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# LIVING WAGE

## Policy

# The BASICS

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- *Find out how the living wage movement can affect poverty.*
- *Find out how the living wage movement can affect your city.*
- *Find out how the living wage movement can affect the economy.*

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## **The BASICS**

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# **Section One: What Is the Living Wage?**

## What You Need to Know from Section One

- ▶ The “living wage” campaign is an organized effort to force employers to pay wage rates based on some definition of “need” rather than “skills.”
- ▶ In the beginning, living wage ordinances applied only to companies that provided contracted services for a city or county.
- ▶ As the scope of the living wage coverage widened, the proposed living wage rates skyrocketed to \$11, \$12, even \$15 an hour.
- ▶ Living wage activists want nothing less than a national living wage.
- ▶ Labor unions hope that by increasing the private sector’s labor costs, the living wage can reduce the privatization of public sector jobs.
- ▶ Government has the power to mandate minimum wages, but despite the best of intentions, it cannot force employers to hire the unskilled and inexperienced at wages that exceed their skill level.

# Section One

## Preface

The “living wage” movement has captured the hearts of many policy makers.

Unfortunately, their minds have lagged dangerously behind.

Thrust into the public forum by the AFL-CIO, the New Party and the Association of Community Organizations for Reform Now (ACORN), the living wage movement is now being debated and has been adopted in dozens of cities and counties across the nation. More often than not, lawmakers are considering “utopian” minimum wage rates of \$10 to \$15 an hour with little regard for the consequences of their decision.



One reason for the movement’s apparent success is the lack of unbiased research on this new phenomenon. While several studies claim living wage laws are the policy equivalent of cold fusion (unlimited benefits without any cost), each of those was conducted by self-professed living wage activists (see page 11).

Today, more than ever, there is a critical need to understand that a mandated wage hike is a double-edged sword. The combination of higher minimum wages and welfare reform freezes low-skilled job applicants out of the private-sector job market, denying them work experience and training while their support benefits have eroded.

Despite their best effort to cast the living wage in a “needs-based” light, there is one market principle that can’t be legislated otherwise: skills equal wages. Individuals who use entry-level jobs to gain basic skills move on to higher-paying work. By contrast, the unskilled employees who are supposed to “benefit” from a government-mandated pay raise often face fewer employment opportunities as a result of it.

Government has the power to mandate minimum wages, but despite the best intentions, it cannot force employers to hire the unskilled and inexperienced at wages that exceed their skill level.

The Employment Policies Institute prepared this document to help lawmakers, the media and the public better understand the living wage movement by weighing the emotional rhetoric of living wage proponents against economic realities.



## What Is a “Living Wage” Campaign?

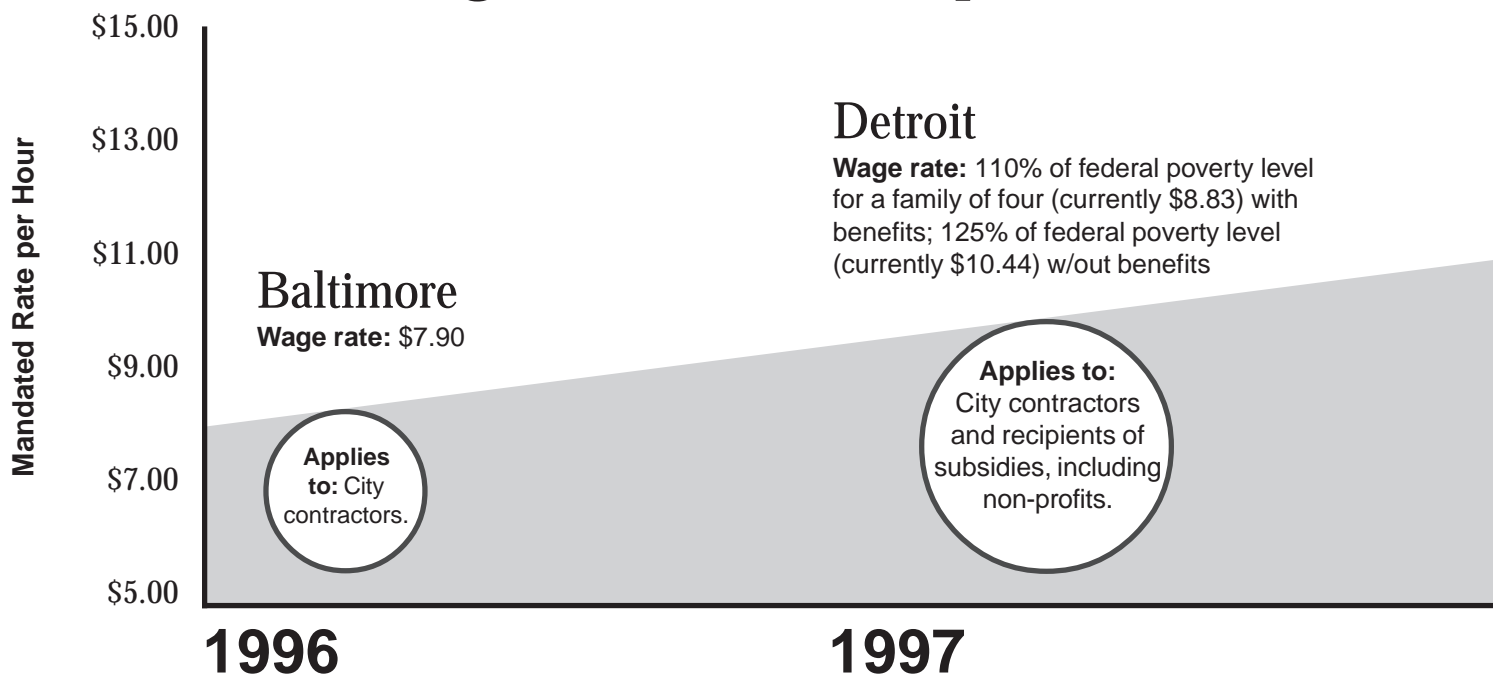


The living wage campaign is an organized effort to force certain employers to pay wage rates based on some definition of “need” rather than “skills.” The proposed wage rates are usually designed to lift an individual worker’s wage to some point above the federal poverty level for a family of four. Typically, living wage proponents demand wages of \$10 to \$15 an hour, often with a full benefits package and a paid vacation, a far cry above the current national minimum wage of \$5.15 an hour.

When it started in 1994, living wage ordinances applied only to companies that provided contracted services for a city or county (such as landscaping public grounds, providing “meals on wheels” to senior citizens or busing children to public schools). Private companies that benefited from being paid with public tax dollars, living wage proponents argued, should be made to pay “living wage” labor rates.

The Baltimore living wage, the first such law enacted by a major city, required companies that provided contracted services for the city of Baltimore to pay their employees a living wage of \$7.90 an hour by 1999, and thereafter adjusted to inflation. Because most of the affected companies were able to pass their increased labor costs directly back to their customer, the city of Baltimore — which could absorb the relatively small hit to its budget — there was little outcry from the affected businesses.

## Living Wage Campaigns: Increasing in Cost and Scope



Buoyed by this “success,” living wage activists quickly expanded their target in other cities. They sought coverage of living wage laws to include companies that had received tax abatements, or incentive grants or that lease property from a city or county. Many businesses, whose “customer” was the general public — and NOT the city or county government — were now required to pay “living wage” rates to their employees, yet they were unable to “pass along” the cost of the mandated increase to the government body that mandated them.

In 1999, living wage activists in Santa Monica dispensed with any public-money criteria and proposed mandating a \$10.69-an-hour minimum wage (plus 24 days of paid vacation) for any company with 50 or more employees doing business within a designated tourist area.<sup>1</sup>

As the scope of the living wage coverage widened, the proposed living wage rates skyrocketed to \$11, \$12, even \$15 an hour, plus full benefits packages for what were heretofore entry-level jobs. One group, Wider Opportunities for Women, recommended a \$48,000 living wage for a single parent with two children living in Washington, DC. That works out to \$24 per hour — if the parent works full-time.<sup>2</sup>



For a regularly updated list of living wage proposals and the extent of their coverage visit [www.LivingWage.org](http://www.LivingWage.org).

## San Francisco

**Wage Rate:** up to \$11.00

### Applies to:

Contractors, recipients of subsidies, including non-profits, leaseholders on city-owned properties.

## Santa Monica

**Wage Rate:** \$10.69 plus 24 days of paid vacation

### Applies to:

All businesses with 50 or more employees in the coastal tourist zone.

1998

1999

2000



## The Ultimate Goal

How far will they go? The most ardent living wage activists have made it clear that they want nothing less than a national living wage.

“Let us consider, then, a more ambitious aim: to create a living wage policy with... a national scope.”<sup>3</sup>

Robert Pollin

“The viability of living wage proposals, whether applied to government contractors alone or to all companies in a region, invites consideration of an even more ambitious proposal of a national living wage.”<sup>4</sup>

Robert Pollin

The Nation, November 23, 1998

“What is needed, as a logical next step, is for the livable-wage demand to be framed at the national level.”<sup>5</sup>

Adolph Reed, Jr., Labor Party  
The Village Voice, February 11, 1997

“I would like to move [the national minimum wage] as quickly as possible to a higher level. I believe in a living wage for all Americans. And to the extent that we can move the ball forward in this debate to \$6.15 or above, we will continue to push. If we can get higher, we’ll go higher.”<sup>6</sup>

Rep. David Bonior (D-MI)  
September 23, 1999

## Who Is Behind the Living Wage Movement and Why?

Although living wage proponents go out of their way to portray each campaign as a “local, grassroots effort,” the facts prove otherwise.



“The New Party and ACORN are the two national organizations outside of the union movement that have been particularly active in promoting the living wage movement.”<sup>7</sup>

Robert Pollin

According to their own literature, the AFL-CIO is working with the New Party (an affiliation of labor union organizers, academics and community activists), and ACORN (The Association of Community Organizations for Reform Now) on a national campaign to mandate local living wage laws. Their original intent had been to circumvent what they thought would be an unsympathetic Congress by passing wage-hike mandates on the local level. The strategy proved successful.



“The living-wage movement...emerged primarily at the level of municipal politics because organizers correctly assessed that their efforts have a greater chance of success when they attempt to change municipal laws rather than those of states or the federal government.”<sup>8</sup>

Robert Pollin

The Nation, November 23, 1998



The New Party’s Web site ([www.newparty.org](http://www.newparty.org)) boasts they “helped elect Phil Andrews,” the Montgomery County, MD, councilman who introduced the living wage ordinance in that Washington, DC, suburb. “We now have 4 members on the 9-person council and are fighting to win an ambitious Living Wage and Responsible Development ordinance. We’re doing the same thing in other cities across the country — from Chicago to Missoula, Long Island to Minneapolis,” according to their Web site.<sup>9</sup>

“We’re looking in the short term to take over certain turfs.... There’s no better way to build a political movement in America than to run a city.”<sup>10</sup>

Adam Glickman, New Party Communications Director

In These Times Magazine, November 14, 1999

“Imagine a training academy for X-thousand people we recruit to run for school boards, city councils and county boards.... Imagine running these candidates for local office...on the condition that they adhere to the program or we’ll run someone against them next time. The New Party has been running candidates principally in these sorts of races over the past few years...[and] we’ve elected two-thirds of the 150 candidates we’ve put up.”<sup>11</sup>

Joel Rogers, Founder and National Chair of the New Party

The Nation, November 18, 1996

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## Does the New Party “Seed” Local Communities?

Ask Tom Hucker. Tom Hucker has organized rallies in support of living wage laws at several city council meetings — which often feature New Party member Robert Pollin testifying as an independent economist in favor of the living wage bills. But exactly who is Tom Hucker?

- The Washington Post says Tom Hucker is “executive director of Progressive Montgomery (MD), chief organizer of the living wage campaign”<sup>12</sup> (July 14, 1999).
  - The Minneapolis Star Tribune called Hucker “an organizer with Progressive Minnesota, which orchestrated intensive lobbying [for the living wage there]”<sup>13</sup> (December 19, 1998).
  - In 1995, The Minneapolis Star Tribune said Hucker was “a spokesman for the Campaign for Jobs and a Fair Wage,” the group pushing for St. Paul’s living wage ordinance<sup>14</sup> (October 6, 1995).
  - The National Journal described Hucker simply as “New Party spokesman”<sup>15</sup> (May 3, 1997).
-

## Who Is Robert Pollin?



In his testimony at public hearings on the living wage, Robert Pollin portrays himself as an impartial economist whose research suggests that the benefits of living wage laws outweigh the negatives. A closer look shows that Pollin is not as disinterested as he says. The November 1996 issue of *Progressive* magazine describes him as an “active member” of the New Party.<sup>16</sup> His own resume says he was an advisor to the Los Angeles Living Wage Coalition in 1996–1997 and is currently a research associate for the Economic Policy Institute, the union-funded organization that is intimately linked to the national living wage campaign. It should come as no surprise, then, that Pollin wrote the book on the subject (*The Living Wage: Building a Fair Economy*, The New Press, 1998).<sup>17</sup>

Pollin has become the leading spokesman for the living wage movement, testifying before city councils from Montgomery County, MD, to Los Angeles, CA. Despite his active role as a living wage proponent, he and his associates have conducted a number of “impartial” living wage studies for major cities and counties (see chart, page 13).

Pollin’s book, *The Living Wage: Building a Fair Economy*, is based on the living wage research he did while an advisor to the Los Angeles Living Wage Coalition. In it, Pollin concedes “the overriding concern with which we began was not how to raise wages only for a small group of urban low-wage workers” but to lay the groundwork for a national living wage.

Pollin served on the National Steering Committee of the Union for Radical Political Economists and was a member of their governing board (1985–1996).



“In general, says a spokesman [for the Union of Radical Political Economists], the radicals support an American version of socialism, with public ownership of production and a government-planned economy to meet social needs rather than the needs of private profit.”<sup>18</sup>

U.S. News & World Report, April 26, 1982

## Union Self-Interest



The labor unions have been very clear about why they are actively promoting living wage campaigns. They hope that by increasing the private sector's labor costs, the living wage can reduce the privatization of public-sector jobs.

"We fight for these people, to bring up their wages, benefits and health care, first because it's good for them, but also so they're not in direct competition with folks in the public sector."<sup>19</sup>

Gerald McEntee, President of the American Federation of State, County and Municipal Employees and Chairman of the labor-funded Economic Policy Institute  
Governing Magazine, December 1998

"Forcing private firms with city contracts to pay living wages at least weakens the incentive for cities" to privatize contracts.<sup>20</sup>

Robert Pollin  
The Nation, November 23, 1998

According to Madeline Janis-Aparicio, director of the Los Angeles Living Wage Coalition, one of the goals of the living wage campaign is "to develop a tool for union organizing and to promote successful organizing actions."<sup>21</sup>

Robert Pollin



"Since John Sweeney took over as president of the AFL-CIO, the national labor movement has embraced the living wage campaign....Living-wage legislation at the city level not only raises earnings of low-wage workers; it also discourages privatizations."<sup>22</sup>

Robert Kuttner, Co-Founder of the Economic Policy Institute  
The Washington Post, August 20, 1997

"Living wage campaigns are part of an overall strategy that leads to organizing gains for new workers. In several cities — Los Angeles and San Jose, California, for example — living wage ordinances contain provisions that may help level the playing field between unions and companies, potentially enhancing union organizing among workers."<sup>23</sup>

AFL-CIO's America@Work, August 1999



## Who's Watching the Watchdogs?

Many living wage mandates call for the creation of “Living Wage Advisory Committees” to oversee the implementation of the law. Often, representatives from both ACORN and the AFL-CIO are specifically required by the living wage mandate to sit on the Committee where they have complete access to employers’ payroll information, despite the fact that both groups have acknowledged intent to also unionize workers.

### The Boston Jobs and Living Wage Ordinance (see page 77 for full Boston ordinance) Section 7: Living Wage Advisory Committee

b) Composition and Term. The Living Wage Advisory Committee shall be comprised of seven members who shall be appointed by the Mayor:

- i) One member of the committee shall be a labor union member appointed by the Mayor from a list of three nominees recommended by the Massachusetts AFL-CIO;
- ii) One member of the committee shall be a member of the Association of Community Organizations for Reform Now (ACORN) appointed by the Mayor from a list of three nominees recommended by ACORN;
- iii) One member of a community-based organization operating solely within the City of Boston.<sup>24</sup>



### ACORN's Embarrassing Court Case

While pushing business to pay employees more, ACORN believes its workers should receive less, so they can better relate to the poor. In 1996, these champions of higher wages filed suit in California to escape compliance with a then-\$4.25 hourly minimum wage.<sup>25</sup>



While trying to skirt California's wage and hour laws, ACORN told an appeals court that “A person paid limited sums of money will be in a better position to empathize with and relate to the low and moderate [income] membership and constituency of ACORN.” The presiding judge characterized this argument as “absurd.”<sup>26</sup>

ACORN's legal brief stumbled upon a couple of nuggets of truth. “California's minimum-wage laws...affect the quality and quantity of staff which Plaintiff can retain,” stated the group, continuing, “the more that ACORN must pay each individual outreach worker...the fewer outreach workers it will be able to hire.”<sup>27</sup>

## **Section Two: Living Wage Research**



## What You Need to Know from Section Two

- ▶ All of the research conducted by independent economists report that the living wage laws have adverse economic consequences.
- ▶ Raising the minimum wage to a living wage is a very blunt instrument for fighting poverty, since low-wage workers are not always from low-income families.
- ▶ Currently employed low-wage workers may be displaced by better-qualified workers following the enactment of living wage laws.
- ▶ Living wage hikes fail to accomplish their principal policy goal of raising incomes of poor or low-income families.

# Section Two

## Living Wage Research

There are two categories of living wage research: Those studies conducted by self-identified living wage advocates and those conducted by impartial economists. Not surprisingly, only those conducted by living wage proponents conclude there are no ill effects associated with these “super minimum wage” mandates.

All of the research conducted by independent economists, on the other hand, report that the living wage laws have negative economic consequences.

### Pro-Living Wage Research



#### **“Economic Analysis of the Los Angeles Living Wage” (“Pollin’s Los Angeles Report”)**

Author: Dr. Robert Pollin

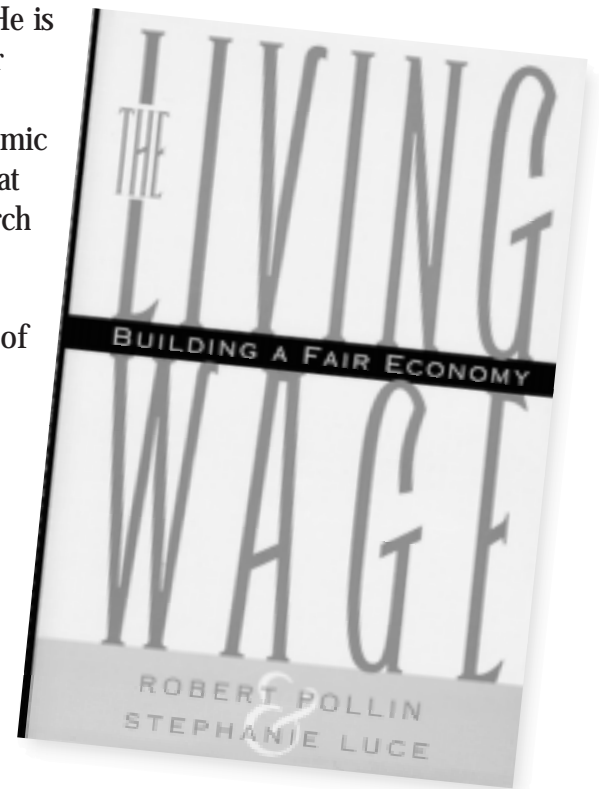
University of California–Riverside, October 1996

This is the root of virtually all of the pro-living wage research. Written by unabashed living wage proponent Robert Pollin, this report claims that there are no economic ill effects of the living wage ordinance on affected employers, their employees or the City of Los Angeles.



Robert Pollin’s affiliations reveal his prior bias. He is an active member of the New Party and the Labor Party; an advisor to the Los Angeles Living Wage Coalition; and a research associate for the Economic Policy Institute, the union-funded organization that has published a number of pro-living wage research reports (see “Who Is Robert Pollin?” page 6).

His 1996 report — which served as the basis of his book, *The Living Wage: Building a Fair Economy* – had a tremendous impact on all subsequent pro-living wage “research” and even served as the model for three such studies (see “How Similar Are the Detroit and Miami-Dade Reports?” page 14).



His Los Angeles report was co-written by Mark Weisbrot and Michelle Sforza-Roderick, the duo from the Preamble Center for Public Policy who went on to write the fatally flawed Baltimore study (see “Anatomy of a Scam” page 15).

In his book, Pollin — the most prominent supporter of the living wage movement in the nation — speculates about a national living wage policy that would be funded by a tax on the “wealthiest 20 percent of households.”<sup>28</sup> His repeated claims of impartiality must be taken with a grain of salt. (For an analysis of some of the methodological concerns about Pollin’s report, see “Neumark on Pollin,” page 24.)

## Pollin-ation — Robert Pollin’s Influence on Three Living Wage Studies



### **“The Impact of a Living Wage Ordinance on Miami-Dade County” (“Miami-Dade”)**

Author: Dr. Bruce Nissen  
Center for Labor Research & Studies, Florida International University,  
October 1998

### **“The Impact of the Detroit Living Wage Ordinance” (“Detroit”)**

Author: Dr. David Reynolds  
Center for Urban Studies & Labor Studies Center  
Wayne State University, September 1999

### **“Economic Analysis of the New Orleans Minimum Wage Proposal” (“New Orleans”)**

Authors: Dr. Robert Pollin, Mark Brenner, Stephanie Luce  
Political Economy Research Institute, University of Massachusetts,  
Amherst, July 1999

In an apparent effort to most efficiently replicate Robert Pollin’s pro-living wage “research,” researcher David Reynolds (Wayne State University) rewrote almost word-for-word a pro-living wage study done by Bruce Nissen of Florida International University. Nissen, for his part, based his report on Pollin’s book, which Nissen says Pollin provided “prior to its publication.”

Reynolds stated in his Executive Summary: “[Pollin’s] method has been standardized and used to evaluate living wage ordinances for such municipalities as New Orleans and Miami-Dade County.”<sup>29</sup>

In his Acknowledgments, Reynolds wrote:

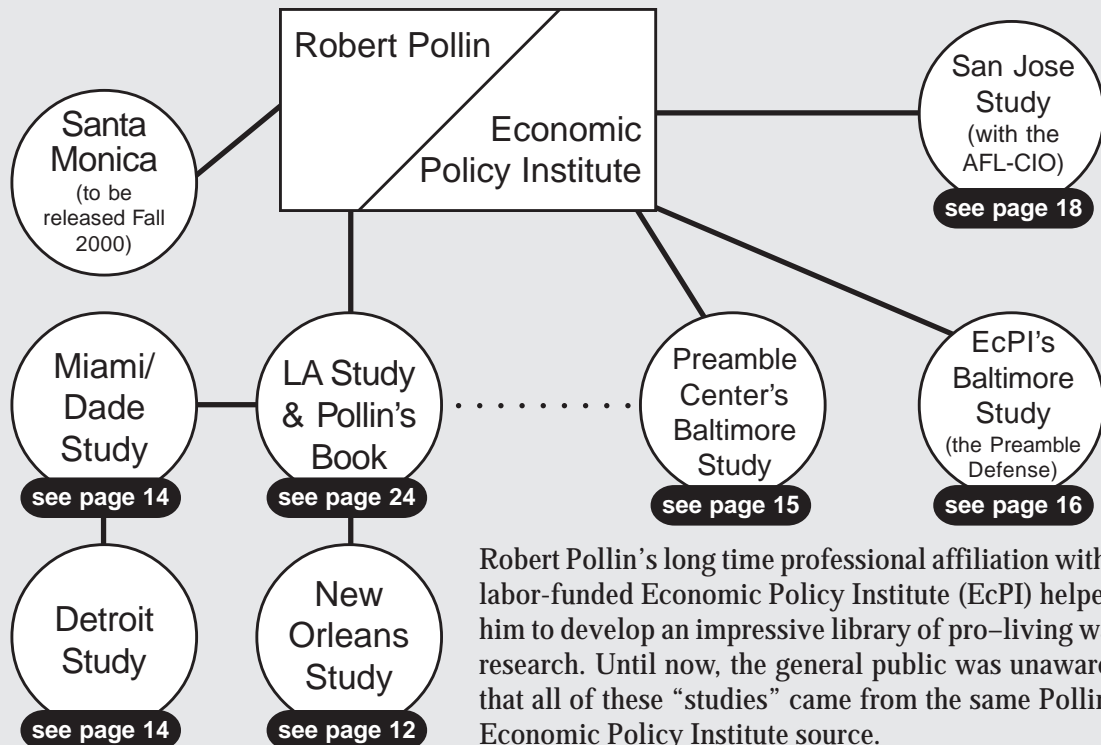
“The authors of this report wishes [sic] to acknowledge an enormous debt of gratitude to Professor Pollin and Stephanie Luce [co-authors of *The Living Wage: Building a Fair Economy*]....Robert Pollin first developed the methodology used in this study and generously shared his material with us. Also thanks to Bruce Nissen for...providing an electronic version [of his Miami study] easily adaptable for this report.”<sup>30</sup>

In the Acknowledgments of his pro-living wage report (Miami-Dade), Nissen wrote: “Professor Robert Pollin...was also very helpful when he provided a manuscript copy of his book *The Living Wage: Building a Fair Economy* (1998) to the author prior to its commercial publication. Professor Pollin’s book was very useful in the preparation of this report.”<sup>31</sup>

It is safe to assume Robert Pollin’s earlier work was the basis for the study of the impact of the living wage on New Orleans because Pollin, himself, wrote that one.



## A Pro-Living Wage Research Flow Chart



## Who Is David Reynolds?



“David Reynolds...worked as a consultant to the Detroit Living Wage Campaign and is on the steering committee of the Washtenaw Coalition for a Living Wage. Reynolds has a Ph.D. from Cornell University and has worked as a union organizer, a writer for the UAW’s national publication *Solidarity*, and a lecturer in Political Science.”<sup>32</sup>

Living Wage Campaigns: An Activist’s Guide to  
Building the Movement for Economic Justice  
David Reynolds and ACORN

## How Similar Are the Detroit and Miami-Dade Reports? See for yourself:

### **Detroit – Wayne State University** (by David Reynolds) —

It would be expected the living wage law would encourage contractors and firms using city financial assistance to become the premier firms in their industries. With better wages and health care coverage, they should attract and retain the best workers, have the most productive workforce and, over time, deliver the highest quality of services....Nevertheless, wage increases and the newly offered health care benefits will likely result in a higher caliber of worker and measurable increases in efficiency at some level.<sup>33</sup>



### **Miami-Dade – Florida International University** (by Bruce Nissen) —

One would expect county contractors, after passage of a living wage ordinance, to become the “Cadillac” firms in their industries. With their high wages and health care coverage, they should attract and keep the best workers, have the most productive workforce and, over time, deliver the highest quality of services. ...Nevertheless, one can somewhat confidently predict that the wage increases and the newly offered health care benefits will result in a higher caliber of worker and measurable increases in efficiency.<sup>34</sup>  
(Emphasis added.) (For more on the “displacement effect,” see page 31.)

## The Baltimore Studies

Living wage proponents invariably cite two studies of Baltimore's experience with the living wage as evidence that the law has no economic downside and may actually have a positive effect on the affected employers, employees and the local economy. But obvious bias and numerous fatal flaws in methodology uncovered by the Employment Policies Institute render these studies unusable.



### **“Baltimore’s Living Wage Law: An Analysis of the Fiscal and Economic Costs of Baltimore City Ordinance 442” (“Preamble’s Baltimore Report”)**

Authors: Dr. Mark Weisbrot and Michelle Sforza-Roderick,  
Preamble Center for Public Policy, October 1996

### **Anatomy of a Scam — Employment Policies Institute Critique of Preamble Report**

To make their case that Baltimore's living wage ordinance had no negative effects, the Preamble Center looked at 23 city contracts before and after the implementation of the living wage law. In 18 of the 23 before-and-after contract pairs they reviewed, the Preamble Center either reported incorrect numbers or fabricated information. One contract pair – the “Nutritional Meals Program Management” – contains four egregious misrepresentations. Interestingly, Preamble's entire conclusion hinged on this contract pair. Without it, their results were reversed. Could that explain the following “errors” in their report?

1. Preamble says the 1994 “Meals” contract (BP-94025) was for \$2,523,069.12.  
► But the contract award memo for BP-94025 says the amount was \$4,415,370.96.<sup>35</sup>
2. Preamble says the 1994 “Meals” contract received 3 bids.  
► But the contract award memo says only one bid was received.<sup>36</sup>
3. In order to hide the fact that the 1995 “Meals” contract was an extension of the 1994 contract, Preamble changed the name of the contract from “BP-94025 Extension” to “BP-95025.” That contract does not exist in any official records. Presumably, Preamble created the name because they knew that contract extensions were not subject to living wage laws (a fact they acknowledge on page 6 of their own report).<sup>37</sup>
4. Preamble tried to enhance their fabrication by reporting that phantom contract BP-95025 received two bids.  
► But, of course, that's impossible since BP-95025 does not exist. Further, the contract award memo states that the real 1995 contract (BP-94025 Extension) was never put out for bids.<sup>38</sup>



For a full copy of this report, visit [www.LivingWage.org](http://www.LivingWage.org).

**“It could be they got better information.”**<sup>39</sup>

Mark Weisbrot, commenting on the  
Employment Policies Institute’s critique of his living wage study,  
The Washington Times, October 21, 1998



**“The Effects of the Living Wage in Baltimore”  
 (“EcPI’s Baltimore Report”)**

Author: Erica Schoenberger  
Economic Policy Institute, February 1999

Shortly after EPI released its criticism of Preamble’s Baltimore study, “members of the Department of Geography and Environmental Engineering” at Johns Hopkins University came to Preamble’s defense with their own report of Baltimore’s living wage ordinance. It’s interesting to note that this report was published by the union-funded Economic Policy Institute, which also employed Preamble director Mark Weisbrot as a research associate when he wrote the Baltimore report. The EcPI report had a number of other peculiar qualities.

► For example, the authors argued at length that Baltimore’s school bus aides were not being given enough hours to work. According to their estimates, school bus aides worked only an average of 2.8 hours a day, instead of the 4 to 6 hours a day EcPI suggested they should be working. But their average of 2.8 hours per day included some employees (12.5% of the survey population) who worked fewer than 50 hours for the entire year (thus “averaging” fewer than 17 minutes of work a day).<sup>40</sup>

► EcPI also suggested that “[g]reater attention must be paid to the issue of hours worked and whether it would be possible to draw work hours into the living wage equation” because “[o]n an annualized basis, the majority of bus aides average no more than 25% of a full year’s work.” Taken at face value, EcPI is arguing for a \$31.60 an hour wage for Baltimore’s bus aides (Baltimore’s current \$7.90-an-hour-living wage multiplied by 4).<sup>41</sup>

► Interestingly, EcPI acknowledged that they found most of the 26 living wage employees they interviewed for this report “through the Solidarity Sponsoring Committee (SSC),” which they called “an advocacy and training organization that has promoted the living wage in Baltimore.” What they didn’t explain was that SSC is a local of the American Federation of State, County and Municipal Employees, a large union representing government employees and a major contributor to EcPI.<sup>42</sup>

► EcPI did make one valid point. “The city,” they wrote, “has an interest in ensuring that the role of bus aide is performed as well as possible. One of the justifications for paying a living wage is that it will attract good workers and encourage them to provide high-quality services.” While this does benefit the city, it obviously hurts the low-skilled employee displaced from her job.<sup>43</sup>



## Michael Reich Studies (University of California–Berkeley)



### **“Living Wages and the San Francisco Economy:**

#### **The Benefits and the Costs” (“San Francisco”)**

Authors: Dr. Michael Reich, Peter Hall and Fiona Hsu, June 1999

### **“Living Wages at the Airport and Port of San Francisco:**

#### **The Benefits and the Costs” (“Port of San Francisco”)**

Authors: Dr. Michael Reich and Peter Hall, October 1999

### **“Living Wages at the Port of Oakland,” (“Port of Oakland”)**

Authors: Dr. Carol Zabin, Dr. Michael Reich and Peter Hall, December 1999

Michael Reich has released three studies through the Institute for Industrial Relations at Berkeley. The Institute not only supports the union perspective, but brings together union activists and their student researchers. Reich was a member of the Union for Radical Political Economists (Pollin’s group) and has dedicated a textbook he wrote to Karl Marx.

Despite his well-known bias, Reich concedes the least-skilled workers risk job loss by being crowded out by higher-skilled employees following the implementation of living wage laws. Listen to Reich:



“Productivity is also known to respond to wage increases, as recent economic theory and research findings have emphasized....Some of the [productivity] increase can arise because new hires may come from a more experienced or skilled labor pool.”<sup>44</sup>



## **San Francisco Examiner**

JUNE 10, 1999

According to the UC-Berkeley study, which was conducted by economist Michael Reich and backed by labor interests, the ordinance would cost the city an estimated \$32 million....<sup>45</sup>

## **San Francisco Chronicle**

JUNE 11, 1999

### **Ammiano Embraces Positive Living-Wage Study**

A study prepared by a radical economist at the University of California at Berkeley said yesterday that San Francisco’s proposed living-wage law would cost the city \$32 million at the outset....<sup>46</sup>



## Further Union Involvement in Living Wage Research



### **“Living Wage: An Opportunity for San Jose” (“San Jose”)**

Author: Working Partnerships USA (AFL-CIO), August 1998

This report, endorsed by the mayor of San Jose, is nothing more than a summary of pro-living wage research, including Pollin’s Los Angeles Report, Preamble’s Baltimore Report and several reports published by the Economic Policy Institute.

Working Partnerships USA is the AFL-CIO’s Silicon Valley office, created by the South Bay AFL-CIO in 1995. Amy Dean is the founding director of Working Partnerships USA and the executive officer for the South Bay AFL-CIO, the 15th largest AFL-CIO regional affiliate in the country.

It is notable only in its flagrant pro-union perspective, as the following excerpt reveals:

### Recommendations for a Living Wage Ordinance: Exemptions

1. An application for a Living Wage ordinance waiver should be available to employers who meet the following criteria:

- a) A first-year business with fewer than five employees.
- b) Non-profit organizations.
- c) The employer is currently in a collective bargaining agreement with a labor union.<sup>47</sup>



It’s interesting to note that more than a dozen living wage proposals contain similar language exempting companies that enter into collective bargaining agreements. Why? According to ACORN, such exemptions are useful in union organizing.



A living wage ordinance, they declare on their Web site, “encourages unionization by allowing collective bargaining agreements to supersede requirements.”<sup>48</sup> (link to their Web site through [www.LivingWage.org](http://www.LivingWage.org))

# Impartial Living Wage Research

A number of studies commissioned by cities or counties that were considering living wage ordinances looked at the proposed laws with impartiality. Some were commissioned simply to assess the costs of the mandate; others were asked to make specific recommendations.

Every one featured specific concerns about the economic or employment impact of the living wage mandates.

## The Chicago Study



### **“Economic Analysis of a Living Wage Ordinance”**

Authors: Dr. George Tolley, University of Chicago  
 Dr. Peter Bernstein, DePaul University  
 Michael Lesage, RCF Economic & Financial Consulting,  
 July 1996

This study was requested by the Chicago City Council when it first considered a living wage ordinance for employees of city contractors and firms that received municipal tax breaks.

According to Dr. Tolley, Chicago’s proposed 1996 living wage would have cost affected employers nearly \$40 million a year and resulted in the loss of at least 1,300 jobs. In addition, the ordinance would have cost the city an additional \$20 million a year with more than 20%, or \$4.2 million, going to administrative costs.<sup>49</sup>

The proposal would have cost more than \$7,000 per employee, yet an affected full-time worker supporting her family would see disposable income rise by only \$1,900 under the ordinance (if she were not among those losing their job).<sup>50</sup>

When presented with these facts, the Chicago City Council shelved the living wage proposal until 1998, when it passed for political reasons.



For a full copy of this report please visit [www.LivingWage.org](http://www.LivingWage.org).

## The Vermont Study



### **“Act 21 Research and Analysis for the Legislative Livable Income Study Committee”**

Authors: Thomas Kavet, Deborah Brighton,  
Douglas Hoffer, and Elaine McCrate  
Vermont State Legislature, November 1999

This study, prepared for the Vermont State Legislature Livable Income Study Committee, found that the proposed living wage bill had serious unintended effects.

#### Vermont’s Living Wage and Job Loss:

“Vermont’s use of the minimum wage to achieve anything close to an ‘average’ livable wage has serious drawbacks that limit its efficacy in achieving the overall objective of a livable income for all working Vermonters.



“Minimum wage increases that even approach an average livable wage would result in significantly fewer jobs for low-wage workers. A substantial increase in the relative cost of labor will result in a reduction in the amount of labor used....

“A state can mandate the minimum wage an employer must pay, but it cannot mandate the minimum number of workers an employer hires or the minimum numbers of hours they work. A small state such as Vermont cannot expect to sustain a pronounced variation with the U.S. minimum wage without counterproductive economic consequences.”<sup>51</sup>

#### Vermont’s Living Wage and Marginal Tax Rates:

“Earned income growth among the lowest income workers can result in precipitous state and federal public benefit reductions, substantially offsetting and in some cases completely negating gains in net family income. This may leave some low income families with little or no economic gain and can also result in economic costs to the state from the loss of inflexible federal transfer payments.”<sup>52</sup>

“[I]t is important to recognize that there are about 8,000 families [in Vermont] whose rent is being partially paid with federal Section 8 subsidies....When Section 8 subsidies are combined with other benefits shown in the graphs, these families may see a decrease in income of over \$1.30 for every \$1 gained in wages.”<sup>53</sup> (Emphasis theirs.) (For more on the “marginal tax rate effect” see page 57.)

## The San Francisco State Study



### **“The Living Wage in San Francisco — Analysis of Economic Impact, Administrative and Policy Issues”**

Author: Susan Alunan  
San Francisco Urban Institute –  
San Francisco State University, October 1999

A proposal to mandate an \$11.00 an hour living wage (plus benefits) was slowed (temporarily) when an independent analysis of the bill showed it would cost contractors, firms leasing property from the city, non profit organizations and the City of San Francisco nearly \$255 million dollars.



## **San Francisco Chronicle**

OCTOBER 8, 1999

**Huge Price Tag Put on S.F. Living Wage Plan**  
San Francisco’s living wage proposal would cost the city and private businesses more than a quarter-billion dollars a year, a city-commissioned study estimated yesterday.<sup>54</sup>

In addition, the San Francisco State University researchers found:

- “Only 9% of the employees covered by the ordinance live in households with only one adult, while fully 46% live in households with 3 or more adults.”<sup>55</sup>
- “We anticipate conservatively an initial job loss of 1,790 between both the Contractor and Leaseholder sides.” And while many would be re-employed in the entry-level (non-living wage) labor market, they project that “510 would remain unemployed.”<sup>56</sup>

They also found significant “displacement” of low-skilled employees.



“There is, however, another possible job ‘loss’ effect worth noting....If there are wage increases for just over 15,000 workers on current city contracts, there will be significant new competition for these (relatively) well-paying jobs from others in the labor market. It is reasonable to expect that employers will find a wider pool of better qualified (in formal terms) applicants for these jobs. Thus, currently employed low-wage workers may be displaced by better-qualified workers at the higher wage, independent of the job loss predicted above.”<sup>57</sup> (Emphasis added.)

Finally, they countered persistent claims by Michael Reich and other living wage advocates that small businesses could absorb the labor cost increases.

“Professor Reich and others have argued that for-profit employers have the ability to absorb part of their increased costs, up to two-thirds. We do not have the available metrics to agree with this, though we agree that it would be equally abstract to argue that there will be no cost absorption by for-profit firms....We think absorption is unlikely, however, for the smaller for-profit firms.”<sup>58</sup>

## The UCLA Los Angeles Study

### “An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance”

Authors: Dr. Richard H. Sander, UCLA

Dr. E. Douglass Williams, Carleton College, January 1997



The “displacement” effect was noted by Dr. Sander in his analysis of the Los Angeles living wage proposal. In fact, because of this and other drawbacks to the proposal, he suggested reducing the scope of the living wage and encouraging the use of the Earned Income Tax Credit (EITC) to minimize the negative impact.

Following is a sampling of his concerns about LA’s living wage proposal.

“It has been well established by labor economists that raising the minimum wage is a very blunt instrument for fighting poverty, since low-wage workers are not always from low-income families.”<sup>59</sup>

“Higher wages and benefits enable employers to recruit workers with stronger skills to the jobs affected by the Ordinance.”<sup>60</sup>

### Recommendations

“In the debate over the Living Wage concept, an important option that has been overlooked is the federal Earned Income Tax Credit (EITC)....From the City’s standpoint, the enormous advantage of an EITC over a Living Wage is that the EITC brings more outside funds into the metropolitan area, while a Living Wage tends to reduce the inflow of outside benefits and increases the outflow of taxes. Moreover, from a policy standpoint, the EITC is perfectly targeted at the neediest population: all of its benefits go to low-income families, and none of the EITC income is taken into account in determining the recipient’s eligibility for other means-tested benefits.”<sup>61</sup>

“It is also well established that employers gradually change the composition of their workforce when wages go up. This, again, is common-sensical: if a job suddenly pays more, then when employers advertise an opening, they will get more applicants and applicants with stronger credentials — more years of schooling, more relevant experience, and so on.”<sup>62</sup>

“[A] majority of low-wage workers are not the sole or even principal source of income in their household or family. Of those low-wage workers who do not live alone, less than one-quarter are the only wage earner in the family. The average low-wage worker’s earnings make up less than one-third of the family’s total income. As a result, most low-wage workers do not live in families that are below the poverty line.”<sup>63</sup>

“A non-trivial number of covered workers would lose their jobs when the Ordinance’s mandated wage and benefit increases went into effect, but most of these workers would find new jobs in what we have called the “secondary market” [jobs not covered by the ordinance].”<sup>64</sup>

## The Michigan State University Living Wage Study

### “Do Living Wage Ordinances Reduce Urban Poverty?”

Authors: Dr. David Neumark and Scott Adams

Michigan State University, March 2000



While Dr. Neumark concludes that living wage laws “may help to achieve modest reductions in urban poverty,” he has significant concerns about its impact on low-skilled adults and their employers.<sup>65</sup>

“[D]epending on the good or service under consideration, employers may employ fewer low-skilled workers (or, more precisely, use fewer low-skilled hours), and more high-skilled labor.”<sup>66</sup>

“In addition, living wage ordinances do not apply only to the labor done in fulfillment of city contracts. Rather, city contractors or grantees are likely to have to pay higher wages to workers who are producing goods and services sold on the private market as well, where the law of demand surely applies.”<sup>67</sup>

“[T]he evidence from standard minimum wages indicates that minimum wage hikes fail to accomplish their principal policy goal of raising incomes of poor or low-income families. This raises a caution flag for those who claim that living wage ordinances are likely to help reduce urban poverty.”<sup>68</sup>



## Neumark on Pollin

Dr. Neumark has critiqued the research and conclusion of Robert Pollin's Living Wage book, and the research that was subsequently based on it.



“The best-known work on living wages is the book by Pollin and Luce (1998, hereafter PL)... There are several problems with this work. Foremost among these is that the calculations are hypothetical, and done in the absence of any evidence based on data before and after the passage of living wage ordinances. Most importantly, PL do not attempt to estimate whether there are disemployment effects or hours reductions from living wages; if either results from a living wage increase, then some families may suffer potentially sizable income declines.

“In addition, their calculations are based on a typical Los Angeles family, but they admit that only 42% of those earning at or below the Los Angeles living wage are the single wage earner in a family. Moreover, the average family size for these workers is 2.1, indicating that on average people are not supporting a family of four on living wages.... In short, PL's work cannot be viewed as reliable empirical evidence on the effects of living wages on low-income families.<sup>69</sup>

“Despite the fact that PL's work cannot serve as a basis for evaluating the impact of living wages, its calculations have been used to evaluate ordinances in New Orleans, Miami-Dade County, and Detroit (Reynolds, 1999). Not surprisingly, given the assumptions, these studies reach similar conclusions.”<sup>70</sup>



## The Pittsburgh Study



### “Basic Living Costs and Living Wage Estimates for Pittsburgh and Allegheny County”

Author: Dr. Ralph L. Bangs, Dr. Cheryl Z. Kerchis and Dr. S. Laurel Weldon  
Funded by the Pittsburgh Foundation and The University of Pittsburgh, October 1997

In their analysis of the costs of the proposed Pittsburgh living wage, the authors clearly stated that most low-skilled adults in need of living wage jobs could not get those jobs because of their lack of skills and formal education.

#### Could Low-Income Single Parents or Married Couples with Children Get Living Wage Jobs if They Tried in the Current Labor Market?

Most low-income single parents in Allegheny County (Pittsburgh), regardless of number of children, could not obtain full-time full-year jobs paying the \$12 to \$20/hour needed to meet their family’s basic needs if they tried. This is because most single parents in the county are women with low educational levels (high school degrees or less).<sup>71</sup>

## Employment Policies Institute California Study

Living wage advocates have plainly stated that their ultimate goal is to implement policies that extend beyond municipal boundaries and cover all employers statewide and nationwide, which could devastate the economy.

Applying the living wage rate of \$10.75 an hour (recently approved in San Jose) to all minimum wage workers in California, the EPI calculated that the law would eliminate 612,000 jobs and raise labor costs \$22.8 billion per year.

Of those who would lose their jobs:

- ▶ 66% would have a high school education or less;
- ▶ 64% would be adults aged 25 or older, meaning they would be atypical of “usual” minimum wage workers and more likely to have dependents; and
- ▶ 43% would have a family income below \$20,000 per year.<sup>72</sup>





# **Section Three: Minimum Wage Research**

## What You Need to Know from Section Three

- ▶ Most minimum wage earners are not poor.
- ▶ Most people don't get "stuck" at the minimum wage.
- ▶ Mandated wage hikes do not reduce poverty.
- ▶ Single parents will see very little of the added income following mandated wage hikes.

# Section Three

## Minimum Wage Research



Living wage research has made it quite clear: Living wage supporters may have their hearts in the right place, but their compassion could end up hurting the very people they want to help. By requiring employers to pay \$10 an hour or more for positions once considered entry level, local governments will inadvertently attract higher skilled employees to the job, which will encourage employers to redefine the nature of the job and the people they seek to employ. A low- or unskilled worker without the new basic qualifications would be among the last employed.

Those “low level” jobs are integral entry-level gateways to additional skills and employment. A living wage requirement moves those jobs out of the “entry-level” classification. At \$11.00 an hour, employers will hire workers who have skill sets that normally do not apply for \$6.00-an-hour jobs.

To date, no unbiased research exists to document the impact of super-high, selectively applied minimum wage rates. However, economic laws apply as much to living wage rates as they do to standard minimum wage rates. Therefore, the volumes of authoritative university research demonstrating the cost associated with mandated wage hikes — which are usually borne by low-skilled adults — apply to living wage mandates. Living wage mandates actually exacerbate the negative consequences of minimum wage hikes.

## Who Earns the Minimum Wage?

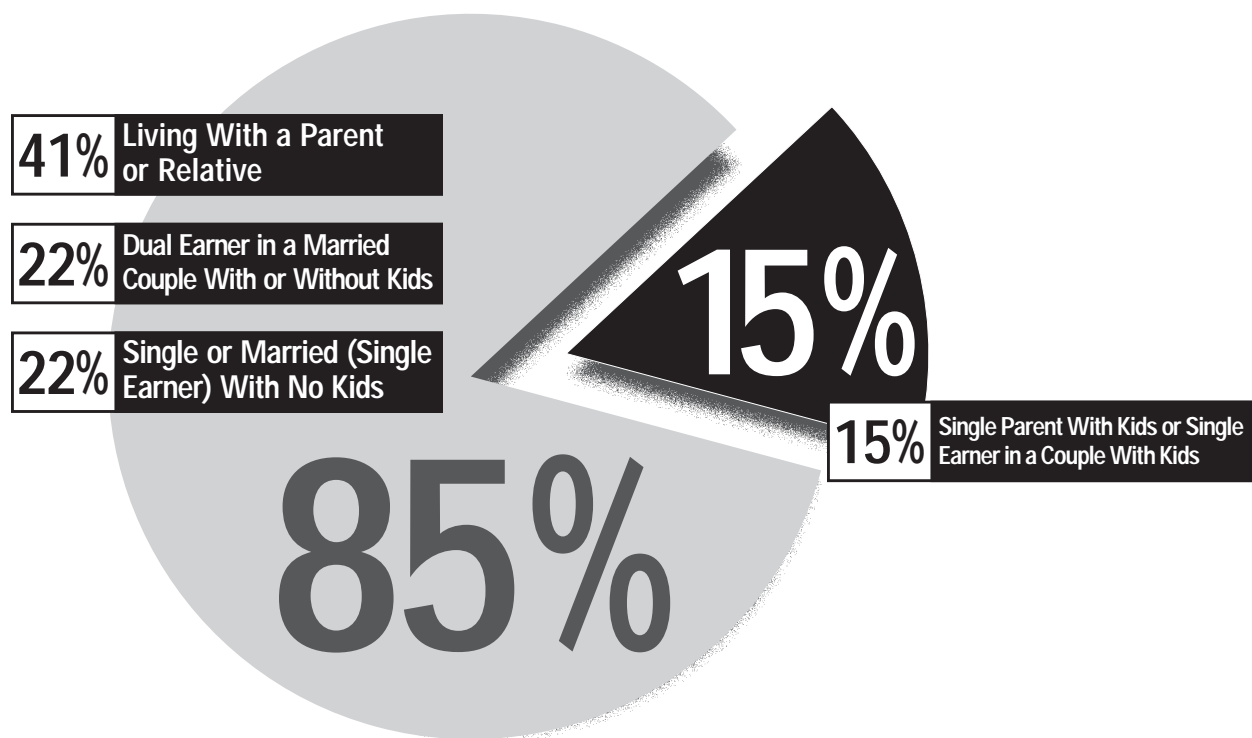


Most minimum wage earners are not poor.

According to U.S. Census Bureau data, the average family income of a minimum wage worker (those making up to \$6.15 an hour) is nearly \$40,000. And the national average family income for those presently holding jobs paying \$10/\$11 an hour hovers just below \$47,000.<sup>73</sup>

The Census Bureau data also show that 85% of entry-level wage earners either live with their parents, have a working spouse or are living alone without children. Just 15% are sole earners with children, and each of these sole earners has access to supplemental income through the Earned Income Tax Credit.<sup>74</sup>

### Distribution of Workers Affected by Proposed \$6.15 per hour Minimum Wage



Data compiled from the January–December 1999 Outgoing Rotation Groups of the Current Population Survey. Calculations based on proposed increase in the federal minimum wage from \$5.15 per hour to \$6.15 per hour.

### Most people don't get "stuck" at the minimum wage

Even when people start at the minimum wage, they rise above that pay level quickly. According to research from Miami University (Ohio) and Florida State University, "[N]early two-thirds of minimum wage workers receive sufficient increases in their wages to earn above the minimum wage within a year.... [T]he median annual wage growth of minimum wage workers was 10.1 percent."<sup>75</sup> Full-time employees who start at the minimum wage move up even faster, seeing 13% wage gains within a year.

- Percentage of those employees who have not finished high school earning the minimum wage: 6.2%
- Percentage of those who finished high school but have not gone to college earning the minimum wage: 1.5%<sup>76</sup>

Rising Above the Minimum Wage  
Dr. William Even of Miami University of Ohio  
Dr. David Macpherson of Florida State University, February 2000

### Those few who do get stuck have problems that mandated wage hikes can't help

Those adult workers who are attempting to raise families on low wages typically have few salable job skills. In 1995 the Department of Education determined that 34% of people on welfare are functionally illiterate. Four out of 10 welfare recipients couldn't perform simple quantitative tasks, such as making change.<sup>77</sup>

### Low-skilled adults get displaced from their jobs following mandated wage hikes

Research has demonstrated that this "substitution," or displacement effect, occurs as an unintended consequence of mandated wage increases. Dr. Kevin Lang of Boston University found that broad mandated wage hikes shift "employment towards teenagers and students.... [T]he competition from [these] higher quality workers makes low-skill workers worse off."<sup>78</sup>

Minimum Wage Laws and the Distribution of Employment  
Dr. Kevin Lang, Boston University, January 1995

### Low-skilled adults get stuck on welfare following mandated wage hikes



According to University of Wisconsin research, welfare mothers in states that raised their minimum wage stayed on welfare an average of 44% longer than their counterparts in states that did not raise the wage. Dr. Peter Brandon found the higher minimum wage encouraged employers to seek out applicants who had the skills needed to earn the new mandated wage.

“Increases in minimum wages may further disadvantage these women (on welfare) if employers are more likely to select teenagers possessing a high school diploma.”<sup>79</sup>

Jobs Taken by Mothers Moving from Welfare to Work  
Dr. Peter Brandon, University of Wisconsin, February 1995

In these situations, employers were facing a wage increase of approximately 20%, not the 110%-plus increases proposed by living wage activists.

### Low-skilled teens find themselves out of school and unemployed following mandated wage hikes

Michigan State University research shows wage hikes increase the number of teens who are out of school and unemployed by more than 25%. “A higher minimum wage increases the relative demand for enrolled — (higher-quality or more-skilled) teenagers,” wrote Dr. David Neumark. “As employers substitute toward these higher-skilled teenagers, lower-skilled teenagers...are displaced from the labor market...and are more likely to end neither enrolled in school nor employed.”<sup>80</sup>

Effects of Minimum Wages on Teen Employment, Enrollment and Idleness  
Dr. David Neumark, Michigan State University, August 1995



In a localized wage increase, vulnerable workers would also be forced to compete with higher-skilled workers from the surrounding areas who will pursue job opportunities paying twice what their employers are offering.

## Mandated wage hikes do not reduce poverty

“Minimum wages do, no doubt, help some families escape poverty; but, the employment losses associated with a higher minimum, also appear to cause some families to fall into poverty. On balance...the net effect of minimum wages is an increase in the proportion of poor families.”<sup>81</sup>

Will Increasing the Minimum Wage Help the Poor?

Dr. David Neumark, Michigan State University

Dr. Mark Schweitzer, Federal Reserve Bank of Cleveland

Dr. William Wascher, Federal Reserve Board of Governors, February 1999



In a report to Congress dated January 1939, the administrator of the Wage and Hour Division of Franklin D. Roosevelt’s Labor Department wrote: “In a number of instances there have been reports that workers who had been receiving less than [the new minimum wage] had been laid off, and replaced by more efficient workers.”<sup>82</sup>

Interim (For the Period August 15 to December 31, 1938) Report  
of the Administrator of the Wage and Hour Division  
Department of Labor, January 1939

## Single parents will see very little of the increase from mandated wage hikes

Professor Daniel Shaviro of New York University demonstrates that America’s working poor are subject to punishing marginal tax rate effects that can sap most — and, in some cases, all — of the higher earnings accompanying their wage increases. Such massive effective tax rates are the result of rapid-fire changes in means-tested federal tax credits, food stamp and Medicaid benefits, housing subsidies and other subsidies. As earned income rises, declines in unearned income offset large portions of the gain.

For example, if Congress raises the minimum wage to \$6.15 an hour, a single mother of two working full time in a state that offers generous public assistance benefits would keep only \$52.42 of the more than \$2,000 in extra earnings. By contrast, a childless teenage worker would take home approximately \$1,545 (or 69%) of the increase after taxes.<sup>83</sup>



## The Employer's Perspective



“Some employers are now carefully scrutinizing who they hire.... And still others have scaled back the number of hours scheduled for their lowest-paid workers rather than laying them off, offsetting the wage increase with higher productivity ... One reason employers aren’t cutting jobs is that they’re instead slashing hours and spreading the same amount of work around to fewer people.”<sup>84</sup>

The Wall Street Journal, November 20, 1996, commenting on how employers handled a 50-cent increase in the federal minimum wage.

Employers facing higher mandated labor costs have a range of options for cutting costs — and none of these are particularly attractive to low-skilled workers. In addition to cutting back on the number of people employed in a given community:

Employers may hire more skilled employees rather than taking a chance on someone with a spotty work record or no work record at all. Employers do “raise the bar” for job applicants after a wage hike. They may replace unproductive employees immediately, or they may hire better workers as current employees leave. In either case, the lowest-skilled workers are either out of a job or have more difficulty getting hired.

Employers may cut the hours of their entry-level work force and ask managers to pick up the slack. A manager may wind up working the cash register on a slow night, building displays in a retail establishment, or helping clean up the workplace before closing — all jobs that were once handled by other employees who saw their hours cut after the mandated wage hike.

Employers may automate numerous functions in the workplace. Higher mandated wages give employers a greater incentive to invest in equipment that replaces employees and allows a shift to self-service. Self-serve soda fountains and gas stations are now as common as automated tellers – three examples of jobs being replaced by automation.

Employers may reduce customer service. It is common today for guests in a fast food establishment to clean their own tables. In some supermarkets customers bag their own groceries.

## The Washington Post

JUNE 12, 1999

Bill Hart III, Strosnider's Hardware general manager, said the [Montgomery County, MD living wage] bill would increase his personnel costs by an estimated \$250,000 a year. He said he would have to either hire fewer people or limit employee overtime, a lucrative source of income for hourly workers. "I frankly foresee not going in [to Montgomery County]. This is going to be a very sticky point for us," he said.

## CRAIN'S

DETROIT BUSINESS

MARCH 20, 2000

### Salvation Army may ax contracts over wage law

The Salvation Army may drop its contract with the city of Detroit rather than comply with the city's living-wage ordinance, which could cost the army an additional \$4.24 million a year.

Maj. Loren Carter, financial secretary for the army's Eastern Michigan Di-

vision, said the army has about 300 workers making salaries from \$5.35 to \$8 an hour... He noted that some of the workers include people who might otherwise be unemployable, including members of the programs getting their first job experience.

### How much of a wage hike are we talking about?

One way to appreciate the impact of a living wage proposal is to calculate how much it would cost an employer with 10 entry-level employees being paid the current national minimum wage.

Living wage proposals generally demand full benefits and hourly wage rates in excess of \$10 an hour. For simplicity, we'll calculate the additional labor costs of a \$10 an hour living wage proposal, excluding benefits. The math is simple:

**\$10.00 - \$5.15 = \$4.85 additional per hour x 10 employees x 40 hours x 52 weeks per year = \$100,880 per year in increased labor costs. A business with the equivalent of 100 full-time entry-level employees, will pay more than \$1 million a year in additional labor costs. (These calculations exclude the additional 9% payroll tax employers must pay.)**

Most small businesses don't have an extra \$100,880. In fact, most small business owners don't earn \$100,880 a year themselves. Therefore, they must use every available means of reducing labor costs, just to stay in business.

### Can a living wage really benefit the local economy?

After a mandated wage hike, employers may be able to keep labor costs relatively even by reducing their work force, automating their operations, or cutting customer service.

If employers cannot reduce costs or raise prices, and they must absorb the new labor costs, the money likely comes out of investment and expansion. Employers who planned to add a second store on the other side of town may re-think their expansion — and their plans to hire the employees they would need in the new store.



The most powerful argument against the notion that raising the minimum wage “pumps more money into the economy” is drawn from common sense: if this notion were true, advocates of a higher minimum wage would push for an increase to \$25 per hour, the economy would expand overnight, and every business in the country would benefit tremendously. It doesn’t take a trained economist to know this doesn’t make sense.



# **Section Four: Solutions and Resources**

## What You Need to Know from Section Four

- ▶ Labor economists overwhelmingly believe that the living wage is not an effective poverty-fighting mechanism.
- ▶ Researchers (including living wage proponents) have consistently found that living wage mandates lead to the displacement of low-skilled employees.
- ▶ The Earned Income Tax Credit is recognized as a far more effective anti-poverty mechanism than the living wage.

# Section Four

## Solutions

As candidate Bill Clinton suggested in 1992, “We can increase the earned income tax credit by a couple of billion dollars a year and, far more efficiently than raising the minimum wage, lift the working poor out of poverty.”<sup>87</sup>

Research from Dr. Richard Burkhauser of Cornell University shows that 70% of EITC benefits actually go to needy families. In sharp contrast, more than 83% of the benefits of the last minimum wage hike went to families above the poverty line. Dr. Burkhauser wrote in a study on the working poor, “Unlike the minimum wage increases in the 1990s, the increases in the EITC passed in 1993 and fully implemented in 1996 have primarily gone to workers in low-income families (the poor and near poor).... [Furthermore,] unlike a minimum wage increase, there will be no reduction in employer demand for vulnerable workers.”<sup>88</sup>

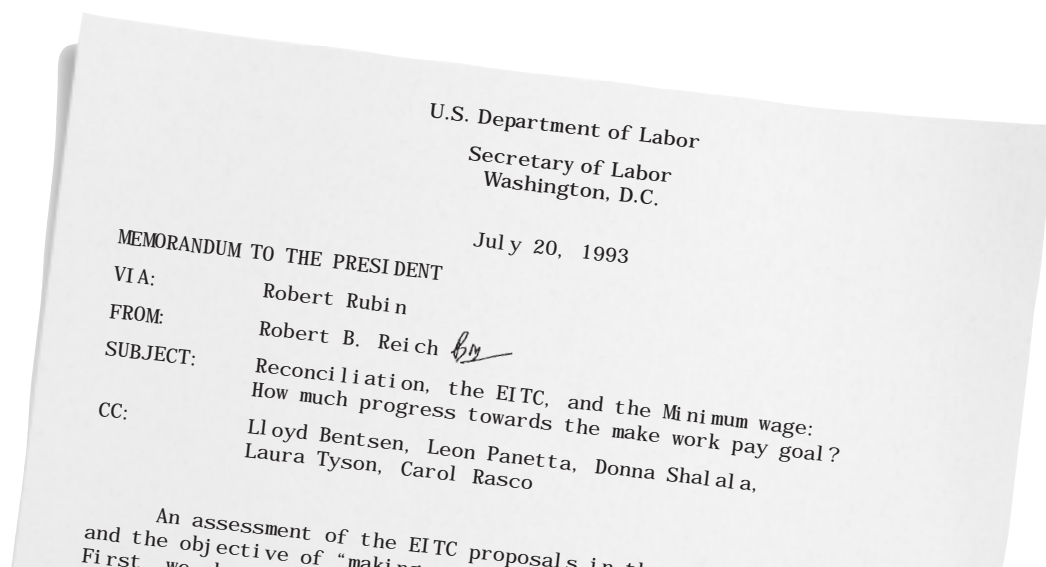


Other key policy makers have agreed on the demographics of a minimum wage worker. Clinton’s Labor Secretary, Robert Reich, in a memo supporting the EITC, acknowledged that “After all, most minimum wage workers aren’t poor.”<sup>89</sup>



“It can be argued that the substitution of a higher minimum wage with a higher EITC [Earned Income Tax Credit] would be a positive accomplishment. To be sure, the EITC poses no threat to employment opportunities and can be better targeted to families in need.”<sup>90</sup>

Former Secretary of Labor Robert Reich  
In a Memo to President Clinton, July 20, 1993





## Conclusion



If raising the entry-level wage helps only a few low-wage families, shouldn't we develop solutions specifically targeted only to those low-wage families? In Montgomery County, MD, two former supporters of the living wage instead supported a local EITC combined with increased child care, transportation, job training, health care and housing assistance. They stated, "It is clear to us, and has been acknowledged by this bill's proponents, that the costs of the living wage legislation will be passed on to the county government in the form of higher costs for our contracts. If we are going to pay, let's target our resources to those who need help, and in far greater numbers than the bill does."<sup>91</sup>

This logic also suggests that a fixed pool of money, which is distributed only to those in need, will result in higher payments than the first option, which spreads the money among all employees regardless of need. Values and morality are on the side of those who seek to actually help and not those employing seemingly compassionate tactics that have predictable negative consequences.

# What Others Are Saying About the Living Wage



## The Detroit News, October 2, 1998

### ‘Living Wage’ Proposal Would Kill Detroit

By David L. Littmann

“One might legitimately ask this question: If raising wages by fiat above the market-determined rate shrinks the job market for those at the bottom of the pay scale who most need employment and on-the-job training, and correspondingly inflicts a weaker financial future on the city of Detroit, why would such a ballot proposal have any prospects for passage in November?”<sup>92</sup>

David L. Littmann is senior vice-president and chief economist for Comerica Bank in Detroit.

## The San Francisco Chronicle, November 11, 1998

### The ‘Living Wage’ Illusion

“A poorly crafted living wage plan could achieve the opposite of its well-intentioned social goals. It could result in fewer good-paying jobs in the city, and less opportunity at the entry level. It could drive up the cost of city programs, leaving fewer resources to help lower-income families.

“The labor unions and advocacy groups may be ready to declare it a success, naturally, but the reports from some of the 20 cities and counties with living wages suggest reason for caution.”<sup>93</sup>

## The Daily News of Los Angeles, November 20, 1998

### ‘A Better Class of Workers’; City Officials Who Backed Living-Wage Ordinance Show Their True Colors

“The motive behind Los Angeles’ living-wage ordinance has been revealed. And it was let loose by none other than the chief deputy to Jackie Goldberg, the councilwoman who bull-rushed the measure into law.

“Here it is, as elucidated by Sharon Delugach: ‘The main point of the effect of the ordinance is it has not caused massive layoffs and has shown firms are getting a better class of workers.’

“The portion that raises costs is passed right on to the city, which of course means you the taxpayer. The other side of the equation is that contractors aren’t going to pay people with minimum-wage skills up to \$8.50 an hour if they can get people with \$7-an-hour or \$8-an-hour skills.”<sup>94</sup>



## The Washington Post, July 22, 1999

### 'Living Wage' Fallout

"THE RATIONALE behind the mislabeled 'living wage' bill in Montgomery County is wrongheaded. Proponents claim it would assist the working poor. But some strong advocates of a higher federal minimum wage — including Maryland's Rep. Al Wynn and County Executive Doug Duncan — see serious consequences.... [The living wage bill] is an out-of-line wage burden on selected merchants, non-profits and others."<sup>95</sup>

## The Washington Post, July 14, 1999

### Falling for a 'Living Wage' Bill

"TIME AND closer study are now pointing up the serious economic damage that Montgomery County Council members could do if they fall for the deceptively labeled 'living wage' bill.... The bill would sock it to certain companies with county contracts."<sup>96</sup>

## The Washington Post, June 21, 1999

### 'Living Wage' Is a Killer

"A DECEPTIVELY named 'living wage' bill being drafted for consideration by the Montgomery County Council is a formula for assisted economic suicide....The concept behind the legislation is bad; it would force certain companies to bear out-of-line, permanent costs to do business in the county.... No matter how council members try to trim or adjust the 'living wage' approach, it would be bad economic news for those least able to absorb it. Rather than trying to paint the 'living wage' as help for the poor, the council should drop it outright."<sup>97</sup>

## The Cleveland Plain Dealer, December 2, 1999

### The 'Living Wage' Canard

"Forty localities nationwide have passed living wage ordinances, but that's no reason for Cleveland to follow them over the cliff....

"This legislation would mean fewer jobs for first-time, part-time or seasonal workers — that vast majority of minimum-wage workers who, in fact, are not the sole support of themselves, much less a family of four. Most are teenagers or adults supplementing their households' income — and very quickly leaving the minimum behind the old-fashioned way: by working up the earnings scale."<sup>98</sup>

## What Others Have to Say About Mandated Wage Hikes

“Yesterday, council members Michael L. Subin (D-At Large) and Steven A. Silverman (D-At Large), who both had signed campaign pledges supporting the general concept of ‘living wage’ legislation, announced their opposition to the specific bill, cementing a five-member majority against it. They called the proposal ‘the wrong tool for doing the job with too many unintended and unknown consequences....’

“‘When I signed on to this last fall, I was under the impression that the cost would fall on the private sector,’ said former living wage supporter, Montgomery County (MD) Councilman Steven Silverman. ‘I decided that if we were going to pay for this, it should be on a more targeted basis.’”<sup>99</sup>

The Washington Post, July 24, 1999

“Any entry-level wage should be one that will be attractive to an employer so that he will hire more people who have marginal skills.”<sup>100</sup>

Long-time minimum wage hike advocate  
Rep. Al Wynn (D-MD), speaking of the living wage  
The Washington Post, July 22, 1999

“I guess I’d be less confident that another increase in the minimum wage, so quickly after the previous one, would have no effect on employment. I would think it’s probably more likely that it could have an adverse effect.”<sup>101</sup>

Princeton researcher and wage-hike advocate Alan Krueger  
on National Public Radio, February 13, 1998

“In a number of instances there have been reports that workers who had been receiving less than [the new minimum wage] had been laid off, and replaced by more efficient workers....”<sup>102</sup>

“It is also possible that in some instances the differences in labor costs involved in raising the [minimum wage] may be sufficient to stimulate mechanization of tasks suitable for machine operation but hitherto done by hand because of low wage rates.”<sup>103</sup>

The Administrator of the Wage and Hour Division of  
Franklin D. Roosevelt’s Labor Department, January 1939

“It was well-intentioned, but it had some very bad effects,” said Denver Mayor Wellington Webb, speaking of a 1996 living wage proposal in that city.<sup>104</sup>

Denver Rocky Mountain News, December 16, 1999

“It can be argued that the substitution of a higher minimum wage with a higher EITC [Earned Income Tax Credit] would be a positive accomplishment. To be sure, the EITC poses no threat to employment opportunities and can be better targeted to families in need.”<sup>105</sup>

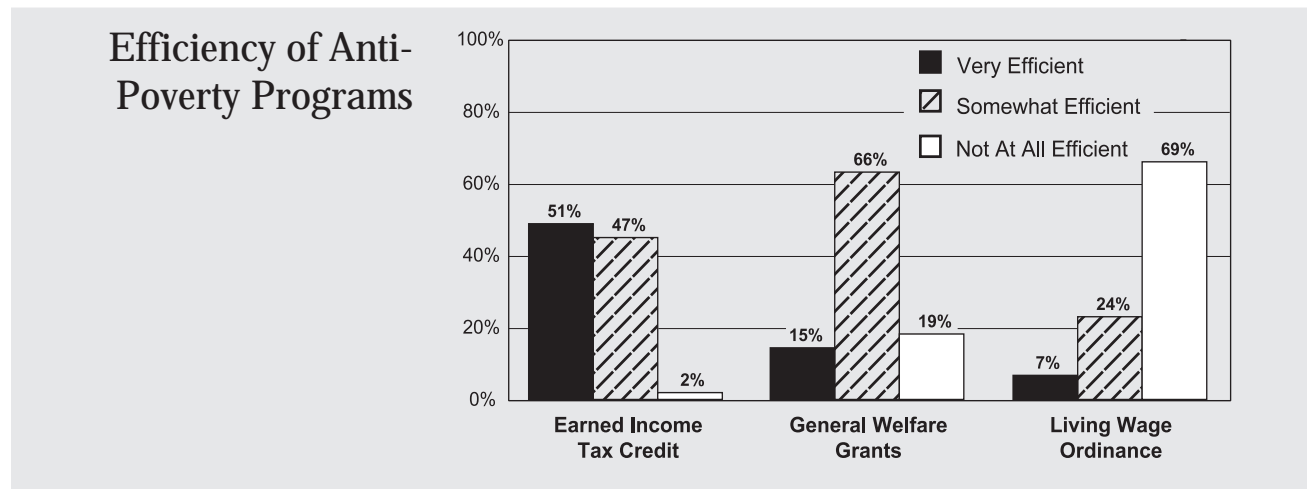
Former Secretary of Labor Robert Reich  
in a Memo to President Clinton, July 20, 1993

## Living Wage: First National Survey of Professional Economists

So what is the consensus of economists, who arguably are the experts on the issue? The results of a recent survey show the fundamentals of the living wage proposals as well as the practicality of locally based living wages.

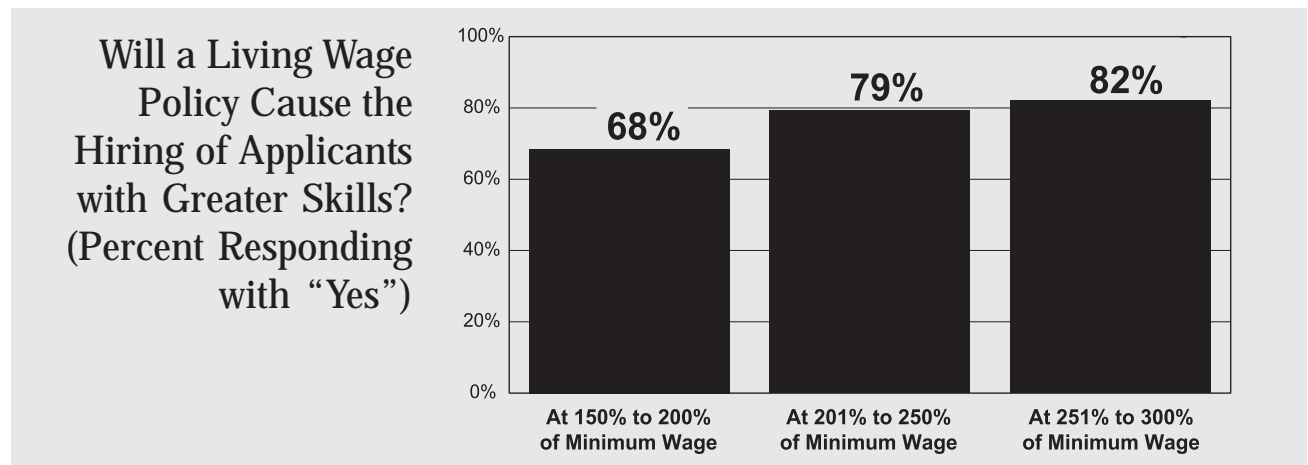
► How efficient is a local living wage in getting the money to those who need it most?

Not at all, according to 69% of labor economists. In fact the experts judged that the living wage was far less efficient than both the Earned Income Tax Credit and general welfare grants.<sup>106</sup>



► How would the least-skilled employees fare under a local living wage?

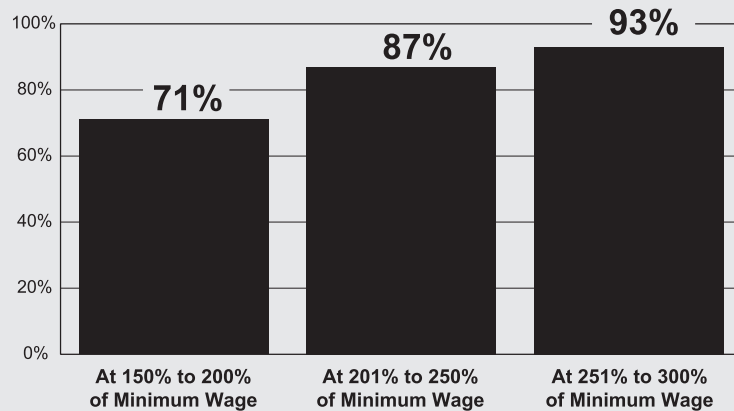
Nearly 7 in 10 labor economists believe that a local living wage would cause employers to hire entry-level employees with greater skills or experience. Economists also agreed that the higher the wage went, the more likely that hiring practices would benefit the more highly skilled.<sup>107</sup>



► Would employers react to a local living wage by hiring fewer employees?

Over 70% believed that the lowest living wages would cause employers to reduce the number of entry-level employees. Once the wage reached levels more than two and a half times the current minimum, 93% agreed that entry-level employment would drop.<sup>108</sup>

**Will a Living Wage Policy Cause a Decrease in the Number of Employees Hired?**  
(Percent Responding with “Yes”)



► Should the entry-level wage begin at the poverty level for a family of three or four?

According to more than 80% of economists, neither the poverty level for a family of three or for a family of four is an acceptable level for the hourly minimum wage.<sup>109</sup>

► How would a federal “living wage” affect employment? Poverty?

Almost 8 in 10 labor economists believe that the level of employment would suffer. Nearly 7 in 10 believe that a national living wage would not improve the poverty situation in America.<sup>110</sup>

## **Fact Sheets:**

**The following pages (51–61)  
restate by category many of the  
most important effects of  
living wage policies.**





## The Displacement Effect

The following researchers (including living wage proponents) all found that living wage mandates will lead to the displacement of low-skilled employees.



“Productivity is also known to respond to wage increases, as recent economic theory and research findings have emphasized (Freeman and Medoff, 1984; Katz, 1986)....Some of the [productivity] increase can arise because new hires may come from a more experienced or skilled labor pool.” (see page 17)

—***“Living Wages at Port of Oakland”***

University of California Berkeley, December 1999

“It would be expected the living wage law would encourage contractors and firms using city financial assistance to become the premier firms in their industries. With better wages and health care coverage, they should attract and retain the best workers, have the most productive work force and, over time, deliver the highest quality of services....Nevertheless, wage increases and the newly offered health care benefits will likely result in a higher caliber of worker and measurable increases in efficiency at some level.” (see page 14)

—***“The Impact of the Detroit Living Wage Ordinance”***

Wayne State University, September 1999

“There is, however, another possible job ‘loss’ effect worth noting....If there are wage increases for just over 15,000 workers on current city contracts, there will be significant new competition for these (relatively) well-paying jobs from others in the labor market. It is reasonable to expect that employers will find a wider pool of better qualified (in formal terms) applicants for these jobs. Thus, currently employed low-wage workers may be displaced by better-qualified workers at the higher wage, independent of the job loss predicted above.” (Emphasis added.) (see page 21)

—***“The Living Wage in San Francisco: Analysis of Economic Impact, Administrative and Policy Issues”***

San Francisco State University, October 1999

“Higher wages and benefits enable employers to recruit workers with stronger skills to the jobs affected by the Ordinance.” (see page 22)

“It is also well established that employers gradually change the composition of their workforce when wages go up. This, again, is common-sensical: if a job suddenly pays more, then when employers advertise an opening, they will get more applicants and applicants with stronger “credentials” — more years of schooling, more relevant experience, and so on.” (see page 23)

—“*An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance*”

University of California, Los Angeles, Carleton College, January 1997

“[D]epending on the good or service under consideration, employers may employ fewer low-skilled workers (or, more precisely, use fewer low-skilled hours), and more high-skilled labor.” (see page 23)

—“*Do Living Wage Ordinances Reduce Urban Poverty?*”

Michigan State University, March 2000

In a report to Congress dated January 1939, the administrator of the Wage and Hour Division of Franklin D. Roosevelt’s Labor Department wrote: “In a number of instances there have been reports that workers who had been receiving less than [the new minimum wage] had been laid off, and replaced by more efficient workers.” (see page 33)

—“*The Administrator of the Wage and Hour Division of Franklin D. Roosevelt’s Labor Department*,” January 1939

# Daily News of L.A.

NOVEMBER 20, 1998

## ‘A Better Class of Workers’; City Officials Who Backed Living-Wage Ordinance Show Their True Colors

The motive behind Los Angeles’ living-wage ordinance has been revealed. And it was let loose by none other than the chief deputy to Jackie Goldberg, the councilwoman who bull-rushed the measure into law.

Here it is, as elucidated by Sharon Delugach: “The main point of the effect of the ordinance is it has not caused massive layoffs and has shown firms are getting a better class of workers.” (see page 43)

## Earned Income Tax Credit

“In the debate over the Living Wage concept, an important option that has been overlooked is the federal Earned Income Tax Credit (EITC)....From the City’s standpoint, the enormous advantage of an EITC over a Living Wage is that the EITC brings more outside funds into the metropolitan area, while a Living Wage tends to reduce the inflow of outside benefits and increases the outflow of taxes. Moreover, from a policy standpoint, the EITC is perfectly targeted at the neediest population: all of its benefits go to low-income families, and none of the EITC income is taken into account in determining the recipient’s eligibility for other means-tested benefits.” (see page 22)

—***“An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance”***

University of California-Los Angeles, Carleton College, January 1997

Research from Syracuse University shows that 70% of EITC benefits actually go to needy families. In sharp contrast, more than 83% of the benefits of the last minimum wage hike went to families above the poverty line. Dr. Richard Burkhauser in a study on the working poor, “Unlike the minimum wage increases in the 1990s, the increases in the EITC passed in 1993 and fully implemented in 1996 have primarily gone to workers in low-income families (the poor and near poor). ... [Furthermore,] unlike a minimum wage increase, there will be no reduction in employer demand for vulnerable workers.” (Emphasis added.) (see page 41)

—***Richard Burkhauser testimony before the Congressional Committee on Education and the Work Force***, April 1999

“There are a variety of alternatives to, and in, the Living Wage legislation as currently drafted....<sup>111</sup>

“The Earned Income Tax Credit...offers an alternative means for increasing the annual earnings of low-wage families, and has the added advantage of bringing external (e.g., Federal) funds into the local economy....<sup>112</sup>

“[T]he great advantage of the EITC over other proposals is that it directly targets low-income families, and that its funding creates a significant local multiplier effect....[T]he Los Angeles example does prompt the recommendation that the city study the expanded use of the EITC as significant policy initiative—whatever occurs with the living wage.”<sup>113</sup>

—***“The Living Wage in San Francisco: Analysis of Economic Impact, Administrative and Policy Issues”***

San Francisco State University, October 1999



## Job Loss

According to Dr. Tolley, Chicago's proposed 1996 living wage would have cost affected employers nearly \$40 million a year and resulted in the loss of at least 1,300 jobs. In addition, the ordinance would have cost the city an additional \$20 million a year with more than 20%, or \$4.2 million, going to administrative costs. (see page 19)

—***“Economic Analysis of a Living Wage Ordinance”***

University of Chicago, DePaul University and RCF Consulting, July 1999

“Minimum wage increases that even approach an average livable wage would result in significantly fewer jobs for low wage workers. A substantial increase in the relative cost of labor will result in a reduction in the amount of labor used....

“A state can mandate the minimum wage an employer must pay, but it cannot mandate the minimum number of workers an employer hires or the minimum numbers of hours they work. A small state such as Vermont cannot expect to sustain a pronounced variation with the U.S. minimum wage without counterproductive economic consequences.” (see page 20)

—***“Act 21 Research and Analysis for the Legislative Livable Income Study Committee”***

Vermont State Legislature, November 1999

“We anticipate conservatively an initial job loss of 1,790 between both the Contractor and Leaseholder sides.” And while many would be re-employed in the low-wage (non-living wage) labor market, they project that “510 would remain unemployed.” (see page 21)

—***“The Living Wage in San Francisco: Analysis of Economic Impact, Administrative and Policy Issues”***

San Francisco State University, October 1999

“A non-trivial number of covered workers would lose their jobs when the Ordinance's mandated wage and benefit increases went into effect, but most of these workers would find new jobs in what we have called the “secondary market” [jobs not covered by the ordinance].” (see page 23)

—***“An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance”***

University of California, Los Angeles, Carleton College, January 1997

Despite a booming economy, the first half of the 1996–97 minimum wage hike resulted in 215,000 fewer teenage jobs, according to U.S. Department of Labor data. These findings imply that as many as 645,000 entry-level jobs were destroyed by the 50-cent minimum wage increase.<sup>114</sup>

—***“Job Loss in a Booming Economy”***

Employment Policies Institute, April 1998



## Marginal Tax Rates

“Earned income growth among the lowest income workers can result in precipitous state and federal public benefit reductions, substantially offsetting and in some cases completely negating gains in net family income. This may leave some low income families with little or no economic gain and can also result in economic costs to the state from the loss of inflexible federal transfer payments.”

“[I]t is important to recognize that there are about 8,000 families [in Vermont] whose rent is being partially paid with federal Section 8 subsidies...When Section 8 subsidies are combined with other benefits shown in the graphs, these families may see a decrease in income of over \$1.30 for every \$1 gained in wages.” (Emphasis theirs.) (see page 20)

—**“Act 21 Research and Analysis for the Legislative Livable Income Study Committee”**

Vermont State Legislature, November 1999

“For example, if Congress raises the minimum wage to \$6.15 an hour, a single mother of two working full time in a state that offers generous public assistance benefits would keep only \$52.42 of the more than \$2,000 in extra earnings. By contrast, a childless teenage worker would take home approximately \$1,545 (or 69%) of the increase after taxes.” (see page 33)

—**“Effective Marginal Tax Rates on Low-Income Households”**

New York University School of Law, February 1999

“The proposal would have cost more than \$7,000 per employee, yet an affected full-time worker supporting her family would see her disposable income rise by only \$1,900 under the ordinance (if she were not among those losing their job).” (see page 19)

—**“Economic Analysis of a Living Wage Ordinance”**

University of Chicago, DePaul University and RCF Consulting, July 1999





## Union Self-Interest

“We fight for these people, to bring up their wages, benefits and health care, first because it’s good for them, but also so they’re not in direct competition with folks in the public sector.”

Gerald McEntee  
President of the American Federation of State, County and Municipal Employees  
Governing Magazine, December 1998

“Forcing private firms with city contracts to pay living wages at least weakens the incentive for cities” to privatize contracts.

Robert Pollin, *The Nation*, November 23, 1998

According to Madeline Janis-Aparicio, director of the Los Angeles Living Wage Coalition, one of the goals of the living wage campaign is “to develop a tool for union organizing and to promote successful organizing actions.”

Pollin, page 8

“Since John Sweeney took over as president of the AFL-CIO, the national labor movement has embraced the living wage campaign....Living-wage legislation at the city level not only raises earnings of low-wage workers; it also discourages privatizations.”

Robert Kuttner, Co-Founder of the Economic Policy Institute  
*The Washington Post*, August 20, 1997

### Exemptions

1. An application for a Living Wage ordinance waiver should be available to employers who meet the following criteria:

- a) A first year business with fewer than five employees.
- b) Non-profit organizations.
- c) The employer is currently in a collective bargaining agreement with a labor union.

San Jose Report

More than a dozen living wage proposals contain similar language exempting companies that enter into collective bargaining agreements. Why? According to ACORN, such exemptions are useful in union organizing.

A living wage ordinance, they declare on their Web site, “encourages unionization by allowing collective bargaining agreements to supersede requirements.” (see pages 7 and 18)

# The Vast Majority of Minimum Wage Earners Do Not Support Families Who Would Benefit from the Proposed Minimum Wage Increase to \$6.15?

## A State-by-State Profile

States	Single Parent or Single Earner with Kids	Living Alone, with Parents or as Part of a Dual Income Household	Average Family Income	States	Single Parent or Single Earner with Kids	Living Alone, with Parents or as Part of a Dual Income Household	Average Family Income
<b>All States</b>	<b>15%</b>	<b>85%</b>	<b>\$37,782</b>	Montana	11%	89%	\$30,707
Alabama	22%	78%	\$33,157	Nebraska	9%	91%	\$40,446
Alaska	11%	89%	\$46,602	Nevada	10%	90%	\$37,429
Arizona	19%	81%	\$31,545	New Hampshire	13%	87%	\$49,455
Arkansas	18%	82%	\$27,624	New Jersey	14%	86%	\$50,151
California	18%	82%	\$33,976	New Mexico	18%	82%	\$28,829
Colorado	10%	90%	\$50,171	New York	17%	83%	\$42,231
Connecticut	12%	88%	\$59,894	North Carolina	16%	84%	\$32,384
Delaware	13%	87%	\$43,238	North Dakota	7%	93%	\$34,057
Florida	16%	84%	\$31,811	Ohio	12%	88%	\$42,650
Georgia	18%	82%	\$36,485	Oklahoma	16%	84%	\$31,127
Hawaii	12%	88%	\$37,164	*Oregon	16%	84%	\$32,057
Idaho	12%	88%	\$37,381	Pennsylvania	12%	88%	\$42,100
Illinois	14%	86%	\$44,338	Rhode Island	6%	94%	\$37,331
Indiana	7%	93%	\$42,992	South Carolina	17%	83%	\$38,138
Iowa	7%	93%	\$37,218	South Dakota	5%	95%	\$33,261
Kansas	15%	85%	\$40,376	Tennessee	16%	84%	\$32,962
Kentucky	19%	81%	\$35,697	Texas	20%	80%	\$29,834
Louisiana	20%	80%	\$32,563	Utah	9%	91%	\$46,884
Maine	14%	86%	\$40,893	Vermont	11%	89%	\$36,297
Maryland	9%	91%	\$58,058	Virginia	14%	86%	\$41,250
Massachusetts	11%	89%	\$49,705	*Washington	13%	87%	\$35,682
Michigan	14%	86%	\$46,749	West Virginia	15%	85%	\$29,565
Minnesota	10%	90%	\$44,016	Wisconsin	8%	92%	\$48,709
Mississippi	24%	76%	\$29,755	Wyoming	10%	90%	\$35,930
Missouri	14%	86%	\$41,775				

\* Figures provided for Oregon and Washington reflect state minimum wage rates that are higher than the proposed federal level of \$6.15 per hour.

Data Source: CPS 1998, 1999

## Who Earns the Minimum Wage?

The San Francisco State Study

“Only 9% of the employees covered by the ordinance live in households with only one adult, while fully 46% live in households with 3 or more adults.” (see page 21)

—*“The Living Wage in San Francisco: Analysis of Economic Impact, Administrative and Policy Issues”*

San Francisco Urban Institute – San Francisco State University, October 1999

“It has been well established by labor economists that raising the minimum wage is a very blunt instrument for fighting poverty, since low-wage workers are not always from low-income families.

“[A] majority of low-wage workers are not the sole or even principal source of income in their household or family. Of those low-wage workers who do not live alone, less than one-quarter are the only wage earner in the family. The average low-wage worker’s earnings make up less than one-third of the family’s total income. As a result, most low-wage workers do not live in families that are below the poverty line.” (see page 22 and 23)

—*“An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance”*

University of California, Los Angeles, Carleton College, January 1997

According to U.S. Census Bureau data, the average family income of a minimum wage worker (those making up to \$6.15 an hour) is nearly \$40,000. And the national average family income for those presently holding jobs paying \$10/\$11 an hour hovers just below \$47,000. (see page 30)

The Census Bureau data also show that 85% of entry-level wage earners either live with their parents, have a working spouse or are living alone without children. Just 15% are sole earners with children, and each of these sole earners has access to supplemental income through the Earned Income Tax Credit. (see page 30)

—*“Who Benefits From a State Minimum Wage Hike: A State-by-State Profile: 1999 Edition”*

Employment Policies Institute, July 1999

Other key policy makers have agreed on the demographics of minimum wage workers. Clinton’s Labor Secretary, Robert Reich, in a memo supporting the EITC, acknowledged that “After all, most minimum wage workers aren’t poor.” (see page 41)

— Former Secretary of Labor Robert Reich  
In a Memo to President Clinton, July 20, 1993

# Living Wage Initia













# CITY OF BOSTON

IN THE YEAR NINETEEN HUNDRED AND NINETY EIGHT

## AN ORDINANCE

### THE BOSTON JOBS AND LIVING WAGE ORDINANCE

Be it ordained by the City Council of Boston, as follows:

1.           Whereas, the City of Boston awards millions of dollars in contracts for
2.           services each year that result in the creation or maintenance of a wide variety of
3.           employment opportunities; and
4.           Whereas, these contracts are paid for by taxpayer dollars and should be used
5.           to promote the sustenance and creation of jobs that will increase consumer income,
6.           decrease levels of poverty, invigorate neighborhood businesses and reduce the need
7.           for taxpayer-funded programs in other areas; and
8.           Whereas, the City provides a variety of moneys, loans, grants and other
9.           forms of assistance that help to create jobs that should be made available to working
10.          families; and
11.          Whereas, the City of Boston's payment of prevailing wage rates to employees
12.          working on City public works projects has been tremendously beneficial for
13.          working Bostonians and their families, Boston neighborhoods, and the area
14.          economy; and
15.          Whereas, union members, community organizations, low and moderate-
16.          income persons, church members, and other Bostonians organized through the
17.          Boston Jobs and Living Wage Campaign, believe that payment of a "living wage" to
18.          employees of contractors with the City of Boston would have the same beneficial
19.          results and have therefore proposed such a "living wage;"
- 20.

Therefore, be it ordained that:

Chapter 5 of the Ordinances of 1997, as amended, is hereby further amended by striking out said Chapter 5, as amended, in its entirety, and inserting in place thereof, the following:

#### **SECTION ONE. Title and Purpose**

This Ordinance shall be known as the "Boston Jobs and Living Wage Ordinance." The purpose of this ordinance is to assure that employees of vendors who contract with the City of Boston to provide services earn an hourly wage that is sufficient for a family of four to live at or above the federal poverty level. This ordinance is also designed to maximize access for low and moderate income Bostonians to the jobs that are created, maintained or subsidized through service contracts with the City of Boston.

#### **SECTION TWO. Definitions.**

For the purpose of this ordinance, the term:

- a) "Assistance," shall mean any grant, loan, tax incentive, bond financing, subsidy, or other form of assistance of \$100,000 or more realized by or through the authority or approval of the City of Boston, including, but not limited to industrial development bonds, Community Development Block Grant (CDBG) loans and federal Enhanced Enterprise Community designations awarded after the effective date of this ordinance. The forgiveness of a loan shall be regarded as financial assistance. A loan shall be regarded as financial assistance to the extent of any differential between the amount of the loan and the present value of the payments thereunder, discounted over the life of the loan by the applicable federal rate as used in 26 U.S.C., Section 1274(d) 7872(f). A recipient of assistance shall not be deemed to include leases and subleases.
- b) "Beneficiary," shall mean any direct recipient of at least \$100,000 of Assistance provided that the Beneficiary is a for-profit employer of at least 25 FTE's or a not-for-profit employer of at least 100 FTE's.
- c) "Contracting Department" means any City Department that awards a Service Contract.

- d) "Covered Employee" means a person employed by a Covered Vendor who directly expends or would directly expend his or her time on the Service Contract with the City of Boston or on the Service Subcontract.
- e) "Covered Vendor" means any for-profit employer who employs at least 25 FTE's or any not-for-profit employer who employs at least 100 FTE's who has been awarded a Service Contract or Subcontract after the effective date of this ordinance.
- f) "Designated Department" means the City of Boston department or agency, designated by the Mayor, to be responsible for the overall implementation, compliance and enforcement of this ordinance.
- g) "First Source Hiring Agreement," shall mean a signed agreement between a Covered Vendor or a Beneficiary and a Referral Agency.
- h) "Full-Time Equivalent (FTE)" is a formula to calculate the number of employee work hours which equal one full-time position. For the purposes of this ordinance, full time shall mean the standard number of working hours, between 35 hours and 40 hours per week, that is used by the Covered Vendor to determine full time employment.
- i) "Living Wage" means the rate established by the Designated Department as the minimum hourly wage rate that shall be paid to a Covered Employee by a Covered Vendor pursuant to the formula set forth in Section Six of this ordinance.
- j) "Low- and moderate-income persons" means persons with an annual income that is less than 80 percent of median income for the Boston Primary Standard Metropolitan Statistical Area as published the Department of Housing and Urban Development.
- k) "Person" means one or more of the following or their agents, employees, servants, representatives, and legal representatives: individuals, corporations, partnerships, joint ventures, associations, labor organizations, educational institutions, mutual companies, joint-stock companies, trusts, un-incorporated organizations, trustees, trustees in bankruptcy, receivers, fiduciaries, and all other entities recognized at law by this Commonwealth.

- l) "Referral Agency" means any organized job registry and referral service operated by a not-for-profit organization or union provided that the not-for-profit organization has the following:
  - i) an established community membership base and record of conducting outreach in low and moderate income Boston communities;
  - ii) a computerized skills bank where individuals may register for employment and training opportunities;
  - iii) an established process whereby an employer can post job openings, and where referrals can begin within 48 hours of such posting;
  - iv) a governing board comprised of a majority of low and moderate income Boston residents; or the majority of services provided by the entity are furnished to low and moderate income Boston residents;
  - v) a proven track record of non-discriminatory job placement with respect to race, color, religion, national origin, sex, sexual orientation, age, marital status, discharge from the military service or handicap unrelated to job ability; and
- m) "Service Contract" shall mean any contract of at least \$100,00 or more awarded to a vendor by the City for the furnishing of services to or for the City.
- n) "Service Subcontract" shall mean a subcontract of \$25,000 or more awarded to a vendor by a Covered Vendor, provided the Subcontract is paid for by funds from the Service Contract.
- o) "Youth Program" means any city, state, or federally funded program which employs youth, as defined by city, state, or federal guidelines, during the summer, or as part of a school to work program, or in other related seasonal or part-time program.
- p) "Vendor Agreement" means a written agreement between the City of Boston and any Covered Vendor that is executed at the time a Service Contract is signed with the City or a subcontract is signed with a Covered Vendor.

### **SECTION THREE. Applicability, Exemptions, and Waivers**

- a) Applicability. All of the provisions of this ordinance shall apply to all Covered Vendors as defined in this ordinance, not including the exemptions listed in subsection (b) of this section.
- b) Exemptions. The following types of Assistance, Service Contracts and Subcontracts shall be exempt from the provisions of this ordinance:
  - i) Construction contracts awarded by the City of Boston that are subject to the state prevailing wage law; and
  - ii) Assistance or contracts awarded to youth programs, as defined in this ordinance, provided that the contract is for stipends to youth in the program; and
  - iii) Assistance or contracts awarded to work-study or cooperative educational programs, provided that the Assistance or contract is for stipends to students in the programs; and
  - iv) Assistance and contracts awarded to vendors who provide services to the City and are awarded to vendors who provide trainees a stipend or wage as part of a job training program and provides the trainees with additional services, which may include but are not limited to room and board, case management, and job readiness services, and provided further that the trainees do not replace current City funded positions.
- c) Covered Vendors and Beneficiaries of Assistance must certify in an affidavit in a form approved by the Designated Department and provided by the Contracting Department and signed by a principal officer of the Covered Vendor or Beneficiary of Assistance, that one of the exemptions herein applies to them before they can be considered exempt. The Covered Vendor or the Beneficiary of Assistance shall submit the affidavit to the Contracting Department who shall forward a copy to the Designated Department and the Living Wage Advisory Committee.
- d) Waivers.
  - i) General Waiver. Waivers may be granted by the Designated Department where application of this ordinance to a particular form of Assistance, a Service Contract or Subcontract violates a specific state or federal

statutory, regulatory or constitutional provision or provisions. All general waiver requests shall include the following:

- 1) the Assistance, Service Contract or Subcontract to which this ordinance applies;
- 2) the conflicting statutory, regulatory or constitutional provision or provisions that makes compliance with this ordinance unlawful, and a copy of each such provision; and
- 3) an explanation of how compliance with this ordinance would violate the cited provision or provisions, and the consequences that would result if this violation were to occur.

A general waiver request shall be submitted directly to the Designated Department. The Designated Department shall forward a copy of all requests to the Living Wage Advisory Committee.

- ii) **Hardship Waiver** - The Contracting Departments shall monitor, and as necessary, recommend to the Designated Department, individual or group exemptions necessary in cases in which compliance with this ordinance would cause undue economic hardship. Such waivers shall be subject to the Designated Department's approval after having held a public hearing on the request.

All hardship waiver requests shall include the following:

- 1) The Service Contract or Service Subcontract to which this ordinance applies;
- 2) The lower wage paid by the Covered Vendor, and
- 3) A detailed explanation of how the payment of a Living Wage will cause undue economic hardship including supporting financial statements.

All hardship waiver requests shall be forwarded to the Living Wage Advisory Committee. Hardship waivers under this section shall not be applicable to Beneficiaries of Assistance.



#### **SECTION FOUR. First Source Hiring Agreements**

All Covered Vendors and all Beneficiaries of Assistance (hereinafter referred to as "the employer" for the purposes of this section) shall sign a First Source Hiring Agreement with one or more Referral Agencies or one or more Boston One Stop Career Centers which shall include the following:

- a) Prior to announcing or advertising an employment position for work which shall be performed as a result of a Service Contract, Service Subcontract or Assistance created either as a result of a vacancy of an existing position or of a new employment position, the employer shall notify the referral agency about the position, including a general description and the employer's minimum requirements for qualified applicants for such position.
- b) The employer shall not make such public announcement or advertisement for a period of five (5) business days after notification to the referral agency of the availability of such position. Such five (5) day period is hereinafter referred to as the "Advance Notice Period."
- c) The referral agency shall maintain a database of job opportunities subject to this ordinance and shall provide information on such job opportunities to all Boston residents who receive services;
- d) The Advance Notice Period shall be waived if the referral agency has no qualified candidates to refer to the Covered Vendor or Beneficiary;
- e) The Referral Agency or Career Center shall institute a tracking system and record which applicants were interviewed, which applicants were not interviewed, and which applicants were hired for the positions;
- f) The agreement does not require the employer to comply with these procedures if it fills the job vacancy or newly created position by transfer or promotion from existing staff or from a file of qualified applicants previously referred by the Referral Agency or Career Center; and
- g) The agreement shall not require the employer to hire any applicant referred under the terms of this agreement.

Beneficiaries who receive Assistance from the City in the amount of one million dollars (\$1,000,000) or more in any twelve month period shall be required to comply with this section for five years from the date such assistance reaches the one

million (\$1,000,000) threshold. Beneficiaries receiving less than one million dollars but at least one hundred thousand dollars (\$100,000) of Assistance in any twelve month period shall be required to comply with this section for one year.

#### **SECTION FIVE. Notification Requirements**

All Contracting Departments engaged in the awarding of contracts shall provide in writing, an explanation designed by the Designated Department, of the requirements of this ordinance in all requests for bids for Service Contracts with the City of Boston. All persons who have signed a Service Contract with the City of Boston shall forward a copy of such requirements to any person submitting a bid for a Subcontract on the Service Contract.

#### **SECTION SIX. Living Wage Payment to Employees.**

- a) **Applicability.** Covered Vendors shall pay no less than the Living Wage to Covered Employees.
- b) **Calculation of the Living Wage.** The Living Wage shall be calculated on an hourly basis and shall be no less than \$8.23 from July 1, 1998 subject to adjustment each year on July 1:
  - i) to the hourly rate which at forty hours of work a week for fifty weeks a year would be equal to but not less than the poverty threshold for a family of four as published by the United States Department of Health and Human Services; or
  - ii) in proportion to the increase at the immediately preceding December 31 over the year earlier level of the Annual Average Consumer Price Index for All Urban Consumers (CPI-U) Boston-Lawrence-Salem, MA NH as published by the Bureau of Labor Statistics, United States Department of Labor applied to \$8.23; or
  - iii) 110% of the federal or state minimum wage; or

whichever of the foregoing is higher.



## SECTION SEVEN. Duties of Covered Vendors.

### a) Maintenance and Examination of Payroll Records.

- i) Maintenance of Payroll Records. Each Covered Vendor shall maintain payrolls for all Covered Employees and basic records relating thereto for a period of three years. The records shall contain the name and address of each employee, the job title and classification, the number of hours worked each day, the gross wages, deductions made, actual wages paid, a copy of the social security returns, and evidence of payment thereof, a record of fringe benefit payments including contributions to approved plans, funds or programs and/or additional cash payments, and such other data as may be required by the Contracting Department from time to time.
- ii) Examination of Payrolls. Each Covered Vendor shall permit representatives of the Designated Department or their designees to observe work being performed upon the work site, to interview employees and to examine the books and records relating to the payrolls being investigated.

### b) Vendor Agreements.

At the time of signing a Service Contract with the City of Boston or Subcontract with a vendor, the contract with the Covered Vendor must include the following:

- i) the name of the program or project under which the Contract or subcontract is being awarded;
- ii) a local contact name, address, and phone number for the Covered Vendor;
- iii) a written commitment by the Covered Vendor to pay all Covered Employees not less than the Living Wage, subject to adjustment each July 1, and to comply with the provisions of this ordinance;
- iv) a workforce profile of Covered Employees paid for by the Service Contract or Subcontract including the employees' job titles with wage ranges, number of Covered Employees who are Boston residents, and the number of Covered Employees who are minorities and women;

- v) a written narrative of the Covered Vendors' past efforts and future goals to hire low and moderate income Boston residents and train Covered Employees; the potential for advancement and raises for Covered Employees; the net increase and decrease in number of jobs or number of jobs maintained by classification that will result from the awarding of the Service Contract;
- vi) for Service Contracts, a list of all Service Subcontracts either awarded or that will be awarded to vendors with funds from the Service Contract. Any Covered Vendor awarded a Service Contract shall notify the Contracting Department within three (3) working days of signing a Service Subcontract with a vendor.
- c) Quarterly Reports. Covered Vendors shall provide quarterly reports to the Designated Department of their employment activities including:
  - i) the job positions charged to the Contract, the wage ranges of those positions;
  - ii) the total number of Boston residents, women and minorities who are charged to the Service Contract or Subcontract;

The Designated Department shall submit a summary of said reports to the City Council and Living Wage Advisory Committee within 30 working days following each quarter's end.

## **SECTION SEVEN. Living Wage Advisory Committee.**

- a) Purpose. The purpose of the Living Wage Advisory Committee shall be to review the effectiveness of this ordinance in creating and retaining living wage jobs in Boston, to promote access to living wage jobs for low and moderate income Bostonians, to review the implementation and enforcement of this ordinance, and to make recommendations from time to time in connection therewith.

- b) Composition and Term. The Living Wage Advisory Committee shall be comprised of seven members who shall be appointed by the Mayor:
- i) One member of the committee shall be a labor union member appointed by the Mayor from a list of three nominees recommended by the Massachusetts AFL-CIO.
  - ii) One member of the committee shall be a member of the Association of Community Organizations for Reform Now (ACORN) appointed by the Mayor from a list of three nominees recommended by ACORN.
  - iii) One member of a community-based organization operating solely within the City of Boston;
  - iv) One member of the Greater Boston Chamber of Commerce appointed by the Mayor from a list of three nominees recommended by the Chamber; and
  - v) One member of the Boston Chamber of Neighborhood Commerce appointed by the Mayor from a list of three nominees recommended by the Neighborhood Chamber.

Each member of this committee shall serve a three year term.

- c) Meetings. The Living Wage Advisory Committee shall meet quarterly and in special session as required. All meetings of the Living Wage Advisory committee shall be open to the public under the Commonwealth's Open Meeting Law. The committee shall promulgate regulations and rules which allow for public participation and testimony at hearings and meetings.
- d) Conflict of Interest. For the purposes of this ordinance, no member of the Living Wage Advisory Committee shall participate in any proceeding concerning a Beneficiary, a Covered Vendor, a Covered Employee, or applicant for waiver or exemption, if the member or any member of his or her immediate family has a direct or indirect financial interest in said individual or in the award of a Service Contract, Subcontract or Assistance or the granting of relief to said individual.

## **SECTION EIGHT. Enforcement Powers.**

If necessary for the enforcement of this ordinance, the Designated Department may issue subpoenas, compel the attendance and testimony of witnesses and production of books, papers, records and documents relating to payroll records necessary for hearing, investigations, and proceedings. The Designated Department may apply to a court of competent jurisdiction to enforce these provisions.

## **SECTION NINE. Complaint Procedures and Investigations.**

### **a) Complaints**

- i) A person or an employee who believes that he or she is a Covered Employee or a person who is an applicant for a position to be filled by a Covered Employee and believes that his or her employer is not complying with requirements of this ordinance applicable to the employee, may file a complaint with the Designated Department. Complaints by Covered Employees of alleged violations may be made at any time. Statements written or oral, made by an employee, shall be treated as confidential and shall not be disclosed to the Covered Vendor without the consent of the employee.
- ii) A complaint of non-compliance with this ordinance may be filed by any person with the Designated Department, which shall provide a copy of the complaint to each Covered Vendor against whom the complaint is made within five business days.

- b) **Discrimination Against Covered Employees Barred.** If a Covered Vendor: discharges; reduces the compensation of; or discriminates against any Covered employee or any other person for making a complaint to the Designated Department, otherwise asserting his or her rights under this ordinance, participating in any of its proceedings, or using any civil remedies to enforce his or her rights under the ordinance, the Covered Vendor shall be considered in violation of this ordinance. The Designated Department shall investigate allegations of retaliation or discrimination and shall, if found to be true, after notice and a hearing order appropriate relief to the employee or person and penalties for the Covered Vendor and may suspend the Contract or order the Service Contractor to suspend the Subcontract.
- c) **Investigations.** The Designated Department, or its designee shall investigate all complaints of non-compliance. Investigations may include routine reviews, spot checks, and investigations pursuant to complaints. The

Designated Department, or its designee, shall have the responsibility to examine promptly all payrolls for compliance upon receiving a complaint, in furtherance of any investigation.

d) Non-Compliance.

- i) If the Designated Department finds evidence that the Covered Vendor is not in compliance or has violated any of the provisions of this ordinance, the Designated Department shall order such remedial measures as required to ensure compliance herewith including, but not limited to: ordering back-pay to Covered Employees for non-compliance with Section Six, Living Wage Payment to Employees.
- ii) If the Covered Vendor does not comply with the Designated Department's order within 10 working days, the Designated Department shall review the facts of the finding and may proceed with a formal hearing and investigation. If a hearing is held by the Designated Department, the Department shall review remedies and penalties with the Living Wage Advisory Committee. If the Designated Department decides not to proceed with a hearing, it shall so notify the Living Wage Advisory Committee and provide a statement of the reasons for the decision.

- e) Living Wage Advisory Committee Compliance Review Hearings. The Living Wage Advisory Committee shall determine the need for an additional public hearing on any recommendations by the Designated Department. If a hearing is deemed necessary, it shall be scheduled and conducted by the Committee, in conjunction with the Designated Department, within (20) twenty business days of the Designated Department's notification to the Committee of a Covered Vendor's non-compliance. The Committee shall file a notice of the hearing seven (7) working days before such hearing to the City Clerk, the Covered Vendor, and the complaining party or parties.

## **SECTION TEN. Penalties and Remedies.**

- a) In the event that the Designated Department determines, after notice and hearing, that any Covered Vendor has failed to pay the Living Wage rate or has otherwise violated the provisions of this ordinance, the Designated Department may order any or all of the following penalties and relief:

- i. Fines in the amount of \$300 for each Covered Employee for each day that the Covered Vendor is in violation of this ordinance;
  - ii. The filing of a complaint with the pertinent State or Federal agency;
  - iii. Wage restitution for each affected employee;
  - iv. Suspension of ongoing contracts and subcontract payments; and
  - v. Ineligibility for future Contracts with the City for three years or until all penalties and restitution have been paid in full.
  - vi. Any other action deemed appropriate and within the discretion and authority of the city.
- b) Remedies Herein Non-exclusive. No remedy set forth in this ordinance is intended to be exclusive or a prerequisite for asserting a claim for relief to enforce the right granted under this ordinance in a court of law. This ordinance shall not be construed to limit an employee's right to bring common law cause of action for wrongful termination.

**SECTION ELEVEN. Earned Income Credit Notification.**

Covered vendors shall inform Covered Employees earning less than twelve dollars (\$12) per hour, or such other amount as determined by the Designated Department, of their possible right to the Federal Earned Income Credit ("EIC").

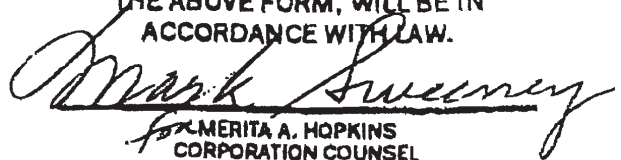
**SECTION TWELVE. Severability.**

In the event any provision of this ordinance shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

**SECTION THIRTEEN. Effective Date.**

This ordinance shall be effective upon its passage.

I HEREBY CERTIFY THAT  
THE FOREGOING, IF PASSED IN  
THE ABOVE FORM, WILL BE IN  
ACCORDANCE WITH LAW.

  
for MERITA A. HOPKINS  
CORPORATION COUNSEL



# Endnotes

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