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The Living Wage Movement: Pointing the Way Toward the High Road

by Jared Bernstein

Despite a surging economy, many low-income working families continue to struggle. Their average income, adjusted for inflation, is 11% lower than it was in 1979, and, at $14,900 in 1997, was about $1,300 below that year's poverty line for a two-parent family with two children. For working families in the bottom of the income scale, the major cause of this negative trend is the decline in their rates of pay. They are working as much or more than ever, but their paychecks are failing to keep up with the rest of the growing economy. The result: the economic gap between the haves and have-nots currently stands at its highest level in the post-WW II era.

Things are particularly tough in some of our cities, where quality jobs for low-wage workers have been disappearing, only to be replaced by service sector jobs with low pay and few benefits. There are numerous reasons why urban workers have lost ground over the past few decades, including declining unions, the shift from manufacturing to services, urban flight, and reduced political support for cities. But two important and growing problems that have gotten less attention are 1) an increase in the use of tax incentives to draw firms to the area, and 2) the privatization of services formerly provided by the public sector. A third issue facing low-wage urban workers is pressure on the low-wage labor market caused by the welfare-to-work component of welfare reform.

The first problem-tax incentives that don't deliver-is described in great detail in a fascinating piece of economic journalism by Donald Bartlett and James Steele in a recent *Time* magazine series on corporate welfare. You've got to read this series for yourself, but to sum it up, they present an air-tight case showing that, far from a solution, these tax incentives are a big part of the problem. All too often, they show, cities are sacrificing crucial resources to lure firms, with little payback in the way of quality jobs.

The second problem, privatization, is exemplified in the following anecdote. A friend from a New York City suburb told me that in her town, in order to accommodate a local tax cut, the trash removal service was privatized, which, in this case simply meant that a private firm bought the city's dump trucks, painted the firm's name on them, and charged residents a rate that was a bit less than the tax cut (the other change was that now my friend had to bring the trash to the end of the driveway herself). I have no idea if the guys picking up the trash were the same folks who used to work for the city, but you can bet they were paid less. You can also bet that this shift from public to private service provision is taking place throughout the land.

What can we do to combat these trends?

Enter the living wage movement. Though living wage ordinances come in a variety of flavors, they all amount to the same thing: they force employers who receive contracts or tax benefits from the locality to pay their workers a wage rate a few bucks over the minimum. The message and purpose are quite simple: if you as an employer have benefited from some form of incentive, then you ought to give a little something back to your workforce.

Sounds simple, right? Well, anytime you're talking about mandating a wage increase, you can bet somebody will squawk, and those who benefit from privatization and tax giveaways have predictably been squawking pretty loudly. What's more, their warnings about the negative consequences of living wage ordinances are not only the predictable response of vested interests; some of these arguments are well-grounded and deserve careful consideration.

This essay will explore the debate around this relatively new movement. First, we will look at the different types of living wage ordinances that are currently in place. Next we'll take a brief tour through the arguments of the opposition. Then we'll examine some of the evidence regarding the impact of current living wage ordinances, and finally reflect on the relevance of the living wage movement in the larger economic context.

What are "Living Wage" Ordinances?

The living wage movement takes as it theme the reasonable position that no one who works for a living should be poor. Thus, wages paid to even the lowest wage workers, should, with full-time work, lift them out of poverty. But how does the movement achieve this goal?

Perhaps the most obvious way to meet this objective would be to push for a federal minimum wage that was high enough to lift full-time workers up to a decent standard of living. However, while those in the living wage movement certainly support a higher federal minimum, given their limited resources, community organizing backgrounds, and recognition of current political realities, most of their energies have been directed at municipal ordinances.

Essentially, these are rules that set a wage level below which certain employers cannot pay their workers. Thus, they are a close relative of federal minimum wage regulations, which set a national floor on wages (some states set their minimum wage above the federal level, but they can't set it lower than the current $5.15 per hour). What's different about living wage ordinances (besides the obvious fact that they set a wage level above the federal minimum) is that they are much more narrowly targeted than the federal law. In all cases, the ordinances currently in place cover a subset of a city's workforce. They usually cover those employed by city contracts and, in some cases, those employed by firms who have benefited from some form of favorable tax treatment by the locality.

A good example is the living wage law passed in the city of Baltimore in 1994. Under this law, firms under contract with the city had to pay those workers who were performing the duties under the contract an hourly wage of $6.10 in 1996, rising incrementally to $7.70 in 1999. Note that only those workers actually working under the city contract are covered by the ordinance. Other workers in the firm are not subject to the living wage ordinance, even if they work at the same site. Another example is the Los Angeles living wage proposal, passed in March of 1997. In this case, covered workers are those under service contracts (or subcontracts) with the city of $25,000 or more, firms with concession agreements, or firms receiving subsidies from the city at least $100,000 annually must be paid an hourly wage of at least $7.25.

So Who Could Object to That?

Sounds fair, you're thinking? Well it won't come as a shock that employers who benefit from city contracts or tax breaks are not enthusiastically signing onto the living wage movement. Some of those who argue against living wages are simply ideologues who oppose any mandates on the private sector. Others are bound to oppose any policy that will cut into their profits. But opponents of the policy also include employers who genuinely fear that the mandated wage increase will hurt their ability to compete in the marketplace; similarly, city officials worry that if there is a wage ordinance in their city, businesses considering relocation will simply look elsewhere, at the cost of local employment opportunities. Both of these counter-arguments maintain that the ordinances, by raising the cost of doing business to city contractors and entrepreneurs, will cost the city jobs and thus hurt the very people they are designed to help.

How well-founded are these fears? First, even those of us who support living wage ordinances should accept that these arguments cannot be rejected out of hand. In fact, two fundamentals of economic theory support these concerns about the ordinances. The first fundamental is that people are generally paid what they are worth, i.e., their hourly compensation is about as valuable as the goods they produce or the services they perform in that hour. The second, and related, fundamental is that if you raise the price of something, people will buy less of it. In classical economics, this principle holds as much for the bananas you purchase at the supermarket as for the privately contracted refuse worker who carts away your banana peels. A third piece of economic theory relevant to our discussion is that mobile capital will seek the highest return (i.e., firms will seek to locate where they can make the most profits), but more on this one later.

If you believe these theoretical propositions, then you are likely to be troubled about mandated wage increases. After all, if workers are by definition being paid their worth, raising their "price" (their hourly wage) can only be bad (as in wasteful and inefficient) for the economy, and ultimately harmful to the worker herself, who, now overpriced, will have to be let go. The result, as contractors leave the market, will be fewer city contracts and less jobs for low-wage workers. The plan to help them has backfired.

But what if these reasonable sounding propositions don't hold? What if workers aren't always paid what they're worth, and what if employers-the buyers of labor services-respond differently to price increases than do shoppers buying bananas? Then these arguments against the living wage have to be reevaluated.

There is actually an extensive literature in labor economics which examines the validity of these theories, and, at least as far as the labor market goes, finds them lacking. The literature which evaluates the impact of minimum wage increases is particularly germane, and it universally finds that the job-loss predictions of opponents of the policy never materialize. This is not to imply that no one single worker is unemployed by the mandated wage hike; nor is it meant to imply that a huge wage mandate wouldn't wreak havoc. But, contrary to the predictions of the economic "laws" stated above, it does show that the vast majority of low-wage workers have benefited from the moderate increases in the minimum wage we have implemented.

So are the theories wrong? In the case of the labor market, it appears that, if not wrong, they are pretty unreliable in predicting the impact of mandated wage hikes. The reasons why are not hard to fathom. First, most workers are not paid exactly what they are worth. Wages are set by a number of factors, including the skill, race, and gender of the worker, the conditions of the local labor market (if there are a lot of excess workers, the wage will tend to fall), the nature of the industry and occupation in which the job is located, and, importantly, the bargaining ability of the worker him/herself.

Second, employers will not always respond to the wage hike by laying off workers, for there are other, less disruptive ways they can absorb the price increase. After all, workers are not bananas, and it is much more difficult for an employer to restructure her workforce than for a shopper to switch to oranges until the price of bananas goes back down. As much as they might not want to, employers might find it in their interest to cut their profit margins, or they might try to pass the increase onto their customers through higher prices. Or, instead of laying off their workforce, they are likely to try to get them to increase their productivity, and thus absorb the increase through more efficient production.

That said, there is still an important difference between the federal minimum wage and the municipal living wage. The federal policy is national in scope; thus, no one employer can escape the wage increase by relocating. Recall the third "law" given above: mobile capital seeks the highest return. Since the living wage ordinance applies to a specific geographical area, can't employers simply relocate to avoid paying the higher wage rate?

This is the motivation for rigorous opposition of living wages by anxious city officials who may have been elected to office on the promise of creating X-million jobs. They reasonably fear that if MoneyBags Enterprises is trying to decide where to build their next factory, stadium, etc., a living wage ordinance is not exactly a draw.

This argument also calls for serious consideration. First, we should acknowledge that this mode of thinking is clearly a blueprint for a race to the bottom. You could probably get every factory and sports team in the world to move to your town if you cut them every tax and environmental break available. But, while you might create some jobs, you're just as likely to ruin your community. What's more, you will create an incentive for neighboring communities to compete on the same basis with you, ultimately lowering regional living standards. On the other hand, you would be just as harmful a leader if you raised environmental regulations to impossible levels, taxed profits at 95%, and insisted that all employees be paid like Michael Jordan.

Sound municipal policy calls for a middle ground. Some taxes and regulations need to be in place to avoid the race to the bottom, and to preserve both the city's tax base and living standards. What's more, despite their claims to the contrary, employers and contractors will not flee the minute a new regulation is reduced. Instead, they will calculate what the regulation will cost them and, as discussed above, try to figure out ways to absorb the cost increase. And if they can continue to make a profit by doing business with the city, they will stay. The next section provides some evidence on these matters from existing living wage ordinances.

What Does the Evidence Show?

Since contemporary living wage ordinances have not been around for very long, there is as yet little evidence of their impact on jobs or economic activity. But what evidence there is shows that the opponents' dire predictions were once again unwarranted.

The most thorough evaluations (of which I am aware) are two separate studies of the Baltimore living wage ordinance, which was approved by the city council in December of 1994. These studies are by no means the last word on the issue; like all empirical studies, they have limitations, particularly regarding sample size. But they are still very instructive. Their main findings are:

- As far as these studies could discern, the cost increase to the city after the living wage ordinance went into effect was less than the rate of inflation;
- Again, given data limitations, these studies found no evidence of job loss in response to the wage increases;
- There was a small decrease-concentrated among smaller firms--in the number of bids per contract after the ordinance went into effect; this small decline, however, did not appear to lower competitiveness or raise contract costs;

- Interviews and case studies with affected employers suggests some absorption of labor cost increases through efficiency gains, particularly lower turnover;
- While there is evidence that the ordinance raised wages for those at the bottom of the wage scale, the affected group appears to be small (less than 2,000);
- Given their low levels of hours worked, the income/poverty-reducing effect was also small; other benefits include some "spillover" increases to workers above the new wage floor.
- Non-compliance on the part of covered employers "remains a significant problem"

Both of these evaluations create the strong impression that the Baltimore living wage ordinance has so far had little impact on either the city's contracting and budget process, or its business environment. Both studies find a real (inflation- adjusted) decrease in contract costs of the contracts in their sample. But they also (the Johns Hopkins study, in particular) leave the impression that few workers were affected, both because of the limited coverage requirements of the ordinance and the fact that most of the covered workers already earn above the living wage (not to mention non-compliance). In cases where more workers fell into the covered wage range, for example, among public school bus aides, the work tended to be seasonal and part-time.

Summing Up

So, at least given the extensive evidence we have on minimum wages and the early returns on living wage ordinances, they appear to be exactly what the doctor ordered to counteract some of the negative economic trends affecting low-wage workers. They force some redistribution of economic resources to those whose boats haven't been lifted by the rising economic tide, and do so without creating distortions in the local economy.

There are other advantages as well. The ordinances also have the potential to counteract the destructive race to the bottom, as cities try to undercut each other. The more pervasive these ordinances are, the less firms shopping around for the cheapest locality will be able to do so on the basis of cutting wages. This point should not be minimized. There is already evidence (given in the *Time* magazine series and the Pollin and Luce book cited earlier) that urban competition has hurt cities more than it has helped them. Living wages can help begin to reverse this destructive policy development.

Living wage campaigns also are useful and productive organizing tools. In numerous cities, low-wage urban residents have responded very positively to these campaigns, apparently viewing them as an opportunity to take action against negative trends that directly affect their living standards. In this sense, the campaigns have provided an all too rare opportunity for low-income communities to become actively involved in their economic fates.

Finally, there is a larger lesson from the living wage movement-a lesson about the nature of the labor market. The movement forces you to step back from the narrow economic arguments for and against the living wage and ask yourself the following question: Why does America, the largest and one of the most productive economies in the world, need to subsidize wages so that full-time, adult workers performing essential tasks can achieve a dignified life style? These workers are taking our kids to school, picking up our trash, and maintaining our public infrastructure. How is it possible that our economy has devolved to the point where we have to subsidize these essential services?

Part of the answer is that we have allowed and even encouraged firms to "take the low-road" in terms of their business practices. Instead of creating incentives to be good corporate actors, to play a positive roll in the economic life of the communities wherein they reside, our policies encourage them to minimize their contributions and maximize their personal gain. This may be a profitable strategy in the short-run, but it will ultimately serve to corrode some of our most valuable resources. The living wage movement, by pointing the way to the high road, offers a timely and progressive alternative route.

Endnotes

1. This figure represents the average income of the poorest 20% of working families.

2. A useful web site (with related links) for those who would like to learn more about the living wage movement is http://www.igc.org/newparty/livwag/. Also, a "must read" for those who want a thorough understanding of the issues surrounding the movement is The Living Wage: Building A Fair Economy by Bob Pollin and Stephanie Luce (1998, The New Press).

3. The community organizing group ACORN keeps an up to date record of living wage ordinances and activities. To learn more about the movement or to get

involved with a campaign, call them at 202-547-2500.

4. For a excellent tour through the minimum wage literature, see David Card and Alan Krueger, Myth and Measurement: The New Economics of the Minimum Wage. Princeton, N.J.: Princeton University Press (1995).

5. The first evaluation, released in October of 1996 is by Mark Weisbrot and Michelle Sforza-Roderick: Baltimore's Living Wage Law: An Analysis of the Fiscal and Economic Costs of Baltimore City Ordinance 442. The Preamble Center for Public Policy, Washington, DC.; the second, which is forthcoming, was prepared for the Economic Policy Institute by various authors from Johns Hopkins Department of Geography and Environmental Engineering.

6. There is evidence from the minimum wage literature that employers keep the wage differentials intact at the low-end of their wage scale by raising the wages of those slightly above the new minimum. See William Spriggs and John Schmitt, 1996. "The Minimum Wage," In Schafer and Faux (eds.), Reclaiming Prosperity: A Blueprint for Economic Reform. Armonk, NY: M.E. Sharpe.1996.

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