



ACORN

*The campaign for living wages has spread from Baltimore to more than 100 cities around the country, including New Orleans, the location of this rally.*

# **ABOVE** *the* **minimum**

*Living-wage statutes are designed to help low-income workers in Baltimore and other Fifth District communities, but do they get the job done?*

BY JULIA R. TAYLOR AND CHARLES GERENA

**T**he year is 1993 and a 30-something Baltimorean is working as a janitor for the city's ballpark. He leaves work at the end of the day, but instead of heading to his apartment or house, he walks to the homeless shelter that he temporarily calls home. The reason for his current living arrangement is not unemployment, but that his wage isn't

enough to keep his family above the poverty line.

The above example described in a *Baltimore Sun* article — while not necessarily representative of the average low-wage worker's experience — illustrates the type of decisions that some have to make. "A lot of people who are working full-time jobs and [receive]

other assistance still [can't] get by with minimum wage. If you work full time at a minimum-wage job, you [can still] fall below the poverty line," says Erica Schoenberger, an expert in regional economic development at Baltimore's Johns Hopkins University.

In the early 1990s, the city was in the middle of a fiscal crisis — with

outlays chronically outpacing revenues — and was under enormous pressure to outsource activities to the private sector. This privatization push resulted in jobs going to private firms that often paid their employees lower wages than the government had paid its workers for performing the same tasks. Some citizens balked at having their tax dollars being used to employ people at what they saw as an unfair wage. At the same time, efforts to increase the minimum were at a standstill in Congress. The combination created an atmosphere ripe for change.

As Schoenberger explains, “It was plain the national policy wasn’t going to change fast enough, so something had to happen at a local level.” What happened was the living wage.

The term “living wage” is inherently subjective. Some define it as a salary that is just enough to keep a family out of poverty, while others view it as enough to be self-sufficient. In many cases, policymakers set the living wage 50 percent to 100 percent above the federal minimum wage in order to meet these fuzzy benchmarks. It can go even higher for employees that don’t receive health benefits as part of their employment package.

In 1994, Baltimore became the first city in the United States to pass a living-wage ordinance. Employers that contracted with the city were ordered

to pay their employees a wage of \$6.10 per hour, enough to yield an income equal to the poverty threshold for a family of four. Now in 2004, those employers along with companies that receive tax breaks and other subsidies must pay their workers at least \$8.85 an hour, substantially above the federal minimum wage of \$5.15.

In the decade since the passage of Baltimore’s living-wage law, about 100 cities and counties across the country have adopted similar legislation. On the surface, the living wage is fertile ground for controversy. Upon closer examination, however, the results are not as plain as either its proponents or critics would claim. The living wage has helped some low-wage workers, but the overall effects have been rather small. Those who have benefited the most, it appears, are unionized municipal workers, who because of living-wage laws face less competition from private firms eager to win government contracts.

### Helping Some Workers ...

Despite the country’s overall economic progress in the 1990s, the salaries of lower-wage workers have not grown as rapidly as those at the top of the earnings scale. “There has been a widening wage inequality. A good chunk of that has been between the bottom and the middle,” says econo-

mist David Neumark of the Public Policy Institute of California. The economic reasons for this are complex. But the political effects have been pretty straightforward: Living-wage movements and other “progressive” causes have gained steam.

Indeed, many communities with traditionally large activist populations, including a number of college towns, have been at the forefront of the living-wage movement. Charlottesville, Va., and Durham, N.C., are just two such examples from the Fifth District. (Not all communities with living-wage laws resemble Charlottesville and Durham, though. See sidebar, “Where the Living Wage Is Law.”) As David Neumark elaborates, “In a climate of relatively conservative politics and social policy, [these] localities have passed” ordinances of their own. “It’s a victory for very progressive political ideas.”

Communities also had another impetus to enact living-wage laws. It is here that the “fairness factor” comes into play, meaning that those companies receiving something from the government, whether it’s tax benefits or contracts, should have to “give back” in the form of higher wages for their employees.

Jen Kern of the Association of Community Organizations for Reform Now (ACORN), which has pushed

## Where The Living Wage Is Law

In 1994 Baltimore passed the country’s first living-wage ordinance. Since then roughly 100 other communities around the nation have followed suit. Which places have been at the forefront of the living-wage movement and are there similarities among these communities?

Many college towns and other cities with large activist populations have passed living-wage laws. But they are not alone. According to a new study by Oren Levin-Waldman, a professor of public affairs and administration at Metropolitan College of New York, cities with high immigrant populations and relatively low levels of educational attainment are disproportionately likely to enact living-wage ordinances. Why? Because there is a substantial number of people who stand to benefit from such laws, Levin-Waldman argues. In general, these citizens lack the “requisite education and skills to command higher wages” on their own, he writes.

There is, however, an alternative explanation, one that is consistent with research by economist David Neumark. He has found that living-

wage laws tend to benefit unionized municipal workers because they raise labor costs for private firms that do business with local governments, and thus make it more expensive to contract out government services. Many of those private firms, which are put at a disadvantage by living-wage laws, are likely to employ low-skilled immigrant labor.

What does this mean? Perhaps that living-wage laws are common in the communities Levin-Waldman describes because they protect municipal workers from low-skilled immigrant workers — not because they benefit those low-skilled immigrant workers.

At any rate, one thing seems clear. Living-wage laws are popular in these communities for very different reasons than most college towns, where residents tend to be wealthier and more educated than the overall population. It seems that in places like Charlottesville, Va., the living-wage movement may be driven more by ideology than basic economic factors.



hard for living-wage laws, says that although there are businesses that publicly oppose living-wage legislation, some employers support it privately. She claims that some employers want to increase worker wages but can't afford to do so because

they are in competition with other businesses. Kern argues that if higher wages were mandated for all employers, it would take cost competition out of the equation. (Of course, such a move would almost certainly increase prices paid by consumers for various goods and services.)

Advocates of the living wage also say that entry-level workers who are offered higher wages will work harder and have better attendance, resulting in a more stable work force. "A higher wage will bring in a higher quality of workers. People will work harder when you pay them more. They take more pride in their work," says Burt Barnow, associate director for research at Johns Hopkins University's Institute for Policy Studies.

Committed workers, in turn, will rely less on social-welfare programs, reducing the overall cost to the gov-

ernment and taxpayers. If this reasoning is correct, though, it's not clear why higher wages would need to be mandated. Private companies would have a strong incentive to raise wages on their own, if doing so would result in a more stable, productive work force.

### ... But at What Cost?

The philosophy behind living-wage laws may be praiseworthy, but economists have been studying the possible unexpected effects. Their main concern is that living wages could squeeze some workers out of the job market altogether.

The Employment Policies Institute's director of research, Craig Garthwaite, puts it simply: "It's basic economics — when you increase the price of a good, people consume less of it." The "good" in this case is labor, meaning companies will not hire as many workers.

When a city forces a business to pay their workers higher wages than they normally would, the policy may unintentionally hurt the very people it was designed to help. Many opponents of living-wage laws argue that companies will look to find ways to cut labor costs, such as increased automation. Think of how gas stations have cut costs by making stations "self-service," rather than having a person pump your gas.

Or companies may try to make up for some of the higher costs by increasing the prices of their government contracts. But their leverage to do so is limited. Since living-wage laws effectively make it more expensive to contract work out, the law obstructs rather than aids privatization. This leaves governments in the position of increasing their own spending.

Some fear that the increased costs caused by these laws might make a city less attractive to outside businesses. No one likes to be told what to do, and private companies are no exception. They don't want to be forced to raise employee wages. Concerned about what it might do to his state's business climate,

## How Much They Have To Pay

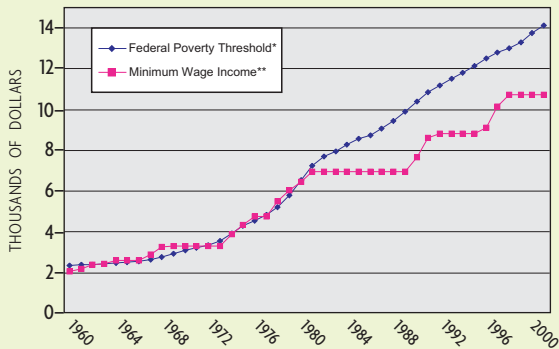
Municipalities in the Washington, D.C., metropolitan area like Alexandria, Va., and Montgomery County, Md., tend to have higher living-wage requirements than other parts of the Fifth District. This makes sense given the higher cost of living in the region.

	Living-Wage Requirement	Requirement Applies To	Law Enacted
Alexandria, VA	\$11.36/hour	City contractors working on city-controlled property; excludes inmates	June 2000
Arlington County, VA	\$10.98/hour	Companies with county contracts > \$100,000 for services performed on county-controlled property	June 2003
Baltimore, MD	\$8.85/hour	Companies with city construction and mail delivery firms	Dec. 1994
Charlottesville, VA	\$9.00/hour	County contractors, except construction and mail delivery firms	Nov. 2001
Durham County, NC	\$9.74/hour	County contractors, except construction and professional services firms; excludes inmates	June 2004
Montgomery County, MD	\$10.75/hour	Companies with county contracts > \$50,000 and 10 or more workers	June 2002
Prince George's County, MD	\$10.50/hour	Companies with county contracts > \$50,000 and 10 or more workers	June 2003

SOURCES: Employment Policy Foundation and ACORN

## Keeping Your Head Above Water

Workers earning the federal minimum wage haven't been able to keep their families above the poverty line since the late 1970s. Due to the infrequency of minimum-wage increases, localities have stepped into the fray with living-wage standards of their own.



### NOTES:

\* The poverty threshold is presented for a three-person family because, according to the Census Bureau, this is the average family size in the United States.

\*\* The minimum wage income was based on a person working full-time, 40 hours a day, 52 weeks per year at the federal minimum wage for that year. For periods when Congress raised the minimum wage midyear, the wage is the weighted average of the minimum wages in force during that year.

SOURCE: U.S. Census Bureau, U.S. Department of Labor

Gov. Robert Ehrlich Jr., of Maryland, last spring vetoed legislation that would have implemented a statewide living wage.

Have any of the dire predictions come true? In their book *The Living Wage: Building a Fair Economy*, Robert Pollin and Stephanie Luce concede that increased wages may drive up costs in some areas. But they argue that this effect is not large enough to make businesses go elsewhere — or to significantly affect government finances.

And according to a survey of Baltimore city administrators, contract costs did rise, but in the main the increases represented less than 1 percent of their total budgets. This is due in part to the fact that only select contract areas experience coverage by the living-wage ordinance. The law simply did not cover areas with the largest concentration of low-wage workers, such as social work or home health care. Since so few workers experienced an increase in wages, city budgets remained relatively unaffected.

In general, the benefits to low-

income workers have been limited as well. A relatively small share of workers end up being covered by living-wage laws, namely those who work for companies that do business with the government. And even among that group, only some workers are affected. Those who are already making more than the living wage remain unaffected. Nevertheless, even if the measures help just a small percentage of workers, it would still be considered a victory for living-wage advocates.

## Who Benefits the Most

According to Neumark's research, living-wage laws seem to

favor unionized city workers the most. "Labor relations in the public sector are [handled differently] than in the private sector, where there are strikes when there is a conflict. If you're the mayor, you don't want a strike or the garbage piling up," so municipal unions have a lot of leverage.

In the past, local officials could counter that power by threatening to shift public jobs into the private sector unless they received concessions. But that is no longer a credible option. "The living-wage law removes the threat of privatization because the city would no longer have an incentive to privatize," explains Neumark. Both union workers and those who work for city contractors wind up with similar salaries.

Furthermore, the ordinances target low-wage workers but not necessarily low-income workers, lessening the effectiveness of the laws. For example, a high school student from a relatively affluent family who works an entry-level job in the summer to earn spending money is cov-

ered by living-wage legislation in the same way as workers who are trying to support families.

For this reason, as well as many others, economists argue that there are more efficient ways than living-wage laws to alleviate poverty on a widespread basis. A better solution, Barnow suggests, is the Earned Income Tax Credit (EITC), which "targets people with low earnings. ... If you're in a family with high income, you wouldn't be entitled to it no matter what your job is."

Still, national organizations such as ACORN are pushing to bring living-wage laws to cities that do not have them and to broaden coverage in those that already do. Many activists, for instance, would like to see living-wage laws expanded to cover all workers, regardless of employer. This effectively would raise a city's minimum wage — a development that many economists would look at unfavorably. As written, most living-wage laws have only limited effects on a region's economy. But if those laws were applied to everyone, the effects on economic growth and employment could become substantial. **RF**

### READINGS

Adams, Scott, and David Neumark.

"The Economic Effects of Living Wage Laws: A Provisional Review." National Bureau of Economic Research Working Paper no. 10562, June 2004.

Bernstein, Jared. "The Living Wage Movement: What Is It, Why Is It, and What's Known about Its Impact?" In Freeman, Richard B., Joni Hersch, and Lawrence Mishel (eds.), *Emerging Labor Market Institutions for the 21st Century*. Chicago: University of Chicago Press, Forthcoming.

Levin-Waldman, Oren. "Cities That Pass Living-Wage Ordinances." *Challenge*, September-October 2004, vol. 47, no. 5, pp. 56-68.

Neumark, David. "Living Wages: Protection For or Protection From Low-Wage Workers?" National Bureau of Economic Research Working Paper no. 8393, July 2001.

Pollin, Robert, and Stephanie Luce. *The Living Wage: Building a Fair Economy*. New York: New Press, 1998.

Visit [www.rich.frb.org/pubs/regionfocus](http://www.rich.frb.org/pubs/regionfocus) for links to relevant sites.