

# Policy Analysis

No. 493

October 21, 2003

## ***Keeping the Poor Poor The Dark Side of the Living Wage***

by Carl F. Horowitz

### **Executive Summary**

For nearly a decade, activists on the left have been conducting a highly effective nationwide campaign to mandate local minimum wages at levels that presumably eliminate poverty for full-time workers and their families. This “living wage,” as it is known, is now the law in dozens of jurisdictions, and dozens more are actively considering similar measures. Typically, a living wage is set anywhere from 50 percent to 100 percent above the current federal minimum wage of \$5.15 an hour and often higher if employers do not provide health benefits. Thus far, there has been only modest resistance, even from local governments for which the cost of doing business inevitably rises.

Most living wage ordinances apply to private-sector government contractors and, to a lesser extent, recipients of business aid or local government employees, or both. Supporters insist that the benefits are enormous and the costs minimal.

But that view is an illusion, a product of the insular world of local government contracting. If the living wage were applied to all employees across the United States—the goal of advocates of a living wage—it would greatly magnify the well-documented pitfalls of the minimum wage.

Decades of research have shown that the minimum wage harms the least-skilled workers from poor families while heavily benefiting young workers from middle-income households. Several studies critical of the living wage come to similar conclusions. The main beneficiaries of the living wage are public-sector unionized employees because of the reduced incentives for local governments to contract out work. Instead of exploiting grievances of the marginally employed against “greedy” employers, advocates for the poor should focus their energies on building the skills of the poor.

---

*Carl F. Horowitz is a Washington, D.C.,-area consultant on labor, welfare reform, immigration, housing, and other domestic policy issues. He was previously a housing and urban affairs policy analyst at the Heritage Foundation and a Washington correspondent for Investor's Business Daily.*

**By the end of 2002 there were 103 living wage measures on the books.**

## **Introduction**

The “age of the living wage” has arrived with a vengeance. In less than a decade, a well-organized coalition of community groups, labor unions, political parties, think tanks, and churches has coaxed dozens of local governments across the United States into forcing designated employers to pay workers well above the current federal minimum wage of \$5.15 an hour. Living wage jurisdictions include major cities such as New York, Los Angeles, Chicago, and Baltimore plus a large number of smaller cities and suburban counties. Local school boards and institutions of higher learning are participating as well. By the end of 2002 there were 103 living wage measures on the books, enacted mostly by municipal and county general governments, and another 74 campaigns actively under way.

Activists defend living wage laws as protecting vulnerable entry-level workers from poverty. They also argue that such laws improve employee morale and productivity, which in turn improves employers’ profits. Local governments, to the extent they pay contractors living wages, deliver better services at lower cost. Residents are more satisfied with the quality of life, and the pathologies associated with poverty are reduced. Only exploitative employers and their political supporters lose. Common sense and human decency therefore require national as well as local action in the face of right-wing scare tactics. The federal minimum wage should be made a “living” wage.

The reality is quite different. At best, living wage laws bring about modest benefits at a higher cost to businesses and taxpayers. There should be little surprise in that. As an elevated version of the minimum wage, the living wage magnifies the former’s labor market distortions. If applied to all employers in the United States, the living wage would make it far more difficult for first-time job seekers, especially those coming off welfare, to find work. The economic case for the living wage is difficult to make. Indeed, some three-fourths of economists surveyed by the

Washington-based Employment Policies Institute said that living wage laws would result in employers looking for more-skilled employees, thus crowding out the people with the least skills—the very people whom living wage laws are intended to benefit.<sup>1</sup>

## **The Living Wage: Building on the Minimum Wage**

A living wage differs from a minimum wage in several ways. First, a living wage is a good deal higher than the current federal minimum wage of \$5.15 an hour and usually even the (higher) state minimum levels. Dozens of ordinances mandate that affected employers offer health benefits or pay a higher wage in lieu of benefits. To take one example, Cincinnati passed a living wage ordinance in 2002 requiring affected businesses to pay a living wage of \$8.70 with health benefits or \$10.20 without. New York City’s living wage, passed in 1996, mandates that for-profit contractors involved in security, cleaning, food, and temporary services pay employees minimum rates set annually by the city comptroller that may reach levels far above the wage in Cincinnati.<sup>2</sup>

Second, living wage laws apply, and campaigns to enact them take place, at the local rather than state or federal level. Cities, counties, school boards, and, lately, colleges and universities have enacted living wage policies. Efforts to secure equivalent laws at the state or federal level have not been successful thus far.<sup>3</sup>

Third, living wage laws cover far fewer employers than minimum wage rules. Ordinances apply mainly to private-sector government contractors, business recipients of economic development assistance, and local government employees. Only the ordinance enacted by the city of Santa Monica, California, covers employers generally, and even in that instance it operates within a restricted geographic area. That is why living wage laws, as of 2002, directly affected only about 1 percent of workers in communities that have such laws.<sup>4</sup>

The living wage movement, like the minimum wage movement, has a long historical pedigree of religiously charged moral rhetoric. The term “living wage” first evolved in the wake of the nationwide railroad strike of 1877.<sup>5</sup> The people who coined the term believed employers could be coaxed into voluntarily paying people on the basis of a standard of need. Increasingly, social reformers, often motivated by religious conviction, saw a living wage as a necessary counterweight to the abuses of industrialization. “[T]he first American minimum wage campaigns took on elements of a religious revival,” noted economists (and living wage supporters) Sar Levitan and Richard Belous in their book, *More Than Subsistence*.<sup>6</sup> Indeed, it was a Catholic priest, Msgr. John Ryan, who in 1906 wrote the first book of consequence advocating a living wage, *A Living Wage: Its Ethical and Economic Aspects*.<sup>7</sup>

The current living wage campaign has its origins in the efforts of a church-led group, Baltimoreans United in Leadership Development, in alliance with the American Federation of State, County, and Municipal Employees.<sup>8</sup> In Los Angeles a rabbi, an Episcopal bishop, and a Methodist bishop cowrote in a *Los Angeles Times* guest editorial, “We have a right and responsibility to see that . . . employees are paid enough to support themselves and their families in basic dignity.”<sup>9</sup> In their book, *The Living Wage: Building a Fair Economy*, advocates Robert Pollin and Stephanie Luce quote Deuteronomy 24:14 as an epigraph: “Thou shalt not oppress a hired servant that is poor and needy.”<sup>10</sup> San Jose mayor Susan Hammer, writing in support of a proposed city living wage policy, noted several years ago that such ordinances rest on a longstanding moral claim:

For nearly a century, the American people have insisted that in those cases where the demands of the marketplace and our fundamental values clash, it is our values which must prevail. Thus, we prohibit child labor, and we impose

health and safety requirements on factories. Similarly . . . a hard day’s work should provide an employee with the necessities of life—food, shelter, health care.<sup>11</sup>

The living wage thus far has been localized and limited to selected employers, but supporters want to institute it nationally and apply it to as many employers as possible. Fully realized, today’s living wage would become tomorrow’s minimum wage.

## The Minimum Wage as a Living Wage: A Critique

### Displacement of Less-Skilled Workers

Congress established the first federal minimum wage in 1938, as part of the Fair Labor Standards Act, and has raised it 19 times since. More than 80 studies have demonstrated a link between an increase in the minimum wage and subsequent job loss, especially among teenagers and unskilled adults, the workers with the least skills, experience, and education.<sup>12</sup> The more employers have to pay such workers, the less likely they are to employ them. Those workers may turn out to be productive employees, but they present risks to the employer so, given the minimum price set by the state, the employer reduces risk by hiring only more-qualified workers. Hyundais are less reliable automobiles than Hondas or Toyotas. If the Hyundais could not compete on the basis of a lower price, none would be bought.

A review of the empirical research over the past quarter century supports that thesis. In 1977 Congress created a Minimum Wage Study Commission. Economists on the commission surveyed a broad range of studies and estimated that a 10 percent increase in the minimum wage decreased teen employment by about 1 to 3 percent.<sup>13</sup> One skeptical researcher not on the commission replicated the earlier study’s methodology and found a teen job loss of 0.6 percent.<sup>14</sup>

**Given the minimum price set by the state, the employer reduces risk by hiring only more-qualified workers.**

**Raising the minimum wage is not an effective way to remove families from the welfare rolls.**

More recently, Donald Deere and Finis Welch of Texas A&M and Kevin Murphy of the University of Chicago concluded that the federal minimum wage hike of 1990–91 (from \$3.35 to \$4.25 an hour) led to respective drops in male and female teen employment of roughly 6 percent and 9 percent. They also found that employment among male and female high school dropouts aged 20–54—the least-skilled adults—declined by more than 2 percent and 3 percent, respectively.<sup>15</sup> In a separate analysis of data from 1979–93 the three authors found “strong evidence that minimum wages reduce employment.”<sup>16</sup> They expressed doubt that employers any more than workers were made better off by a minimum wage hike.

In 1995 Michigan State University economist David Neumark estimated the impact of the \$5.15 minimum wage, then still in the proposal stage. Using multistate data spanning nearly a decade and a half, Neumark projected that youths aged 16–19 would suffer employment losses, while the more-skilled workers in that age cohort would experience job gains. The proposed minimum wage would increase the incidence of idleness (neither in school nor at work) among persons aged 16–19 by about 2 percentage points. The wage increase would raise idleness among minority youths by 7.3 percentage points.<sup>17</sup>

North Carolina State University economist Walter Wessels found that higher minimum wages make work a less attractive option for teenagers.<sup>18</sup> Controlling for such factors as the effects of the business cycle, per capita income, and wage rates, Wessels found that the minimum wage hikes of 1981, 1990–91, and 1996–97, taken as a whole, caused significant declines in labor force participation by teenagers.

Adult welfare recipients in particular are susceptible to the crowding-out problem. Overwhelmingly, they are single mothers with children and far more often than other women had not completed high school at the time of the birth of their first child.<sup>19</sup> Some two-fifths of all women on welfare have no

work experience prior to going on welfare.<sup>20</sup> At least a third are functionally illiterate.<sup>21</sup>

Peter Brandon of the University of Wisconsin’s Institute for Research on Poverty concluded several years ago that raising the minimum wage is not an effective way to remove families from the welfare rolls.<sup>22</sup> The average length of time spent receiving welfare benefits was 13.5 months in states that did not raise their wage floor but 19.5 months, or nearly 45 percent longer, in states that did raise the minimum.

**Counterproductive Anti-Poverty Policy**

Advocates of the living wage argue that it combats poverty, but the evidence does not support that claim.

First, the problem for low-income Americans is really insufficient hours rather than insufficient wages. A Bureau of Labor Statistics report revealed that in 2000 only 3.5 percent of all household heads who worked full-time 27 weeks or more over the course of the year fell below the poverty line. By contrast, this figure was 10.2 percent for household heads who worked less than 27 weeks.<sup>23</sup> The BLS study also revealed that only a few more than 20 percent of all household heads with below-poverty-line incomes attributed their condition solely to low earnings. The remaining 80 percent cited unemployment, involuntary part-time employment, or one or both of those factors in combination with low earnings. In addition, the Census Bureau reported that the median income in 1999 for household heads working full-time year-round (50 weeks or more) was \$55,619. By contrast, household heads working full-time 27 to 49 weeks had a median income of only \$38,868, and for those who worked full-time 26 weeks or less the figure was \$26,001.<sup>24</sup> An Employment Policies Institute analysis of 1995 Census Current Population Survey data concluded that only 44 percent of minimum wage employees worked full time.<sup>25</sup>

Second, most of the intended beneficiaries of a minimum wage hike do not come from poor households. EPI’s analysis showed that

at most 13.3 percent of minimum wage employees were the sole breadwinners of a below-poverty-line family.<sup>26</sup> And all such families (and many above them in income as well) are eligible for the Earned Income Tax Credit. The EITC, which began in the mid-1970s as a pilot program, now adds well over \$30 billion a year to the take-home pay of low- and moderate-income families. The 1997 federal tax reform legislation also created a \$500 per child tax credit, which Congress later raised to \$600 and most recently to \$1,000 in 2003.

Finally, a low-wage family's situation is not likely to be permanent. Family heads who earn the minimum wage are typically no older than 30 years of age. EPI research with Census data revealed that only 2.8 percent of employees older than 30 worked at or below the minimum wage. In fact, the average income of minimum wage employees of all ages increased 30 percent within one year of employment.<sup>27</sup>

Only 3 percent of the nation's workers make the minimum wage or less, a proportion that drops to only 1.5 percent of full-time workers, according to Bureau of Labor Statistics data. Some 85 percent of employees whose wages would be increased by a minimum wage hike from \$5.15 to \$6.15 an hour live with their parents or another relative, live alone, or have a working spouse.<sup>28</sup> About half of those persons—42 percent—were in the first category. Thus only 15 percent of minimum wage workers had to support a family, whether as a single parent or as a single earner in a couple with children.

At the state level, too, an increase in the minimum wage benefits mainly those not living in poverty. David Macpherson of Florida State University looked at the effects of New Jersey's 1992 minimum wage hike from \$4.25 to \$5.05 an hour. He found that the majority of persons who took minimum wage jobs after the increase were young, single, or well above the federal poverty threshold. The average family with at least one minimum wage worker who benefited had an annual income of nearly \$40,000.

Finally, the negative employment effects disproportionately hurt the least-skilled work-

ers. Michigan State's Neumark and Federal Reserve economist William Wascher concluded that an increase in the minimum wage would reduce employment of low-skilled teens, but raise it for higher-skilled teens.<sup>29</sup>

### **Analyses of the Living Wage by Economists**

At least a half dozen published studies summarized on the Association for Community Organizations for Reform Now's website ([www.acorn.org](http://www.acorn.org)) have concluded that a living wage would have a favorable local impact.<sup>30</sup> ACORN and other activists can be counted on to refer to those studies in public hearings. Local government officials, understandably, are likely to be persuaded; so much research pointing to high benefits and negligible costs could not be wrong. Or could it?

Those studies demonstrate the viability of the living wage only by removing it from the context of the entire local workforce. That is, the authors are not in a position to consider what would happen if the living wage were applied to the entire local workforce rather than the limited world of government contracting.<sup>31</sup> Existing living wage ordinances affect roughly only 1 percent of all employers in jurisdictions with such laws. What would happen if all, or nearly all, employers were covered?

Florida State University economist David Macpherson has conducted three separate studies for the Employment Policies Institute (website: [www.epionline.org](http://www.epionline.org)), each concluding that a living wage would produce serious negative consequences. Two of Macpherson's studies examined what would happen if Florida and California, respectively, enacted a statewide minimum wage at a "living" level. In Florida's case the wage would be raised to \$8.81 an hour, or \$10.09 without benefits, levels corresponding to Miami-Dade County's law, enacted in 1999.<sup>32</sup> He concluded that the policy would reduce employment by 131,000 to 222,000 jobs statewide and force employers to pay higher wage costs in the range of \$4.9 billion to \$8.8 billion. Such a state law would

**The average income of minimum wage employees of all ages increased 30 percent within one year of employment.**

**Only 15 percent  
of minimum  
wage workers  
had to support a  
family.**

not be equitable, either, because many of the projected wage gains would go to secondary wage earners in above-poverty-level families rather than low-income breadwinners. About a third of the wage gains, in fact, would go to families with incomes above \$40,000. A more effective and equitable policy, the author argued, would be to offer employers targeted tax credits for hiring the poor.

Macpherson's analysis of the situation in California yielded a similar set of results. If the state raised its minimum wage to \$10.29 an hour—the figure cited in a proposed initiative that never made it to the ballot—the result, Macpherson concluded, would be a loss of nearly 280,000 jobs statewide. The youngest and least-educated workers would be the most affected. California employers would incur wage cost increases of more than \$12.5 billion a year.<sup>33</sup> And about 30 percent of the wage gains would go to employees in families with incomes over \$40,000. Finally, less than a fourth of the affected workers would be the sole earners in families supporting one or more children.

Macpherson also performed a study on the probable impact of a living wage measure passed by Santa Fe, New Mexico, in February 2002 that would apply to most city workers and contractors.<sup>34</sup> The ordinance would phase in, from July 2003 to July 2007, a hike in the local minimum wage from \$5.15 per hour to \$10.50 per hour. The increase would apply to for-profit employers with 10 or more workers and nonprofit employers with more than 25 workers. Of the 2,700 employees covered by the law, Macpherson expected 154, or more than 5 percent, to lose their jobs. Employers would incur labor cost increases of \$6.6 million. More than 20 percent of wage increases would go to low-wage employees in families with incomes of more than \$40,000 a year; fewer than a fourth of beneficiaries would be sole supporters of families with children. Of the workers losing their jobs, some 54 percent would be in families with incomes under \$25,000, 66 percent would be Hispanic, and 53 percent would lack a high school diploma.

In 2001 the Santa Monica City Council adopted a living wage ordinance that went further in coverage than any other law enacted previously or since. The law designated a "Coastal Zone"—a 1.5-square-mile commercial area—in which businesses and contractors with more than \$5 million in annual revenue must pay a wage of at least \$10.50 an hour with benefits and \$12.25 an hour otherwise. Not long after, UCLA researchers Richard Sander, E. Douglass Williams, and Joseph Doherty conducted a study on the probable impact of the ordinance. The authors projected net job losses of at least 1,140 to 1,210 jobs, or about 14 percent of all workers covered by the ordinance. One reason for that dramatic impact is that the measure does not allow tip income to be counted toward a worker's wage; tipped employees, mainly in restaurants, would receive from 42 percent to 46 percent of the transfers mandated by the new law.<sup>35</sup> The report offered this prognosis:

[S]ome of the large retailers and restaurants covered by the Ordinance will see their profits entirely wiped out by the Ordinance, and several of these will cut operations or close down altogether. Overall, we think that the Ordinance will damage, but will not destroy, the economic viability of the Coastal Zone.<sup>36</sup>

Ironically, the overwhelming share of the beneficiaries would not be poor. Of the \$49 million in annual direct and indirect wages and benefits, plus administrative costs, the amount actually received by low-income workers residing in Santa Monica would be less than \$400,000. The authors concluded, "We estimate that for every dollar spent under the Ordinance, about 7 cents will go to low-income workers for a targeting ratio of roughly 100:7."<sup>37</sup>

Michigan State University's David Neumark has done the most significant research to date on the impact of the living wage.<sup>38</sup> He analyzed data on more than 20 large- and medium-sized cities across the nation in which living wage laws have been enacted. His

econometric analyses controlled for as many variables as possible to determine whether factors other than living wage laws could have affected employment and wage levels among low-wage workers.

He concluded that the living wage does raise the wages of low-wage workers. If a living wage is set at 50 percent above the minimum wage, the average wage for workers in the bottom tenth of the wage distribution increases by 3.5 percent. The living wage at that level would lower the local poverty rate by 1.8 percentage points. But that, he cautioned, was only part of the story. For living wage laws also reduce employment among affected workers. A living wage set at 50 percent above the minimum wage would reduce the employment rate for people in the bottom tenth of predicted wage distribution by 7 percent, or 2.8 percentage points. “These disemployment effects,” he wrote, “counter the positive effect of living wage laws on the wages of low-wage workers, pointing to the tradeoff between wages and employment that economic theory would predict.”<sup>39</sup> The primary beneficiaries of living wage laws, he also concluded, are likely to be public employees’ unions. By reducing the incentives for cities to contract out work, those ordinances increase the bargaining power of the unions, indirectly leading to higher wages.

### **The Earned Income Tax Credit**

The main argument in the living wage advocates’ arsenal is that one should not have to remain poor while working full-time. But ACORN and the others overlook the EITC. In existence since 1978, the program enables families to participate if their annual income falls below a certain threshold, currently about \$32,000. Recent research by economists Mark Turner and Burt Barnow, respectively of Georgetown University and Johns Hopkins University, has found that tax credits are far more effective than either broadly or narrowly based living wage laws at lifting the working poor out of poverty.<sup>40</sup>

Turner and Barnow distinguished between low-income families and workers who happen

to hold low-income jobs, irrespective of family income. The living wage, like the minimum wage, they argued, may be going to families who don’t really need it. The authors estimated that only 12 percent of all families affected by a broad living wage are below the poverty level, and 26 percent affected by a narrower law are officially below it. By contrast, 44 percent of EITC-eligible families are below the poverty level. Some 92 percent of the poorest working families meet EITC eligibility requirements, as opposed to 1 percent and 39 percent, respectively, of the poorest families affected by narrow and broad living wage laws.

### **Skills Are the Basis of Labor Market Value**

The word “skill” implies knowledge of how to do something competently. The more complicated the tasks, the more the person performing them can be said to be skilled. Yet in the context of labor policy, a skill, more broadly, is any attribute of an employee that can lend value to the employer’s bottom line. It includes not only the ability to handle basic job procedures but also such character traits as punctuality, openness to learning, and an ability to cooperate with, and lend assistance to, coworkers.

If a worker possesses unusual skills, and demonstrates them at or even beyond expectations, an employer will make the extra effort to retain that worker—and perhaps even pay him more than the competition would. By contrast, if a worker’s skills, or ability to apply them, are commonplace, the employer will be less likely to raise his wages. Character traits also affect a worker’s value to an employer. Even the most technically adept workers may find themselves out of jobs if they display excessive absenteeism or are repeatedly uncooperative.

The low-wage labor force is, by definition, a labor force lacking some combination of education, training, job experience, and social skills. To raise wages *and* boost productivity, public policy ought to focus on encouraging

**Of the \$49 million in annual direct and indirect wages and benefits, plus administrative costs, the amount actually received by low-income workers residing in Santa Monica would be less than \$400,000.**

**The primary beneficiaries of living wage laws are likely to be public employees' unions.**

low-wage workers to gain skills. Creating and raising a floor wage, divorced from such a consideration, makes the least-skilled workers more dispensable than ever. But that would seem at odds with the primary purpose of the living wage, which is to *protect* the most vulnerable individuals and families.

Supporters of the living wage know better than to overtly dismiss the importance of skills. But they note that boosting skills of the poor is a meaningless gesture without jobs actually being available. ACORN's website puts it this way:

It's certainly true that we need more education and training. We need better public schools, and real training programs connected to real jobs, and we need to make sure that working people can afford to send our children to college. *But all the training in the world doesn't help if there are no jobs that pay decent wages.* It is worth noting that over the last 20 years, the number of workers with college degrees has nearly doubled, and the U.S. now has the highest percentage of college graduates in the world. The growing number of college degrees hasn't stopped the growing income gap between the richest and everyone else. Only raising wages can.

ACORN forgets that low-income people in America are not likely to remain so over the course of their lives. Only 5 percent of U.S. households in the bottom fifth of the income distribution in 1975, revealed W. Michael Cox and Richard Alm in their book, *Myths of Rich & Poor*, were still there in 1991. Nearly 3 in 10 of those lowest-income households had moved up to the top fifth over that period.<sup>41</sup> In the early 1990s the median duration of poverty was 4.2 months; only a third of the roughly 36 million Americans living in poverty had been below the poverty line for 24 or more months.<sup>42</sup> Advocates of a living wage fail to grasp the reality that poverty is more often than not a transition phase for persons able and willing to work.

Advocates of a living wage likewise overlook the role of education in boosting earnings, and not just for the "richest" Americans. Full-time, year-round workers aged 25–64 earned the following annual amounts (in 1999 dollars) during the period 1997–99: Persons lacking a high school diploma earned on average only \$23,400. Earnings for those with high school diplomas rose to \$30,400. For those whose highest levels of educational attainment were some college but no degree, an associate's degree, and a bachelor's degree, respectively, the figures were \$36,800, \$38,200, and \$52,200.<sup>43</sup> Moreover, the long-term trend for well over two decades has indicated that educational level makes an increasing difference. The most educated persons, concluded the Hudson Institute's *Workforce 2020* report, experienced the greatest gains in annual real earnings during 1975–94, whereas the earnings of those who did not complete their high school education *declined* slightly over that period.<sup>44</sup>

Companies know the value of hiring educated workers. A University of Pennsylvania study showed that a 10 percent increase in the educational level of an employer's workforce increased productivity by 8.6 percent; a 10 percent rise in hours worked and investment in capital equipment hiked productivity, respectively, by only 5.6 percent and 3.4 percent.<sup>45</sup> Data from the Bureau of Labor Statistics show that on average 28-year-old workers who tested in the top quartile of math skills on the National Assessment of Educational Progress earned 37 percent more than those in lower quartiles.<sup>46</sup>

Even some economists in the egalitarian camp understand that. Lester Thurow, an MIT economist on the board of the Economic Policy Institute, has written: "For individuals here are three words of advice: skills, skills, skills. The economic prospects of those without skills are bleak."<sup>47</sup> A Clinton-era Commerce Department monograph also cited the need for skills, adding that globalization, the end of the Cold War, and the spread of emerging information technologies could further jeopardize the prospects of

unskilled workers.<sup>48</sup> Robert Shapiro, director of economic studies for the Progressive Policy Institute and a key adviser to Bill Clinton's 1992 presidential campaign, wrote: "[B]y *not* building new knowledge and skills, many working people see their economic capacities slowly depreciate over the course of every year, leaving them relatively less productive and efficient—and less well-paid."<sup>49</sup>

## Conclusion

People who push for a living wage insist that the lowest-paid workers are victims of social injustice rectifiable through aggressive political action. They are wrong. The lowest-paid members of the workforce suffer from a lack of skills. In 1994 the Labor and Commerce Departments issued a joint report warning of a widening underclass of workers unable to compete in a complex marketplace. The report spoke of "a large, growing population for whom illegal activity is more attractive than legitimate work."<sup>50</sup>

Organizations such as ACORN stand ready to exploit the discontent of the poor in recruiting them for political cadres. The larger the cadres, moreover, the easier it is for living wage activists to intimidate and shame political opponents as "enemies of the poor." And what local government official wants to be known as an enemy of the poor? Experience bears that out. When the Chicago City Council voted in 1998 to require for-profit city contractors to pay workers in selected occupations a \$7.60 an hour living wage, the measure passed 49 to 0. When the New York City Council in 1996 voted 42 to 5 to override Mayor Giuliani's earlier veto of a living wage bill, even opponents conceded that they faced an uphill climb at best. "This was a battle we could not have won in a million years," said one city official. "Council made it look like we were the rich Republicans from the mayor's office, and they were protecting the little guy."<sup>51</sup>

The living wage campaign is a triumph of confrontation politics and class resentment. By

framing the issue as the poor vs. employers, proponents have convinced many local public officials that their campaign is an overdue and unstoppable juggernaut for social justice. It is time for local elected officials to resist a living wage movement that is likely to harm America's poor in the name of protecting them.

## Notes

1. "Just Wages," editorial, *Wall Street Journal*, June 13, 2001.

2. The typical range in wages, as originally proposed, was from \$7.25 to \$12 per hour. Mayor Rudolph Giuliani vetoed the original bill, passed by a 41-to-7 margin. His veto was overridden by an even larger 42-to-5 margin.

3. See Robert Pollin and Stephanie Luce, *The Living Wage: Building a Fair Economy* (New York: New Press, 1998), p. 193.

4. See Eric Roston, "How Much Is a Living Wage?" *Time*, April 8, 2002.

5. Lawrence Glickman, *A Living Wage: American Workers and the Making of Consumer Society* (Ithaca, N.Y.: Cornell University Press, 1997).

6. Sar A. Levitan and Richard S. Belous, *More Than Subsistence: Minimum Wages for the Working Poor* (Baltimore: Johns Hopkins University Press, 1979), p. 30.

7. John A. Ryan, *A Living Wage: Its Ethical and Economic Aspects* (New York: Macmillan, 1906). A decade later in *Distributive Justice: The Right and Wrong of Our Present Distribution of Wealth* (New York: Macmillan, 1916), Ryan was even more explicit. So that men could be good providers to their families (thus freeing women from this role), he argued, "[T]he State has both the right and the duty to compel all employers to pay a Living Wage." Quoted in Allan C. Carlson, "The Family Wage Problem: 1750-1940," in *The Family Wage: Work, Gender, and Children in the Modern Economy* (Rockford, Ill.: Rockford Institute, 1988), p. 23.

8. Actually, Gary, Indiana, with a population of roughly 103,000 in 2000, enacted the nation's first ordinance in 1991. But the law was not promoted as a living wage. Thus, analysts consider Baltimore the starting point of the movement.

9. Frederick H. Borsch, Leonard I. Beerman, and Roy Sano, "Should Los Angeles Pass a 'Living Wage' Ordinance? Yes: It Makes Ethical and

**The living wage campaign is a triumph of confrontation politics and class resentment.**

- Economic Sense," *Los Angeles Times*, December 30, 1996.
10. Pollin and Luce.
11. Quoted in Chris Benner and Rachel Rosner, "Living Wages: An Opportunity for San Jose," Working Partnerships USA, San Jose, August 1998, p. i.
12. "The Minimum Wage Debate: Questions and Answers," 3d ed., Employment Policies Institute, Washington, 1997, p. 5.
13. *Report of the Minimum Wage Study Commission* (Washington: Government Printing Office, 1981), p. 38. For a summary of the commission report, see Charles Brown, Curtis Gilroy, and Andrew Kohen, "The Effect of the Minimum Wage on Employment and Unemployment," *Journal of Economic Literature* 20 (June 1982): 487-528.
14. Alison Wellington, "Effects of the Minimum Wage on the Employment Status of Youths: An Update," *Journal of Human Resources* 26 (Winter 1991): 27-46.
15. Donald R. Deere, Kevin M. Murphy, and Finis R. Welch, "Examining the Evidence on Minimum Wages and Employment," in *The Effects of the Minimum Wage on Employment*, ed. Marvin H. Kosters (Washington: American Enterprise Institute, 1996), pp. 26-54.
16. *Ibid.*, p. 48.
17. David Neumark, *Effects of Minimum Wage on Teenage Employment, Enrollment and Idleness* (Washington: Employment Policies Institute, August 1995).
18. Walter Wessels, *The Effect of Minimum Wages on the Labor Force Participation Rates of Teenagers* (Washington: Employment Policies Institute, June 2001).
19. Dave M. O'Neill and June Ellenoff O'Neill, *Lessons for Welfare Reform: An Analysis of the AFDC Caseload and Past Welfare-to-Work Programs* (Kalamazoo, Mich.: Upjohn Institute for Employment Research, 1997), p. 35. The authors, using data from the National Longitudinal Survey of Youth, revealed that among women who had an out-of-wedlock first birth, 32.5 percent of those ever on welfare as of 1989 had not graduated from high school, while only 10.6 percent of those never on welfare had failed to graduate. Among women who were married at first birth, the respective figures were 31.6 percent and 10.8 percent.
20. *Ibid.*, p. 40.
21. Paul E. Barton and Lynn Jenkins, *Literacy and Dependency: The Literacy Skills of Welfare Recipients in the United States* (Princeton, N.J.: Policy and Information Center, Educational Testing Service, 1995).
22. Peter D. Brandon, *Jobs Taken by Mothers from Welfare to Work and the Effects of the Minimum Wage on This Transition* (Washington: Employment Policies Institute, February 1995).
23. U.S. Department of Labor, Bureau of Labor Statistics, "A Profile of the Working Poor, 2000," Report 957, March 2002.
24. U.S. Bureau of the Census, *Money Income in the United States*, Current Population Reports, Series P-60, annual. See also [www.census.gov/hhes/income](http://www.census.gov/hhes/income).
25. "The Minimum Wage Debate," p. 1.
26. *Ibid.*, p. 2.
27. The first of these findings is taken from U.S. Bureau of the Census, 1995 Current Population Survey data; the second is taken from 1992-94 data.
28. *Who Benefits from a Minimum Wage Hike? A State-by-State Profile: 1999 Edition* (Washington: Employment Policies Institute, 1999).
29. David Neumark and William Wascher, "Minimum Wage Effects on Employment and School Enrollment," *Journal of Business and Economic Statistics* 13 (April 1995): 199-206. See also David Neumark and William Wascher, "The Effect of New Jersey's Minimum Wage Increase on Fast-Food Employment: A Reevaluation Using Payroll Records," National Bureau of Economic Research Working Paper no. 5224, 1995.
30. "Living Wage—An Opportunity for San Jose," Working Partnerships, San Jose, August 1998; Bruce Nissen, "The Impact of a Living Wage Ordinance on Miami-Dade County," Florida International University, Center for Labor Research and Studies, Miami, October 1998; Michael Reich et al., "Living Wages and the San Francisco Economy: The Benefits and the Costs," University of California at Berkeley, June 1999; Michael Reich et al., "Living Wages at the Airport and Port of San Francisco: The Benefits and the Costs," University of California at Berkeley, October 1999; Carol Zabin et al., "Port of Oakland: Living Wages at the Port of Oakland," University of California at Berkeley, December 1999; and Arthur Lyons and Jason Hardy,

"Estimated Cost of the Chicago Jobs and Living Wage Ordinance," Center for Economic Policy Analysis, Chicago, June 1996.

31. Actually, Pollin, Luce, and a colleague did conduct an analysis of the probable impact of a proposal (since adopted and overturned in court) by the city of New Orleans to raise the local minimum wage to \$6.15 an hour, or a dollar above the federal minimum. The law, however, was promoted as a minimum rather than a living wage, understandable since \$6.15 an hour is well below living wage levels of most cities. Among other things, the authors found that, for the city's nearly 12,700 firms, the cost of raises would amount to an average of a little under 1 percent of their operating budgets, essentially the main finding of their Los Angeles study. The authors admitted, however, that most for-profit firms in the city already pay a wage in excess of \$6.15 an hour and hence would not be directly affected. To raise the minimum to a "living" level, in other words, would produce a far greater effect. And such a hike is precisely what supporters of a living wage want. See Robert Pollin, Stephanie Luce, and Mark Brenner, "Economic Analysis of the New Orleans Minimum Wage Proposal," University of Massachusetts, Political Economy Research Institute, July 1999.

32. David Macpherson, "The Employment Impact of a Comprehensive Living Wage Law: Evidence from Florida," Employment Policies Institute, Washington, June 2002.

33. David Macpherson, "The Effects of the Proposed California Minimum Wage Increase," Employment Policies Institute, Washington, June 2002.

34. David Macpherson, "The Effects of the Proposed Santa Fe Minimum Wage Increase," Employment Policies Institute, Washington, February 2003.

35. Here's how Selwyn Wyoslowitz, coowner of a chain of six southern California restaurants, put it in 2002: "They [living wage activists] say they want to pay this high wage so people can afford to live in Santa Monica. No one can afford to live in Santa Monica. Get real. How are you going to put the burden on restaurants for \$13 an hour?" Quoted in Roston.

36. Richard H. Sander, E. Douglass, and Joseph Doherty, "The Economic and Distributional Consequences of the Santa Monica Minimum Wage Ordinance," Employment Policies Institute, Washington, October 2002, [www.epionline.org](http://www.epionline.org).

37. Ibid.

38. David Neumark, "How Living Wage Laws Affect Low-Wage Workers and Low-Income Families," Public Policy Institute of California, San Francisco, 2002.

39. Ibid., p. 132.

40. Mark Turner and Burt Barnow, *Living Wage and Earned Income Tax Credit: A Comparative Analysis* (Washington: Employment Policies Institute, January 2003).

41. W. Michael Cox and Richard Alm, *Myths of Rich & Poor: Why We're Better Off Than We Think* (New York: Basic Books, 1999), pp. 72-78. These figures come from the University of Michigan's Panel Survey on Income Dynamics, which has tracked family earnings since 1968. The authors also analyzed separate income-tracking data from the Treasury Department and found that fully 86 percent of those in the lowest quintile of income earners in 1979 had moved to a higher grouping by 1988.

42. Ibid. These data come from the Bureau of Labor Statistics.

43. See Jennifer Cheeseman Day and Eric C. Newburger, *The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings*, Current Population Reports, Series P23-210, U.S. Bureau of the Census, July 2002, p. 2. The study is available at [www.census.gov/prod/2002pubs/p23-210.pdf](http://www.census.gov/prod/2002pubs/p23-210.pdf).

44. See Richard W. Judy et al., *Workforce 2020: Work and Workers in the 21st Century* (Indianapolis: Hudson Institute, 1997), pp. 62-63.

45. "The Other Shoe: Education's Contribution to the Productivity of Establishments, A Second Round of Findings from the EQW National Employer Survey," University of Pennsylvania, National Center on the Educational Quality of the Workforce, 1995, p. 2. Within the manufacturing sector the advantage of education was even more dramatic; the productivity increase resulting from a 10 percent rise in education was 11 percent, whereas for hours worked and capital stock the returns were a respective 6.3 percent and 3.9 percent.

46. U.S. Bureau of Labor Statistics, *National Longitudinal Survey of Youth, 1979-93*, cited in U.S. Department of Education, National Center for Education Statistics, *Education and the Economy: An Indicators Report*, 1997, p. 39.

47. Lester Thurow, "Building Wealth," *Atlantic Monthly*, June 1999, p. 69. Thurow is hardly a convert to free-market thought. In the article, he rec-

ommends a national payroll tax for training programs so that all employers invest in expanding worker skills.

48. U.S. Department of Commerce, *Building the American Dream for the 21st Century*, September 1995.

49. Robert J. Shapiro, "Restoring Upward Mobility in the Knowledge Economy," in *Building the Bridge: 10 Big Ideas to Transform America*, ed. Will Marshall (Lanham, Md.: Rowman & Littlefield, 1997), p. 191.

50. For a summary of the report, see Catherine S. Manegold, "Study Warns of Growing Underclass of the Unskilled," *New York Times*, June 3, 1994.

51. Quoted in Paul Kengor and Grant Gulibon, "Poison Pills for Privatization: Legislative Attempts at Regulating Competitive Contracting," Allegheny Institute for Public Policy, Pittsburgh, December 1996, pp. 4-5. This report was prepared as a critique of a then-new living wage proposal introduced by the Pittsburgh City Council. The city eventually adopted an ordinance in 2001.

Published by the Cato Institute, Policy Analysis is a regular series evaluating government policies and offering proposals for reform. Nothing in Policy Analysis should be construed as necessarily reflecting the views of the Cato Institute or as an attempt to aid or hinder the passage of any bill before congress. Contact the Cato Institute for reprint permission. Additional copies of Policy Analysis are \$6.00 each (\$3.00 each for five or more). To order, or for a complete listing of available studies, write the Cato Institute, 1000 Massachusetts Ave., N.W., Washington, D.C. 20001, call toll free 1-800-767-1241 (noon - 9 p.m. eastern time), fax (202) 842-3490, or visit our website at [www.cato.org](http://www.cato.org).