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Op-Ed

Leaving for Las Vegas: California's minimum wage law leaves businesses no choice

by Houman Salem | January 2, 2017

California's minimum wage jumped to \$10.50 an hour at the start of the new year. As the founder of a small fashion design house and clothing manufacturer in San Fernando, I'm not a disinterested observer in this change.

After two years in business, my company now has more than 150 clients from all over the world and 18 employees. It's what's known as a cut-and-sew house, part of the garment industry that generates about \$17 billion in annual economic activity in Los Angeles County, including \$6.9 billion in payroll, according to a 2016 industry report by the California Fashion Assn. This is the epicenter of apparel design and manufacturing in the United States; domestically manufactured clothing is more expensive, but retail and wholesale customers who care about quality and working conditions have historically been willing to pay for it.

Unfortunately, the industry is on a downward trend. Los Angeles County used to have more than 5,000 apparel factories; today, my company is one of roughly 2,000 — and many (e.g. American Apparel) are looking for a way out. One Los Angeles Times headline, quoting a California State University economist, warned that "the exodus has begun."

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The biggest reason is the minimum wage, which will rise to \$15 by 2021 in the county and by 2022 statewide. I write with some hesitancy, because I'm in no way an opponent of higher pay. When you have a company with fewer than 50 employees, you get to know them pretty well and have a genuine concern for them as individuals. But that has to be balanced with concern for keeping your clients, who can always take their business to other countries or states.

Here's what the math looks like: I pay my employees \$10.50 an hour, plus productivity bonuses. In addition, I pay payroll taxes and one of the highest worker compensation rates in the state. Even still, I could likely absorb a minimum wage as high as \$11.50 an hour. But a \$15-an-hour wage for my employees translates into \$18.90 in costs for me — or just under \$40,000 a year per full-time employee.

When the \$15 minimum wage is fully phased in, my company would be losing in excess of \$200,000 a year (and far more if my workforce grows as anticipated). That may be a drop in the bucket for large corporations, but a small business cannot absorb such losses. I could try to charge more to offset that cost, but my customers — the companies that are looking for someone to produce their clothing line — wouldn't pay it. The result would be layoffs.

When Los Angeles County's minimum wage ordinance was approved in July, I began looking at Ventura County, Orange County and other parts of the state. Then, when California embraced a \$15 wage target, I realized that my company couldn't continue to operate in the state. After considering Texas and North Carolina, I've settled on moving the business to Las Vegas, where I'm looking for the right facility. About half of our employees will make the move with us.

Nevada's minimum wage is only \$8.25 right now, so I can keep my current pay structure or possibly increase wages. Even in the event that Nevada raises its minimum wage, I'll still be better off with reduced regulations, no state taxes, and significantly less expensive worker compensation insurance. I have had the opportunity to meet with Las Vegas city officials (including the mayor) and I am confident that we are entering a very business-friendly environment.

Still, if not for the \$15 minimum wage, I'd have zero interest in leaving California. In some ways, it's an ideal time to make clothing here. There's a huge demand for American-made apparel, and the industry infrastructure that exists in Los Angeles — from garment makers to sewing machine repairmen — is difficult to find elsewhere. But businesses can't operate at a loss.

Today, it's cool to be a tech startup in Silicon Valley, but not to be an apparel industry startup in the San Fernando Valley. That needs to change. Not everyone has the inclination or aptitude to write code for Google or Facebook. Moreover, the lifespan of tech startups is shockingly short: 30% to 40% collapse and another 40% get bought, putting people continuously on the hunt for the next job. That is no way to live or to raise a family.

We need more stable, blue-collar jobs in places like the San Fernando Valley — the kind I thought I was helping create. California, however, has put up a giant "Go Away" sign. If President-elect Donald Trump is interested in learning more about the hurdles to adding manufacturing jobs in America, looking at the Golden State's steep pay requirements would be a good place to start.

Houman Salem is the founder and CEO of ARGYLE Haus of Apparel in San Fernando.

California Fashion Association

444 South Flower Street, 37th Floor, Los Angeles, CA 90071

213.688.6288 | info@calfashion.org | calfashion.org

