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Living Wages and Local Governments

Based on our current knowledge, what should local governments be doing about the "living wage"? Living wages, now adopted by over 50 local governments in the United States, require employers with some financial relationship with the local government to pay covered employees a wage that is above the federal minimum wage. Because living-wage laws are diverse, the question of whether living wage requirements are desirable cannot be answered with a simple "yes" or "no."

Like minimum wages, living-wage laws aim at improving the living standards of workers below or near the poverty line. Living wages differ from minimum wages, however, in three crucial ways:

- Living wages are much higher than minimum wages, averaging about $8.19 per hour, almost 60 percent above the current federal minimum wage;

- Living wages cover relatively few workers, typically only directly raising the wages of less than 1 percent of city residents earning low wages;

- Living wages are enacted by city governments, which have less economic clout in the labor market because local governments must worry about employers moving out of the city or refusing to move in.

The effects of a living-wage law in any particular city are likely to depend greatly on the law's design and on the strength of the city's economy. In addition to differing in the level set for the living wage, living-wage laws differ greatly in terms of which employers and employees are covered.

The high the level set for the living wage, the greater the potential benefits of the living wage for those covered; but higher living wages also increase the chances of adverse effects. Employers can respond to living wages by not creating as many jobs in the city, increasing the credentials expected of new hires, reducing fringe benefits, degrading working conditions, or cutting back on training. It is difficult for a city government to prevent all these possible responses, and therefore they must be taken into account in deciding on an appropriate living-wage level.

Studies of industry and firm wage differentials and of unions' effects of wages suggest that it will be difficult to get employers to raise real wages for workers by more than 30 percent above prevailing levels for workers with that skill level. Mandated wage increases that are greater than 30 percent for many workers are likely to lead to employers hiring workers with more credentials or taking other actions that will hurt the intended beneficiaries of living-wage laws.

Broadening the coverage of the living wage increases the number of potential worker beneficiaries, but also may go beyond what a city government can effectively demand of employers, particularly if the city economy is weak. A few living-wage laws only cover the city's own employees. A city can raise wages for its own workers, maintain working conditions, and continue hiring workers with modest credentials. The cost to taxpayers depends on how the higher wages compare to any cost savings from higher wages' effects in increasing productivity and reducing worker turnover.

About 80 percent of living-wage laws cover the city's service contractors. In this case, if the city is willing to pay possibly higher prices for contracts, the city can effectively insist on higher wages. Whether contract prices actually go up depends upon whether the higher wages help lower some costs by increasing worker productivity or lowering employee turnover. With contractors, the city has less control over who is hired, so a living-wage requirement may in some cases lead to contractors hiring workers with higher credentials.

About half of living-wage laws cover firms receiving some kind of economic development subsidy from the city. Most of the economic development literature suggests that business location decisions among different locations within a metropolitan area are quite sensitive to even small variations in costs. Therefore, adding a living-wage requirement to an existing economic development subsidy is likely to have some significant adverse effects on decisions by some firms about whether to locate or expand in the city. In contrast, if the living-wage requirement is incorporated into a new economic development subsidy and the combined package is attractive to firms, then the city's economic growth will be increased. A possible loss of jobs would be of less concern if the city's economy was strong. In a booming city economy, a living-wage requirement might be one way of managing growth.

A few living-wage laws applied to city contractors or grantees cover all employees of the these contractors and grantees, even employees who are not funded by the city. Such extended coverage will be difficult for the city to require, as the city is not paying these employees' salaries. Such requirements, if enforced, may lead to some reduction in interest in bidding on city contracts and grants.

Because living wage laws affect relatively few workers directly, the indirect effects from the symbolic effects of these laws may be important. On the one hand, living-wage laws are sometimes said to symbolize an anti-business attitude. This might lead to adverse effects upon city economic development beyond what would be expected from the modest direct effects upon living wages on costs. On the other hand, living-wage laws may symbolize a change in local wage norms. Employers may feel as if they are under some obligation to increase wages even if they are not directly affected by the living-wage law.

There is relatively little research evidence on how living-wage laws have actually affected local labor markets. Some research on Baltimore suggests that this early living-wage law, with quite modest wage requirements, probably did not cause large increases in city contract costs. Research on Detroit and Los Angeles provides some evidence of at least some adverse effects of living-wage laws on city contract costs or on how many less-skilled workers are hired by affected

employers, but the research does not allow an exact quantification of these effects. Finally, at least one study suggests that living-wage requirements applied to economic development subsidies may significantly reduce local poverty rates. The anti-poverty effects in this study are so large that they can only be explained if living-wage laws have effects on the wages and hiring practices of many employers other than those directly affected. Other studies are needed to test this finding and see whether these lower poverty rates might be due to other local economic trends.

Based on our current knowledge, living-wage laws make the most sense applied to a city's own employees and to a contractor's city-funded workers. Living-wage levels should be set no higher than 30 percent above prevailing wage levels for those workers. Cities with strong economies might want to consider whether applying living-wage requirements to economic development programs would be an appropriate part of a managed growth plan. Cities might also wish to attach living-wage requirements to economic development subsidies that are more generous than subsidies offered by nearby jurisdictions.

Suggestions for Further Reading

More extensive discussion, and sources for the data and information presented in this article, can be found in the working paper by Timothy J. Bartik, "*Thinking about Local Living Wage Requirements*," available at the Upjohn Institute's web site: http://www.upjohninstitute.org.

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