IV. Methods of Adjusting to Living Wage Increase by Santa Fe Firms

A 23 percent average pay increase for more than 9,000 low-wage workers in Santa Fe, as well as additional raises for those workers receiving "ripple effect" raises, will obviously bring about adjustments throughout the city's economy. What are these adjustments likely to be?

Two types of adjustment processes are most frequently the focus of discussions in considering the impact of raising minimum wages at the national, statewide or municipal levels. The first is *unemployment*, or, more specifically, that businesses will lay off workers and will become more reluctant to hire new employees, thus creating job losses and fewer opportunities for the working poor. The second is *business relocation*, that is, to avoid paying the higher minimum wage, firms located in the city will move out and firms considering moving into the city will be discouraged from doing so. Such moves would also then create job losses and fewer opportunities for the working poor. Since the purpose of raising minimum wage laws is to improve living standards and create better employment opportunities for the working poor, a rise in unemployment or business flight from the city would obviously be unintended and undesirable consequences of passing such a measure into law.

However, laying off workers or relocating are not the only ways that businesses might adjust to a city-wide minimum wage increase. In fact, there are three other ways that firms might respond to a Santa Fe living wage ordinance. They are that 1) businesses would raise prices; 2) firms would operate more productively; and 3) low-wage employees would receive a relatively greater share of firms' total wage, salary and profit payments. At least initially, these three other adjustment paths are likely to be the primary channels through which Santa Fe firms adjust to the ordinance, since they can be accomplished more readily and at lower costs than either laying off workers or relocating. The adjustment process that would be least costly and disruptive for firms would be to simply raise prices to reflect their increased costs. Thus, if a restaurant faced a four

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