

The Mouse That's Roaring

How the Living-Wage Movement Is (Sort Of) Challenging the Conservative Consensus

By Jared Bernstein

A spectre is haunting America – the spectre of living wages. Many of the old powers have entered into a holy alliance to exorcise this spectre...

Well, Marx overstated the case, and perhaps I have, too. But the living-wage movement really is a mini-juggernaut. And in light of the anti-interventionist temper of our times, the success of so blunt an effort to nudge the invisible hand of the labor market deserves scrutiny.

First things first: what is the living-wage movement? Though organized efforts to raise wages are hardly new, the contemporary version appeared in the 1990s and is centered around a specific strategy: passing local ordinances to raise the wage floor for specified groups of workers to a level that more or less



allows one income to support a family.

Living-wage provisions are now in effect in more than 100 cities, counties and other entities, like universities, and the pace of adoption seems to be accelerating. The Association of Community Organizations for Reform Now (Acorn), a living-wage advocacy group, reports that as of mid-2003 there were 72 living-wage campaigns in progress. If you



live in an American city, chances are you've either got a living wage ordinance on the books for some workers, or a campaign to adopt one will be coming your way soon.

No two living-wage ordinances are the same; they differ particularly on the scope of workers covered. Many include the employees of city contractors – say, those providing mass transit or janitorial services. The next-largest

group covers businesses that receive some type of subsidy under the rubric of economic development assistance, such as a tax abatement, a below-market loan, or the below-cost provision of city services or goods (e.g., as when a city agrees to pay for new infrastructure to attract a new factory or office building). Some living-wage laws cover both contractors and subsidized businesses.

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THE NUTS AND BOLTS

Ordinances can be quite specific about who is covered. Indeed, this issue of coverage is central to understanding the living-wage phenomenon. Acorn's Web site (<http://livingwagecampaign.org/index.php>) has detailed descriptions. Where I live, Alexandria, Va., the ordinance applies to all non-construction contracts in excess of \$50,000. Firms that win such city contracts must pay their workers no less than \$10.89 – more than twice the federal minimum wage. The Alex-



andria living wage was set at the poverty line for a family of four plus about \$2 an hour, the average cost of health insurance. It is indexed to inflation.

In Los Angeles, non-supervisory workers employed by a service contractor are covered. Note, however, that workers providing *goods* under city contract are exempt.

Thus, a security guard who works for a firm contracted to provide services to the city (e.g., cleaning or busing services) would be covered, while a guard who worked for a firm providing the city with goods (e.g., building supplies) would not. In Portland, Ore., occupational coverage is limited to janitors, security guards and parking attendants.

Indeed, in the give and take of political bargaining, exemptions – and sometimes expansions – can often find their way into the ordinances. In Boston, the original law cov-

ered service contracts with the city exceeding \$100,000. But proponents later succeeded in lowering the threshold to \$25,000. This ordinance is unique in that it formalizes activist involvement in enforcement through a “city assistance advisory committee,” which includes one AFL-CIO member, one Acorn member and five mayoral appointees. In Chicago and many other cities, non-profits that contract with the city are exempted; in other cities, they are included, though there often exists a threshold in order to exempt smaller providers.

One relatively new target is universities. At Harvard, many students supported the successful campaign to cover security guards, custodians and dining service workers employed by the university directly or through subcontractors. The campaigners viewed outsourcing as the enemy. In this spirit, the agreement does not set permanent minimum wage levels, but includes a “wages and benefits parity policy” requiring that outsourced jobs provide wages and benefits comparable to those of in-house unionized workers performing the same work.

SMALL IS BEAUTIFUL, OR AT LEAST, POSSIBLE

Two key themes emerge here. First, coverage varies widely. Second, it is quite narrow. The wage levels may be high compared to state and federal minimums, but they do not reach many workers. No one knows just how many employees are affected – recordkeeping is poor and enforcement is spotty in some localities, and it's a moving target, anyway. My guess is that as many as 100,000 have had their wages boosted by the initiatives.

Given that one goal of the movement is, in Acorn's words, “to affect the ability of low-income families to live and work with dignity and respect,” such diverse and often mar-

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ginal coverage seems hard to rationalize. Why should one employer or sector matter more than another? Why should workers under a small contract be exempt, while those performing the same tasks under large contracts be covered? Why cover workers on service contracts, but not those in manufacturing?

The answer, of course, is that politics is the art of the possible. In the hurly-burly of local activism, flexibility is rewarded by city councils and business interests. This flexibility avoids the one-size-fits-all model of, for example, the federal minimum wage, where regional differences in market wages are not taken into account.

Consider the case of San Jose, where the living wage is high compared to other ordinances around the nation. Community organizers there pushed for a big number because housing costs were so high in Silicon Valley and many nonprofessional workers had to travel long distances to get to work. In other cases, workers in certain occupations, such as those who toil in the school system (as in Mil-

waukee) might be seen as particularly deserving by influential parties, and thus might be strategically highlighted in the campaign and ultimately in the ordinance.

ORIGINS OF A MOVEMENT

Why are these ordinances sweeping the land? The movement was unsurprisingly driven by the increasingly difficult economic circumstances facing low-income working families in the past few decades. This, in turn, was largely the result of the disappearance of high-paying jobs for workers who didn't go to college. Between the early 1980s and the mid-1990s, hourly wages of low-skilled workers fell 18 percent in real terms.

The tight labor market of the late-1990s reversed this trend, and the minimum wage increase in 1996 helped, too. But even so, wage levels for most low-end jobs remain well below the levels needed to meet the basic needs of a family with children. What's more, history seems to be repeating itself: the persistence of weak labor markets during the



current recovery has once again led to declines in real wages for the least-skilled workers.

Another factor driving the movement has been the privatization of services formerly provided by the public sector. A late-1990s survey found that more than half of state governments had increased the number of functions performed under private contracts over the prior five years, and that trend has surely accelerated since. Another study in Illinois, found that almost every municipality contracted out at least one service, and more than half outsourced at least 10. In the vast majority of cases, compensation was significantly lower in the private sector.

Living-wage advocates are also motivated by the proliferation of economic development incentives – tax breaks, subsidized loans and the like – handed out to attract business from other localities, or simply to keep the ones communities already have. “Private businesses that benefit from public money”

should, in Acorn’s words, “pay their workers a living wage.”

Much living-wage-advocacy literature either implicitly or explicitly claims that both contractors and subsidy recipients are receiving some degree of “economic rents” from the city – i.e., profits in excess of the return needed to keep them doing business with, or deciding to locate in, the city. The ordinances are rationalized as a way to reclaim some portion of those rents and redistribute them among low-wage workers. And there’s more here than rhetoric. If the higher wages are, in fact, paid out of redistributed rents, we wouldn’t expect the impact of living-wage laws to conform to the usual gloomy predictions regarding minimum wage mandates, like job losses and higher costs for goods and services produced with premium-priced labor.

Those who actively oppose living-wage movements generally represent two related camps: affected employers (writ broadly to

include contractors and subsidy recipients) and some members of local government (e.g., city councilors) and their clients: taxpayers, as well as residents who stand to lose services if their costs rise.

Private employers typically argue (in so many words) that they are currently paying what the market will bear, as determined by the marginal product of their work force. A mandated increase in wages, they argue, would compel them to pay above the market wage, forcing them to cut employment or to leave the market. Leaving the market, in this case, means either not bidding for contracts or relocating to a city without a living-wage ordinance.

City officials who oppose living-wage laws typically do so because they believe that higher wages would both hurt the city's ability to compete for jobs and increase the cost of contracts, and thus force them to raise taxes or reduce services. In Utah, these opposing interests were so powerful that they passed a law prohibiting any locality within the state from adopting a living-wage ordinance.

WHAT THE NUMBERS SHOW

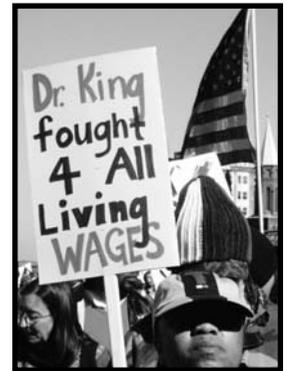
The evidence largely favors proponents. The few serious studies on the subject fail to find effects that would deter an objective policy-maker from supporting living wages, at least in their current incarnation. For those still wedded to the Econ 101 prediction – mandate a wage hike and everybody working between the old and new wage loses their job – this may be hard to accept. But much of the contemporary empirical research on mandated wage floors suggests that modest wage increases with broad coverage (as in minimum-wage increases) and immodest increases with very limited coverage (living wages) can be absorbed without significant displacement of workers.

The evidence on living wages largely fits into three categories: the work of David Neumark of the Public Policy Institute of California, who has made a cottage industry of studying living wages (often with co-author Scott Adams); the quasi-experimental, before-and-after studies of localities that have adopted living wages; and various reports from city agencies responsible for oversight of the laws.

Neumark's papers are the most rigorous in technical terms, but, in my view, the least convincing. He uses a national database with tens of thousands of observations. But for all the information at his disposal, he can identify neither firms nor workers directly affected by ordinances. His data only allow him to know which cities workers live in (not even the city they work in), and from this, he has to parse out a statistical signal from a policy that reaches far less than 1 percent of the labor force.

Given the data limitations, you would expect that he would come up with very little. Instead, he finds large effects on wages (compared to the broader literature) and incomes, as well as on employment. The employment effects are negative, but not large enough to offset the impact of wage gains on total wages paid. And he argues these effects go well beyond the small group covered by the ordinances, affecting the whole bottom-tenth of the city's wage scale.

For these findings to be on the mark, it would have to be the case that by raising the wages of a select few workers in a handful of occupations, many more firms would be



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forced to raise wages for many more workers in order to obtain the labor they need. He might be right, but skeptics abound.

Two before-and-after studies of living wage ordinances – one for Boston, the other for Los Angeles – reinforce that skepticism. Mark Brenner, an economist at the University of Massachusetts’ Political Economy Research Institute, used original survey research to compare low-wage and higher-wage firms affected by the Boston ordinance. Since the latter didn’t have to raise wages to meet the ordinance, the comparison amounts to a natural experiment.

Employment increased after passage for both types of firms, though the increase was slightly greater – but not statistically significantly so – among those that did not need to raise wages. Interestingly, the increase in the number of full-time workers was the same for both groups; the firms that raised wages substituted full-time for part-time labor. Brenner’s study also finds a significant wage-compression effect, as the ordinance essentially forced low-wage contractors to truncate the bottom tail of their wage distribution.

The Los Angeles study, by David Fairris of the University of California (Riverside), finds a very large wage effect from the mandate, as affected workers average a 24 percent pay increase compared to a control group. Though he lacked the data to do a controlled employment comparison, he was able to examine a set of what he calls “indirect effects of the living wage” – differences in turnover, absenteeism, training and overtime between affected and unaffected firms. These measures are potentially helpful in understanding how firms absorb the increase in labor costs resulting from the wage mandate. Living-wage advocates argue that “efficiency-wage effects” – the greater productivity sometimes

achieved by firms that pay above-market wages – allow much of the wage increase to be absorbed by employers.

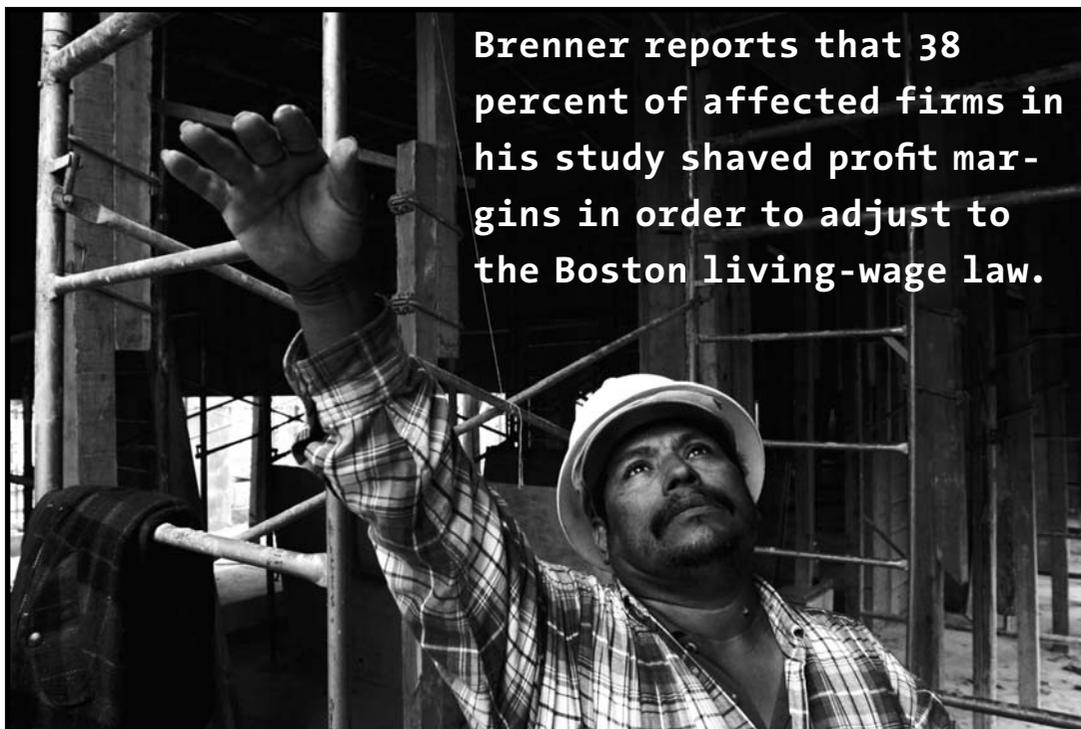
In this vein, Fairris finds large turnover-reduction effects, and smaller reductions in absenteeism.

One negative finding is that the living wage reduced the provision of job training, compared to non-living-wage firms. Fairris argues that this result may support the notion that “wage mandates such as living wages prevent workers from striking a deal with employers that reduces wages temporarily in exchange for job training.”

The last category of relevant research consists of administrative reports from those who monitor and implement the laws. These are not academic studies with control groups, but they do offer two invaluable pieces of information: hard counts of the number of workers with wage increases, and qualitative information on the impact on city budgets.

On the question of budget impact, one living-wage researcher, Andrew Elmore of New York University Law School’s Brennan Center, reviewed the city reports and found what he called “modest contract price increases for a small proportion of contracts,” leading to overall increases in contract costs to the city that were usually less than 1 percent. Elmore does, however, note a few larger increases in individual contracts linked to the ordinances, including a 31 percent increase in a security contract in Hartford (the only contract covered there), a 22 percent increase in a janitorial contract in Warren, Mich., and increases of 10 percent in about 5 percent of the city contracts in Berkeley, Calif.

The fact that the ordinances do not appear to increase city budgets much is largely a function of the very limited coverage. Reports that give the numbers of directly affected workers show:



Brenner reports that 38 percent of affected firms in his study shaved profit margins in order to adjust to the Boston living-wage law.

- 41 workers in Corvallis, Ore.
- 54 workers in Hartford, Conn.
- 54 workers in Hayward, Calif.
- 338 workers in Minneapolis, Minn.
- 106 workers in Pasadena, Calif.
- 55 workers in San Jose, Calif.
- 75 workers in Ventura County, Calif.

The fact that related budget increases are small compared to the total budgets of the localities does not, of course, imply that they are trivial or non-problematic. But the city studies do suggest that most contractors do absorb the cost increases.

A Pasadena administrator reported that the city “negotiated with contractors for a substantial absorption of contract costs,” which turned out to amount to about half of the increased labor costs. A supervisor in Ypsilanti, Mich., found that the cost of the town ordinance was held down by an increase in the numbers of bidders. Her explanation was that “now that the wage standard is equal, the ability to compete is based on

factors other than wages, so you’ve got to be tighter and provide less of a profit margin” – a view that gives some support to the redistribution-of-rents argument made by living-wage advocates. Brenner also reports that 38 percent of affected firms in his study shaved profit margins in order to adjust to the Boston living-wage law.

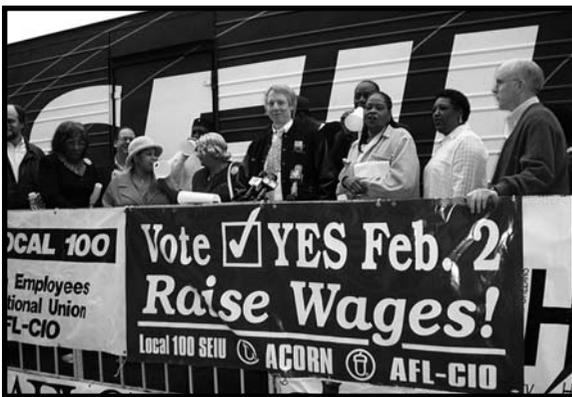
Still, there is one negative finding here that caught my eye. The city of Oakland has a subsidy-based living-wage ordinance, and Elmore reports that two national retailers abandoned projects there, in part due to the ordinance. While “a living wage law may deter retailers from pursuing economic subsidies,” he concludes that “attracting national retailers through a subsidy program may not be a wise public policy approach.” Yet one can easily imagine cases in which a locality – say, one with very weak employment growth – would benefit considerably from attracting retailers. At any rate, living-wage advocates need to be mindful of this potential cost when they

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attach the wage mandate to employers who benefit from local government subsidies.

THE WHOLE IS GREATER

While a central goal of the living-wage movement is to raise the living standards of low-income working families, there is more to it than that. Advocates also want to build durable coalitions to promote social and economic justice, to hold local government accountable,



and to raise the profile of other labor-market intermediaries – mainly unions.

We know more about the living wage's impact on living standards. Critics argue that living wages cannot help much since (a) they are poorly targeted because they often flow to low-wage workers in middle-income families, (b) they hurt their intended beneficiaries because they lead employers to replace the least-skilled workers with higher-skilled ones, and (c) their benefit is diminished by the loss of government entitlements that fall as earnings rise.

Targeting doesn't appear to be much of a problem, since most beneficiaries earn incomes in the bottom-half of the income scale. It is probably the case that relatively few are working poor by the government's definition of poverty, but this is a very restric-

tive benchmark. For those who believe that lower-middle-income families should benefit from the policy, targeting should not be a major concern. Similarly, no one has shown that living wages displace the least-skilled. Robert Pollin of the University of Massachusetts' Political Economy Research Institute finds that there is not much of a skills gradient in the low-wage sector, anyway. That is, the workers who demand \$10-an-hour to be coaxed into what had been a \$6 job aren't much more skilled than those who will work for \$6. The bottom line: implement a living wage, and you will most likely improve the earnings of a small group of nearly-poor who didn't go to college.

There is some evidence, however, to support the third critique above: some of the wage gains are offset by a loss of safety-net benefits keyed to low-wage workers. That is, you might gain a bit more in wages and lose a bit more in food stamps.

But all of these critiques miss the main point: living-wage ordinances face a paradox. Because the ordinances are limited in their coverage, their advocates have been able to convince city officials – and by proxy, taxpayers – that they will accomplish their stated goals without leading to significant layoffs, tax hikes or reduced competition for contracts. And the evidence presented here broadly supports this claim.

But the marginal coverage of the policy limits its impact to raising the living standards of a tiny fraction of America's working poor and near-poor – I guessed just 100,000. In a low-wage labor market of roughly 25 million, this gives a sense of the limitations of the movement.

WIDENING THE NET

Could living-wage movements reach more people? There are two interesting develop-

ments afoot worth considering in this regard. The first is city-wide minimum wages. Some living-wage advocates view this as a sure-fire way to solve the low-coverage constraint. With help from Acorn and others, New Orleans passed a city minimum. But implementation was prohibited by the state's supreme court, based on jurisdictional issues. At this point, only Santa Fe, N.M., has a city minimum, a floor of \$8.50 that applies to any establishment with at least 25 employees. Washington, D.C. has had a higher minimum wage than the federal one for a decade, but that's a special case. There's also an active campaign in Madison, Wisc., for a city-wide minimum of \$7.75.

In a better world, with a reasonable federal wage floor, cities (and states) would not have to take matters into their own hands. But Washington is about to tie the Reagan record for ignoring the minimum wage (nine years), which isn't indexed to inflation and is thus not much of a wage floor in many areas of the country. The city-wide minimum wage is a very different beast, of course, with different implications than the federal policy, where all firms in the nation face the same regulation. Even veteran supporters of moderate minimum-wage increases worry that minimums affecting individual local labor markets could have significant employment effects.

But take it from one of those veterans: assuming a moderate increase that doesn't catch more than about 10 percent of the work force in its net, you just cannot know the impact until you try it. There are simply too many exceptions to the rules according to Adam Smith to be sure.

Another interesting development is a hybrid policy mixing the living wage with a local earned income tax credit (EITC) mirroring the federal one. The EITC is a substantial (and popular) federal wage subsidy

for low-income families. Opponents of living wages endlessly raise the EITC as a preferred alternative. But, while the EITC is a fine program, it is difficult to see why the existence of the EITC would, or should, deter any policymaker from considering the living wage. Clearly, the wage mandate is about adding to the incomes of low-income working families, and the fact that a generous and well-targeted federal tax credit exists is not particularly relevant. Living-wage advocates argue that the two policies are thus complements, not competitors.

In two communities, however, advocates for low-income working families have succeeded in passing both a living wage and a local EITC – that is, a locally funded add-on to the federal credit. In Montgomery County, Md., federal EITC recipients can receive an extra 16 percent of the family's federal credit. Denver also has both a living wage and a local EITC. This keeps a local emphasis, improves coverage and targeting, and splits the cost between local taxpayers (EITC) and business (living wages).

At any rate, there is a lot to be said for the living-wage movement thus far. It has been extremely successful in a climate not particularly conducive to market intervention. Again, limited coverage surely plays a role here, as city councils are more willing to take risks with small programs than large ones. But it is also generating some badly needed grass-roots organization in favor of socioeconomic justice.

That said, the living wage movement is still a mouse with a good set of vocal cords. It has captured the attention of low-wage organizers, the media, academics and nonprofit foundations in an era in which the sensible left has largely been demoralized. Yet its reach is inherently constrained. Whether the mouse morphs into a lion is yet to be seen. **M**