

Atlas Shrugging in Santa Fe

By Ed Tinsley

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My corporation—I'm president and CEO of K-Bob's Steakhouses, a 26-restaurant chain headquartered near Albuquerque—operates in four southwestern states and employs around 1,000 people. Recently, a new business I planned to open in Santa Fe became one of the latest victims of the “living wage” campaign that is crippling firms and hurting local economies across the U.S. The campaign is the work of union-funded labor activists, whose success so far has been nearly 100 percent.

Earlier this year, Santa Fe passed a law imposing an \$8.50 minimum wage on all businesses in the city with 25 or more workers. The hike takes effect in 2004, with the wage rising to \$10.50—more than double the national minimum—by 2008. Not only is this the highest living wage in the U.S.; it is also unrivaled in its impact on private industry, since most of the 90 or so living-wage laws nationwide apply only to firms that do business with local government.

State and local lawmakers are working to help firms stay afloat during the current economic slump, but Santa Fe's bill will drive businesses to friendlier climes. While I truly wanted to open a K-Bob's in Santa Fe, the huge labor-cost hikes would force me to jack up prices to such unreasonable levels that I decided to stay out of town.

The new bill is scaring off other new investment, too. Plunkett Research, a national market analysis firm, had planned to open a Santa Fe office—until the living-wage bill passed. Citing a “poor business environment,” Plunkett's management found that the new wage minimums made it hard to attract the investors and partners they had hoped to attract, and they decided against coming to Santa Fe. Local realtors have seen other firms' plans to move to Santa Fe put off or canceled because of the bill, including several big restaurant chains.

Even as the living wage scares away prospective Santa Fe employers, it is driving existing businesses out of town. Take Robert Powell, who owns a Santa Fe staffing agency with 200 or so workers. With his labor costs rocketing up to 65 percent higher than his smaller, exempt competitors, he says that the new rules will force him out of business—or out of the city. He expects to move. Nambe Mills, a metal manufacturer that provides Santa Fe with hundreds of good jobs and has been in the city for 50 years, may follow suit. In a letter to the Santa Fe City Council while the bill was being debated, Nambe CEO Jim Weyhrauch warned: “What do we do if you were to pass this measure? We are not likely to sit around and watch our business decline.”

Tom Allin, who operates an Asian restaurant in Santa Fe with 52 workers and a \$450,000 payroll, anticipates that a “compression effect” will push all salaries up the pay scale when the new minimum kicks in. Currently, Allin's assistant managers make \$9 per hour—75 percent more than his new busboys, who receive a \$5.15-per-hour training wage. When the busboys are making \$8.50 per hour, Allin explains, his assistant managers will likely insist on keeping their 75 percent differential, pushing them up to \$14.85 per hour. Such increases, he says, will make it impossible to keep up with competitors exempt from the new minimum because they employ fewer than 25 workers. A business like his that stepped up from 24 to 25 employees might find its labor costs rising \$180,000 a year.

To compound the injury, labor activists made sure that the new law punishes violations with *criminal* penalties. The owner of a 24-employee firm who hires a one-hour-per-day temp for 30 days without boosting everyone's pay will now be facing—unbelievably—up to 180 years in prison and \$360,000 in fines.

Wiser New Mexico communities are now taking advantage of Santa Fe's folly. Albuquerque and Lincoln County, for example, have basically hung out “open for business” signs. Officials in these municipalities are working to pass bills stating that they will *not* pass living-wage laws, signaling that firms considering fleeing Santa Fe are welcome in their towns.

Fleeing firms, lost jobs, and jail for company owners: this is no formula for economic recovery. Nonetheless, living-wage activists, emboldened by their win, are trying to push the Santa Fe model on the rest of the nation. Watch out, America.