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The Case for a Targeted Living Wage Subsidy

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EXECUTIVE SUMMARY

The living wage movement has been successful in promoting ordinances at the city or county level that would mandate covered businesses to pay wages much higher than the effective state or local minimum wage. At least 60 local governments have adopted some type of living wage mandate legislation. A typical ordinance requires contractors and businesses receiving governmental financial assistance to pay a minimum wage ranging from 150 to 225 percent of the minimum wage. The movement has even broader goals, including federal living wage legislation and expansion of wage mandates to cover all low-wage employees.

The living wage movement argues that public money should not be used to create jobs that pay "poverty level" wages. This argument has surface appeal, which has attracted a number of religious and charitable organizations to their cause. However, on closer examination, living wage mandates are at best an inefficient and inferior policy vehicle for helping poor families. At worst, they harm poor families by reducing their work opportunities and incomes. A better alternative is a targeted wage subsidy that lifts the income of those most in need without raising labor costs to employers. High labor costs discourage employers from hiring, which means that those workers with limited skills and work experience are likely to be excluded from the job market.

Wage subsidies usually are administered through the tax code to provide a tax credit to either employers or workers. An example of an employer-type subsidy is the Work Opportunity Tax Credit that is available to businesses that employ certain types of low-skilled workers. An example of an employee-based subsidy is the Earned Income Tax Credit (EITC) that is available to families with low earnings based on earnings level and family size.

Advantages of Wage Subsidies Over Wage Mandates

Wage subsidies have three primary advantages over the living wage mandates:

- Wage mandates raise the cost of hiring and thus may destroy jobs and work opportunities. In contrast, wage subsidies either lower, or have no effect on, labor cost and thus do not discourage, and may encourage, hiring of workers with limited skill.

- Wage mandates are poorly targeted to low-income families, most of whom have either no workers or only part-time workers. Conversely, many who would benefit from the wage mandates do not need the boost because they are secondary workers in relatively affluent families. In contrast, wage subsidies, by encouraging work, bring their benefits to more poor families than can be reached by wage mandates. Wage subsidies also are more cost-effective than wage mandates because they limit eligibility to those most in need.

- Wage mandates are not efficient in raising the disposable (i.e., after-tax, after-benefit) income of workers in poor families because much of the gain in earnings is lost in taxes or benefit reductions. Many of the poor receive governmental assistance, such as welfare, food stamps and the EITC, that is phased out as family income rises. Low-income families can lose as much as 90 percent (more in some cases) of wage gains in taxes, lost benefits and refundable tax credits. On the other hand, employee-based wage subsidies such as the EITC provide benefits that either are not taxed or are taxed at a lower effective rate than wages. Also, under current regulations, such subsidy benefits do not cause families to lose as much governmental assistance or tax credits as do wage increases.

A Targeted Living Wage Subsidy

Based on research into the effects of living wage programs, it is possible to design a local targeted wage subsidy program that would have the same effect on the disposable income of workers in poverty but at much lower costs. A local government could piggyback on the state or federal EITC for the employee base they wish to support. For example, rather than adopting a living wage mandate for contractors, a locality could enact a targeted wage subsidy for employees of contractors who are eligible for the state or federal credit.

We estimate that such a targeted wage subsidy could deliver the same benefits as a living wage mandate to workers in genuine financial need at 35 to 60 percent of the budgetary cost of the wage mandate. In a major city such as Los Angeles, this could translate into saving as much as $3 to $7 million annually. This comparison does not even consider the additional wage subsidy benefits of avoiding the loss of jobs and loss of work opportunities.

The targeted wage subsidy alternative is more cost-effective for three main reasons. First, based on research on the San Francisco and Los Angeles living wage ordinances, local governments are likely to absorb 50 to 75 percent of the living wage mandate's increase in labor cost. Second, based on data from the U.S. Census Bureau, less than 30 percent of those workers who would benefit from untargeted mandated higher wages are from families in poverty. Finally, because many of the intended beneficiaries stand to lose governmental assistance when their earnings rise, the wage subsidy allows them to keep more of their benefits, particularly the refundable EITC. Thus, by redirecting the benefits to those in need by a means that is more tax advantaged than wages, the local government ends up paying less for the same gain to workers.

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I. INTRODUCTION

The "living wage" movement has succeeded in building coalitions of trade unions, religious organizations and community activists to promote consideration of living wage ordinances by local governments.[1] At least 60 local governments have adopted some type of living wage ordinance, and more than 80 others are considering or have considered living wage proposals.[2] A typical ordinance requires contractors and businesses receiving financial assistance from a local government to pay a minimum wage ranging from 150 to 225 percent of the state or federal minimum wage. Some ordinances require higher wages if the business does not provide health insurance to its workers.

The movement has also mounted campaigns to pass state and federal living wage laws, but so far, only one of these has passed.[3] Legislation introduced in the U.S. House of Representatives by Illinois Representative Luis Gutierrez in the last Congress[4] would have mandated that most federal contractors and subcontractors pay a minimum wage based on the official poverty threshold for a family of four. Senator Paul Wellstone (D-MN) has expressed his intention to introduce a parallel bill in the Senate. Backers of living wage ordinances and laws have expressed their intention to nationalize and expand the living wage movement to push for higher regional or national minimum wages.[5]

II. LIVING WAGE ORDINANCES ARE NOT SOUND PUBLIC POLICY

The living wage movement argues that public money should not be used to create jobs that pay "poverty level" wages. On the surface, this argument has obvious appeal to those who are concerned about the welfare of the working poor. However, a closer examination reveals that living wage ordinances are at best an inefficient and inferior policy vehicle for helping poor families. At worst, they harm the poor by reducing their incomes and work opportunities.

A. Labor Economists Prefer Wage Subsidies to Living Wage Ordinances

It is revealing that the living wage activists promote policies at the local level that would raise the costs of employers, rather than targeted policies that promote economic growth and expansion. Writing in the influential *Brookings Review*, Edward Hill and Jeremy Nowak have made the case that distressed urban areas need a combination of tax subsidies and market-based policies that attract businesses and encourage investments in workers and infrastructure.[6] Living wage ordinances, by raising employer costs, work in the opposite direction by limiting job growth and employment opportunities for low-skill workers. A more appealing policy alternative to wage mandates is a targeted living wage subsidy that encourages the poor to work, yet does not place hiring barriers in their path.

Professional labor economists, who study the effects of wage mandates and wage subsidies, are overwhelmingly opposed to living wage ordinances and prefer tax credits or wage subsidies as antipoverty devices. This is shown in a recent survey, conducted in March and April 2000, of members of the American Economic Association who specialize in labor economics.[7] Of the 336 labor economists who responded to the survey, 69 percent expressed the opinion that localized living wage ordinances were "not at all" efficient in addressing the income needs of poor families. Indeed, 43 percent of the respondents agreed with the statement that a national living wage mandate would increase poverty. On the other hand, 98 percent of the responding labor economists expressed a belief that the federal Earned Income Tax Credit (EITC) was either a "very efficient" (51%) or a "somewhat efficient" (47%) means of assisting the poor.

B. A Targeted Wage Subsidy Delivers More Benefits to the Poor at a Lower Cost Than Does a Living Wage Mandate

To understand the basis for the economists' preference for wage subsidies such as the EITC over living wage ordinances, we will examine what is known about each type of policy with respect to its efficiency in aiding the poor and its predictable costs and consequences.

Living wage ordinances are relatively new—the first having been passed by Baltimore in 1994. As a result, reliable data from which to estimate program effects are not generally available. Many so-called evaluations have been conducted by the living wage activists themselves and/or have serious methodological or data problems.[8] Predictably, such studies speculate there will be no harmful effects from the ordinances and proclaim their benefits for the working poor. Usually, these studies also conclude that the ordinances, while helpful, do not go far enough, and that what is needed is a higher wage level or expanded coverage.

However, professional economists who have studied the effects of wage mandates for decades disagree with the projections of the proponents. These economists are well aware of the effects of wage mandates on the labor market through their numerous peer-reviewed studies of the impacts of federal and state minimum wage laws. In 2000, the federal minimum wage was $5.15 per hour, and 10 states plus the District of Columbia had minimum wages higher than the federal level. Among the highest of the state minimum wages (effective January 1, 2001) are Washington's at $6.72 and Massachusetts' at $6.75.[9] By studying the effects of minimum wages, economists have learned how employers react to the changes in labor costs imposed by these laws.

Labor economists have also shown the benefits of targeted wage subsidies in alleviating poverty. Their views reflect considerable research into how government subsidies and tax credits affect the supply of and demand for labor. A number of principles have emerged from the decades of research on wage mandates and wage subsidies that form the bases for labor economists' views on whether living wage ordinances are good public policy. As summarized below, the research strongly indicates that targeted wage subsidies are a more efficient and effective policy to aid the poor than are living wage ordinances.

1. Wage Mandates Cause Job Displacement While Wage Subsidies Do Not

One compelling argument against mandated wage increases on the scale advocated by the living wage movement is that they would result in job losses for the very population they seek to help. Wage mandates are thought to cause job loss by raising employers' costs of employing low-skill labor without corresponding increases in skills or productivity. This increase in relative costs leads employers to substitute higher skilled labor and capital equipment for the very-low-wage workers the living wage movement purports to help. Without jobs, the living wage ordinances offer an empty promise. On the other hand, targeted wage subsidies do not destroy jobs for less-skilled workers because they do not raise the employers' costs of employing them. The benefits are delivered to either the worker or the employer through a subsidy payment or tax credit.

a. Wage Mandates Cause the Less Skilled to Lose Jobs

Based on decades of research, most labor economists agree that minimum wages do not reduce poverty partly because the costs of minimum wages are borne disproportionately by the poor.[10] When labor costs rise through wage mandates, employers have strong incentives to substitute higher-skilled labor and capital for the less-skilled labor that has become more expensive. Also, to the extent that businesses raise prices as a result of the wage hikes, they stand to lose customers, which leads to further reductions in jobs. Unfortunately, those who need the jobs the most and who have the most difficulty finding and keeping stable work are those most likely to be hurt by the wage increases.

It is thus not surprising that labor economists take a dim view of living wage ordinances because these ordinances are nothing more than the minimum wage on steroids. Based on an extensive body of respectable research, a conservative estimate would be that a mandated 10 percent increase in wages would reduce the employment and/or hours of those affected by at least 5 percent.[11] Other credible studies have found much higher effects.[12] This means that, speaking conservatively, a living wage ordinance that doubled labor costs for low-wage workers (e.g., a wage hike from $5.15 to $10.30) could be expected to reduce employment of those previously working at the minimum wage by 50 percent.[13] That is, one out of every two affected minimum wage workers could expect to be displaced (or the equivalent in reductions in hours across the minimum wage work force) because of the higher-wages mandated by living wage ordinances. The effect for higher wage workers would also be significant. For workers whose wages were raised by 50 percent, say from $7.00 to $10.50, one of four of them is likely to be displaced (or we would see an equivalent hours reduction for the work force). This is just the short-run effect. The longer-term effects are less well documented, but are likely to lead to further skilled labor or capital substitution, or other adjustments that reduce labor demand. The disemployment effects could be lower for contractor-based mandates if the local government absorbs a high fraction of the higher wage and benefit costs.

Is it any wonder that labor economists generally regard wage mandates as being more likely to increase poverty than to reduce it?

Living wage activists argue in support of their proposals that job displacement effects are likely to be small.[14] They dismiss the possibility of such damaging effects on the grounds that businesses subject to the ordinance would raise their productivity or lower their costs.[15] Specifically, they argue that businesses would gain from (1) hiring higher-skilled workers; (2) experiencing lower voluntary job turnover; or (3) otherwise reducing their costs or increasing their revenue. They also argue that businesses will not reduce work opportunities because they either raise prices (to the local government, in the case of contractors) or accept lower profits. These counterarguments, however, are not persuasive because they are not supported by theory or empirical research.

We first consider the productivity or cost arguments. While it is true that covered businesses may increase their productivity by hiring more skilled workers, this in effect reduces the employment opportunities for the less-skilled workers who are thus placed at risk by the ordinance. Another argument sometimes heard is that workers would increase their effort if paid higher wages. While this may be better studied by psychologists, this argument also implies greater productivity per worker and thus a need for fewer workers. These arguments are far from convincing in favor of living wage ordinances; rather, they confirm the concerns of labor economists that the less skilled will be harmed by the wage mandate.[16]

Second, although the turnover argument has logical appeal and has some support in empirical research, it misses an important dimension of how low-skill labor markets operate. One of the consequences of a lower rate of voluntary turnover is that employers post fewer job vacancies because there is less need to replace workers who quit. This drop in job vacancies once again hurts most severely the low-skilled, who are known to have limited labor force attachments and who will suffer from the fewer job openings.[17] Also, notwithstanding any cost savings realized from lower turnover, firms still have incentives to substitute capital and higher-skilled workers for low-skilled workers because the cost of low-skilled labor has been forced up.[18]

Third, other effects depend largely on the unsupported assumptions that businesses behave inefficiently before the wage increase and that their efficiency is increased by the wage mandate. Labor economists are skeptical regarding such generally unsupported notions, at least for wage increases as large as those mandated by living wage ordinances.[19]

Contrary to these pro-living-wage arguments, most economists continue to maintain that increases in labor costs such as those imposed through wage mandates reduce employment by reducing labor demand. An example is the widely held axiom that an employer payroll tax reduces demand for labor. For example, in a 1996 survey of labor economists at 40 leading economics departments, the median respondent indicated a belief that 80 percent of employer payroll taxes were shifted to workers in the form of lower wages.[20] This was consistent with their view that a 10 percent increase in a payroll tax would reduce labor demand by about 5 percent.[21] If the "turnover" and "productivity" arguments of the pro-living-wage advocates were to be believed, then employers would not shift the payroll tax to employees, but would absorb it or offset most of it through productivity increases or cost reductions.[22] Thus, most labor economists do not believe that such alleged benefits or offsets would significantly deter firms from reducing labor demand when payroll taxes increase. By implication, the same would be true of higher labor costs resulting from a living wage ordinance.

Ironically, living wage activists Pollin and Luce argue in *The Living Wage: Building a Fair Economy* that a payroll tax is bad because it "raises the cost of employment and therefore discourages businesses from hiring more workers."[23] This is precisely the job loss or displacement effect that they dismiss as unimportant for living wage mandates. This is totally indefensible since the employers' share of Social Security and Medicare employer payroll tax is about 7 percent of payroll, while the labor cost increases imposed by living wage ordinances they promote can exceed 100 percent.

In assessing the likely magnitude of job loss or labor substitution effects, economists generally consider the possibility of employers responding in other ways to increases in labor costs such as raising prices, reducing total compensation, reducing training and increasing the pace of work. Notwithstanding these other adjustments, living wage ordinances would likely cause employment or hours reductions for workers affected by the increases.[24] For example, even if businesses raise their prices, they still have an incentive to keep their labor costs and prices as low as possible because they are in competition with other businesses. This competition leads to employment displacement as businesses attempt to keep their costs in line.

b. Targeted Wage Subsidies Do Not Destroy Jobs

There are volumes of respectable economic research documenting the potential and actual benefits of targeted wage subsidies for disadvantaged workers.[25] Wage subsidies to aid the low-skilled can be of two types: an employer-based subsidy in which the payments of tax credits are passed to the employer and an employee-based system in which the subsidy is made directly to the employees.[26] An example of the former is the Work Opportunity Tax Credit (WOTC), and of the latter, the EITC. In general, an employer-based subsidy aids the low-skilled by increasing demand for their services. This occurs through a lowering of employment costs. On the other hand, an employee-based subsidy aids the low-skilled by putting money directly into their hands as a supplement to their money wages. The employee-based subsidy is also thought to increase the supply of labor by motivating more low-skilled workers to enter the labor force.[27]

Both types of subsidies increase the employment and net incomes of the low-skilled without any adverse job loss or displacement effects. This is because neither would raise the cost to an employer of hiring a worker. Indeed, an employer-based subsidy directly lowers the net cost to an employer. Such employer-based subsidies may be important to encourage employers to hire the hard-to-employ. There is some evidence, however, that workers are reluctant to participate in employer-based subsidy programs because of what they see as a stigma associated with participation.[28] However, for the less job-ready such a subsidy may be their only way of obtaining private sector employment.

Employee-based subsidy programs like the EITC, on the other hand, provide their benefits directly to employees and thus do not require employees to identify themselves as part of an eligible group. The lack of apparent stigma may be one reason why the federal EITC program has a relatively high rate of participation by eligible workers compared with some prior employer-based subsidy programs.[29] Another reason may be that the EITC extends to all low-income workers, not just those in hard-to-employ groups. The EITC is "refundable," meaning that cash payments are made to families if their credit exceeds their federal tax liability. There is also a provision that allows families to receive payments spaced evenly over the year, and not be required to wait until the end of the tax year.

Wage subsidies are gaining in popularity with states and local governments. At least 15 states (including the District of Columbia), and at least one locality, have adopted their own targeted wage subsidy programs based on the federal EITC.[30] Ten of these states follow the federal practice of making the credit refundable.[31]

2. Targeted Wage Subsidies Are More Efficient Than Living Wage Ordinances

Compared with the question of whether wage mandates cause employment losses, there is even a greater degree of consensus among labor economists that wage mandates are ineffective in reducing poverty.[32] It is undisputed that many of the wage increases that result from minimum wage hikes go not to the needy, but to those in the middle or upper part of the income distribution.[33] Many of those who benefited are young people who live with their parents, are not the sole support of a family, or reside in households with above-average family incomes.[34] Moreover, because many poor families do not have any full-time workers, they do not benefit, or they benefit only marginally, from the mandated wage increases.[35] Also, as mentioned above, since wage mandates are thought to cause employment displacement among those who have limited skills and work experience, the poor end up paying disproportionately for any benefits they may receive.

Because living wage ordinances are relatively new, we know less about the distribution of benefits from living wage ordinances than we do about those from minimum wage hikes. However, it is known that in the United States, poverty is generally associated with either no work or part-time work.[36] Mandated wage policies are limited in their capability to raise families out of poverty because they benefit mostly those who work full-time and who are thus less likely to be poor.

Wage mandates are considered inefficient because many of their benefits go to the non-poor, and because not all poor families receive benefits. The inefficiency is exacerbated by the job displacement effects that fall chiefly on the less skilled. On the other hand, targeted wage subsidies by design are limited to workers in low-income families, or to firms that employ such workers. Moreover, the targeted wage subsidies encourage the poor to increase their labor force participation without causing job losses. Thus, the truly needy are able to receive greater net benefits. Targeted wage subsidies are thus more efficient in helping families in need than untargeted wage mandates.

3. Unlike Living Wage Ordinances, Wage Subsidies Do Not Cause Poor Families to Lose Government Benefits

For poor families receiving government assistance, there is yet another reason mandated wage policies are ineffective in alleviating their poverty. Government assistance programs such as Temporary Assistance for Needy Families, food stamps, the Earned Income Tax Credit and housing assistance all reduce their benefits incrementally as a family's earnings increase. A recent study from New York University Law School has documented just how pervasive such work disincentives can be for workers in poor families.[37] This means that for every additional dollar a family earns it could lose as much as 90 cents or more in federal benefits. Thus, the upside potential for a living wage mandate to substantially increase a poverty family's net income is extremely limited.

Indeed, even advocates of living wage mandates concede that a significant part of any mandated wage increase is lost through taxes and benefit losses. For example, Pollin and his colleagues estimated that in the absence of job losses, a New Orleans minimum wage of $6.15 would increase the gross earnings of affected workers by 12 percent, but would increase their after-tax, after-benefit incomes by only 2.9 to 4.4 percent.[38] In contrast, targeted wage subsidies do not impinge on a family's eligibility for government programs, and thus cause no loss of benefits.[39] In view of these facts, most labor economists view wage mandates as inefficient and likely to cause more harm than good. They prefer wage subsidies that can be more efficiently targeted to those in need and that do not cause the loss of jobs.

III. DESIGNS FOR A LOCAL TARGETED LIVING WAGE SUBSIDY

Local governments that are under pressure from the living wage movement to adopt living wage mandates should consider a far better alternative: a refundable targeted living wage tax credit. Currently, among local governments, only Montgomery County, Maryland, has adopted such a tax credit.[40] Interestingly, its county council rejected a living wage mandate ordinance in favor of the tax credit proposal out of concern over the harmful effects of a living wage ordinance on jobs and business investment.

Montgomery County administers its refundable credit program by identifying each family that claimed the state EITC and sending them an additional check to be paid from county funds. Currently, the Montgomery County refundable credit equals the amount of the state refundable EITC, which for 2000 was 15 percent of the federal EITC.[41] Although Montgomery County's refundable credit is based on the Maryland state refundable EITC, a similar approach could be followed in states not having an EITC program. The Internal Revenue Service will provide detailed, confidential tax return information to tax administrators. Local tax administrators could use this information, including the amount of the federal EITC, to determine the amount of a local refundable credit that piggybacks on the federal credit. Alternatively, a local government could allow low-income resident families to apply for the refund by submitting copies of their federal tax return and the refund check from the IRS.

A locality could also establish a procedure whereby employers include a portion of the refundable credit in employees' paychecks in each pay period. This is similar to the federal EITC advance payment option. The locality would then reimburse employers monthly or quarterly for the advances. The residual amount of the credit would then be paid to eligible families at the end of the tax year upon submission of appropriate evidence of federal EITC eligibility.

This refundable living wage tax credit approach would be more efficient than living wage mandates in alleviating poverty and avoiding employment displacement. Because the refundable credit can be narrowly targeted to families in need, it will cost the local government less to deliver a dollar of benefits to families in need than a living wage mandate. This alternative credit can be limited to employees who would have been covered under a typical living wage mandate (e.g., employees of contractors and/or financial assistance recipients), but who also support children and meet the eligibility standards of the federal EITC. With this narrower base of eligibility, local governments would find that the efficiency advantages of an EITC translate into a less expensive program than a living wage mandate that provides the same degree of assistance to those truly in need.

To see why such a targeted living wage program would be considerably less expensive for a local government to implement than a typical living wage mandate, consider the following. Suppose a living wage mandate affected 5,000 full-time workers and that on average their wages increased from \$6.50 to \$8.50 an hour. This would mean an increase in wage costs of \$2.00 an hour, or about \$4,000 per worker per year, or about \$20 million per year.[42] Based on studies of the Los Angeles and San Francisco living wage ordinances, it is reasonable to expect that in the short run, at least 50 to 75 percent of this cost would be shifted to the city in increased contracting costs[43] (i.e., the city would pay at least \$10 to \$15 million plus the administrative costs of compliance audits and other administrative costs). A targeted living wage would be cheaper, however, because it would go only to workers in low-income families with children.

Targeting the subsidy to low-income workers supporting children is likely to reduce the number of workers eligible by at least 70 percent.[44] In our example, the local government would subsidize the wages of only 1,500 workers who were truly in need. Assuming the same level of wage increase (i.e., $4,000 per worker), this would cost the city only about $6 million, a conservative cost savings of $4 to $9 million.

There is also a potentially large tax advantage to using a refundable earned income tax credit rather than a wage mandate. Because the low-income families targeted by the subsidy tend to lose government benefits when their earnings increase, a one dollar increase in earnings can cause family benefits to fall by 90 cents or more.[45] This is particularly true in states with high welfare benefits and for families receiving food stamps and housing assistance and who benefit from the federal EITC. Because a locally refundable credit would likely not affect eligibility for most assistance programs,[46] and not have a significant effect on the amount of the federal EITC subsidy,[47] it would be a more efficient way to assist poor families. If, in our example, under a living wage mandate the disposable income of the target families (1,500 workers) rose only by 50 percent of the increases in wages, the net benefit would be only $2,000 per worker, or a total of $3 million. However, to deliver those benefits to the families in need, the local government would still pay from $10 to $15 million. In a targeted subsidy program, the local government would have to pay out only about $3.3 million,[48] an enormous cost savings of $7 to $12 million. See Table 1.

Compliance costs are also likely to be less because there would be no need to monitor the wages paid by employers. There would be, however, some additional costs associated with mailing the refunds to eligible workers. This cost would be lower in the states that already have an earned income credit because the local government could piggyback on state eligibility determinations. However, the projected savings from using a tax credit are likely to be more than sufficient to cover the additional administrative cost, if any, leaving the local government with a substantial net cost savings.

We also can illustrate how the targeted living wage subsidy would work for a city such as Los Angeles, which has had a living wage mandate program for city contractors and tenants since May 1997. According to a recent evaluation of Los Angeles' living wage ordinance, the law has had less impact than its supporters expected. As of late 1999, it is estimated that the ordinance has led to pay raises averaging about $1.25 an hour for approximately 2,500 employees.[49] When mandated health insurance is included, the increase in worker pay and benefits is estimated to be about $7 million, with about $4 million of this paid by the city in addition to about $1 million in compliance costs.[50] We estimate from the Current Population Survey

Table 1: Comparison of Typical Living Wage Mandate to Targeted Living Wage Subsidy

	Number of Affected Workers	Total Increase in Worker Income	Total Cost to City	Amount Received by Workers in Need	Amount Received by Workers in Need After Tax and Benefits
Living Wage Mandate	5,000	$20 M	$10-15 M	$6 M	$3 M
Targeted Living Wage Subsidy	1,500	$3.33 M	$3.33 M	$3.33 M	$3 M

Data are drawn from a variety of sources, as cited in the text and footnotes.

Table 2: Comparison of Los Angeles Living Wage Mandate to Targeted Living Wage Subsidy

	Number of Affected Workers	Total Increase in Worker Income	Total Cost to City	Amount Received by Workers in Need	Amount Received by Workers in Need After Tax and Benefits
Living Wage Mandate	2,500	$7 M	$4 M	$2.1 M	$1.05 M
Targeted Living Wage Subsidy	750	$1.17 M	$1.17 M	$1.17 M	$1.05 M

Data are drawn from a variety of sources, as cited in the text and footnotes.

that less than $2.1 million of this would go to families in need. There would be an even lower increase (about $1.05 million) in these families' disposable income after taxes and benefit reductions are considered. Table 2 compares the effects of the living wage mandate with those of a targeted living wage subsidy. Such a targeted credit could transfer $1.05 million (after taxes and benefit reductions) in disposable income to Los Angeles families in need at a cost to the city of only about $1.17 million, a remarkable saving of $2.83 million (over 70 percent). See Table 2.

IV. Conclusion

There are better public policies to aid the poor than living wage mandates that impose large wage increases on employers without regard to skill. Such mandates cause losses in jobs and work opportunities for the very groups that need work and income the most. A better policy is a targeted living wage subsidy, which can be implemented by local governments at a lower budgetary cost than the wage mandates and which avoids the employment displacement that would result from the wage mandates.

Endnotes

[1] See *Living Wage Policy: The Basics*, Employment Policies Institute, 2000, for a description of how the living wage movement developed through the efforts of the AFL-CIO, the New Party and the Association of Community Organizations for Reform Now (ACORN).

[2] For a complete list, see www.livingwage.org.

[3] In 1999, Connecticut passed a law (Public Act No. 99-142) that regulated wages for state contractors that provided food, building, property or equipment services or maintenance. Other examples include legislation introduced in Virginia (2000 VA S.B. 807) and Montana (2001 MT D. 332). The proposed Virginia statute would mandate state contractors to pay a minimum wage of at least 150 percent of the federal minimum wage where health insurance benefits are provided, and 175 percent of the federal minimum where health insurance benefits are not provided. The proposed Montana law would require employers who receive public financial assistance to pay a wage at least equal to the federal poverty level for a family of four if no health insurance benefits are provided and at least 125 percent of the federal poverty level if health insurance benefits are provided.

[4] H.R. 4353, introduced on May 2, 2000, would require covered employers to pay in wages the greater of $8.20 per hour or a wage necessary for an employee to earn the amount of the federal poverty level for a family of four while working full-time.

[5] See Robert Pollin and Stephanie Luce, *The Living Wage: Building a Fair Economy*, Chapter 6, "Toward A National Living Wage Policy" (New York: The New Press, 1998). An example of a more comprehensive living wage proposal is the Santa Monica proposal that would cover all businesses in the city's marina district whether or not they had contracts with, or received assistance from, the city. A ballot initiative that would have adopted a more limited living wage ordinance applying to only city contractors was defeated in November. The Santa Monica City Council adopted the broader proposal on first reading in May, 2001. Berkeley has also passed an ordinance that applies to all businesses located within a specified area.

[6] See Edward W. Hill and Jeremy Nowak, "Nothing Left to Lose: Only Radical Strategies Can help America's Most Distressed Cities," 18 *Brookings Review*, No. 3 (Summer, 2000), 24-28.

[7] Employment Policies Institute, "The Living Wage: Survey of Labor Economists," Survey Center University of New Hampshire, August 2000.

[8] Many of these studies prospectively evaluate the effects of a proposed ordinance as part of a campaign to influence local governments to adopt the ordinance. See, for example, Pollin and Luce, *The Living Wage: Building A Fair Economy*, *supra* note 5; Bruce Nissen and Peter Catten, *The Impact of a Living Wage Ordinance on Miami-Dade County* (Miami: Florida International University, October 1998); David Reynolds, *The Impact of the Detroit Living Wage Ordinance* (Detroit: Wayne State University, September 1999). For a more detailed discussion of the activists' pro-living-wage research, see Employment Policies Institute, *Living Wage Policy: The Basics*, *supra* note 1.

[9] Also, on January 1, 2002, California's minimum wage, currently $6.25, is due to escalate to $6.75; and Connecticut's, currently $6.40, is due to increase to $6.70.

[10] See, e.g., David Neumark, Mark Schweitzer and William Wascher, "The Effects of Minimum Wages Throughout the Wage Distribution," *NBER* Working Paper 7519 (February 2000); David Neumark and William Wascher, "Do Minimum Wages Fight Poverty?" *NBER* Working Paper 6127 (August 1997); Richard V. Burkhauser and Aldrich T. Finegan, "The Minimum Wage and the Poor: The End of a Relationship," 8 *Journal of Policy Analysis and Management,* (Winter 1989), 53-71

[11] This corresponds to a labor demand elasticity (i.e., the percent reduction in labor demand resulting from a one

percent increase in the wage) of 0.5 for those earning at the minimum wage. Many economists would consider this a smaller than expected impact, possibly because it reflects only short-run adjustments. See. e.g., Charles Brown, "Minimum Wages, Employment and the Distribution of Income," in Orley Ashenfelter and David Card, eds., *The Handbook of Labor Economics*, Vol. 3B (Elsevier 1999), 2155.

Living wage proponents frequently cite research by academic economists David Card and Alan Krueger in favor of their argument that wage mandates do not cause the loss of jobs or displacement of the less skilled. See, for example, Pollin and Luce, *supra* note 5 at 41 (citing David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton University Press, 1995), in favor of their view that minimum wage hikes do not cause job losses). While Card and Krueger believe that relatively small changes in the minimum wage do not cause job loss, they, nonetheless, join the consensus of labor economists that large increases in mandated wages are likely to cause job loss or displacement. See *Myth and Measurement* at 355 ("We … suspect that at sufficiently high levels of the minimum wage, the predicted employment losses of the standard model will be borne out.")

[12] For example, see Neumark et al., "The Effects of Minimum Wages Throughout the Wage Distribution," *supra* note 10, in which the authors find that for workers earning at the minimum wage, a 10 percent increase in the minimum wage reduces employment by about 2 percent and reduces hours of work for those who remain employed by about 6 percent.

[13] This includes losses in jobs and hours from both substitution of capital and substitution of higher-skilled labor (commonly called employment "displacement") for minimum wage workers.

[14] See, e.g., Pollin and Luce, *The Living Wage*, *supra* note 5, at 131-134 (acknowledging the possibility of job losses, but considering their magnitude to be small).

[15] See *ibid.*

[16] Recent research has confirmed that minority youth may be most at risk of losing jobs due to hikes in the minimum wage. See David Neumark and William Wascher, "The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence From Matched CPS Surveys," in 15 *Research in Labor Economics* (1996); Mark D. Turner and Berna Demiralp, "Effects of Higher Minimum Wages on Teen Employment and School Enrollment," unpublished manuscript, Johns Hopkins University, July 2000.

[17] Those who have not completed high school have much higher unemployment rates than those who complete. For example, in the third quarter of 2000, when the total unemployment rate stood at 4.0 percent, the unemployment rate of those aged 18-25 without a high school diploma was over 11 percent, and when marginally attached and discouraged workers are included, the rate exceeded 18 percent. See Jared Bernstein, "Slowed Growth Threatens Continued Wage Gains," unpublished manuscript, Economic Policy Institute, 2000. The less skilled and those with marginal labor force attachments are most at risk of being harmed by wage mandates that raise the cost of hiring. See *supra* note 16. Those at risk include job seekers with limited job skills, experience and English language literacy who are attempting to leave welfare for work. Businesses experience extra costs in employing such workers because they need to provide special basic education and support services to make these workers trainable and job-ready.

[18] There is also evidence that minimum wages reduce youth labor force participation rates. See Jacob Mincer, "Unemployment Effect of Minimum Wages," *Journal of Political Economy*, supplement (August 1976), 87-104; Walter Wessels, "The Effects of Minimum Wages in the Presence of Fringe Benefits: An Expanded Model," *Economic Inquiry,* (April 1980), 293-313.

[19] There are more sophisticated "efficiency wage" theories that are based on the notion that employers may pay higher than market wages to raise productivity by deterring workers from shirking. Under a set of narrowly defined conditions, such models imply that within a narrow range, a wage mandate may increase employment for a particular

firm. However, there is no convincing evidence that such models apply to typical employers of low-wage labor, who may prefer to monitor their workers rather than relying on wage incentives. Moreover, the general equilibrium implications of such models have not been well developed. Several variants of so-called monopsony models are reviewed in *Myth and Measurement*, *supra* note 11, at 369-379. They all predict that small increases in minimum wages may induce some employers to increase employment. However, these models are partial equilibrium models, which are not well suited to describe the overall impacts of wage mandates on the low-skill labor market, particularly living wage ordinances that have limited coverage.

[20] See Victor Fuchs, Alan B. Krueger and James M. Poterba, "Economists' Views about Parameters, Values, and Policies: Survey Results in Labor and Public Economics," 36 *Journal of Economic Literature* (September 1998), 1387-1425.

[21] See *ibid.* at 1394.

[22] If these offsets are to be believed, employers would be reluctant to lower wages because they would cause lower productivity and higher costs.

[23] See *The Living Wage: Building a Fair Economy, supra* note 5, at 185.

[24] Living wage activists often cite Card and Krueger's *Myth and Measurement: The New Economics of the Minimum Wage, supra* note 11, in support of their view that living wages do not cause job displacement of low-skilled workers. While Professors Card and Krueger express reservations that past minimum wage increases have produced as much job loss as many of their colleagues believe, they are quite clear that wage mandates as large as those in living wage ordinances can be expected to do some harm. "We … suspect that, at sufficiently high levels of the minimum wage, the predicted employment losses of the standard model will be borne out." See Card and Krueger at page 355. Living wage ordinances that raise wages by from 150 to 300 percent would seem to be what Card and Krueger had in mind.

[25] Edmond S. Phelps authored several pieces during the 1990s on employment wage subsidy design and effects. See, for example, his "Low-Wage Employment Subsidies vs. the Welfare State," 84 *American Economic Review* (May 1994), 54-58 ; *Rewarding Work* (Cambridge, MA: Harvard University Press, 1997). Dr. Phelps favors a graduated employer-based tax credit. However, even before Phelps's papers during the 1990s a number of economists had published serious research and policy analysis supporting the benefits of wage subsidies for the unskilled. See, for example, Robert Haveman and John Palmer, eds., *Jobs for Disadvantaged Workers* (Washington, DC: Brookings Institution, 1982). More recent research includes: Lawrence F. Katz, "Wage Subsidies for the Disadvantaged," in Richard B. Freeman and Peter Gottschalk, eds., *Generating Jobs: How to Increase Demand for Less-Skilled Workers* (New York: Russell Sage Foundation, 1998); Stacey Dickert-Conlon and Douglas Holtz-Eakin, "Employee-Based Versus Employer-Based Subsidies to Low-Wage Workers: A Public Finance Perspective," in David E. Card and Rebecca M. Blank, eds., *Finding Jobs: Work and Welfare Reform* (New York: Russell Sage Foundation, 2000).

[26] See Dickert-Conlon and Holtz-Eakin, *supra* note 25, for a comparison of the two types of wage subsidies.

[27] Recent research on the effects of the federal EITC indicates that the credit increases the labor force participation of low-income women. See, for example, Bruce Meyer and Dan T. Rosenbaum, "Welfare, EITC and the Labor Supply of Single Mothers," *NBER* Working Paper 7363 (September 1999); David Neumark and William Wascher, "Using the EITC to Help Poor Families: New Evidence and Comparisons with the Minimum Wage," *NBER* Working Paper 7599 (March 2000).

[28] See Dickert-Conlin and Holtz-Eakin, *supra* note 25, at 290.

[29] See *ibid.*, at 276-281 (citing studies showing a high rate of participation in the EITC).

[30] Colorado, Washington D.C., Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, New York, Oregon, Rhode Island, Vermont and Wisconsin have adopted wage subsidy programs that "piggyback" on the federal credit. These

jurisdictions use federal eligibility rules and express their credit as a specified percentage of the federal credit (from 5 to 50 percent). Minnesota also offers an EITC based on federal eligibility rules, but has modified the credit structure to lower the rate at which benefits are phased out. A final state, New Jersey, uses the federal scheme but limits eligibility to families with annual incomes at or below $20,000. Montgomery County, Maryland, has adopted a local EITC modeled on the federal credit

[31] These jurisdictions are Colorado, Washington D.C., Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New York, Vermont, and Wisconsin.

[32] See, for example, Neumark and Wascher, "Do Minimum Wages Fight Poverty?" *supra* note 10, in which the authors show that minimum wage laws cause redistribution of incomes among poor families, not from high- to low-income families. See also Richard V. Burkhauser and Aldrich T. Finegan, "The Minimum Wage and the Poor: The End of a Relationship," 8 *Journal of Policy Analysis and Management,* (Winter 1989), 53-71, in which the authors document that the fraction of low-wage workers who are poor fell from 42 percent in 1959 to 18 percent in 1984.

[33] See, for example, Richard V. Burkhauser, Kenneth A. Couch and Andrew J. Glenn, "Public Policies for the Working Poor: The Earned Income Tax Credit Versus Minimum Wage Legislation," in Solomon W. Polachek, ed., 15 *Research in Labor Economics* (Greenwich, CT and London: JAI Press, 1996) found that for the 1990-91 increase in the minimum wage from $3.35 to $4.25, only 13 percent of the workers affected were in poverty families; at the other extreme, 35 percent of those affected lived in families with incomes greater than 3 times the poverty level.

[34] For example, national data from the 1999 Current Population Survey (Outgoing Rotation Group sample) indicate that of workers with hourly wages between $5.15 and $7.25, 17.3 percent are single without family obligations, 35.0 percent are living with parents or another relative and only 15.6 percent are the sole support of any children in their family.

[35] Recent Census data on poverty indicate that in 1999, only 11.7 percent of individuals in poverty worked full-time for the entire year, while only 42.6 percent of them worked at all during the year. See Bureau of Census, Historical Poverty tables, Table 18, revised September 26, 2000, www.census.gov/hhes/poverty/histpoverty/hstpov18.html

[36] For example, see *supra* note 35.

[37] See Daniel N. Shaviro, "Effective Marginal Tax Rates on Low-Income Households," Employment Policies Institute, February 1999. Professor Shaviro shows that a welfare recipient in a state with generous welfare benefits and receiving a federal housing subsidy who increased her earnings from $10,000 to $25,000, would actually lose over $17,500 in benefits. This would make her family worse off than before her increase in earnings. Using another example, involving an increase in the minimum wage from $5.15 to $6.15 per hour, Professor Shaviro shows that this same welfare recipient working full-time, full-year, would retain only about $50 per year of the minimum wage increase of over $2,000.

[38] See Robert Pollin, Stephanie Luce and Mark Brenner, "Economic Analysis of the New Orleans Minimum Wage Proposal," *Political Economy Research Institute*, July 1999, 70-72.

[39] Because state or local refundable tax credits appear to be includable in federal taxable income, the state or local refund may raise pre-credit federal tax liability for some families and thus reduce the benefits of the federal credit. However, since low-income families have low or zero marginal income tax rates, the increase in federal tax liability should be small or nonexistent.

[40] Montgomery County's credit is equal to the Maryland state refundable EITC, which in 2000 was 15 percent of the federal credit. It was available only to taxpayers with dependents. In 1999, New York City also passed an ordinance to create a refundable credit equal to 5 percent of the federal EITC to be claimed on the city tax return. However, the

state legislature did not pass the necessary enabling legislation to allow the credit to take effect. In 2000, Maryland passed legislation (SB 240) authorizing its counties and Baltimore City to pass refundable tax credits. Currently, each county and Baltimore City have nonrefundable tax credits applicable to their own income taxes and tied to the federal credit. None has yet enacted a refundable credit

[41] Maryland also has a nonrefundable EITC applicable against the state income tax liability, and each Maryland county and Baltimore City have nonrefundable EITCs applicable against the county or city income tax liability. The state nonrefundable EITC is equal to 50 percent of the federal EITC; the county and city nonrefundable EITC is equal to 10 times the county or city tax rate times the federal EITC. The Maryland refundable and nonrefundable credits are integrated. The refund under the state EITC (for taxpayers with dependents) equals the amount by which the state refundable credit (i.e., 15 percent of the federal credit) exceeds the state income tax liability. If an eligible family's income tax liability exceeds 15 percent of the federal credit, there would be no refund, but a nonrefundable credit of 50 percent of the federal credit is available. Montgomery County's program is simpler: the county cuts a check equal to the amount of the refund check paid by the state under its refundable EITC program.

[42] These employment and wage numbers, while reasonable, are not critical to the example. The relative cost to a local government of implementing a narrowly targeted refundable tax credit as opposed to a wage mandate depends on the rate at which wage mandates are passed through to the local government. It also depends on the fraction of the workers covered by the wage mandate who would be eligible under the narrowly targeted tax credit.

[43] See, e.g., Susan Alunan et al., "The Living Wage in San Francisco: Analysis of Economic Impact, Administrative and Policy Issues," (San Francisco Urban Institute, 1999), 21-23 (projecting that large contractors would pass through as much as 70 percent of the cost increases, while small ones would pass through 100 percent); Richard Sander and Sean Lokey, "The Los Angeles Living Wage: The First Eighteen Months," Report to City of Los Angeles, November, 1998, at 8 (concluding that the city had borne about half the costs of the living wage ordinance).

[44] For example, national data from the 1999 Current Population Survey (Outgoing Rotation Group sample) indicate that of workers with hourly wages between $5.15 and $7.25, fewer than 30 percent would be eligible for the federal EITC and also be in families with children.

[45] See Shaviro, *supra* note 37.

[46] Under federal law, there are prohibitions on counting the federal EITC as income or as a resource in a number of federal programs such as Medicaid, food stamps, SSI and low-income housing. However, under Temporary Assistance to Needy Families (TANF), states have authority to count the EITC as income in determining eligibility for TANF. See V. Joseph Hotz and John Karl Scholz, "The Earned Income Tax Credit," *NBER* Working Paper 8078 (January 2001).

[47] It is possible that a local refundable tax credit could cause the federal income tax liability of the recipient family to rise if its family income is high enough to be subject to federal income tax. See *supra* note 39. This would mean a slight reduction in the amount of the federal refundable EITC. However, because the family would be in a low tax bracket (likely 15 percent), the reduction in the federal EITC would be much less than the reduction that would result from a corresponding increase in earned income. In 2000, for earnings above $12,690, for families with children, 34 to 40 percent of each incremental dollar earned reduced the federal credit.

[48] This assumes that the targeted living wage mandate is taxed at 10 percent, a conservative assumption.

[49] See Richard Sander, E. Douglass Williams and Michael Blakley, "Living Wages and the Problem of Inequality in California," Daniel J.B. Mitchell and Patricia Nomura, eds., *California Policy Options 2001* (School of Public Policy and Social Research, UCLA, 2001), 76-77.

[50] *Ibid.*

LIVING WAGE PROPOSALS AND ORDINANCES

(Listed alphabetically by city)

LOCALITY	WAGE	APPLIES TO	TYPE OF PROPOSAL	STATUS
Albany, NY	$8.55, plus additional benefits for people working more than 15 hours a week	County contractors	City ordinance	Introduced October 1997; no recent activity reported
Albuquerque, NM (defeated)	$7.91 with benefits, $9.16 without	Companies that receive Industrial Revenue Bond (IRB) money and have >25 employees	City Ordinance	1996 initiative invalidated; City Council rejected ordinance in a 6-3 vote 11/15/99; no recent activity reported
Alexandria, VA	$9.84	City contractors	City ordinance	Enacted June 2000
Allegheny County, PA	$9.12	County workers; contractors and subcontractors	Administrative Code; now also a proposed ordinance	Enacted into portion of county code in July 2000; separate effort underway in 2001 to enact a specific living wage ordinance
Ann Arbor, MI	$8:50 w/benefits $10.00 w/out	Contractors and subsidized businesses	City ordinance	Enacted in spring 2001 after previous mayor vetoed ordinance
Annapolis, MD	$10.28	Companies receiving state subsidies	No formal proposal introduced to date	Campaign underway in 1999; no recent activity reported
Arlington, TX	Not specified	Not specified	No formal proposal introduced to date	Campaign underway in 1999; no recent activity reported
Ashland, OR	$9.75 w/benefits $10.75 without	Contractors and grant recipients over $10,000	City Ordinance	Campaign underway in 2001
Atlanta, GA	Not specified	Contractors	No formal proposal introduced to date	Campaign underway 1998; no recent activity reported
Atlantic City, NJ	Not specified	Contractors	No formal proposal introduced to date	Campaign underway 1998; no recent activity reported
Austin, TX (defeated)	$9.00 minimum	Contractors or recipients of tax abatements	No formal proposal introduced to date	1998 ballot initiative defeated; local commission on wage issues meets regularly to discuss issue
Austin, TX (school district)	$8.93; City of Austin maintains a minimum wage of $7.39 for city employees (set to go up to $8.00 in 1999) and Austin Community College pays $8.00	Classified employees of the Austin Independent School District; currently no provision for contractors	No formal proposal introduced to date	Campaign underway 1999; no recent activity reported
Baltimore, MD	$7.10 in 1998; $7.70 in 1999 (based on prevailing wage; 12/2/98 proposal calls for $7.90 beginning in July 1999)	Construction and service contracts over $5K	City ordinance	Enacted in December 1994; increase pending as of December 1998; efforts are now underway to extend a living wage to private employees
Berkeley, CA	$9.75 w/benefits, $11.37 w/o	Companies doing business with the City or leasing land from the City	City ordinance	Enacted June 2000

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LIVING WAGE PROPOSALS AND ORDINANCES

(Listed alphabetically by city)

LOCALITY	WAGE	APPLIES TO	TYPE OF PROPOSAL	STATUS
Billings, MT	Not specified	Not specified	No formal proposal introduced to date	Campaign underway as of November 2000.
Blacksburg, VA	Not specified	Not specified	No formal proposal introduced to date	Campaign underway
Bloomington, IN	Not specified	Contractors	No formal proposal introduced to date	Campaign underway 1998; no recent activity reported
Boston, MA	$8.71; indexed to cost of living increases, promotes community hiring, establishes adv. Board	City agencies and contractors over $100K and subcontractors over $25K; amended later to exempt companies receiving asst. Mayor has announced plans to raise wage in July 2000	City ordinance	Enacted mid-1997; Amended in September 1998; efforts underway to increase wage to $10 an hour and lower the amount that triggers the wage to $25K
Bozeman, MT	$9.00 w/benefits, $9.80 w/o	Companies receiving >2,500 in assistance	No formal proposal introduced to date	Campaign underway 1999; no recent activity reported
Bridgeport, CT	Not specified	Not specified	No formal proposal introduced to date	Campaign underway as of November 2000. No recent activity reported.
Brookline, MA (defeated)	$10.30	City employees and city contractors	City ordinance	Ordinance introduced in May 2001; council decided to study issue before moving further
Broward County, FL	$8.50	Companies doing business with the city with contracts over $100K	County ordinance	Proposal expected to reach county council in late 2001
Buffalo, NY	$6.22 in 2000, $7.25 in 2001, $8.08 in 2002 w/benefits; $7.22 in 2000, $8.15 in 2001, $9.08 in 2002 w/o benefits	City contractors and subcontractors over 50K with at least 10 employees	City ordinance	Enacted July 1999 Already having problems with enforcement and the specific language of who is covered.
Buffalo, NY (school district)	Modeled after Buffalo city ordinance	Businesses that do business with the School Board	No formal proposal introduced to date	Campaign underway in 1999; no recent activity reported
Cambridge, MA	$10.00	City employees, companies with city contracts > $10K, recipients of city assistance > $10K, subcontractors	City ordinance	Enacted May 1999
Camden, NJ	Not specified	Not specified	No formal proposal introduced to date	Campaign underway in 4/2000; no recent activity reported
Charlotte, NC (defeated)	$9.00	City workers	City ordinance	Council passed the measure in early May 2001, but was vetoed by mayor
Cheyenne, WY	$10.00	Contractors	No formal proposal introduced to date	Campaign underway in 1998; no recent activity reported
Chicago, IL	$7.60	Contractors and subcontractors w/ 25 or more full time workers	City ordinance	Enacted July 1998

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LIVING WAGE PROPOSALS AND ORDINANCES

(Listed alphabetically by city)

LOCALITY	WAGE	APPLIES TO	TYPE OF PROPOSAL	STATUS
Cincinnati, OH	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998; no recent activity reported
Cleveland, OH	$8.20 1/1/01, $8.70 10/1/01; $9.20 10/1/02; annual inflation index 10/1/03	City employees, city contractors with contracts >75K, and business that receive >75K in financial assistance (only those with over 20 employees; 50 employees for non-profits)	City ordinance	Enacted June 2000
Columbia, SC	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998; no recent activity reported
Columbus, OH	Not specified	Not specified	No formal proposal introduced to date	Campaign underway in 5/2000; no recent activity reported
Concord, NH	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998; no recent activity reported
Cook County, IL	$7.60	Service industry contractors and subcontractors of any size required to pay stipulated wage to workers on awarded contract	County ordinance	Enacted September 1998
Corvallis, OR	$9.00	Contractors >5K	Ballot initiative	Enacted November 1999
Covington, KY	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998; no recent activity reported
Dallas, TX (defeated)	$8.20 w/benefits, $9.45 w/o	Contractors or recipients of tax abatements	City Ordinance	Initial ordinance defeated by City Council (2/01), as a compromise, council passed ordinance with an incentive plan for businesses to create living wage jobs
Dane County, WI	100% poverty level and health benefits (approximately $8.20)	County employees and country contractors	County ordinance	Enacted March 1999
Dayton, OH	$7.00	City employees only	City ordinance	Enacted April 1998 (original ordinance included contractors)
Denver, CO	$8.20 (based on poverty level for a family of four)	City contractors and subcontractors with contract > 2K, for parking lot attendants, security guards, child care workers, clerical workers	City ordinance	Enacted February 2000
Des Moines, IA	$7.00 minimum, with goal of $9.00	Non-management full-time employees at businesses receiving assistance	City ordinance	Enacted in 1988; amended to include $9.00 "goal" in July 1996
Detroit, MI	Indexed to federal poverty level (currently $9.02) with benefits; 125% of federal poverty level (currently $10.25) without benefits	Contractors and subcontractors > $50,000 annually; businesses receiving assistance > $50,000 annually	City ballot initiative	Enacted November 1998.

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LIVING WAGE PROPOSALS AND ORDINANCES

(Listed alphabetically by city)

LOCALITY	WAGE	APPLIES TO	TYPE OF PROPOSAL	STATUS
Dubuque, IA	Not specified	Not specified	No formal proposal introduced to date	Campaign underway as of November 2000. No recent activity.
Duluth, MN	Must pay 90% of employees $6.50 w/ health benefits; $7.25 without, indexed to inflation	Companies receiving city economic development assistance > $25K	City ordinance	Enacted July 1997
Durham, NC	Hourly wage of city employees ($8.45 as of 06/00)	All city employees and contractors	City ordinance	Enacted January 1998
Durham County, NC	Same as city employees, currently $7.55 an hour	Contractors and service vendors	Proposed county ordinance	Activity detected in 1999; no recent activity reported
Eastpointe, MI	No details available	No details available	City ordinance	Enacted spring of 2001
Eau Claire County, WI	$6.67 w/benefits, $7.40 without	County contractors >100K	County ordinance	Enacted September 2000
Eugene, OR	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998; no recent activity reported
Ferndale, MI	No details available	No details available	City ordinance	Enacted spring of 2001
Fresno, CA (defeated)	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998; Council voted down even studying the issue in 3/2000; no recent activity reported
Gainsville, FL	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Gary, IN	"prevailing wage"	Recipients of tax abatements	City ordinance	Enacted in 1991
Grand Rapids, MI	Unspecified rate	Businesses that receive public assistance	No formal proposal introduced to date	Commissioner preparing legislation in 1999; no recent activity reported
Grand Junction, MO	Not specified	Not specified	No formal proposal introduced to date	Campaign underway as of Novemeber 2000.
Greensboro, NC (defeated)	$8.03 with benefits (poverty level for family of four); $9.23 without benefits	City employees and contractors	No formal proposal introduced to date	LW Committee recommendations in 2/2000; Council defeated ordinance 6/2000. No recent activity reported.
Harrisburg, PA	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Hartford, CT	110% of the federal poverty level for a family of four (currently $9.02)	City contractors > $50K and commercial development projects that receive subsidies > $100K	City ordinance	Enacted October 1999

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LIVING WAGE PROPOSALS AND ORDINANCES

(Listed alphabetically by city)

LOCALITY	WAGE	APPLIES TO	TYPE OF PROPOSAL	STATUS
Harvard, MA	$10.25	Currently Janitors, later to include all university employees	No formal proposal introduced to date	Campaign underway in 1999, multiple student rallies have been taking place
Hayward, CA	$8.61 with benefits; $9.95 without; adjusted yearly with the area's cost of living	City employees and city contractors > $25,000	City ordinance	Enacted April 1999
Helena, MT	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Hempstead, NY	Not specified	Not specified	No formal proposal introduced to date	Campaign underway
Hidalgo County, TX	$6.75 January 2000; $7.50 January 2001	County employees; state and federal funded programs controlled by county	County ordinance	Enacted July 1999
Houston, TX (defeated)	$9.00 minimum	Contractors or recipients of tax abatements	No formal proposal introduced to date	Campaign underway; ballot initiative defeated in 1/1998; no activity reported since 1999
Hudson County, NJ	150% of the federal minimum wage, currently $7.73, with benefits and paid vacation	County service contractors working at least 20 hours per week	County ordinance	Enacted January 1999
Indianapolis, IN	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Ithaca, NY	Not specified	Not specified	No formal proposal introduced to date	Campaign underway
James City County, VA	$8.25	County workers	County ordinance	Enacted June 2001
Jersey City, NJ	$7.50	Service Contractors	City ordinance	Enacted June 1996
Kalamazoo, MI	$8.25	City contractors	No formal proposal introduced to date	After passage in Detroit, the City Council organized a group to study the possibility of an ordinance; Council voted not to include initiative on Nov. 2000 ballot; Coalition expected to file suit. No recent activity reported.
Knoxville (University of Tennessee), TN	$9.50	University employees submitted demands to the university	No formal proposal introduced to date	Campaign underway as of November 2000.
Knoxville, TN (defeated)	Around $9.50 ($19,000 per year with benefits) ($22,000 per year without benefits)	City employees and contractors; expanding to private firms that do business with the city	City Ordinance	City Council rejected ordinance in 5/1999. Campaign re-started in 2000, but no recent activity reported.

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LIVING WAGE PROPOSALS AND ORDINANCES

(Listed alphabetically by city)

LOCALITY	WAGE	APPLIES TO	TYPE OF PROPOSAL	STATUS
Lansing, MI	Unspecified	Based on Detroit's ordinance	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Letcher County, KY (defeated)	$7.50	All workers	County Ordinance	Proposal failed to advance due to a 3-3 vote on 7/1999, no recent activity reported.
Lexington, KY	$8.25 plus health benefits	Contractors	Draft proposal	Campaign underway in 1998, no recent activity reported
Lincoln, NE	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Lincoln City, OR	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Little Rock, AR	$8.20 with benefits, $9.45 without	Contractors and subcontractors receiving >25K	No formal proposal introduced to date	Campaign underway in 9/ 1998; introduction to Council planned for 1999; research underway
Long Beach, CA	Unspecific rate	Unspecified	City ordinance	Activity reported in 1998, no recent activity reported
Los Angeles, CA	$7.39 with benefits, $8.64 without; 10 paid days off; indexed to inflation yearly; Campaign underway to raise wage to $10.00	Businesses with city contracts over $25K; companies receiving more than $100K annually/ $1m onetime grant; amended to include airport workers	City ordinance	Enacted in March 1997, after the council overrode a mayoral veto; amended in August 1998;Late 2000, Campaign underway to raise mandate to $10. No recent activity reported.
Los Angeles County, CA	$8.32 with benefits $9.46 without	County contractors Amended to include only contractors with greater than 20 employees, with annual gross income exceeding $1 million ($2.5 for technical or professional service)	County ordinance	Enacted June 1999. Later amended to exclude businesses with 20 or fewer employees
Louisville, KY	Unspecified	City contractors and subcontractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Madison, WI	105% of poverty level for a family of four (2000) $8.61; 110% in 2001 ($8.83); (initially 100% poverty level for a family of four in 1999)	Companies w/ assistance > $100K; non-profits with grants over $5K; non unionized city employees	City ordinance	Enacted March 1999
Manhattan, KS	$8.45 with benefits; $9.28 without, community hiring	Businesses receiving econ. dev. funds	Draft proposal	Campaign underway in 1998, no recent activity reported
Marin County, CA	$15.75	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Marion, OH (defeated)	$9.02	Not specified	City ordinance	Defeated in February 2001 by a 5-4 vote.

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LIVING WAGE PROPOSALS AND ORDINANCES

(Listed alphabetically by city)

LOCALITY	WAGE	APPLIES TO	TYPE OF PROPOSAL	STATUS
McComb, MS	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Medford, OR	Not specified	Not specified	No formal proposal introduced to date	Campaign underway as of 2000. No recent activity reported.
Memphis, TN	"Prevailing wage"	Contractors/subcontractors on publicly funded projects	City ordinance	Enacted April 1999
Meriden, CT	110% of poverty level for a family of four. Requires comprehensive health insurance with no more than 3% of the annual wage used as copay	City service contracts over $50,000	City ordinance	Enacted November 2000
Miami-Dade County, FL	$8.56 with benefits, $9.81 without benefits	County employees, contractors/subcontractors, airport employees	County ordinance	Enacted May 1999
Milwaukee (city), WI	Indexed to poverty level for a family of three (currently $6.80)	Service contracts over $5K	City ordinance	Enacted November 1995
Milwaukee (county), WI	$6.25	Service employees of county contractors	County ordinance	Enacted May 1997
Milwaukee (school district), WI	$7.70	School employees and contractors	Board measure	Enacted January 1996
Minneapolis, MN	100% of federal poverty level for a family of four, plus benefits; 110% without benefits (currently $9.02 with benefits)	Contractors and companies receiving subsidies > $100K for projects earmarked for "job creation;" expanded to cover projects > $25K	City ordinance	Enacted March 1997, based on recommendations from the Joint Twin City Living Wage Task Force created after ballot initiative failed in 1995; expanded in December 1998
Missoula, MT (defeated)	$8.00	City employees; city contractors	Ballot initiative (defeated)/no formal proposal introduced to date	Proposal introduced in the city council; ballot initiative defeated in 11/1999 ballot; campaign now underway for a city ordinance, no recent activity reported
Montgomery County, MD (defeated)	$10.44/$11.00 (two versions)	Contractors and businesses that receive economic incentives/Contractors, non-profits	Started as ballot initiative, became county proposals	Initiative was to be put to voters in 11/1998; Defeated in 8/1999, in favor of local EITC.
Mountain View, CA	$9.50 w/benefits; $10.75 w/out;	Contracts > $20,000, with some exemptions; also applies to some part-time city employees	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported

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Multonomah County, OR	July 1998 - $7.50; July 1999 - $8.00	Janitorial and security contracts; foodservice contracts to be added in 2000.	County ordinance	Enacted June 1996; amended to increase wage in October 1998
Nashville, TN	$8.73	City workers only	City Ordinance	Ordinance introduced April 2001; a nonbonding resolution was sent to the mayor in May 2001 that only would apply to city workers
Nassawadox, VA	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
New Haven, CT	Based on federal poverty level for a family of four; 2000 115%; (currently $9.43)	Service contractors	City ordinance	Enacted May 1997
New Orleans, LA (defeated)	$1.00 above federal level	All employees	Citywide ballot initiative	Defeated in June 1997; lawsuits filed on procedural issue; resolved in 2000 to be sent back to voters. No recent activity.
New York City, NY	Based on prevailing wage for specific industry as determined by city controller; new proposal for $10 minimum	Service contracts; new proposal includes contractors and subsidy recipients	City ordinance	Enacted September 1996; new legislation introduced in City Council in 2001
Niagara County, NY	$7.91	Companies receiving county assistance from the Industrial Development Agency (IDA)	County ordinance	County Legislature began looking at issue 10/1999; reintroduced April 2000, no recent activity reported.
North Hampton, MA	$7.00 w/ benefits; $8.50 w/out	All Hampshire County employees	County ordinance	Campaign underway in 1998, no recent activity reported
North Hollywood, CA	Not specified	Not specified	No formal proposal introduced to date	Campaign underway
Oakland, CA	$8.65 with benefits, $9.95 without; 12 paid days off, 10 unpaid days off	Businesses and non-profits with service contracts > $25K or receiving > $100K in subsidies; plan to expand ordinance to cover Port.	City ordinance	Enacted in April 1998
Oakland County, MI (defeated)	$8.50 with benefits	County contractors	County ordinance	Defeated in 8/2000
Omaha, NE	$8.19 w/benefits; $9.01 without	City employees; companies receiving > $75,000 assistance and city contractors with contracts > $75,000 (with greater than 10 employees); amendment to exempt development block grants, leaseholders and tenants	City ordinance	Enacted May 2000 Council members already considering exemptions

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(Listed alphabetically by city)

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Orange County, NC	$10.00	All county employees	County ordinance	Enacted July 1998; discussion regarding expansion to contractors
Oxnard, CA	$8.00 w/benefits; $10.00 w/o benefits	City contractors and businesses receiving >25K in assistance (full and part-time employees)	City ordinance	Discussion began in 11/99; on Council agenda for 5/16/00, no recent activity reported
Palo Alto, CA	$9.50 w/benefits; $10.75 w/out	Contracts > $20,000, with some exemptions; also applies to some part-time city employees	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Pasadena, CA	$7.25 w/ benefits; $8.50 without	City employees; major contractors	City ordinance	Enacted September 1998
Philadelphia, PA	$7.90; including community hiring "prevailing wage"	All companies receiving "assistance"	City ordinance	No action since late 1998; new prevailing wage ordinance introduced, may take the place of living wage ordinance
Pima County, AZ	$8.00	County Contractors	No formal proposal introduced to date	Campaign underway as of 2/2000, no recent activity reported
Pine Bluff, AZ	Not specified	Not specified	No formal proposal to date	Campaign underway in late 2000. No recent activity reported.
Pittsburgh, PA	$9.12 w/benefits; $10.62 without	City workers; city contractors, and business receiving tax assistance or loans from the city over $5K	City ordinance	Enacted May 2001
Port Hueneme, CA	Based on Oxnard proposal	Based on Oxnard proposal	City ordinance	Campaign underway in 2000. No recent activity reported.
Portland, ME	Not specified amount; must create 25 new jobs	Businesses that receive tax increment financing	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Portland, OR	July 1998 - $7.50; July 1999 - $8.00; Aug. 2000 - $8.00 w/benefits, $9.00 without	Contractors must pay service employees	City ordinance	Enacted in May 1996; amended April 1998
Portsmouth, NH	Not specified	Not specified	No formal proposal introduced to date	Campaign underway
Prince George's County, (vetoed)	"prevailing wage" $9.80	County contractors County contractors and companies that receive subsidies	County ordinance County ordinance	Passed by County Council in 1999, mayor vetoed; campaign restarted, but no recent activity reported
Providence, RI	$12.30 w/benefits; $16.32 without	City workers and contractors and grant recipients over $10K	City ordinance	Campaign underway in 2001

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LIVING WAGE PROPOSALS AND ORDINANCES

(Listed alphabetically by city)

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Provo, UT	Unspecified	Unspecified	No formal proposal introduced to date	In February 2001 Utah passed legislation restricting municipalities from setting wage rates different from the state.
Racine, WI	$7.50	City employees and city contractors	No formal proposal introduced to date	Study determining cost to city was due in 9/2000, no recent activity reported
Rapid City, SD	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Reno, NV	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Richmond, VA	Around $8.50 w/ benefits	Companies that receive assistance	No formal proposal introduced to date	Campaign underway in early 2000; No recent activity reported
Rochester, NY	$8.52 w/benefits; $9.52 without, indexed to inflation	Service contractors or recipients of assistance over $50K	City ordinance	Enacted in 2001
Rockland County, NY (vetoed)	$8.25 w/benefits; $9.50 without	County contractors	County ordinance	Ordinance passed September 2000; mayor vetoed, override unsuccessful in 11/2000
Sacramento, CA	$10.00 w/benefits; $12.84 without	Contractors and companies that receive assistance from the city	City ordinance	Campaign underway in 2001
Salem, OR	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Salt Lake City, UT	$8.00	Companies doing business with the city	No formal proposal introduced to date	In February 2000 Utah passed legislation restricting municipalities from setting wage rates different from the state.
San Antonio, TX	$9.27 to 70% of service employees in new jobs; $10.13 to 70% for durable goods workers $8.25	Businesses receiving tax break City employees	City ordinance Part of 2000 budget	Enacted July 1998 Enacted September 2000
San Diego, CA	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 2001
San Fernando, CA	$7.25 with benefits; $8:50 without; six compensated & six uncompensated days off	Service contractors >25K	City ordinance	Enacted April 2000
LOCALITY	**WAGE**	**APPLIES TO**	**TYPE OF PROPOSAL**	**STATUS**

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LIVING WAGE PROPOSALS AND ORDINANCES

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San Francisco, CA	$9.00 first year; $10.00 second year; 2.5% cost of living increase after that proposed expansion to include health coverage requirement	Contractors	City ordinance	Enacted in November 2000; campaign to expand to health coverage requirement began in 2001
San Jose, CA	$9.50 w/benefits; $10.75 w/out; also with "labor peace" measure that would make it easier for unions to organize	Contracts > $20,000, with some exemptions; also applies to some part-time city employees	City ordinance	Enacted in November 1998 Wage may be increased to $11.35 as part of the agreements surrounding new contracts at the San Jose Arena.
Santa Barbara, CA	$11 with health benefits or $12.25 without	Not specified	No formal proposal introduced to date	Campaign underway, April 2001
Santa Clara County, CA	$10 with health benefits or suitable alternative	Manufacturing businesses benefiting from tax abatements	County ordinance	Enacted September 1995
Santa Cruz, CA	$11.00 w/benefits, $12.00 without	City contractors and city workers; full-time only	City ordinance	Enacted October 2000
Santa Monica, CA	$10.50 w/benefits; $12.25 without benefits during the first year; $14.00 without benefits during the second year	All businesses with >50 employees located in the city's tourist center and grossing over $5 M	City ordinance	Enacted June 2001
Scranton, PA	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Seattle, WA	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Somerville, MA	$8.35	Covering all city employees; employees of city contractors and subcontractors	City Ordinance	Enacted May 1999
South Bend, IN	Around $10.00	Contractors and recipients of tax abatements	No formal proposal introduced to date	Campaign underway in 1/1999; study commission recommended not to proceed later in 7/2000. No recent activity reported.
Spokane, WA	$8.25	All city employees	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported

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St. Louis, MO	130% of federal poverty level for a family of three (currently $8.84 w/benefits; $10.23 without)	City contractors and businesses receiving tax breaks	Ballot Initiative	Enacted August 2000, debate continues over previously enacted state preemption statute.
St. Paul, MN	100% of federal poverty level for a family of four, plus benefits; 110% without benefits (currently $9.02 with benefits)	Contractors w/exceptions, companies receiving over $100K economic dev. assistance per year	City ordinance	Enacted January 1997, based on recommendations from the Joint Twin City Living Wage Task Force created after ballot initiative failed in 1995
Suffolk, NY	$9.00 w/benefits; $10.25 without	Contractors	City ordinance	Enacted in June 2001
Swarthmore (Swarthmore College), PA	Not specified	Not specified	No formal proposal introduced to date	Campaign underway in late 2000. No recent activity reported.
Syracuse, NY	Not specified	Not specified	No formal proposal introduced to date	Campaign underway in late 2000. No recent activity reported.
Tempe, AZ	Full health benefits	City Contractors	No formal proposal introduced to date	Campaign underway in 1999, No recent activity reported.
Topeka, KS	Not specified	Not specified	No formal proposal introduced to date	Campaign underwayin late 2000. No recent activity reported.
Travis County, TX	$8.50	County employees	County ordinance	Enacted in September 2000
Tucson, AZ	$8.00 w/benefits; $9.00 without benefits	City contractors, excluding construction workers and companies that hold a city franchise	City ordinance	Enacted September 1999
Utica, NY	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Valdosta, GA	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported
Ventura County, CA	$8.00 w/benefits; $10.00 w/o benefits	County contractors and recipients of >25K in assistance (full and part-time employees); board has approved the concept of a living wage	County ordinance	Enacted in 2001
Warren, MI	Equal to federal poverty level for family of four (currently $8.20 with benefits); 125% of federal poverty level without benefits ($10.25)	City contractors and companies receiving subsidies >50K	City ordinance	Enacted January 2000
Washington, DC	Not specified	Contractors	No formal proposal introduced to date	Campaign underway in 1998, no recent activity reported

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West Hollywood, CA	$7.25 w/benefits; $8.50 w/out benefits	Service contracts > $25K or > 3 months	City ordinance	Enacted September 1997
Williamsburg, VA	Not specified	Not yet available	No formal proposal introduced to date	Campaign underway in 1999, no recent activity reported
Ypsilanti, MI	$8.50 with benefits, $10.00 without	Businesses with contractors > $5K; under-10 employee businesses exempted, but non-profits with > $10K in aid	City ordinance	Enacted May 1999
Ypsilanti Township, MI	$8.50 with benefits, $10.00 without	Businesses with contractors > $5K; under-10 employee businesses exempted, but non-profits with > $10K in aid	City ordinance	Enacted June 1999

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