

Living Wage Q&A

Q. What does "living wage" really mean?

At an absolute minimum, a living wage is the amount a person would need to earn to stay above the federal poverty level. In 2000, this amounted to \$17,050 a year for a family of four, or \$8.20 per hour for a full-time, year round worker. However, a true living wage varies city by city because it takes into consideration the cost of living (housing, food, child care, health care, transportation, etc.) in each location.

The local Living Wage Coalition has chosen 130% of the federal poverty level as their recommended guideline for living wages in the Bryan/College Station area. Currently this equates to \$9.79 per hour or \$20,363 annually. This amount was chosen because it is close to the cut-off for determining food stamp eligibility. Families that make less than 130% of the federal poverty guidelines are considered poor enough to qualify for public assistance.

Q. Don't we already have a "minimum wage" law? Why do we need a "living wage" too?

The minimum wage is no longer a family-supporting wage. In the past, the minimum wage provided enough income to lift a family of three out of poverty. During the 1960s and 1970s the annual earnings of a full-time, year-round minimum wage worker roughly equaled the poverty level for a family of three. However, during the 1980s the cost of living rose steadily but minimum wages did not. Recent increases have still not restored all the lost value. Based on U.S. Census estimates of average poverty thresholds in 1999, full-time, year-round minimum wage earnings were nearly 20% below the poverty level for a family of three. Unlike the federal minimum wage, which produces earnings below the poverty level, a living wage is a pay rate designed to ensure that workers earn wages at, or above, the poverty line. Although a living wage is still a low wage, the extra disposable income available to a full-time living wage worker compared with a full-time minimum wage worker is substantial.

According to a 2000 poll by Lake Snell Perry & Associates ("A National Survey of American Attitudes Toward Low-Wage Workers and Welfare Reform"), Americans overwhelmingly supported the idea that anyone who worked full-time should not live in poverty. Four out of five of those polled (84%) agreed that "as a country, we should make sure that people who work full-time should be able to earn enough to keep their families out of poverty." The study also found that Americans think it takes an income much greater than current poverty thresholds to provide for oneself and one's family. Nine out of 10 respondents (92%) felt that a family of four needed at least \$25,000 annual income just to meet all expenses and 69% thought an income of at least \$35,000 was necessary.

Q. Will paying a living wage really reduce poverty?

Some critics argue that living wages will not reduce poverty because most of the people impacted do not live in poor households. Evidence from an Economic Policy Institute evaluation of the Baltimore living wage ordinance shows that this claim is not true. Interviews with a sample of workers covered by the living wage revealed that their average household income before being paid a living wage was \$13,632. The interviews also showed how important a living wage worker's wages were to their family's well-being. An overwhelming majority of the workers interviewed were the primary wage earner in their household, bringing home an average of 68% of their family's income.

Q. Won't raising wages result in job loss for the very workers you are trying to help?

The threat of job loss is a largely emotional argument that is often injected into public policy debates to sway the public and decision makers. By the same logic, the job loss threat should apply to any expense a firm might face. For example, one could argue that job losses might occur if energy costs go up, if taxes rise, if new equipment or facilities are necessary, or if executive or management-level employees receive large salary increases or bonuses.

In reality, a rise or fall in overall employment depends on factors that are more far-reaching than paying a living wage. Any potential employment/unemployment impacts of a living wage would be mitigated by the overall financial health of an area. The non-effect of living wages on unemployment has been documented in studies of cities that have living wage ordinances. For example, the Economic Policy Institute concluded in 1998 that after four years in force, the Baltimore living wage increase did not result in any discernible job loss. On the other hand, a different study of the Los Angeles living wage law, the nation's most far-reaching living wage law, found that total employment on city service contracts declined by about 3% over the first eighteen months of implementation (Sander and Lokey). However, the authors of this study concluded that the increase in unemployment might have occurred because Los Angeles, unlike Baltimore, did not put contracts up for competitive bids. Instead, they chose to re-negotiate contracts with existing vendors. The authors also concluded that implementing a competitive bidding process would help "hold down both costs to the city and the loss of worker jobs."

The vast majority of economic research concludes that there is little or no loss of jobs associated with small wage increases. The clearest evidence for evaluating the unemployment impact of increases in the wage floor comes from the increases to the federal minimum wage in 1996 and 1997. Following these increases the economy continued to produce jobs at near record rates. In February 2000 only 7.2% of the working age population was not in the workforce compared to 11% in 1994.

Q. Aren't most low-wage workers teenagers?

About half of all minimum wage workers are over 25 years of age; and a much higher percentage of workers being paid under \$7.60 an hour are also over 25. Extensive analysis of past and proposed wage policies has determined that the primary beneficiaries of a living wage would be low-wage workers who are disproportionately adult, female, and people of color. Additionally, most of the workers who would benefit are members of low-income families. The Economic Policy Institute (EPI) found that about 11.8 million workers (10.1% of the workforce) would receive an increase in their hourly wage rate if the minimum wage were raised to \$6.15 per hour. Seventy-two percent of these workers were adults (age 20 and older) and 59.2% were female. Because the minimum wage workforce is disproportionately minority, 15.1% of those affected by the increase would be African-American and 17.4% of those affected would be Hispanics (compared to 11.6% and 10.6% respectively of these groups' total workforce representation).

Q. Won't paying living wages to entry-level workers be a disincentive for them to seek more training and move into higher paying jobs?

Millions of people who have low-wage jobs have to work multiple jobs, or lots of overtime, just to support themselves. That doesn't leave much time for participation in training during their non-work hours. By saying that the problem is a lack of initiative on the part of these low-income workers is blaming the victim.

But even if workers in low-wage jobs did participate in training and move up to higher paying jobs, these lower paying jobs would still exist and would still be filled by other low-wage workers who might have to work multiple jobs or lots of overtime to support themselves and their families.

Q. What if the type of work done by low-wage workers isn't worth higher pay?

No matter the job performed, whether preparing hamburgers or taking care of children or the elderly, or cleaning motel rooms, workers must earn enough money to pay the rent and buy food and other basic necessities. It is also important to understand that the way the “worth of workers” is determined has changed in recent years. Throughout the first seventy years of the 20th century improvements in worker efficiency (measured as productivity) provided the basis for steady wage increases for workers. This relationship changed dramatically over the last 30+ years. For example, between 1973 and 1998 worker productivity increased by 46.5%. Over the same period, hourly wages for average workers declined by 6.2% (adjusting for inflation), and weekly wages declined by 12%. The benefits of productivity improvements, once shared with workers, are now being disproportionately distributed to shareholders and corporate executives.

Q. Won't employers replace less-skilled workers with higher-skilled workers if they are forced to raise wages?

Research on the minimum wage suggests that living wage ordinances will not cause job loss among less-skilled workers. For example, a recent Economic Policy Institute study of the effects of the 1996-97 minimum wage increase found no evidence of job loss among teenagers and adult workers with less than a high-school education (two groups of workers that typically have lower skill levels) (Bernstein and Schmitt 1998).

There is also no evidence that firms that transition from a strategy of low pay/low-skills to a strategy of high-pay/high-skills have lowered employment opportunities for their low-skilled workers. However, the evidence does suggest that these employers typically make the transition by retaining, training, and motivating their existing workforce.

Q. Will earning a living wage result in a loss of benefits for families currently receiving government assistance?

It is true that many federal programs for the poor, such as the Earned Income Tax Credit (EITC), do “phase out” as people earn more money. So a dollar of extra pay does not translate into a full dollar of extra income after lost benefits are calculated. But with a living wage, workers still end up with most of the higher pay, despite the poor design of federal aid programs. Consider the following scenario. An individual receives food stamps, EITC, and Section 8 housing. If she gets a raise, but the raise keeps her below 130% the federal poverty level, she will qualify for food stamps. However, even staying below poverty level, every \$100 she earns in a raise will result in a loss of \$24 in food stamps. This individual still will earn a raise of \$76. In regards to Section 8 housing, which is figured on 30% of a person's income, for every \$100 increase, her rent will increase by \$20. Her net raise is now \$46. In addition, she might lose approximately \$20 of her EITC. The resulting net raise is \$26. After all of the deductions, she still experiences a net gain in income.

Q. Employers in a competitive market place must vie with each other for business. Won't paying a living wage make an employer less competitive?

Using wages to be competitive promotes a “race to the bottom”, pulling down living standards not only for directly affected workers, but potentially for the community as a whole. This race to the bottom adds strain to communities, requiring public resources to offset costs of poverty wages and imposing greater demands on private charities.

Competing by lowering wages also promotes greater turnover and discourages employer investment in training and other productivity-enhancing measures. Greater turnover and the discouragement of employer investment in training can inhibit improvements in overall service quality.

Paying a living wage can improve the standards of workers and the communities in which they live and may have a beneficial impact on affected businesses and the business climate overall.

In the absence of living and minimum wage laws, firms can choose either the "low road" (low pay, low training, low motivation, high turnover, and high vacancies) or the "high road" (higher pay, more training, greater motivation, lower turnover, and fewer vacancies). Almost every industry includes profitable businesses that follow both paths.

High-road employers, who would rather have a stable workforce and produce a high-quality product, have to compete for contracts with low-road employers, who provide a poorer-quality product at a lower cost. Living wage ordinances encourage businesses to take the high road, leading to higher quality services for the public and a more highly trained workforce.

Opponents of living wages have provided no evidence that the transition from low-road to high-road employment will lower employment opportunities for less-skilled workers. The evidence suggests that employers typically make the transition by retaining, training, and motivating their existing workforces.

Q. Won't business pass the cost of paying a living wage on to consumers and the public?

No. In fact, it's the absence of living wage requirements that allow businesses to shift some of their employment costs to the public. In many ways you're paying for low wages, now, with your tax dollars. When workers work hard and are paid poverty-level wages, your tax dollars are subsidizing the corporations by paying for welfare, food stamps, and housing subsidies.

Three studies on existing living wage ordinances found early evidence that relatively little of the extra cost in labor had been passed on to consumers or the cities with whom they contract. The studies suggested that companies were absorbing the higher wages or finding ways to offset them (Uchitelle, 1999). In fact, higher wages may actually help firms reduce turnover and fill vacancies, and, according to some economists, can also lead to greater worker productivity by improving morale and overall job satisfaction. These benefits generate efficiency gains that allow firms to absorb the increase in labor costs (Card and Krueger, 1999).

It also is important to understand that wages are just one of many factors that make up the cost of an item. Factors such as manufacturing, transportation, equipment, rent, advertising, and business location also contribute to the cost of doing business.

Q. Won't living wages inevitably lead to higher taxes or inflation?

To date there is no evidence that living wage ordinances have led to higher taxes. Conversely, raising salaries to a living wage often benefits a community. Low-wage workers who receive a raise rely less on public assistance or private charity and their ability to meet their own needs – and therefore to purchase goods and services – can pump more money back into their communities. Further, when American workers aren't being paid enough to buy products, sooner or later the economy will go into a depression, hurting all of us.

Rising wages also don't always lead to inflation. An example of the non-inflationary relationship between wages and the cost of goods can be found in the 1996 survey report entitled, "Think Again: A Wage and Price Survey of Denver Area Fast Food Restaurants." This survey focused on four national fast food chains: Arby's, Burger King, MacDonald's and Taco Bell. All were major employers of entry level, low-wage workers. The conclusions of the study showed that higher prices did not necessarily accompany higher wages. For example, the lowest paid Arby's employees were found at a franchise charging the second highest price for a meal. Conversely, a Taco Bell store paying \$1.50 per hour above other restaurants for starting wages simultaneously had the lowest food prices.

Q. Won't a living wage policy chase away existing businesses and deter new investment?

Early fears that a living wage law would drive investment from a city have not materialized in Baltimore, the first city to adopt a living wage ordinance, back in 1994. An analysis of the fiscal and economic costs of Baltimore's living wage ordinance by the Preamble Center in 1996 found no evidence that local businesses or potential investors responded negatively to the ordinance.

For many businesses, their assets have value in a particular location and not outside of it. For example, restaurants, hotels, utilities, construction, universities, and many professional and personal services are very strongly place-bound (Schoenberger). If faced with a requirement to increase wages, it is likely that moving out of the city would be a last resort for such location-specific businesses. Further disincentives to moving to a new location are the numerous costs associated with relocation.

Some communities are concerned that higher wages may discourage new businesses from opening or expanding. It is true that wage levels are one factor in a business's decision as to where to locate. And if all else were equal, the wage level might very well be the determining factor. However, all else is never equal (Schoenberger). Access to markets and transportation systems, infrastructure, the education and skill level of the available workforce, and overall quality of life all vary city to city and exert influence over location decisions.

Economist Erica Schoenberger suggests that the real deterrent to urban investment is not high costs, but high levels of poverty:

Poverty, quite plainly, generates insecurity and difficulty for the rich and the poor alike. It severely limits the local market, which makes a city uninteresting to many kinds of business. It produces ill-prepared workers whose lives are easily disrupted by small catastrophes. If the car breaks down, if the kid gets sick, it suddenly becomes impossible to be a reliable worker. Poverty also generates poor health among workers, making them less reliable still and raising the cost of employing them. It creates a lack of physical security for workers, employers, and property. It produces also a meager tax base and poor physical infrastructure and public services. The costs of doing business could be subsidized to near zero in such a place and investment might still not be forthcoming.

So, rather than threatening the city's economic prospects, a living wage policy, by helping to raise workers out of poverty, becomes a central tool for economic development and a positive contributor to a city's investment climate (Schoenberger).

Q. Shouldn't we let the free market, not the government, determine wage levels?

What is often referred to as the "free" market often isn't free at all. Government plays a rule-setting role, seeking to promote market efficiency, while also containing the social costs stemming from a completely unfettered market. For example, the Federal Reserve Board tries to manage economic growth and control inflation by manipulating interest rates. In addition, businesses are often beneficiaries of government intervention. Federal, state, and local governments consistently provide billions of dollars in subsidies, tax breaks, and other forms of corporate welfare to businesses in the name of economic growth.

Given the degree to which many businesses already benefit from market interventions, it is inconsistent and even spurious for businesses to selectively argue that the market should be left to its own devices in the case of determining wage levels. Additionally, businesses that pay poverty wages indirectly rely on government assistance programs to make up the difference between these wages and what it costs their employees to live. Without the intervention of government and private charities, paying poverty wages wouldn't be a sustainable business practice.

Many critics of the living wage argue that setting wage levels should be the responsibility of businesses alone. But in the United States, the government has long had a role in setting job quality standards that protect workers. Beginning in the 1930s, activists struggled to get federal and state governments to establish job quality standards to prevent abuses of workers. Many of these provisions are still in effect today, including minimum wage laws, overtime requirements, and prohibitions against child labor. More recently, activists advocated for laws such as occupational safety and health standards, family and medical leave.

The above are excerpt from:

AFL-CIO Department of Public Policy

http://www.aflcio.org/yourjobeconomy/livingwage/upload/livingwage_1.pdf

Austin Living Wage Coalition

<http://www.main.org/alwc/myth.htm>

Economic Policy Institute

http://www.epinet.org/content.cfm/issueguides_livingwage_livingwage

Responsible Wealth – a project of United for a Fair Economy

http://www.responsiblewealth.org/living_wage/qanda.html

Universal Living Wage

<http://www.universallivingwage.org/>

And include information from the following sources:

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