Montgomery County Stands to Benefit From a Living Wage

By Jared Bernstein and Chauna Brocht

At the root of the controversy over the Montgomery County living wage proposal is the national trend of localities providing ever-higher subsidies for increasingly worse jobs. Local governments have a long history of competing for jobs by trying to lure firms, with tax-payer-funded subsidies as the bait. It used to be called "smokestack chasing"; now, localities are more likely to attract service firms and stadiums.

Regardless of how you feel about this form of competition, one trend is undeniable: cities are bidding for worse jobs now than in the past. Selling hot dogs or hardware simply pays much less than a unionized job in a factory.

Enter the living wage movement. In 30 localities across the country, voters have passed living wage ordinances that ensure that public funds won't be used to create lousy jobs. Proponents of living wage ordinances argue that there are enough low paying jobs already, and that business subsidies should be targeted to companies that provide jobs that can lift a family out of poverty.

This seems a pretty reasonable contention, but businesses affected by this legislation in Montgomery County have been unwilling to compromise or negotiate.

Living wage proponents have a point. Recent newspaper accounts and independent studies tell of corporate abuses of business subsidies, such as companies leaving town shortly after receiving funds for job creation, or localities paying over $100,000 for each minimum wage job a company generates. This is why a significant number of living wage ordinances in effect across the country require recipients of business subsidies to pay a fair wage. One new study of corporate tax breaks in Minnesota found that wages levels were not even a consideration in county decisions to give companies subsidies, and that 80% of subsidized jobs paid below the state average. In response, Minnesota was the first state in the nation to pass a comprehensive subsidy accountability law requiring local and state economic development agencies to consider the adequacy of wage levels for new jobs before awarding subsidies.

But what about businesses? Don't they also have a point when they argue that living wage ordinances place an undue economic burden on their ability to compete?

Not really. First, their argument lacks balance. Remember, unlike their competitors, these businesses are the beneficiaries of $130 million in tax breaks. Doesn't this create a burden on other firms? In this regard, the living wage simply ensures a competitive business environment. Second, the consortium's claims that living wage laws will destroy the "business climate" in the county are completely unrealistic given that such laws typically cover just 1% of the workforce. An ordinance with such a limited scope, though clearly beneficial to affected workers, could not possibly effect the economy of an entire county. Businesses always threaten job loss when there is any discussion of a mandated wage increase, even though there is no evidence that either living wage ordinances or the federal minimum wage increases have had such an effect.

Instead of creating incentives to be good corporate actors and to play a positive role in the economic life of their communities, our policies too often encourage companies to minimize their contributions and maximize their profits. Living wage ordinances have the potential to counteract the destructive race to the bottom wherein counties try to undercut each other by offering larger subsidies than their neighbors. The more pervasive living wage ordinances are, the less firms shopping around for the cheapest locality will be able to do so on the basis of cutting wages. Living wage ordinances level the playing field by allowing companies that want to pay their workers a living wage to do so without facing competition from companies that accept subsidies with no intention of giving back to the community.

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