part-time and full-time)	15,597	82% of low-wage residents
Retail trade including food and beverage stores)	3,129	55% of workers in this industry
Food services and drinking places	2,597	71% of workers in this industry
Education	3,125	28% of workers in this industry
Health care	2,301	30% of workers in this industry

Source: U.S. Census Bureau, American Community Survey and Los Angeles Economic Roundtable

These data are for all people who live in Pasadena, but don't necessarily work here.

Data on those who work in Pasadena -- but may or may not live here -- are available only for 2007 (data for 2012 have not been released.) There are more than 100,000 people working for businesses in Pasadena at which employees earn an average over \$57,000 a year. But that figure can be very misleading. The harsh reality is that many people earn much less, including many who earn poverty level wages.

In particular, some of Pasadena's largest employment sectors pay extremely low wages. These include fast food restaurants (average pay: \$13,375), car washes

(\$15,589), full service restaurants (\$15,833), parking lots (\$19,070), department stores (\$19,745), and supermarkets (\$23,586).

Tourism is one of Pasadena’s largest industries. Pasadena has about 2,500 hotel rooms and is a destination city for tourists who enjoy our museums, theaters, restaurants, universities, sports events, the Tournament of Roses parade, and conventions and business meetings. But most the people who make their hotel stays comfortable barely earn enough to make ends meet. The average pay for hotel employees in Pasadena was \$30,609 in 2007, but the majority of workers in that industry earn much less than that.

Average pay for workers in Pasadena by sector

	Number of employees	Mean annual pay
Retail trade	10,857	\$25,850
Full service restaurants	5,489	\$15,833
Limited-service eating places	2,915	\$13,375
Supermarkets	2,163	\$23,586
Accommodation (hotels)	1,375	\$30,609
Department stores	1,099	\$19,745
Hair, nail, skin care	399	\$16,258
Parking lots	243	\$19,070
Car washes	202	\$15,589
All sectors	103,469	\$57,342

Source: 2007 Economic Census of the United States; 2007 Survey of Business Owners

In the nine industries listed above we estimate that more than 10,000 workers employed in Pasadena earn less than \$15 per hour. In total, at least 15,000 total workers employed in Pasadena would benefit from a \$15 per hour minimum wage.

Many Pasadena residents work in Los Angeles, which is about to adopt a citywide minimum wage significantly higher than the state level. This will help lift some

Pasadena residents out of poverty. But Pasadena needs to adopt its own citywide minimum wage as well. Doing so will help reduce the gap between the rich and poor in Pasadena.

Worsening economic circumstances for many Pasadenans

The 2008 – 2009 Great Recession took a toll on Pasadena households causing incomes to fall, so that by 2013, adjusted for inflation, the average income was no higher than in 2007. But the impact was more devastating for the poor. Between 2007 and 2013, the percentage of households with incomes below \$25,000 jumped from 17.9% to 20.1%, while the percentage of households with incomes over \$100,000 increased from 30.1% to 35.9%. The percentage in the middle range, between \$25,000 and \$100,000, fell from 52.1% to 44%.

As a result, from 2007 and 2013 the number of poor households with incomes below \$25,000 increased by 3,000. Over the same period, Pasadena added about 3,000 households with incomes over \$100,000. In between, the number of middle income group, \$25,000 to \$100,000, fell by 1,000 households.

Pasadena household incomes 2007, 2013

	2007 %	Number	2013 %	Number
Households with incomes below \$25,000	17.9	9,129	20.1	10,924
Households with incomes \$25,000 - \$100,000	52.1	26,617	44.0	23,942
Households with incomes over \$100,000	30.1	15,387	35.9	19,486
Total	100	51,133	100	54,352

Source: American Community Survey

In 2005, before the recession caused by the housing bubble and Wall Street's reckless practices, 14.1% of Pasadena residents lived below the poverty line. Three years later, at the peak of the recession, Pasadena's poverty rate rose to 16.7%. But even after the recession ended, Pasadena's economy did not recover, especially for the poor. In 2013, 16.3% of its residents lived in poverty, higher than the nation's 15.8% poverty rate. Yet, during this same period, the percentage of households with incomes over \$200,000 increased from 6% to more than 10%.

Year % of Individuals Below Poverty Level

2005	14.1
2008	16.7
2013	16.3

Source: American Community Survey

Pasadena is becoming more and more expensive to live in. City policies are fueling gentrification, making it harder for low-income and middle-class families to live here.

In 2013, 54% of Pasadena households paid 30% or more of their income in rent -- higher than recommended by budget experts. Even more troublesome, more than one-quarter (27.8%) of local households paid over half their incomes just to keep a roof over their head. These housing burdens have increased in the last decade.

Rent takes a much higher proportion of income for the poor. In 2013, 98% of those with incomes below \$10,000 spent more than 30% of their income on rent. But the rent squeeze isn't just a problem for the very poor. A whopping 87.6% of all households with incomes below \$50,000 pay over 30% of their incomes for rent.

Rent as a percentage of Pasadena household incomes

	Number	Percentage
Households paying between 30% and 34.5% of income for rent	2,874	9.8
Households paying between 35% and 39.9% of income for rent	1,620	5.5
Households paying between 40% and 49.9% of income for rent	3,118	10.7
Households paying more than 50% of income for rent	8,144	27.8

Source: American Community Survey

Income	% households paying more than 30% of income for rent
Under \$10,000	98.0
\$10,000-19,999	87.1
\$20,000-34,999	94.8
\$35,000-49,999	71.5

Source: American Community Survey

A minimum wage for Pasadena

What would it take to have a ‘living’ wage in Pasadena? Obviously, such a standard can’t be precisely defined. However, MIT researchers have constructed a living wage calculator that estimates it would take \$23.53 per hour for a full-time worker to support him or herself and one child in Pasadena. Keep in mind that this ‘living wage’ allocates only \$357 monthly for food, \$1420 for all housing costs, \$555 for transportation, \$434 for medical, \$550 for childcare with \$222 left over for all other expenses.

While the California \$9 per hour minimum wage is a first step, it is far from a ‘livable’ wage. Thus we recommend:

Expand the existing Pasadena minimum wage ordinance to cover all employers and increase it on a path to \$15 per hour with a COLA

Of course, precise ordinance language needs to be crafted, carefully defining terms and coverage. The California State minimum wage law provides a model that would enable a City ordinance to follow established legal precedents with regard to collective bargaining rights, exemption for family members and legally-established workshops for the disabled.

Enforcement of the law needs careful consideration and perhaps separate ordinance in order to prevent illegally low wages, unpaid work time and other forms of wage theft, documented in several studies as unfortunately prevalent in California.

The impact of a \$15 minimum wage

Making ends meet

A \$15 per hour minimum wage will raise earnings for a large number of Pasadena workers. Currently an estimated 15,000 Pasadena workers earn less than \$15 per hour. Furthermore, wage workers who are already slightly above the new level are likely to see higher earnings. Many employers, wanting to attract and keep good employees, will offer starting pay above the minimum wage to attract more qualified workers and to reduce turnover. (see note 1)

Overall, the higher minimum wage will reduce inequality in Pasadena. Experience in other cities reveals that raising the minimum wage raises the floor so that many people at the bottom of the income scale move closer to the average. This effect will be stronger for women and people of color, also documented in other California cities. And, the new wage will lower Pasadena's high poverty rate and reduce use of public assistance. (see note 2)

Nonetheless, at \$15 per hour, a significant number of households will still be far from the \$22.53 required for a livable wage.

A better community – for residents and employers

Everyone benefits from a city with lower poverty rates, reducing associated crime and need for social assistance. Higher incomes also improve workers' ability to stay in their homes. When people have enough money to pay the rent, they don't have to move often which disrupts their lives and especially the lives of children who move from school to school. It is also a problem for employer who face high employee turnover caused when workers suddenly need to move. (see note 3)

Boosting the local economy

Households low on the income ladder spend a greater proportion of their earnings. They also are more likely than others to spend their money at local businesses. We estimate that a \$15 per hour Pasadena minimum wage would inject over \$150 million per year into the economy, generating over 1000 new jobs in addition to increasing tax revenue and reducing the need for social safety net. If enacted countywide, the \$15 minimum wage would inject over \$9 billion into the economy. (see note 4)

Better employees

One of the most consistent findings on the minimum wage is that it creates benefits for employers by reducing employee turnover and raising employee morale. Many businesses are quite aware and already pay above the minimum wage in order to gain these benefits. (see note 5)

Won't it cost jobs? –

Study after study in the economics literature and reviews of all past studies conclude that raising the minimum has no or minimal effects on employment. Even when the increase is substantial, as we propose for Pasadena, there is little evidence for a major drop in employment. And, if there are few employers who decide to do with fewer workers, the net gain for low wage workers is still positive. Because of high turnover in these jobs, the typical employee with a higher wage earns more even if there is a slight decrease in the number of hours he or she works each week. (see note 6)

Won't it raise prices? –

There are many ways in which employers can adjust to higher labor costs. Economists have documented improved productivity as one result, a gain for everyone involved. In other cases, businesses, in particular large nationwide corporations or franchises are able to handle the slightly increased costs easily out of profits. In some cases, businesses will need to raise prices, but because paying a more livable wage applies to everyone, all businesses will be affected.

Economists have looked carefully to see what, if any, impact a higher minimum wage has on prices. They have found that the impact varies considerably across industries. In many cases there is no measurable price rise. The industry most affected is eating and drinking establishments. However, even here the price rise will be relatively small. A restaurant might raise the price of a \$3 hamburger by *at most* 30 cents. But even that price increase won't happen overnight, but occur over the several years it would take to gradually raise the minimum wage to \$15 per hour. (see note 7)

Won't businesses move? --

Once again, economists measure quite modest effects when the minimum wage increases with variation between industries. Nearly all Pasadena low-wage jobs are in retail, restaurants, hotels, education and health care, businesses that will stay in Pasadena. These economic sectors are “sticky.” They won't move to Glendale, Nevada or China. (see note 8)

Conclusion

These results show that we can move toward a \$15 per hour minimum wage with confidence. The benefits in justice, equity, a better community, improved employee morale and productivity outweigh the relatively smaller costs of higher prices and minor business adjustments.

Notes:

1. On the impact of the minimum wage on attracting better employees see Institute for Research on Labor and Employment, University of California-Berkeley, “Local Minimum Wage Laws: Impacts on Workers, Families and Businesses,” Working Paper #104-14, March 2014: 24-26 and Dale Belman and Paul J. Wolfson *What Does the Minimum Wage Do* W.E. Upjohn Institute, 2014: 236-238..
2. On the impact of the minimum wage on inequality and different demographic groups see *What Does the Minimum Wage Do*: 301-339; “Local Minimum Wage Laws: Impacts on Workers, Families and Businesses”: 13 and Economic Roundtable “Low-wage Workers and Their Employers”, 2014.
3. On the impact of the minimum wage on poverty, social assistance and employee turnover see “Local Minimum Wage Laws: Impacts on Workers, Families and Businesses”:14 – 16, Economic Roundtable , “Effects of a Fifteen Dollar an Hour Minimum Wage in the City of Los Angeles, 2013: 8.
4. On the economic impact of the minimum wage see “Local Minimum Wage Laws: Impacts on Workers, Families and Businesses”:16-17. Our calculation is based on “Effects of a Fifteen Dollar an Hour Minimum Wage in the City of Los Angeles”: 16-18. Estimate for Pasadena assumes 50 times more workers affected by a \$15 minimum wage in the City of Los Angeles than in Pasadena.
5. On impact of the minimum wage on productivity and efficiency see *What Does the Minimum Wage Do*: 259-300 and Justin Wolfers and Jan Zilinsky , “ Higher Wages for Low-Income Workers Lead to Higher Productivity.”
6. The impact of the minimum wage on employment has been studied intensely. For summaries of this research see *What Does the Minimum Wage Do*: 21- 118, “Why Does the Minimum Wage Have No Discernable Effect on Employment?” Center for Economic and Policy Research, 2103. For studies of California cities see “Local Minimum Wage Laws: Impacts on Workers, Families and Businesses”: 3, 17-21.
7. The impact of the minimum wage has been studied for the overall economy and specifically for the fast food industry. For summaries see *What Does the Minimum Wage Do*: 383-392; “Local Minimum Wage Laws: Impacts on Workers, Families and Businesses”: 22-23. Fast food firms likely would face the largest price increases with the highest estimates being 10% over the several years in which a \$15 minimum wage was introduced. See “A \$15 U.S. Minimum Wage: How the Fast-Food Industry Could Adjust Without Shedding Jobs” Political Economy Research Institute, U. of Mass. 1/13/2015
8. The Economic Roundtable “Low-wage Workers and Their Employers”, estimates an overall 4% increase in costs as percentage of revenue for \$15 minimum wage. In Pasadena, hotel and restaurant businesses would face higher cost increases, about 14% of revenue. But such costs would be spread over several years. Pasadena has almost no reliance on manufacturing industries identified by the Economic Roundtable as vulnerable to job losses.

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