A $15 minimum wage bombshell in Los Angeles

By The Editorial Board
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There are many ways to look at the minimum wage increase in Los Angeles from the current $9 an hour to $15 by 2020 — some hopeful, some cautionary, all good.

For starters, uncharted territory is rapidly being charted. Los Angeles is the fourth city, and by far the largest, to enact a $15 minimum in the past year. The others are Seattle, San Francisco and Emeryville, Calif. (near San Francisco). A $15 minimum has been proposed in New York City, Washington, D.C., and Kansas City, Mo.

Opponents of higher wages — generally, business groups and their political allies — have raised the same objections in Los Angeles that have been raised since the dawn of the federal minimum wage in 1938: that higher pay will lead to layoffs and business closings or business migration. But experience and research involving actual minimum wage increases indicate otherwise: The added cost of higher wages is offset by savings from lower labor turnover and higher labor productivity.

Higher wages can also be offset by modestly higher prices, which haven't proved measurably disruptive, in part because minimum wage increases make somewhat higher prices manageable. Wages can also be raised by paying executives and shareholders less. Whatever changes employers may have to make in Los Angeles, the long phase-in of the increase gives them time to adjust.

A challenge will be to ensure that all employers are held to the new higher wage. California is already one of eight states that prohibit the deplorable practice of subminimum wages for tipped workers. So waitresses and waiters in Los Angeles will be eligible for the higher $15 minimum wage along with everyone else. Policy makers at all levels of government should follow California's lead in outlawing subminimum tipped wages.

The restaurant industry, however, will not go down without a fight. The Los Angeles City Council has pledged to study the potential effect of allowing restaurants to add a service charge to bills to meet the increased costs. It is past time, however, to stop coddling an industry that has come to regard itself as entitled to special dispensation. If restaurants can't pay their servers the minimum wage, they need to pay higher earners less or raise prices. If restaurants are franchises that can't afford to pay adequate wages, their corporate parents should share the burden.

California does not index its state minimum wage, currently $9, to keep pace with price inflation. But in Los Angeles, the new minimum will be indexed to inflation starting in 2022, when the increase will have been fully phased in for large and small employers alike. An inflation adjustment is better than no adjustment, but it would be better to adjust the minimum wage to wage growth, since wages generally rise somewhat faster than prices.

Perhaps most far-reaching, California is prepared to expose the extent to which low-wage employers get a free ride on taxpayers. When employers pay poorly, workers must rely on public assistance, in the form of Medicaid, food stamps and other programs. Starting in 2016, California will publish the names of employers with more than 100 workers on Medicaid, and how much these companies cost the state in public aid. This could help build and sustain public support for higher wages.

The pay raise in Los Angeles challenges Congress and other states, particularly New York. In Congress, the latest Democratic proposal calls for a federal minimum wage of

$12 an hour by 2020. That would be adequate, if a bit on the low side, and a huge improvement from the current $7.25 an hour, the level since 2009. The big problem is Republican opposition to even considering an increase.

On the state level, 21 states that have not raised their minimums in recent years will be forced to face the fact that being a competitive place to do business means ensuring fair pay. Opponents of wage increases often raise the specter of scary “wage islands” caused by businesses decamping to lower-wage areas. The outcome is likely to be just the opposite. Businesses, especially in service industries, would prefer to be where customers have money, and that’s likely to be where wages are rising.

In New York, Gov. Andrew Cuomo, who has recently earned well-deserved praise for creating a wage board to help raise the pay of fast-food workers, needs to realize, and quickly, that cities in California have stolen his thunder. Establishing a wage board to look into fast-food pay is a big step in the right direction. But it is no substitute for establishing a separate higher minimum wage of $15 an hour for New York City, and no substitute for going to the mat for a state minimum wage that is higher than the proposal for $10.50 an hour currently on the table.

Workers’ share of the economic pie has been shrinking for decades, as the gains from labor productivity have flowed increasingly to profits rather than pay. A result has been an economy that is less resilient and more unequal. Low-wage workers who have been demonstrating for higher pay are leading politicians where they need to go, and the real leaders among those politicians are following the workers.