September 2012

An Economic Analysis of Measure D: The San Jose Minimum Wage

Created for
California Restaurant Association

Authored by
Beacon Economics, LLC

For more information, please visit
www.beaconecon.com

BEACON ECONOMICS

This publication was prepared by:

Beacon Economics, LLC

Christopher Thornberg, Ph.D.
Founding Partner
310.571.3399
Chris@BeaconEcon.com

Jordan G. Levine
Economist & Director of Economic Research
424.646.4652
Jordan@BeaconEcon.com

And by:

Vedran Kaluderovic
Senior Research Associate
424.646.4661
Vedran@BeaconEcon.com

For further information about Beacon Economics, please contact:

Victoria Pike Bond
Director of Communications
415.457.6030
Victoria@BeaconEcon.com

Or visit our website at www.BeaconEcon.com.

Reproduction of this document or any portion therein is prohibited without the expressed written permission of Beacon Economics. Copyright ©2012 by Beacon Economics LLC.

Contents

Executive Summary	1
Overview	2
Literature Review	2
Methodology	7
San Jose Minimum Wage Workers	8
Direct Employment Effects	11
Increased Cost of Doing Business	13
Increased Consumer Spending	16
Net Impact of Measure D	18
Other Considerations	19
Conclusions	19
References	21

Executive Summary

Beacon Economics has conducted a study of the potential economic impacts associated with the passage on Measure D on the City of San Jose. Measure D would raise the City of San Jose minimum wage from the statewide $8.00 per hour to $10.00. This analysis looks at the potential impacts to San Jose in terms of job losses, rising costs to businesses, and the potential for increased spending by minimum wage workers in the economy. Overall, Beacon Economics has found that Measure D, if passed, will create a negative net economic benefit to the City of San Jose. Specifically, we find that, depending on the sensitivity of employers to wage increases:

Total Economic Costs

The implementation of Measure D will cause employers to reduce payrolls in the City of San Jose by between 900 and 3,100 jobs. Measure D will cost businesses located in San Jose between $69.8 million and $76.7 million in additional wage costs each year. Employers will also incur additional payroll expenses associated with the wage increase that ranges from between $17.9 million and $19.7 million per year. The total increase in employer costs will range between $87.7 million and $96.3 million each year.

Total Economic Benefits

Given that only 43.4% of San Jose workers also live in the city, Measure D will result in between $25.7 and $28.3 million in additional spending within San Jose each year. This spending will generate secondary impacts that ripple throughout the rest of the economy totaling between$38.2 million and $42.0 million annually. As a result of the increased economic activity associated with this spending, San Jose will gain between 302 and 332 jobs.

Net Economic Impact

There will be a net economic impact of between -$49.5 million and -$54.4 million in the City of San Jose as a result of Measure D. The passage of Measure D could cost the City of San Jose between 569 jobs and 2,798 jobs depending on how responsive local employers are to the increased minimum wage. The City of San Jose will also face significant costs, including an estimated $612,000 per year in enforcement costs which will require 4.5 full-time employees. In addition, there are looming unknown costs to businesses as Measure D allows for private enforcement through civil actions, which opens the door to potentially significant litigation expenses.

Net Economic Impact of Measure D on the City of San Jose

Category	Scenario A	Scenario B	Scenario C
Economic Output			
Increased Employer Costs	-96,336,848	-94,898,824	-87,693,600
Increased Economic Activity	41,964,605	41,338,199	38,199,580
Net Economic Impact	-54,372,243	-53,560,625	-49,494,020
Employment			
Increased Employer Costs	-900.0	-1,300.0	-3,100.0
Increased Economic Activity	331.5	326.5	301.7
Net Economic Impact	-568.5	-973.5	-2,798.3

Source: IMPLAN, Calculations/Estimates by Beacon Economics

Overview

Beacon Economics has conducted a study on the effects of the city-wide minimum wage that is being proposed as Measure D in San Jose on the November 2012 ballot. Although state and federal minimum wages are commonplace, local minimum wage laws are relatively limited. As such, the minimum wage literature tends to skew toward the analysis of laws enacted at that level. Still, there have been some studies of local minimum wage laws recently, notably Santa Fe and San Francisco. While there is still some debate among academics over technical issues and overall conclusions, a substantial portion of that literature shows that there are negative economic impacts associated with localized minimum wage laws. These negative impacts can arise in the form of reduced employment, higher prices, and reduced demand for goods and services within a city.

This study includes a summary and analysis of the existing minimum wage literature, including analyses of both national/state minimum wage laws as well as the more infrequent city-wide minimum wage policies in the country. This study also attempts to measure the net economic impact to the San Jose economy of raising the minimum wage from the statewide level of $8.00 per hour to $10.00 per hour.

Literature Review

While the literature on the effect of the minimum wage on employment at the national level is quite extensive, analyses of city-wide minimum wage changes are far rarer. One of the reasons could be that city-wide minimum wages are relatively new compared to nation- or state-wide minimum wages. In addition to reviewing the more groundbreaking empirical work, this literature review looks into the most recent and reputable analyses of city-wide minimum wages. More specifically, Yelowitz (2005) examined the effect of the city-wide minimum wage increase in Santa Fe, Dube et al. (2007) analyzed the effect of the new policy in San Francisco, and Schmitt et al. (2011) studied the effect of the city-wide minimum wage increase in both of the above mentioned cities, as well as Washington, D.C.

The debate continues among economists regarding the effect of increases in the minimum wage on employment and prices—especially when looking at the effect of localized minimum wages, such as that proposed as part of Measure D in San Jose. However, the general consensus is that increases in minimum wage at the city level do have negative consequences for the overall economic environment in terms of employment and/or prices at affected firms. In fact, in a review of the pertinent literature, Neumark finds that roughly 85% of the studies do find negative consequences of minimum wage laws at the city level.

In addition, some studies have found that in addition to the negative effects on overall employment, minimum wage laws can result in a degree of labor substitution. For example, Fairris and Bujanda 2008[1] find that "a living wage can generate demand shifts toward higher-skilled workers, increasing their wages and employment." In other words, an increase in the minimum wage reduced the wage premium earned by more skilled workers, which can cause businesses to substitute more skilled labor for minimum wage workers—thereby offsetting part of the wage increase and mitigating some of the impact of increased wages on minimum wage workers.

[1]Fairris, David, and Leon Fernandez Bujanda, “The Dissipation of Minimum Wage Gains for Workers through Labor-Labor Substitution: Evidence from the Los Angeles Living Wage Ordinance,” Southern Economic Journal, 2008, Vol. 75, No. 2, pp. 473-96.

The magnitude of the effects vary, with some studies showing a small contraction in employment after a minimum wage increase, and others finding larger employment effects. A few select studies, such as that of Card and Krueger (detailed below), find that minimum wage increases might actually increase the employment base, while others find that the effects are negative, but not statistically significant. Still, most of the argument revolves around how the increase in minimum wages impact the economy and by how much, with a relatively small contingent claiming that there is no noticeable effect.

The Effect of the Minimum Wage on Employment and Unemployment
Charles Brown, Curtis Gilroy, and Andrew Kohen - 1982

This study examines the previous results on minimum wage studies and the effects of minimum wage increases on employment. In addition to reviewing the findings of other researchers, the authors also look into the causes of most frequent disagreements between economists. The authors aggregate the effect of a wage increase from various time-series studies and conclude that a 10% increase in the minimum wage is estimated to reduce teenage employment by 1% to 3%. The results from cross-sectional studies are harder to aggregate, and the authors claim the results are comparable to time-series analyses, however, it is very plausible for the effect to be smaller, anywhere between zero and 0.75% (decrease in employment after a 10% increase in minimum wages).

Most economists examine the effects of minimum wage policies on teenagers and youth because they tend to be low-wage, entry-level employees. Brown, Gilroy, and Kohen find that most empirical work has discovered a negative effect on employment for teenagers as a result of increases in the minimum wage. One drawback of the examined papers is that while most coefficients had a negative sign (negative relationship between higher wages and employment), in nearly half of the studies the coefficients were not statistically significant.

The authors argue that most of the disagreements among economists regarding the effects of increases in the minimum wage arise from using different samples, date range or the sample size being too small. For example, some researchers analyze white teenagers, while others analyze non-whites, for whom the data are much more limited. Other disagreements involve the use of cross-sectional compared to time-series analyses. Time-series analyses leave open the possibility of omitted variable bias, in that some other factor than the minimum wage had an impact on employment but had not been appropriately controlled for in empirical studies.

Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania
David Card, and Alan B. Krueger - 1994

This is one of the first (and probably best known) papers to challenge conventional wisdom and economic theory on the minimum wage: that an increase in minimum wages will force profit-maximizing employers to reduce employment. The authors studied the effect of the minimum wage increase in New Jersey (in 1992, the minimum wage went from $4.25 to $5.05 per hour) and eastern Pennsylvania, where there was no change in the minimum wage, using a difference-in-differences estimate. The authors studied 410 fast food restaurants in New Jersey and eastern Pennsylvania before and after the increase in minimum wage. Variables of interest were wages, employment and prices in New Jersey compared to those in Pennsylvania.

Card and Krueger found no evidence that the increase in the minimum wage in New Jersey reduced employment at fast-food restaurants. In fact, the authors found that full-time equivalent employment grew *faster* at restaurants that were affected by the minimum wage. However, they did find that prices at New Jersey's fast food restaurants

increased compared to Pennsylvania. The authors claim that this was difficult to explain and may not imply that the extra cost for the employers was simply passed down to the consumers.

Many economists criticized Card and Krueger's findings, mostly because they seemed to go against economic theory. A paper by David Neumark and William Washer (2000)[2] claimed that Card and Krueger did not have accurate data. Instead of relying on a survey of fast food restaurants, Neumark and Washer gathered data from selected restaurant payroll records (initial selection was done by the Employment Policies Institute). They arrived at a completely different result, claiming the minimum wage increase in New Jersey led to a 3.9% to 4.0% decrease in employment, relative to the eastern Pennsylvania control group.

In response to this criticism, Card and Krueger gathered data from the Bureau of Labor Statistics' ES-202 report, which is employer-reported data. Using this data, Card and Krueger arrived at a very similar conclusion to their 1994 paper—an increase in New Jersey's minimum wage had no effect on employment (and possibly a slight positive relationship). They also noted that the only sample that showed a decrease in employment was the one collected by the Employment Policies Institute. Rerunning their model using Neumark and Washer's sample (without the EPI data), Card and Krueger also arrived at the same conclusion as in their first paper.

A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey

Richard V. Burkhauser, Kenneth A. Couch, and David C. Wittenburg - 2000

As with most other literature regarding the impacts of an increase in the minimum wage, this paper does not look at the city-specific minimum wage increases. However, the authors use data from another source to analyze the effects of increases in the federal minimum wage. Analyzing the Current Population Survey to estimate the effects of federal minimum wage increases from 1979 to 1997, they find that there was a negative relationship between employment growth and increases in the federal minimum wage—a completely different conclusion than the one reached by Card and Krueger. They conclude that the effect on employment associated with increases in the minimum wage was negative and statistically significant, but very modest. The elasticity of teenage employment with respect to the minimum wage is estimated to be between -0.2 and -0.6—meaning that a 10% increase in the U.S. minimum wage would reduce employment by between 2% and 6%.

Raising the Minimum Wage: Another Empty Promise to the Working Poor

Richard Burkhauser and Joseph Sabia - 2005

This paper is not necessarily a study on the economy-wide impacts of an increase in the minimum wage. Rather, the authors examine the effectiveness of federal minimum wage increases on the wages of the working poor by looking at various income distribution statistics of single mothers, as well as poverty rates. While it is not an empirical study in nature, it does tabulate a variety of data items regarding the number and percent of Americans living in poverty and occupying a variety of income and wage groups. However, it does not attempt to calculate the impact of an increase in the minimum wage on the overall economy.

The authors conclude that federal minimum wage increases do not have an effect on single, working mothers. They claim, however, that an effective policy for improving the standard of living for the poor is the Earned Income Tax

[2]Neumark and Wascher (2000)

Credit. This federal program allows the working poor to claim a $0.40 credit for each $1 earned, which increases the effective minimum wage more that the mandatory federal increase.

How Did the $8.50 Citywide Minimum Wage Affect the Santa Fe Labor Market
Aaron S. Yelowitz - 2005

This paper examines the 2004 city-wide minimum wage increase in Santa Fe, New Mexico. The author used the same methodology as most other papers—a difference-in-differences estimate (DIDE) of a variety of indicators before and after the implementation of the increased minimum wage.

Unlike Card and Krueger, Yelowitz finds that the increase in the minimum wage had a negative effect on employment. More specifically, the effect was most visible on less-educated workers. The author claims that the likelihood of unemployment increased 8.3 percentage points for less-educated workers as a result of the wage increase. However, none of the coefficients exhibited statistical significance. On the other hand, the author finds statistically significant evidence that hours worked fell by 3.2 hours for less-educated workers, meaning that while employment may not have been impacted in terms of total number of jobs, the amount of available hours went down. This result implies that the employment effect (elasticity) of increased minimum wages in Santa Fe is -0.12—a 10% increase in the minimum wage reduces employment by 1.2%.

Robert Pollin and Jeannette Wicks-Lim[3] of the University of Massachusetts-Amherst criticized this paper, claiming that Yelowitz used evidence that was misleading and incomplete, as well as misused available data. In fact, Pollin and Wicks-Lim replicated Yelowitz's study and found no negative effects on employment associated with the increase in minimum wages. Other economists such as David Neumark and William Washer[4] see the paper as convincing, with a relatively strong methodology applied.

Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research
David Neumark and William Wascher - 2006

This paper is fundamentally a continuation of the work done by Brown et al. (1982). The authors analyze over a hundred empirical studies completed between 1992 and 2006 examining the effect of minimum wages. They look into all critical aspects of empirical work, including data, sampling methods, theory, methodology, and the significance of test results. They conclude that the variability of the elasticities between studies is very large—some estimates are well below -1, while others are above zero. However, according to their research, the conventional economic theory still holds true: an increase in the minimum wage has a negative effect on employment. Nearly two-thirds of papers provided evidence to support that theory. The authors also select papers with the most credible evidence (33 papers) and find that 85% of these also confirm the negative relationship. Finally, the authors claim that the most credible evidence comes from using longer time-frame panel data studies.

The Economic Effects of a Citywide Minimum Wage
Arindrajit Dube, Suresh Naidu, and Michael Reich - 2007

Like that of Yelowitz, this is one of the first papers to examine the minimum wage increase within city borders. The subject is San Francisco's wage increase of 2003, when the minimum wage went from the California minimum of $6.75 to a city-specific $8.50. The ordinance also included cost of living adjustments, which would increase the local

[3]Pollin and Wicks-Lim (2005)
[4]Neurmark and Washer (2006)

minimum wage in line with inflation as measured by the CPI. Essentially, this is a continuation of Card and Krueger's 1994 study, however, it includes a more specific and larger data set, convenient regulation (some restaurants were exempt in the early stages of the law, making them a better control group), and research of many more outcomes, such as: average hourly pay, distribution of pay, total employment, part-time and full-time employment, menu prices, employee tenure, health insurance coverage, the proportion of workers who receive tips, and employer compliance with the law.

The authors conclude that the higher minimum wages in San Francisco increased pay significantly at affected restaurants without causing any effect on the number of affected restaurants operating or total employment. The estimated elasticities on employment range between 0.01 and 0.12, but they were not statistically significant. Still, the authors find evidence that prices, employment of full-time workers, and employee job tenure all increased significantly at fast-food restaurants, though the authors do not find the same effect at table-service restaurants. To the authors, "significantly" equates to a 6.2% increase in prices in San Francisco compared to East Bay. To arrive at a more accurate cost increase, they use basic arithmetic: 50% of workers were paid under $8.50 per hour, the minimum wage increase was 26%, and fast-food restaurant labor costs account for 35% of total cost. Multiplying the three percentages, they arrive at a 4.5% increase in total costs.

This study has been criticized[5] for a low response ratio to the survey instrument—only 38% responded in the second wave. In addition, it has been argued the feedback effect tested was too short, as the authors only focused on the effect nine months after the minimum wage change. Additionally, some economists do not see a reason why large restaurants (more than 30 employees) were excluded.

More importantly, this measure was different from what is being proposed under Measure D as it included exemptions for certain businesses, while the San Jose law would apply across the board. And, the control area used to test the effects was the East Bay economy. Given that the East Bay has a completely different economic structure to San Francisco, it is difficult to attribute effect or non-effects to a law when the test-case is not representative of what performance would have looked like "but-for" the passage of the minimum wage law.

The Wage and Employment Impact of Minimum-Wage Laws in Three Cities
John Schmitt and David Rosnic - 2011

This empirical study examines the effect of a city-specific minimum wage law in three U.S. cities (San Francisco, Santa Fe, and Washington, D.C.) on low-wage jobs in fast food restaurants, food service establishments, retailers, and other businesses. The methodology employed is similar to that used by Card and Krueger when examining the effect of New Jersey's 1992 minimum wage increase, using a DIDE.

The authors examine the employment and wage trends prior to and after the policy change. In other words, the study treats the increase in the minimum wage as a quasi-experiment, where the trends in place before and after the increase in minimum wages serve as a "treatment" group. They compare these trends to those of a nearby area unaffected by the policy change—the "control" group. To analyze the employment trends, before and after the policy change, the authors use data from the unemployment insurance system, which covers 98% of all employees.

In this study, the authors find evidence that the increase in the minimum wage in San Francisco (increase from $6.75 to $8.50—26%) and Santa Fe (increase from $5.15 to $8.50—65%) raised the earnings of the low-wage workers with-

[5]Neumark and Wascher (2006)

out any negative effects on employment. They also find that the minimum wage increase in Washington, D.C., was too small to raise the wages in the above-mentioned establishments (the increase was $1 plus federal minimum wage, which was $4.25 - 23.5%). In addition, the authors conclude that the effect was the same regardless of the size of the business.

Methodology

Beacon Economics has conducted a study on the effects of the city-wide minimum wage that is being proposed as Measure D in San Jose on the November 2012 ballot. This study includes a summary and analysis of the existing studies of the minimum wage literature, including analyses of both national/state minimum wage laws as well as the more infrequent city-wide minimum wage policies across the country. This study also attempts to measure the net economic impact to the San Jose economy of raising the minimum wage from the statewide level of $8.00 per hour to $10.00 per hour.

The literature suggests there are a variety of ways that an increase in the minimum wage can impact a local economy, and they fall within three broad areas. First, an increase in the minimum wage will increase the cost of doing business for firms located within the city where the minimum wage is enacted. This can have the dual impact of raising total payroll costs for businesses, which can ultimately reduce the amount of labor inputs demanded by those firms. In other words, higher payroll costs can lead employers to cut back on staffing positions or hours, or some combination of both in response to an increase in the minimum wage. Second, businesses can choose to pass on some of the increased costs of the higher wages to consumers. Thus, to the extent that consumers are sensitive to price changes, the increase in prices could reduce final demand for the goods and services produced by companies located within the jurisdiction. This is especially true in a city-wide minimum wage context like San Jose, where consumers are in relatively close proximity to other cities not subject to the increase and can substitute their shopping, dining, and other needs from a nearby area fairly easily. These represent negative economic impacts to the local economy in the form of reduced employment and reduced demand for business output within the city.

There are other non-economic costs associated with local minimum wage laws, as well. These include costs to the public sector (taxpayers) in the form of administering and enforcing the new minimum wage, which will require staffing and expertise on the part of San Jose officials. Other costs include the costs of litigation associated with compliance with the law.

However, there are also some positive implications to the increase in wages in the form of increased spending by wage earners. A portion of the increased payroll costs are paid out to workers in San Jose, which results in increased disposable income for minimum wage earners. To the extent that these workers also live in San Jose, some of those wages will be spent back into the local economy, which will offset some of the reduced output caused by rising prices. This increase in demand stemming from increased local spending can also help generate additional jobs in the economy, which will offset some of the reduced employment associated with rising business costs. The result of these competing effects represents the net economic impact to the San Jose economy as a result of raising the minimum wage from the statewide $8.00 per hour to $10.00 per hour.

Thus, this analysis attempts to quantify the net economic impact of Measure D on San Jose's economy. First, Beacon has quantified the number of minimum-wage earners in San Jose using a variety of data sources. This information,

along with the value of the wage increase per worker and additional employer payroll expenses, is used to calculate the total cost of the wage increase to businesses. Next, estimates of the sensitivity of employers to wage increases gathered from the existing literature are employed to estimate the reduction in employment as a result of higher wages. The increase in costs is linked to pass-through pricing by businesses, to capture the effect of firms raising prices to offset the increase in payroll costs. The increase in prices is then used to determine the reduction in total output associated with reduced consumer demand. The result represents the increases in costs to San Jose firms that can be expected as a result of the increased wages.

Next, Beacon Economics calculates the impact of increased wages on spending in the local economy. The increase in wages paid out represents the increase in income that is expected as a result of the wage increase. Using this information along with data on commuting patterns, the number of San Jose workers who also live in the city is used to calculate the proportion of the increased income that will be spent locally. Data from the Consumer Expenditure (CE) survey is used to divide the total increase in spending among the various industries where workers in the $10.00 per hour income bracket spend their take-home pay. The increase in spending by industry is then run through the IMPLAN modeling system to determine the secondary effects of the increased spending on the San Jose economy. For example, increased spending on retail goods by San Jose workers will increase demand for the inputs used in the provisioning of retail goods, such that the suppliers of those inputs will need to increase employment and thus pay additional income to their workers in order to meet the increased demand from consumers. This generates knock-on effects throughout the local economy in what is commonly referred to as economic impact analysis.

The difference between the increased cost of doing business and the increased economic output resulting from increased spending represents the net economic impact of Measure D on the San Jose economy.

San Jose Minimum Wage Workers

The first portion of the analysis involves determining the size of the population that will be impacted by Measure D. While the number of minimum wage workers in the state is readily available, data at the MSA or city level is much more limited. Thus, Beacon Economics used a variety of data sources in order to calculate the number of minimum wage workers currently employed in San Jose.

The 2011 March Demographic Supplement to the Current Population Survey (CPS) provides detailed employment and demographic information on all survey respondents, which totaled more than 200,000 individuals. This dataset includes information on the class of worker (whether hourly or not) as well as the worker's current hourly pay and geographic information denoting the state and MSA where the worker is located. Unfortunately, this dataset does not include information on the city of residence or work, so estimates for the San Jose MSA are used as a proxy for the City of San Jose.

According to this database, roughly 59,000 workers (or 6.5% of total employment) in the San Jose MSA earn an hourly wage of $8.00 per hour. This is slightly less than the statewide average in 2011, when 8.1% of all employees earned hourly wages of $8.00 per hour. It is important to point out that when using the federal minimum wage of $7.25 per hour, this dataset roughly corroborates the Bureau of Labor Statistics' counts of minimum wage earners, which validates the aggregation methodology used in the case of an $8.00 per hour minimum wage.

Table 1: Estimates of Minimum Wage Workers San Jose MSA and California, 2011

Category	San Jose MSA		California	
	Number	Share (%)	Number	Share (%)
Above $8/Hr.	574,476		7,635,785	
At/Below $8/Hr.	59,237		1,124,892	
Total Hourly	633,713	9.3	8,760,677	12.8
Hourly Workers	633,713		8,760,677	
Salaried Workers	273,699		5,061,791	
Total Employment	907,412	6.5	13,822,468	8.1

Source: U.S. Census Bureau, Current Population Survey

It is worth noting that in particular industries, such as the restaurant industry, many of the wait staff earn tips in addition to their wages. As a result, tip employees could stand to benefit disproportionately from the wage increase as they will earn the additional wages plus their tips. Other, non-tip earning staff, will only receive the wage increase and thus Measure D might not have as great of an impact on the lowest-wage earners it is intending to help the most.

To determine how the metro-wide data translates to the City of San Jose, Beacon Economics utilized the Census Bureau's Longitudinal Employer-Household Dynamics (LEHD) database. This database shows employment from IRS records of workers and payroll employment files from employers to estimate commuting patterns. However, this database also shows us total employment counts at a variety of geographic levels, including MSAs and cities. Thus, these data were used to determine the proportion of total employment in the San Jose MSA that is employed within the City of San Jose specifically. According to our analysis of the 2010 LEHD, there were approximately 805,000 primary jobs located in the San Jose MSA. Of those, roughly 328,000 were located within the City of San Jose itself. Therefore, we use this estimate of 40.69% of all MSA workers located within San Jose city limits as a measure of the City of San Jose total minimum wage employment.

Table 2: Employment in San Jose City and MSA, 2010

Location	Employment
City of San Jose	327,964
San Jose MSA	805,960
City Share (%)	40.69

Source: U.S. Census Bureau, LEHD

Specifically, with 40.69% of San Jose MSA employment located within the city, Beacon Economics has estimated the total level of payroll employment located within the city based upon MSA-wide employment counts for 2012. As of July, 2012, there were nearly 903,000 workers in the San Jose MSA. Based upon the LEHD information, that equates to just over 367,000 payroll employees located in the City of San Jose currently. Given that more detailed information at the city level is not available, it is assumed that the distribution of workers between minimum wage and other workers resembles that of the MSA overall. As such, we have estimated that roughly 6.5% of all employees in the City of San Jose currently earn the statewide minimum wage of $8.00 per hour. This equates to just under 24,000 workers who would be impacted by the proposed increase to the San Jose minimum wage.

One important component of our analysis is the fact that some industries will be more affected by the proposed increase than others. Using the Census Bureau's American Community Survey, which contains detailed response data from over 360,000 individuals nationwide, Beacon Economics has determined the proportion of workers in each sector currently earning minimum wage in order to model the increased cost of doing business on a sector-by-sector basis. According to this dataset, several sectors maintain a large contingent of minimum wage employees. For example, more than 25% of hotel and restaurant industry workers and nearly 25% of workers in the Natural Resource/Mining sector currently earn the minimum wage. More than 13% of workers in the Other Services sector (which includes household services) earn minimum wage, as well. Additionally, the Retail Trade, Real Estate, and Administrative Support sectors all maintain greater than 10% of their total employment base.

Table 3: Estimates of Minimum Wage Workers by Industry
San Jose MSA and City of San Jose, 2012

Industry	San Jose MSA Employment (000s)	City of San Jose Employment (000s)	City of San Jose Min. Wage Employment (000s)	(%)
Accommodation/Food	68.1	27.7	7.1	25.6
NR/Mining	0.2	0.1	0.0	24.8
Other Services	24.8	10.1	1.3	13.2
Retail Trade	82.2	33.4	4.1	12.4
Real Estate	13.1	5.3	0.6	12.2
Admin Support	52.8	21.5	2.6	12.1
Arts/Entertainment	11.9	4.8	0.5	10.5
Health Care	81.2	33.1	2.2	6.6
Construction	33.6	13.7	0.9	6.5
Government	86.8	35.3	1.6	4.5
Educational Services	43.8	17.8	0.7	3.9
Transport/Warehouse	10.4	4.2	0.2	3.9
Wholesale Trade	36.4	14.8	0.6	3.8
Information	52.4	21.3	0.7	3.4
Manufacturing	160.0	65.1	1.5	2.3
Finance/Insurance	19.1	7.8	0.2	2.2
Management/Professional	124.2	50.5	0.7	1.3
Utilities	1.7	0.7	0.0	0.0
Total Nonfarm	902.7	367.3	23.9	6.5

Source: California EDD, U.S. Census Bureau, and Beacon Economics

These sectors represent the industries that will be most impacted by Measure D as the affected workers represent above-average shares of their employment base. For example, of the 24,000 minimum wage workers in the City of San Jose, more than 7,000 work in the city's hotels and restaurants. Another 4,000 minimum wage employees work in Retail Trade, and more than 2,200 work in Health Care. Thus, an increase to the minimum wage will increase the

cost of doing business more than in other sectors such as Management and Professional firms, where minimum wage workers represent around 1% of all payroll employees.

Direct Employment Effects

Armed with information on the size of the population that will be affected by Measure D, Beacon Economics calculated the employment effects and increased cost of doing business as a result of the increased minimum wage. These calculations involved a variety of considerations, including a firm's responsiveness to increases in wage costs, the implications for prices as a result of higher costs, and the sensitivity of consumers to increases in prices. Each of these considerations are critical for capturing the real effect of the proposed wage increase, and ignoring any of these factors can result in estimates that either overstate or understate the increased cost of doing business in San Jose. For example, assuming that there is no employment effect for the wage increase would mean that the entire wage increase would be borne across all employees, whereas the cost of the wage increase would be mitigated to some extent if firms opt to reduce staffing in order to offset some of the increased wage costs.

In terms of employment effects, the literature on minimum wage laws has shown mixed results, and there is still some debate about the effects of these policies on employment and pricing. However, on the whole, the literature suggests that the employment effects of increased minimum wages range from no effect to a negative impact on employment. As such, Beacon Economics has utilized a range of possible values for a firm's responsiveness to increased labor costs.

In the first scenario (Scenario A), firms are expected to be totally unresponsive to increases in the minimum wage. In other words, they will bear the cost of the wage increase without letting go any workers. Although this represents one end of the likely spectrum of outcomes, this provides us with an upper bound to the increased costs associated with the minimum wage hike. It is consistent with a portion of the empirical literature that suggests that there is no employment response to increases in the minimum wage (see Card and Krueger, or Dube, Naidu, and Reich). Scenario B utilizes a range of employment elasticities, broken down by industry, to provide a more realistic estimate of the responsiveness of firms to wage increases, recognizing that each industry will react differently based on the concentration of minimum wage workers in its production process. Based upon work conducted by Potter in the Santa Fe minimum wage case, these elasticities ranged from -0.009 in Retail Trade to -0.16 in Construction. Finally, Scenario C utilizes a much higher number for firms' responsiveness, at -0.12 across all industries. This figure, based upon Yelowitz's work on Santa Fe, and recommended by Neumark et. al., represents the lower bound of the increased cost of doing business due to Measure D, as this is the scenario in which firms respond by letting go of a larger number of workers in order to offset the increased wage bill.

It is important to point out that with the exception of Construction and Healthcare, industries in which minimum wage workers represent less than 10% of total employment, the proposed minimum wage increase was treated as an increase in the cost of doing business. Thus, firms are not expected to react by reducing minimum-wage employment, as they have few minimum wage workers to cut.

It is also important to consider how much of the increased wages will be passed on to consumers. According Daniel Aaronson in the *Review of Economics in Statistics* of February 2001, the price impacts of an increase in the minimum wage is 0.72—in other words, a 10% increase in the wage costs results in a 7.2% increase in prices in the local economy. For the purposes of this analysis, the 25% increase in the minimum wage (from $8.00 per hour to $10.00 per hour)

has been modeled as a 10% increase in overall operating costs in the economy, which means that prices are expected to increase by roughly 7% as a result. The empirical literature suggests that consumers are indeed responsive to price increases, especially since they have the option to commute to another nearby city to do their shopping and dining. Specifically, Richard Blundell in the American Economic Review finds that a 10% increase in prices reduces demand for goods in an economy by 7.2% for goods and 6.7% for services.

Therefore, not only will firms react to the increased wages by potentially reducing the number of minimum wage workers that they employ, but prices are also expected to go up such that end consumers actually reduce their spending in the city as well. This has implications for overall output in the city, which in turn affects the required level of employment. For example, assuming that productivity can't change over the short-run, a reduction in business output will also reduce the level of employment over the short run.

Table 4: Job Losses by Industry in the City of San Jose Due to Increased Minimum Wage

Industry	Current Min. Wage Employment (000s)	Job Losses Due to Increase		
		Scenario A	Scenario B	Scenario C
Accommodation/Food	7.1	−0.3	−0.4	−1.2
NR/Mining	0.0	0.0	0.0	0.0
Other Services	1.3	−0.1	−0.1	−0.2
Retail Trade	4.1	−0.2	−0.2	−0.7
Real Estate	0.6	0.0	0.0	−0.1
Admin Support	2.6	−0.1	−0.2	−0.4
Arts/Entertainment	0.5	0.0	0.0	−0.1
Health Care	2.2	−0.1	−0.2	−0.4
Construction	0.9	0.0	−0.2	−0.1
Government	1.6	0.0	0.0	0.0
Educational Services	0.7	0.0	0.0	0.0
Transport/Warehouse	0.2	0.0	0.0	0.0
Wholesale Trade	0.6	0.0	0.0	0.0
Information	0.7	0.0	0.0	0.0
Manufacturing	1.5	0.0	0.0	0.0
Finance/Insurance	0.2	0.0	0.0	0.0
Management/Professional	0.7	0.0	0.0	0.0
Utilities	0.0	0.0	0.0	0.0
Total Nonfarm	23.9	−0.9	−1.3	−3.1

Source: Calculations/Estimates by Beacon Economics

Using this methodology, Beacon Economics has determined that the increase in minimum wage in San Jose from the statewide level of $8.00 per hour to $10.00 per hour would result in job losses within the city, as firms both reduce employment as a result of higher payroll costs and consumers reduce demand in response to higher costs that are expected to be partially passed on to consumers. These job losses range from 900 jobs in Scenario A, if employers do

not respond to the wage increase by reducing employment (i.e. the job losses that stem purely from reduced demand and cost pass-throughs), to as much as 3,100 jobs in Scenario C, if employment is highly sensitive to increase wages.

As noted, several sectors will be more affected by Measure D. For example, nearly two-thirds of the expected job losses will come from the city's restaurants, hotel, and retail establishments. This is a function of the fact that firms in these sectors are relatively sensitive to increases in their wage costs, and that the share of minimum wage workers is great enough that prices will increase—reducing demand for those goods and services in San Jose, which puts additional downward pressure on employment in those sectors. Other sectors will see only negligible effects on employment because overall employment is low and the percentage of minimum wage workers who fill those jobs is relatively small. For example, Manufacturing accounts for only 1,500 of the 23,000 minimum wage jobs in San Jose, and just 2.3% of total employment in that sector. Thus, the increase in wage will have virtually no impact on employment in that sector.

Relative to the overall economy, which employs roughly 367,000 workers, these job losses are not huge in magnitude. Even in Scenario C, which has the largest employer response to the increase wages, 3,100 lost jobs would represent a 0.85% decline in total employment in the region. Nevertheless, these 3,100 jobs are real jobs occupied by those workers at the bottom end of the income spectrum. As such, these negative implications for overall employment should be carefully considered as one of the negative consequences of Measure D.

Increased Cost of Doing Business

As noted, in addition to having negative impacts on overall employment in San Jose, Measure D will also significantly increase the cost of doing business in the city. Using the number of affected workers, the proposed increase of $2.00 per hour to the minimum wage, and a 30-hour work week on average for hourly employees, Beacon Economics has also calculated the increased cost to businesses that can be expected in response to Measure D.

Given that the level of job losses varies depending on our assumptions of how responsive firms will be in response to the minimum wage increase, the additional wage costs are also presented according to the three scenarios described herein. However, under any scenario, the increase in wages results in significant additional payroll costs for the San Jose economy. Specifically, Beacon Economics estimates that Measure D will increase wage costs for firms located in the City of San Jose by between $70 million per year to $78 million per year. These are fairly sizable additional costs to impose upon local employers—especially since these increased wage costs already take into account the reductions in employment associated with higher wages and reduced demand by consumers for these products.

Table 5: Increased Wage Costs in the City of San Jose Due to Increased Minimum Wage

Industry	Increased Wages ($Mil.)		
	Scenario A	Scenario B	Scenario C
Accommodation/Food	21.1	20.9	18.6
NR/Mining	0.0	0.0	0.0
Other Services	3.9	3.8	3.4
Retail Trade	12.2	12.1	10.7
Real Estate	1.8	1.8	1.6
Admin Support	7.7	7.6	6.8
Arts/Entertainment	1.5	1.5	1.3
Health Care	6.5	6.3	5.8
Construction	2.7	2.2	2.3
Government	5.0	5.0	5.0
Educational Services	2.2	2.2	2.2
Transport/Warehouse	0.6	0.6	0.6
Wholesale Trade	1.9	1.9	1.9
Information	2.2	2.2	2.2
Manufacturing	4.7	4.7	4.7
Finance/Insurance	0.6	0.6	0.6
Management/Professional	2.2	2.2	2.2
Utilities	0.0	0.0	0.0
Total Nonfarm	76.7	75.5	69.8

Source: Calculations/Estimates by Beacon Economics

Unsurprisingly, the sectors with the greatest number and share of minimum wage workers bear the brunt of these wage increases. Specifically, between $18.6 million and $21.1 million in increased wages will be borne by the city's restaurants and hotels. Another $10.7 and $12.2 million will be shouldered by the Retail Trade industry, as well. Still, most other sectors will be impacted by the increased minimum wage. Even in manufacturing, which has a relatively small contingent of minimum wage workers will see its wage costs increase by almost $5 million per year.

In addition to the added costs to the employer due to the wage increase, there are a variety of other expenses that will increase for firms in San Jose as a result of Measure D. Chief among these are added payroll costs, such as contributions to FICA/Social Security, Medicare contributions, California State Disability, and Worker's Comp. Insurance. According to payroll processor Paychex, these additional costs associated with increasing the per-hour wage of an employee from $8.00 to a $10.00 will cost $2.00 per hour in additional wages plus an additional $0.51 per hour in additional payroll expenses above and beyond the increase in wages.

Since these represent real costs that will be paid by the employer as a result of Measure D, Beacon Economics includes these expenses as part of the increased cost of doing business. Again, we utilize our three scenarios of job losses in

order to estimate these increased payroll costs, which are not insignificant. For example, the additional $0.51 per employee per hour represents an additional 25.7% increase in expenses on top of the 25% increase in the minimum wage, bringing the total cost of the increase to more than 31% per worker per hour.

Combining both the cost of the increased wages themselves as well as the increased payroll expense items noted herein yields the total increase in direct costs to employers as a result of the implementation of Measure D. Given our estimates of total minimum wage employment under Scenarios A-C, Beacon Economics estimates that the increase in payroll costs associated with the adoption of Measure D ranges from between $17.9 million to $19.7 million depending on how responsive firms are to the increased minimum wage. These costs are substantial and represent 20% of the overall costs to employers as a result of Measure D.

Combining these increased payroll expense items with the cost of the wage increase itself shows that Measure D could have a significant impact on the cost of doing business within the City of San Jose. Under Scenario C, which embodies the largest employer response to the minimum wage increase, the increase in total employer costs is the smallest because employers offset some of the increase in wages by reducing their workforce by the largest amount. Under Scenario C, total employer costs increase by $87.7 million. This includes the $69.8 million in increased cost to the city's employers in the form of additional wages as well as $17.9 million in additional payroll expenses associated with the higher wages. In Scenario A, in which employers do not reduce employment in response to a minimum wage hike, the costs will increase by even more. Beacon Economics estimates that total employer costs will increase by as much as $96.3 million. Again, this figure includes the $76.7 million per year in additional wages as well as $19.7 million in higher payroll costs.

Table 6: Total Increased Employer Costs in the City of San Jose Due to Increased Minimum Wage

Category	Increased Costs ($Mil.)		
	Scenario A	Scenario B	Scenario C
Increased Wage Costs	76.7	75.5	69.8
Increased Payroll Costs	19.7	19.4	17.9
Total Increased Employer Costs	96.3	94.9	87.7

Source: Calculations/Estimates by Beacon Economics

Based upon these estimates, it is clear that Measure D will have a significant impact on businesses operating in the City of San Jose. Not only will the minimum wage increase raise wage costs for employers located within the city, but it will raise payroll costs, as well. According to the 2007 Economic Census, San Jose was home to more than 15,000 businesses with more than $17 billion in annual payroll during 2007. As such, this increase in the minimum wage would raise total payroll costs by 0.5% economy-wide. Although this increase is small relative to the overall size of the economy, these represent real costs to firms located within the city. And, for hotels, restaurants, and retail establishments—sectors that will be disproportionately affected by the wage increase—the consequences of Measure D are even more pronounced than the aggregate totals suggest.

Increased Consumer Spending

Although Measure D will increase wages and payroll expenses for firms located within the City of San Jose, its effects will not be entirely negative. In addition to the social issues that Measure D is attempting to address, the increased minimum wage could increase overall consumer spending as these workers pour some of these increased earnings back into the economy. As such, Beacon Economics has reduced the negative effects associated with increased wages and payroll costs by the increased direct and secondary spending that is likely to occur as a result of the adoption of Measure D.

However, it is important to point out that not all of the increase take-home pay will be spent locally, as some of the workers, particularly in an economy like San Jose, commute into the city each day for work from other parts of the Bay Area. Given that most spending from take-home pay occurs around the place of residence rather than the place of work, San Jose will not benefit from increased spending for workers who live in Santa Clara or Los Gatos, for example. Therefore, Beacon Economics dipped into the Census Bureau's LEHD database to determine the proportion of San Jose workers who also live within the city. According to these data, roughly 142,000 of the 328,000 primary jobs located in the City of San Jose were filled by residents of San Jose. This equates to roughly 43.4% of all workers in the city. As such, only 43.4% of the increased wages are expected to be spent in the local economy.

As a result, the majority of the increase in take home pay will be spent outside of the City of San Jose. Thus, the City is not able to reap the full benefits of the wage increase as workers take their earnings home to spend in their place of residence. Measure D will cost tax payers in the city (both businesses and residents) in terms of tax dollars to fund enforcement and administration, but a significant portion of the benefits accrue to other areas. In some ways, Measure D will actually mean that the City of San Jose is subsidizing increased spending in neighboring communities.

Combining the information on commute patterns with the estimates of the increased wages paid under Scenarios A-C, Beacon Economics has determined the increase in spending that is likely to occur ***in*** San Jose as a result of Measure D. For the purposes of this analysis, Beacon Economics has assumed a combined rate of 15% of gross pay to represent the taxes and savings that will come out of the increased wages. This is likely a highly conservative estimate given that these workers are in the lowest state and federal tax brackets, but it does provide a lower bound to the increase in consumer activity that is likely to occur as a result of Measure D.

Table 7: San Jose Workers by Place of Residence

Place of Residence	Number of Jobs	Share of Total (%)
San Jose	142,348	43.4
Santa Clara	11,456	3.5
Sunnyvale	10,345	3.2
Fremont	10,291	3.1
Milpitas	8,008	2.4
San Francisco	6,359	1.9
Campbell	5,148	1.6
Cupertino	4,809	1.5
Morgan Hill	4,358	1.3
Mountain View	3,971	1.2
Other Locations	120,871	36.9
Total Primary Jobs	327,964	100.0

Source: U.S. Census Bureau, LEHD

Based upon this analysis, Beacon Economics has determined that there will likely be a sizable increase in spending as a result of the increased minimum wage, though it will not be large enough to offset the increased cost of doing business in San Jose. For example, Under Scenario A, where fewer minimum wage workers lose their jobs as a result of Measure D, the consequent increase in spending in San Jose totals $28.3 million. Under Scenario C, where a larger portion of minimum wage workers lose their jobs as a result of Measure D, the consequent increase in spending within San Jose is slightly smaller at $25.7 million per year. Thus, on its own, the increase in spending will not offset the negative effects to the cost of doing business in San Jose posed by Measure D.

However, these direct spending increases are not the end of the story. As noted, direct spending in an economy generates knock-on effects throughout the rest of the economy. This type of analysis is commonly referred to as an economic impact study, which operates under the basic assumption that any increase in spending has three effects: first, there is a direct effect on that industry itself, resulting from the additional output of goods or services—buying a car at a retail dealership, for example. Second, there is a chain of indirect effects on all the industries whose outputs are used by the industry under observation. In this case, it would be the auto manufacturers. These are the impacts generated by a business's supply chain. Third, there are induced effects that arise when employment increases and household spending patterns are expanded. These impacts follow from the additional income that is earned in the course of producing this output, both by employees in the target industry and in those supplying it.

In order to calculate these indirect and induced effects, Beacon Economics has utilized the IMPLAN modeling system, which is a commonly used tool for impact studies in economics. IMPLAN's Regional Economic Accounts and the Social Accounting Matrices are used to construct region-level multipliers that describe the response of the San Jose economy to a change in demand or production as a result of spending by San Jose residents who received additional take home pay as a result of Measure D. Each industry that produces goods or services generates demand for other goods and services, and this demand is multiplied through the San Jose economy until it dissipates through "leakage" to economies outside the city. IMPLAN models discern and calculate leakage from local, regional, and state economic areas based on workforce configuration, the inputs required by specific types of businesses, and the availability of inputs in the economic area. Consequently, economic impacts that accrue outside of the City of San Jose as a consequence of a change in demand are not counted as impacts within this analysis.

Table 8: Impacts of Increased Spending in the City of San Jose Due to Increased Minimum Wage

Category	Scenario A	Scenario B	Scenario C
Direct Effect	28,279,164	27,857,042	25,741,986
Total Effect	41,964,605	41,338,199	38,199,580
Jobs Effect	331.5	326.5	301.7

Source: IMPLAN, Calculations/Estimates by Beacon Economics

Utilizing IMPLAN's zip code aggregation to approximate the City of San Jose, Beacon Economics has estimated the total impact (both direct and indirect) of the increased spending in the San Jose economy as a result of Measure D. These indirect and induced impacts are based upon the increase in spending in the local economy in Scenarios A-C net of the estimated savings and taxes that will be paid (15%). This analysis shows that although there will be significant

knock-on effects associated with the increased local spending, it is not enough to offset the increased cost of doing business in San Jose.

Specifically, under Scenario A, the $28.3 million in additional direct spending results in a total increase in output in San Jose of nearly $42 million. Under Scenario C, the $25.7 million in direct spending yields a total increase to economic output within the city of $38.2 million. It should be noted here that this spending will create additional jobs in the economy, as well, which will help to offset some of the job losses associated with rising employer costs. Nonetheless, the net impact to jobs remains negative. For example, in Scenario A, roughly 900 workers are expected to lose their jobs as a result of the increase in employer costs, while just over 330 jobs will be created as a consequence of increased local spending. This leaves the net employment effect of Measure D on the San Jose economy at -570. Similarly, in Scenario C, 3,100 workers are expected to be let go as a result of rising wages and payroll expenses, while the increased consumption generates only 300 jobs—a net reduction in employment of -2,800.

Net Impact of Measure D

Combining the negative impacts of the increased costs of doing business in the City of San Jose with the positive effect of increased spending in the local economy due to Measure D's adoption yields the net economic impact to the city as a result of the increased minimum wage. As noted, the increased spending in the local economy is not enough to offset the increased cost of doing business in San Jose as a result of Measure D. In other words, Beacon Economics estimates that Measure D will have a negative net economic impact on the San Jose economy if adopted under any scenario of a firm's responsiveness to wage increases.

Table 9: Net Economic Impact of Measure D on the City of San Jose

Category	Scenario A	Scenario B	Scenario C
Economic Output			
Increased Employer Costs	-96,336,848	-94,898,824	-87,693,600
Increased Economic Activity	41,964,605	41,338,199	38,199,580
Net Economic Impact	-54,372,243	-53,560,625	-49,494,020
Employment			
Increased Employer Costs	-900.0	-1,300.0	-3,100.0
Increased Economic Activity	331.5	326.5	301.7
Net Economic Impact	-568.5	-973.5	-2,798.3

Source: IMPLAN, Calculations/Estimates by Beacon Economics

Specifically, in Scenario A, Measure D will cost employers $96.3 million in added costs (both wages and payroll expenses) and cost the city roughly 900 jobs. At the same time, spending by minimum wage workers is expected to increase by roughly $28.3 million and generate a total of $42.0 million in output throughout the San Jose economy

and generate 331.5 jobs. On net, this represents an overall loss to the San Jose Economy on the order of $54.4 million and almost 570 jobs. Although smaller in magnitude, Scenario B produces a similar result. Scenario B shows that employer costs will increase by $94.9 million and cost the city 1,300 jobs, and the increase in spending generates $41.3 in increased economic activity and 326.5 jobs—a net effect of -$53.6 million and 974 jobs. Finally, Scenario C generates $87.7 million in increased employer costs while generating just $38.2 million in increased economic activity owing to increased spending by minimum wage earners. And, the jobs effect in Scenario C is roughly -2,800—3,100 jobs lost as a result of employer downsizing in response to the wage hike and 301.7 jobs gained as a result of increased spending and economic activity.

Thus, irrespective of which end of the academic literature employed, whether firms are highly responsive to changes in minimum wage or not at all, Measure D will result in a negative net impact on the San Jose economy due to the adoption of Measure D. This law, while well intentioned, will cost the City of San Jose in terms of both economic activity and jobs. These results are summarized in Table 9.

Other Considerations

Although this analysis covers the vast majority of the economic costs and benefits associated with Measure D, there are also other factors to consider. For example, the net effects presented here do not include the costs to the city of establishing, administering, and enforcing this new minimum wage law. In a letter prepared for the San Jose City Council by City Clerk Denise Hawkins, it is estimated that the enforcement of Measure D will require 4.5 full-time employees at the city, and cost at least $612,000 per year. Although that seems like a small amount relative to the roughly $1.3 billion in operating expenditures in the City of San Jose during fiscal year 2010-11, that is a larger sum than the $500,000 spent on emergency medical services that year. In that context, this represents an added cost to the local government budget at a time when municipal fiscal health has not yet recovered.

In addition to the costs of administration and enforcement, there is also the cost of litigation to consider. Although it cannot be known with certainty the cost of litigation ex ante, Measure D is certain to results in legal battles. According to the official ballot language, Measure D "allows for private enforcement through civil actions." Thus, in addition to enforcement by the city itself, individual businesses could be subject to litigation by any individual, which increases the risk of litigating wage issues significantly. As such, the results presented in this analysis represent a lower bound to the negative impacts that the city can expect as a result of the adoption of Measure D. In addition to a negative net impact from rising business costs, the costs to the city of enforcement and administration as well as the unknown costs of litigation would only increase the magnitude of the negative impact projected here.

Conclusions

Beacon Economics has conducted a study of the potential economic impacts associated with the passage on Measure D on the City of San Jose. Measure D would raise the City of San Jose minimum wage from the statewide $8.00 per hour to $10.00. This analysis looks at the potential impacts to San Jose in terms of job losses, rising costs to businesses, and the potential for increased spending by minimum wage workers in the economy.

Overall, Beacon Economics has found that Measure D, if passed, will create a negative net economic benefit to the City of San Jose. Consumer spending is expected to rise as a result of paying minimum wage workers an additional $2.00 per hour, however because a significant portion of San Jose workers live outside the city itself, those spending impacts will not be high enough to offset the increased cost to businesses. Specifically, we find that, depending on the sensitivity of employers to wage increases, the implementation of Measure D will cause employers to reduce payrolls in the City of San Jose by between 900 and 3,100 jobs. This is based upon Beacon Economics' review of the most rigorous academic work in the field as well as our own empirical analysis. However, some studies point to even greater impacts, meaning that the estimates provided herein tend toward the conservative end.

In addition, Measure D will cost businesses located in San Jose between $69.8 million and $76.7 million in additional wage costs each year. Employers will also incur additional payroll expenses associated with the wage increase that ranges from between $17.9 million and $19.7 million per year. In total, the increase in employer costs will range between $87.7 million and $96.3 million each year.

Some of these increased costs are offset by increased spending by workers in San Jose, who also live in the city. However, given that only 43.4% of San Jose workers also live in the city, Measure D will result in between $25.7 and $28.3 million in additional spending within San Jose each year. This spending will generate secondary impacts that ripple throughout the rest of the economy totaling between$38.2 million and $42.0 million annually. As a result of the increased economic activity associated with this spending, San Jose will gain between 302 and 332 jobs.

Still, after adjusting the increased spending by the increased cost to employers, Beacon Economics concludes that there will be a net economic impact of between -$49.5 million and -$54.4 million in the City of San Jose as a result of Measure D. In addition, the passage of Measure D could cost the City of San Jose between 569 jobs and 2,798 jobs depending on how responsive local employers are to the increased minimum wage. The City of San Jose will also face significant costs, including an estimated $612,000 per year in enforcement costs which will require 4.5 full-time employees. In addition, there are looming unknown costs to businesses as Measure D allows for private enforcement through civil actions, which opens the door to potentially significant litigation expenses.

That is not to say that there are not social and distributional effects that policymakers and voters deem worth the cost, however a recent study by Joseph Sabia and Richard Burkhauser[6] finds that "When we allow for negative employment effects, we find that the working poor face a disproportionate share of the job losses. Our results suggest that raising the federal minimum wage continues to be an inadequate way to help the working poor." And, from an economic standpoint, Measure D represents a negative net impact on the City of San Jose.

[6]Joseph Sabia and Richard Burkhauser, "Minimum Wages and Poverty: Will a $9.50 Federal Minimum Wage Really Help the Working Poor?" Southern Economic Journal, 2010, 76(3), 592–623

References

- Brown, Charles, Curtis Gilroy, and Andrew Kohen. 1982. “The Effect of the Minimum Wage on Employment and Unemployment.” Journal of Economic Literature. Vol. 20, No. 2 (June), pp. 487-528.
- Burkhauser, Richard V. and Joseph Sabia. 2005. “Raising the Minimum Wage: Another Empty Promise to the Working Poor.” Employment Policies Institute, Washington, D.C.
- Burkhauser, Richard V., Kenneth A. Couch, and David C. Wittenburg. 2000a. “A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey.” Journal of Labor Economics. Vol. 18, No. 4 (October), pp. 653-680.
- Card, David and Alan B. Krueger. 1994. “Minimum Wages and Employment: A Case Study of the Fast- Food Industry in New Jersey and Pennsylvania.” American Economic Review. Vol. 84, No. 5 (December), pp. 772-93.
- Dube, Arindrajit, Suresh Naidu, and Michael Reich. 2007. “The Economic Effects of a Citywide Minimum Wage.”Industrial and Labor Relations Review. Vol. 60, No. 4, pp. 522-543.
- Neumark, David and William Wascher. 2000. “The Effect of New Jersey’s Minimum Wage Increase on Fast-Food Employment: A Reevaluation Using Payroll Records.” American Economic Review. Vol. 90, No. 5 (December), pp. 1362-96.
- Neumark, David and William Wascher, 2006. "Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research," NBER Working Papers 12663, National Bureau of Economic Research, Inc.
- Pollin, Robert and Jeannette Wicks-Lim. 2005. “Comments on Aaron Yelowitz, ‘Santa Fe’s living wage ordinance and the labor market’” Working paper. Political Economy Research Institute.
- Schmitt, John and David Rosnick. 2011. “The Wage and Employment Impact of Minimum-Wage Laws in Three Cities.” CEPR Reports and Issue Briefs, Center for Economic and Policy Research (CEPR).
- Yelowitz, Aaron S. 2005. “How Did the $8.50 Citywide Minimum Wage Affect the Santa Fe Labor Market.” Employment Policies Institute, Washington, D.C.

About Beacon Economics

Beacon Economics is a leading provider of economic research, forecasting, industry analysis, and data services. The firm's internationally recognized forecasters were among the first and most accurate predictors of the U.S. mortgage market meltdown that began in 2007—and among a relatively small handful of researchers who correctly calculated the depth and breadth of the financial and economic crisis that followed. By delivering independent, rigorous analysis, Beacon Economics gives its clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy. The firm's clients span both the public and private sector, ranging from the California State Controller's Office to major universities to one of Wall Street's most successful hedge funds. Core service areas include economic and revenue forecasting, economic impact analysis, economic policy analysis, regional economic analysis, real estate market and industry analysis, and EB-5 Visa analysis. Visit Beacon Economics' website at www.BeaconEcon.com to learn more.

Services

- Economic & Revenue Forecasting
- Business, Industry, & Market Analysis
- Economic Development Analysis
- Ports & Infrastructure Analysis
- Public Speaking
- Expert Testimony

Contacts

- **Sherif Hanna**
  Managing Partner
  (424) 646-4656
  Sherif@BeaconEcon.com
- **Victoria Pike Bond**
  Director of Communications
  (415) 457-6030
  Victoria@BeaconEcon.com