CRY WOLF PROJECT

Living Wage ordinances
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"Living wage" ordinances are a policy tool used to raise wages for low-income workers. While they vary quite a bit, the most common form is a municipal ordinance requiring businesses that hold service contracts or receive economic development assistance from a city to pay their employees a living wage.

There are different ways to define a living wage but the basic concept is an hourly wage that would bring a worker with a family up to the federal poverty line.

The first such ordinance was passed in Baltimore in 1994. The idea became popular and by the late 1990s and early 2000s, dozens of campaigns emerged. Today, there are over 150 living wage ordinances in effect around the country, in large and small, urban and rural cities and counties - including Los Angeles, New York city, San Francisco, Chicago, Boston, Miami, Detroit, Buffalo and Milwaukee.[1] A few living wage ordinances apply to other kinds of entities, such as universities, airports and stadiums. Maryland broke ground by passing a statewide living wage ordinance in 2007.

Most living wage ordinances mandate employers to pay an hourly living wage and provide health benefits, or pay a higher wage if benefits are not provided. For example, the 2011 living wage rate in San Diego, California is $11 an hour plus health benefits, or $13.20 an hour if health benefits are not provided. Most ordinances are indexed to go up annually with the cost of living, and many include additional benefits such as paid sick days.

Living Wage campaigns are usually run by large coalitions. The main groups involved include community organizations, unions, faith-based groups, and students.

Arguments for the Living Wage

The US federal minimum wage does not increase automatically with the cost of living and can only be raised by Congress. Congress only increased the minimum wage once between 1981 and the early 1990s, so by the mid-1990s the real value of the minimum wage (adjusted for inflation), was far below its historic levels.

Facing resistance at the federal and state level, advocates pushed to raise wages at the local level. They demanded that local officials to address the growing issue of low wage jobs. At the time that the first living wage ordinance was proposed, almost eight million people were considered "working poor" - working 27 weeks or more per year but not earning enough to meet the federal poverty line.[2] Almost 31 percent of the workforce was earning poverty-level wages (Economic Policy Institute 2008). By raising wages to the federal poverty line, living wage ordinances set wages at a level higher than the state or federal minimum wage. For example, the federal minimum wage in 2010 is $7.25 an hour, and the highest state minimum wage, in Washington State, is $8.55 an hour. The living wage rate (where it is set to the poverty line for a family of four) is $10.55 an hour.

[1] For a full list of ordinances see the National Employment Law Project, www.nelp.org.
[2] Current Population Survey. 1995. "A Profile of the Working Poor."

Living wage ordinances benefit workers by establishing higher hourly wages - however, they do not usually cover a large proportion of workers. For example, the San Diego ordinance covered 974 workers in fiscal year 2009, out of a total labor force of approximately 668,000.[3]

Living wage supporters also argued that cities could spend their money in a way that benefitted residents and the community. For example, the Boston living wage ordinance begins with this statement:

> Whereas, the City of Boston awards millions of dollars in contracts for services each year that result in the creation or maintenance of a wide variety of employment opportunities; and
> Whereas, these contracts are paid for by taxpayer dollars and-should be used to promote the sustenance and creation of jobs that will increase consumer income, decrease levels of poverty, invigorate neighborhood businesses and reduce the need for taxpayer-funded programs in other areas; ..

Some advocates were motivated by moral arguments, suggesting that people should not be working and living in poverty. Others highlighted the economic inefficiencies of allowing employers to pay low wages and then having workers depend on public programs (such as food stamps, subsidized housing, and the Earned Income Tax Credit) to survive. Still others suggested living wages can be good for businesses: If employers raised wages they would benefit from lower turnover and increased productivity.

Arguments against the Living Wage

Business groups are the main opponents of living wage campaigns. This includes the Chamber of Commerce, the American Legislative Exchange Council, industry associations and business-funded think tanks.[4] One of the main organizations that fights the policies is the Employment Policies Institute, a non-profit research and advocacy group funded by the restaurant industry and headed by Richard Berman, a well-known Washington lobbyist for food and alcohol companies. In addition, in most cities the leading newspapers editorialized against the ordinances before the vote. The living wage was not a partisan issue, as many Republican and Democrat mayors and representatives initially opposed the legislation.

Business groups have funded studies used to argue against the passage of living wage and minimum wage laws, generally predicting large job loss and costs for the city. For example, a study of a proposed ordinance in Providence, RI, funded by a coalition that included the Greater Providence Chamber of Commerce, predicted that a living wage ordinance would cost firms $146 million in increased wages and benefits, firms would lose $30 million in profits, employers would cut approximately 30,000 jobs, and the city

[3] See City of San Diego 2010; 2006-2008 American Community Survey.
[4] Not all business leaders oppose living wage ordinances. Some business owners were vocal advocates for the laws. Some felt they did not want to have to compete with other businesses who paid low-wages when competing for city contracts.

would need to spend $18 million. Another study funded by the Chamber in Los Angeles was conducted by Spectrum Economics Inc., a consultant group that has written economic studies arguing against policies such as public health insurance, environmental regulation and prevailing wage laws.[5] The authors claimed that the L.A. living wage ordinance would cost the city $130 million a year (Merl 1996).

Opponents have a variety of objections to living wage ordinances, and their arguments have shifted over time. Initially, opponents predicted substantial economic harm from the ordinances. St. Paul mayor Norm Coleman said a living wage law would be "dumb and dangerous" because it was "the quickest way to kill jobs" (Ojeda-Zapata 1995). In Los Angeles, the Deputy Mayor for Economic Development said the proposed ordinance would cause "entire industries could be wiped out or move overseas."[6]

Citing mainstream economic models of supply and demand, living wage critics argued that if employers are forced to raise wages, they will compensate by cutting employment. Other businesses might simply move out of the city to avoid the law, or not move in. A 1999 *Washington Post* editorial said the living wage was "a formula for assisted economic suicide." Opponents claimed that businesses would stop bidding for city contracts, resulting in a loss of services for residents. Those businesses who did receive contracts would pass on the cost to the city, which would ultimately result in higher taxes. The *Boston Herald* (1996) editorialized, "The proposal couldn't be better calculated to drive business out of the city and encourage corruption" and an article in the *Oakland Tribune* added "The proposed ordinance will increase the cost for…every single item or service the city buys" (Hamilton 1997).

Others predicted that ordinances would hurt small business. Some business owners who held city contracts stated they would no longer bid for a contract if the living wage was required. One reporter said the owner of ABC Security said that although she had a half million dollar contract with the City of Oakland since 1978, she would drop it (Locke 1998).

Opponents went on to assert that the ordinances would hurt minority and women-owned businesses that do a lot of contracting with city governments. One author wrote this about the proposal in Oakland, CA: "If the proposed ordinance is adopted it will hurt small women- and minority-owned businesses the most, the majority of which are already struggling mightily to do business in this city of higher-than-average costs of doing business" (Hamilton 1997).

A number of opponents argued against the ordinances on the grounds that they would hurt the people they are trying to help. Roy Cordato of the John Locke Research Foundation wrote in 2002, "So what are the likely effects of laws that force employers to pay a living wage? First and foremost, all people whose skills are so low that the value of their productive efforts are below the mandated wage will be eliminated as potential employees." The *Los Angeles Daily News* had a similar perspective, noting unintended consequences as well as suggesting the policies were a form of socialism: "This kind of municipal socialism might be well-meaning, but it's ultimately bad for those it purports to help" (2006).

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[5] See Spectrum Economics, Inc. website for more information on their work: http://www.spececon.com/ecstud.php

[6] As cited in Pollin 1998.

Gregory Mankiw, an economist who chaired the Council of Economic Advisors for a period under George Bush, was outspoken in his critique of the Harvard University living wage campaign. Mankiw argued that the living wage would encourage teenagers to drop out of school to take the higher wage jobs, and then "take jobs that would go to unskilled adults, making it harder for those adults to make the transition from welfare to work" (Mankiw 2001). At the same time, a *Crain's Detroit Business* editorial made the opposite argument, suggesting that living wage laws could hurt teenagers: "..such an ordinance will limit the availability of internships and part-time and co-op jobs that provide youth the skills and experience necessary to gain a foothold in the job market."

A few opponents relied on ideological critiques, suggesting that governments setting wages was akin to socialism. William Tucker wrote in the *Weekly Standard*, "The Living Wage' movement has become the latest effort to impose socialism on the United States, one city at a time." Others simply objected to government intervention in markets.[7] Carl Gipson, Director of the Center for Small Business said, "It always makes for good public relations to instruct companies to pay their workers a 'fair' wage, but to do so truly throws out normal economic realities." Los Angeles Mayor Richard Riordan added, "I do not believe that government should dictate wages. We have seen this fail in Socialist and Communist countries. It will do irreparable harm."

What does the data say?

While there were many voices predicting what living wage ordinances would do, there are far fewer studies of actual outcomes. Many of the claims about living wage ordinances rely on minimum wage studies, but that work is not always applicable to living wage ordinances. There are about a dozen reports that have utilized surveys of employers and workers, interviews with city administrators, and evaluations of city contract bidding to assess the impact of living wage ordinances after they have been passed (a full list is available in the appendix).

The studies are remarkably consistent in their findings, which contradict most of the "cry wolf" claims. First, these studies find little evidence of job loss or harm to the local economy. Studies by Neidt et. al (1999), Brenner (2005), Brenner and Luce (2005), Reich (2005), and Howes (2002) all find no evidence of employment loss due to living wage ordinances. Williams and Sanders (1998) do a one-year assessment of the LA living wage ordinance and find "no significant positive or negative effect on the city's fiscal health or the local economy from the living wage ordinance."

Interestingly, while many newspaper articles and studies predict negative outcomes for small businesses, no follow-up reports present evidence of actual hardship. In fact, some employers were discovered to have made exaggerated claims during the campaign. For example, one employer in Philadelphia held contracts to shred documents for the city, and said they would have no choice but to leave the city if the living wage ordinance passed. However, when campaign organizers investigated, the contractor in question only had two employees that would be covered by the ordinance, and they would be entitled to 40 cents per hour raise (Reynolds 2003).

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[7] Some employers who oppose living wage ordinances already pay their employees a living wage. See Grant and Trautner 2004.

In addition, the studies find positive impacts on covered workers. Detailed surveys of workers covered by ordinances in Los Angeles and Boston find that the majority of affected employees are adult workers who are disproportionately people of color, poor and low-income. For example, the Los Angeles survey found that only four percent of workers covered by the law were under the age of 20, and 58 percent were 35 years or older. 86 percent of the workers were employed full-time, and on average, they had been in the workforce for 20 years (Fairris et al 2005).

Third, there is little evidence that the ordinances result in major expenses or hardships for cities. Richard Sanders and Sean Lokey (1998) conducted a follow-up study to Sander's earlier work (with Douglass Williams 1997). Williams and Sanders (1997) had estimated that the living wage would result in increased labor costs of $30 to $40 million. In the follow-up study, Sander and Lokey note that the total cost came only to about $2.5 million. Andrew Elmore (2003) reviewed data from 20 cities with living wage ordinances and found the costs of living wage ordinances for cities to be much smaller than opponents had predicted. On average, the ordinances cost cities less than one-tenth of one percent of the city budget.

Studies find some mixed evidence on bidding patterns. In a few cases the number of bids on a contract went down, but in other cases it increased. A number of employers report that it's more likely they will bid on a city contract given that they don't have to compete with low-wage employers (e.g. Fairris et al 2005). One security guard contractor in Hartford, CT remarked: "Most companies with any business sense would concentrate on a higher wage niche, because there is more stability involved, and it gives you better control of the business, and allows you to preserve your reputation" (Brenner and Luce 2005). And despite ABC Security's claim that they would no longer bid on city contracts if the living wage was passed in Oakland, the company has since bid on and won contracts from the Port of Oakland, the city of Richmond, and the city of Oakland, CA - all of which have a living wage requirement.[8]

In addition to these studies, there are a handful of publications that use government data sources to estimate the impact of the ordinances. David Neumark used the Current Population Survey (CPS) to examine trends in poverty, employment and wages in cities with and without living wage ordinances (Neumark 2002).[9] He concluded that the ordinances had a positive impact on poverty rates, but also resulted in modest job loss.

Brenner, Wicks-Lim and Pollin have critiqued the Neumark study on methodological grounds. They argue that the CPS - designed by the Bureau of Labor Statistics to measure unemployment - is not an appropriate dataset for measuring living wage impacts. Since living wage ordinances do not affect a large proportion of workers in a city, the CPS may not include any living wage workers in the sample of 60,000 households--in fact, the odds of the CPS sample including a large enough number of workers covered by the ordinance are about one in 244 million. In addition, the authors raise several other concerns with Neumark's methodology, such as sample selection bias

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[8]. (see http://www.abcsecurityinc.com/; http://sireweb.ci.richmond.ca.us/sirepub/cache/2/hw5qy2uvh5hhcwbpywkeaofs/2379108232010034314664.PDF)

[9] Neumark has published a series of articles with this argument, including Neumark and Adams 2000, and Adams and Neumark 2005a, 2005b and 2005c.

that may have resulted when Neumark truncated his data to include only low-wage workers.

Finally, living wage impact studies find other evidence of positive effects beyond the impact on workers - something not addressed by opponents. Numerous studies find that turnover and absenteeism fall after living wage ordinances are implemented. For example, turnover among airport security screeners at the San Francisco airport went from 95 percent a year to 19 percent after the living wage went into effect (Reich, Hall and Jacobs 2005). In addition, the authors found that employment *increased* in the airport after the living wage ordinance went into effect. Fairris et al (2005) found that turnover in firms covered by the Los Angeles living wage ordinance had one-third less turnover than firms not covered. In Boston, Brenner and Luce (2005) found some employers converted part-time jobs into full-time jobs after the ordinance was implemented. A report by the City of San Diego found that 46 percent of employers covered by the living wage ordinance said they experienced a decrease in absenteeism or turnover, and 47 percent reported that the ordinance "improved their firm's quality of service."

What We've Learned

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Despite the dire predictions no studies find that living wage ordinances have a devastating impact on cities, employers or workers. On the contrary, some who initially opposed living wage ordinances later turned into supporters, such as the *Boston Globe* that editorialized against the city's living wage ordinance in 1997 but turned around later to call on the city to enforce the living wage for child care workers and recycling centers. The Alexandria, Virginia City Council almost unanimously opposed the living wage concept when first introduced but later went on to pass it, and then defend it when the state tried to repeal it.

Meanwhile, the living wage increases have real impacts on workers lives. In Boston, workers covered by the ordinance experienced an average of $2.10 an hour increase in wages from 1998 to 2001, alongside an increase in hours worked, raising annual income from $16,990 to $26,990 (Brenner and Luce 2005). With this increase workers reported that they were able to achieve modest but meaningful goals, such as paying off debt, helping a son with college tuition, starting a 401(k), and opening a first bank account.

It is likely that the Chamber of Commerce and other opponents will continue to Cry Wolf about the terrible impacts of living wage ordinances. Policymakers will do best to review the data rather than rely on tired arguments recycled for each campaign.

Appendix A: Living Wage Studies and Resources

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Fairris, David and Michael Reich. 2005. The impacts of living wage policies: introduction to the special issue. *Industrial Relations*. Vol. 44, No. 1, pp. 1-13.

Fairris, David, David Runstein, Carolina Briones, and Jessica Goodheart. 2005. The Los Angeles Living Wage Ordinance: Effects on Workers and Employers. Los Angeles, Calif.: Los Angeles Alliance for a New Economy.

Freeman, Richard. 2005. Fighting for other folks' wages: the logic and illogic of living wage campaigns. *Industrial Relations*. Vol. 44, No. 1, pp. 14-31.

Grant, Don and Mary Nell Trautner. 2004. “Employer Opinions on Living Wage Initiatives.” *Working USA*. Vol. 8. pp. 71-82.

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<u>Resources</u>

Economic Policy Institute, www.epi.org

Los Angeles Alliance for a New Economy, www.laane.org

National Employment Law Project, www.nelp.org

Reynolds, David. 2003. “Living Wage Campaigns: An Activists Guide to Organizing a Movement for Economic Justice.” Detroit, MI: Wayne State University.

Political Economy Research Institute, www.peri.umass.edu

University of California-Berkeley Labor Center, http://laborcenter.berkeley.edu/