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LIVING WAGES AND THE PROBLEM OF INEQUALITY IN CALIFORNIA

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The groundswell for "Living Wage" laws has been perhaps the most striking and successful American social movement of the past decade. From a modest beginning as a limited ordinance in Baltimore in December 1994, living wage laws, which establish a supra-minimum wage for private workers under contract with local governments, have become a prominent feature of urban politics throughout the nation. Over fifty cities and counties have now adopted such laws;¹ dozens of others are considering them. With each passing year, the laws have become more ambitious and more controversial, sometimes even becoming central issues in local elections.²

Academic economists are only beginning to seriously evaluate the economic effects of living wage laws, and political scientists and social scientists have done even less.³ Accounts of the benefits and harms of the laws have, consequently, been largely left to partisan advocates on both sides. The purpose of this article is to provide a balanced perspective on both the living wage movement and the strengths and weaknesses of the "living wage" as a public policy. Although our findings are in some ways preliminary and our perspective is shaped by our own work on the Los Angeles Living Wage Ordinance, we have tried to draw some broad conclusions, and offer recommendations for California policymakers and others who are weighing living wage legislation.

¹ See the Association of Community Organizations for Reform Now site (<http://www.acorn.org/>) and the Employment Policies Institute (<http://www.epionline.org/>) for complete documentation and history of the living wage issue.

² In California, battles over the shape and extent of living wage laws played important roles in the San Francisco mayoral race of 1999, Santa Monica's fall 2000 municipal elections.

Regarding the San Francisco elections see: Epstein, Edward, "Task Force's Living-Wage Study Ready", San Francisco Chronicle, Friday, December 17, 1999, A25;

"Petitions Push Living-Wage Ballot Measure", San Francisco Chronicle, Friday, June 23, 2000, URL: <http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2000/06/23/MNR5RE4.DTL>;

Hartlaub, Peter, "Living wage panel's offer: \$9 an hour", San Francisco Examiner, Dec. 17, 1999, A1

Regarding the Santa Monica elections see: Nancy Cleeland and Gina Piccalo, "Santa Monica living wage proposal stirs costly fight; ballot: Hotels hope to counter an effort to extend a nationwide initiative to cover businesses that have profited from public works," Los Angeles Times, November 2, 2000, Thursday, Home Edition, Page 1

³ Pollin, Robert and Luce, Stephanie. The Living Wage : Building a Fair Economy, New York : New Press: W.W. Norton, 1998.

1. The Origins of the Living Wage Movement

Origins of the movement. Where did the living wage movement come from, and why has it been so successful? The answer to this question must be incomplete -- we have undertaken no careful historical investigation -- but some partial answers are worth noting. With the shift to a more conservative Congress in 1994, the focus of liberals shifted from the national stage to state and local government. Democrats controlled many state legislatures, and liberal politicians had particularly solid majorities in many urban cities and counties. Political leaders in these jurisdictions were eager to find new initiatives that could address larger social problems.

Prominent among these social problems was the increasingly clear trend in the American economy towards greater economic inequality. Social commentators like Robert Kuttner began pointing in the early 1980s to the slowing or even reversal of economic gains by workers, a loss in good-paying jobs, and a declining middle class.⁴ The explanation these writers gave of increasing inequality was 'deindustrialization' -- a replacement of high-paying manufacturing jobs with low-paying service sector jobs. By the late 1980s and early 1990s, academics had become interested in the issue and began to document the increase in inequality. The resulting studies showed that a long, post-Depression trend toward greater equality halted in 1973 and that by 1979 the trend had reversed itself, ushering in a period of steadily increasing inequality.⁵ The share of total income going to the richest 20% of American households increased from 43.1% to 48.9% from 1979 to 1996, while the share going to the lowest 20% declined from 4.4% to 3.8% during the same period.⁶ Related studies demonstrated that average wage levels, particularly for men, had declined significantly between the 1970s and the early 1990s. Despite the long economic boom of 1983-90, and the new boom beginning in 1992-93, both the absolute and relative incomes of the bottom quarter were stagnant or falling, and the poverty rate remained stubbornly high.⁷ These studies also rejected the "deindustrialization" hypothesis as too simple, finding that inequality was increasing within all sectors, including manufacturing. Instead of a loss of manufacturing jobs, the primary culprit appeared to be increasing returns to certain skills associated with new technologies being adopted in the economy. Support for this hypothesis comes from the increasing wage premium since 1979 for college graduates compared to high school graduates and high school dropouts.⁸ Although the causes of increasing inequality are still not fully understood, reversing the trend had, by the mid-1990s, become a top priority for many liberals.⁹

⁴ See Kuttner, Robert, "The Declining Middle," *Atlantic Monthly*, July 1983, pp. 60-69.

⁵ See Levy and Murnane, *infra* note 7, for a survey of these studies.

⁶ Thus, the ratio of the top quintile's share to the bottom quintile's share rose from less than 10:1 to more than 13:1. See Mishel, Bernstein, and Schmitt, *State of Working America*, 1998-99 (Ithaca, N.Y.: Cornell University Press, 1979), p. 58, at table 1.10.

⁷ See Bishop, Formby and Smith, Loernz, "Dominance and Welfare: Changes in the US distribution of income, 1967-1986", *Review of Economics and Statistics*, vol. 73, no. 1, Feb. 1991, 134-139; and Levy and Murnane, "US Earnings Levels and Earnings Inequality: A review of recent trends and proposed explanations", *Journal of Economic Literature*, vol. 30, no. 3, Sept. 1992, 1333-1381.

⁸ See Blackburn, Bloom, and Freeman, "The Declining Economic Position of Less-Skilled American Men," in Burtles, Gary, Ed., *A Future of Lousy Jobs?* (Washington, D.C.: The Brookings Institution, 1990).

⁹ Recent evidence suggests that since 1996, the trend towards inequality has halted and in some ways reversed itself. It is still too early to tell whether a new trend is underway. See *State of Working America* at 14.

Around the same time, a new generation of leadership emerged in the American labor movement.¹⁰ Union membership in the United States declined dramatically from the 1960s through the mid-1990s, both in absolute and relative numbers. During its heyday in the 1940s and 1950s, Big Labor had been built around large-scale, heavy industry; the prototypical labor member was a blue-collar male seeking a middle-class lifestyle and generous job benefits. But several forces gradually converged to reduce union membership in private nonagricultural employment from 33.2% in 1958 to 12.8% in 1997;¹¹ manufacturing declined, employment shifted to the less union-friendly South, competitive pressures increased employer resistance to unions, and women (who have traditionally been less likely to unionize) as a proportion of the workforce grew rapidly.¹² John Sweeney's rise to the top job at the AFL-CIO in 1995 coincided with a redefinition of the labor movement's goals and focus, and labor organizing efforts turned to service employees, women as well as men, and low-skill, entry-level jobs along with high-skill jobs. Big labor also became distinctly more liberal. In a distinct shift from the era of George Meany, new labor became involved with more social issues and sought out allies.¹³

An important pocket of potential allies were community groups and urban churches. The community movement nationwide was not as controversial as in the days of Saul Alinsky or the Great Society, but functioning neighborhood organizations were probably more prevalent in the 1990s than they had been in the 1960s. Urban ministries had become heavily involved in homeless issues during the 1980s, and many turned to other social problems (and developed internal programs aimed at them) during the 1990s. National activist federations, such as ACORN (Association of Community Organizations for Reform Now), the New Party, and the Green Party have served as clearinghouses and organizing frameworks for focusing the attention and efforts of other local groups.

How could liberal local government leaders, community groups, and unions do something to address the national problem of economic inequality? The "living wage" was an inspired answer that seems obvious only in retrospect. For some years, the trend in city and county government had been decentralization and the increased use of private contractors to carry out public programs. Sometimes privatization had obvious efficiency benefits, but an often not-so-hidden motive of privatization was the sidestepping of municipal unions and the relatively high pay rates prevailing in many government bureaucracies. The "living wage" concept was a counterthrust against this trend, based on two intuitively appealing moral ideas:

--Anyone who worked full-time ought to earn enough to keep his/her family above the poverty line (i.e., the national minimum wage is inadequate);

¹⁰ The retirement of Lane Kirkland as head of the AFL-CIO in June 1995, and his replacement by John Sweeney, was seen by many as a hallmark of a new, more dynamic era in the labor movement. Sweeney has been active in launching new organizing campaigns in many cities.

¹¹ See Eehrenberg and Smith, *Modern Labor Economics*, 5th ed. (Reading, MA: Addison-Wesley, 2000), p. 477 at table 13.2.

¹² Id. at 501, table 14.2. In addition, the growth in public sector union membership, rapid in the 1960s and early 1970s, stagnated after 1976.

¹³ Labor had, of course, been very divided from many parts of the American "left" during the Vietnam War era.

--Local governments might not be responsible for inadequate minimum wage levels, but they can at least avoid inadequate pay and benefits by making sure that private workers employed indirectly by the government (because they work on government land or under government contract) should earn a decent wage.

These principles, then, were the basic premises that shaped living wage proposals: find a wage level sufficient to lift a full-time worker above the poverty line, and persuade sympathetic tiers of government (usually cities or counties) to make it a matter of policy that private workers more or less under government control (through service contracts and government leases) receive the wage. We will call proposals of this type "Living Wage Ordinances", or LWOs.

For liberal local politicians, an LWO based on these notions afforded a way of making a powerful statement about social policy. For activists and community groups, an LWO was an achievable political goal (always important in building a political organization) and a way of helping some low-income workers in their own neighborhoods. Unions had even more to gain. An LWO could make privatization less profitable for cities and thus less likely, helping to protect government-worker unions and stymie further declines in public sector union membership. And any tendency to increase wages standards would help to insulate organized workers and give them, in turn, stronger arguments for pressing wage hikes in their own negotiations.¹⁴

The idea of a "living wage" was greatly strengthened by the reemergence of the minimum wage as a viable national issue. During the late 1970s and 1980s, the inflation-adjusted national minimum wage had declined. The general agreement among economists that minimum wages were counterproductive, together with the stubbornly high unemployment rates of the 1970s and 1980s provided powerful reasons for Congress not to increase the minimum wage during this period. Despite a few modest nominal increases, the minimum wage fell more or less steadily, in real (1996 dollar) terms from \$6.47 in 1970 to \$4.38 in 1995.¹⁵

¹⁴ Unions had more complex motivations as well, which we discuss in Section 5.

	Nominal dollars	Constant 1996 dollars		Nominal dollars	Constant 1996 dollars
1955	\$0.75	\$4.39	1985	3.35	4.88
1960	1.00	5.30	1986	3.35	4.80
1965	1.25	6.23	1987	3.35	4.63
1970	1.66	6.47	1988	3.35	4.44
1975	2.10	6.12	1989	3.35	4.24
1978	2.65	6.38	1990	3.80	4.56
1979	2.90	6.27	1991	4.25	4.90
1980	3.10	5.90	1992	4.25	4.75
1981	3.35	5.78	1993	4.25	4.61
1982	3.35	5.45	1994	4.25	4.50
1983	3.35	5.28	1995	4.25	4.38
1984	3.35	5.06	1996	4.75	4.75

from Statistical Abstract of the United States 1999, Bernan Press, Wash. DC, 1999, page 438.

David Card and Alan Krueger¹⁶ challenged the academic consensus in 1992 with a fresh approach to studying minimum wage issues. Most past empirical studies had used time-series or aggregated cross-sectional data to assess the effects of minimum wage increases on employment. Card and Krueger did something simpler; they took advantage of a modest statewide increase in the minimum wage adopted by New Jersey in 1991 to perform a natural experiment. They compared employment at a substantial number of fast-food restaurants in New Jersey and eastern Pennsylvania before and after the mandated wage in New Jersey went up. Six months after the New Jersey increase, they could find no significant difference in employment changes on either side of the Delaware River. The implication was that modest increases in minimum wages might have little or no negative effect on employment levels.

The Card and Krueger findings generated immediate controversy, particularly because the two authors could not offer really satisfactory theoretical explanations for their findings. But Card and Krueger responded with a number of related studies, including critical re-analyses of some past empirical work, and published their findings in *Myth and Measurement* in 1995. The work was significant not because it settled any of the questions about employment effects of the minimum wage, but because it made the effects a more open issue. Almost immediately, political support for an increase in the minimum wage grew, and remarkably, the same 102nd Congress that was swept into office with a mandate to implement the conservative "Contract with America" ended by passing a 22% increase in the minimum wage in 1996.¹⁷

That same year also saw passage of the Personal Responsibility and Work Opportunity Reconciliation Act, providing yet another key impetus for the living wage movement. The Act abolished Aid to Families with Dependent Children (AFDC) and placed strong pressures, and some opportunities, for welfare recipients to enter the workforce. The dominant rhetoric among proponents of the Act was that while welfare merely bred dependency, work incentives would increase employment among aid recipients. This work was to be the real antidote to poverty. The rhetorical response of liberals was that work could only lead families out of poverty if wage levels were sufficient to make work "pay", and lift the working poor above the poverty line. The success of conservatives in passing the Act thus indirectly fueled local LWO campaigns.

¹⁶ Their work on this topic includes: Card, David, and Alan B. Krueger. (1995) Myth and Measurement: The New Economics of the Minimum Wage (Princeton University Press, Princeton, NJ); Card, David, and Alan B. Krueger. (1995) "Time-series minimum-wage studies: A meta-analysis." American Economic Review vol. 85, no. 2, Card, David, and Alan B. Krueger. (1994) "Minimum wages and employment: A case study of the fast-food industry in New Jersey and Pennsylvania." American Economic Review, vol. 84, no. 4.

Other work in response to their research includes: Bernstein, Jared, and John Schmitt. (1997) Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase (Economic Policy Institute, Washington, DC) and Spriggs, William, and Bruce Klein. (1994) Raising the Floor: The Effects of the Minimum Wage on Low-Wage Workers (Economic Policy Institute, Washington, DC).

¹⁷ The timing of the minimum wage increase was, of course, not wholly or even primarily due to Myth and Measurement. Congress is always more receptive to increases in the minimum wage during periods of low unemployment, and by 1996 the unemployment rate had fallen to 5.4% -- one of the lowest rates since the early 1970s. Moreover, by 1996 the trend towards increasing inequality was being widely discussed.

2. Successes of the Living Wage

In December 1994, Baltimore became the first city to adopt an LWO. Active in the coalition supporting its LWO were local civic groups, unions, and churches. The Baltimore LWO was very modest, mandating a \$6.10 hourly wage for workers on city service contracts. Available records suggested that this wage would cover about 1500 employees on contracts totaling around \$39 million.¹⁸

In 1995 and 1996, the movement spread slowly and was closely tied to the much older idea of a "prevailing wage."¹⁹ New York City and Santa Clara County (in California) both amended existing prevailing wage laws during 1996 to specify higher wage levels or bring in additional industries. In December 1995, the City of Milwaukee passed an LWO that covered the same universe of contracts as did the Baltimore law (service contracts over \$5,000). It indexed the mandated wage so that a full-time worker would earn enough to keep a family of three just above the poverty line (at the time, this translated to \$6.80 per hour).

The national events of 1996 described above (welfare reform and raising the federal minimum wage), combined perhaps with the increasingly positive effects of the economic boom on municipal budgets, gave real momentum to the living wage issue.²⁰ By that fall, observers had a sense of a truly national movement. The cities of Chicago and Los Angeles had simultaneous and visible debates over proposed living wage laws, in both cases generating studies that were widely circulated among city managers and budget offices around the country.²¹ Chicago ultimately shelved the proposal, but Los Angeles did not, adopting (in April 1997) the most ambitious measure to date. The Los Angeles law covered service contractors, businesses operating on city property, and businesses receiving substantial government subsidies. It potentially reached over a

¹⁸ "The Effects of the Living Wage in Baltimore" Working Paper no. 119, Feb. 1999, available through <http://www.epinet.org/>

¹⁹ Prevailing wage laws required contractors doing construction work for a government to pay workers on the job no less than the going wage rates -- often "union rates". In large part, these were measures that sought to prevent the undercutting of unions by government officials seeking out the lowest bids for construction contracts.

²⁰ Media coverage has expanded steadily. To get a crude idea of the pattern, consider the results of a Lexis-Nexis count of "living wage" mentions by year:

Year	Hits
2000*	262
1999	256
1998	170
1997	169
1996	170
1995	74
1994	53

* Through October

²¹ Economic Analysis of a Living Wage Ordinance, by George Tolley, University of Chicago, Peter Bernstein, DePaul University and Michael D. Lesage, RCF Economic & Financial Consulting, July 1999, Employment Policies Institute, www.epionline.org/tolley.htm; and

"An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance: Final Report", by Dr. E. Douglas Williams, Carleton College and Dr. Richard H. Sander, UCLA, January 17, 1997, http://www.law.ucla.edu/erg/pubs/Sander_LA-LivingWage-19970117.pdf

thousand firms and seven thousand workers, and it set what was then a high minimum wage (\$7.25 if the employer provided health benefits, \$8.50 otherwise), putting the estimated cost of the measure at well over \$10 million.

By mid-1997, campaigns to promote living wage laws were underway in dozens of major cities. By the end of that year, over a dozen jurisdictions had passed living wage laws; by the end of 1998, the number had grown to twenty. By mid-2000, about fifty local jurisdictions had adopted living wage laws, and active campaigns could be found in another fifty cities and counties.²² In five years, the living wage had gone from an unfamiliar and experimental idea to a social policy norm.

As governments adopted LWOs, they grappled with a few recurring issues:

i) At what level should the living wage be set? The basic premise, of course, was that the wage should be sufficient to lift the worker above the poverty line. The initial ordinances, in Baltimore and Milwaukee, took that point literally and conservatively. A \$6.50 hourly wage, for example, would generate an annual income of roughly \$13,500 for a full-time worker; if the worker received federal Earned Income Tax Credit (EITC) benefits (about \$3,000 if the worker had children and no other source of income), household income would reach \$16,500, slightly above the 1996 poverty line for a family of four.

Each success in the living wage movement, however, has seemingly emboldened LWO proponents to propose successively higher thresholds. The average wage with health benefits in adopted LWOs rose from \$6.50 in 1995, to \$7.25 in 1997, \$8.22 in 1998, \$8.57 in 1999, and \$8.96 thus far in 2000. In adopted LWOs without benefits, the wage averaged \$7.93 prior to 1998 and rose to \$8.84 in 1998, \$9.00 in 1999, and \$9.88 thus far in 2000.²³ The rationale for these higher levels has essentially been that the federal poverty line is an inadequate measure of what is really required for a decent standard of living, either because the local cost of living is high (an easy argument to make in many east and west coast cities) or because the poverty line has fallen out of step with the demonstrable needs of the poor.²⁴ The upward trend in LWO wage levels shows, however, the political importance to advocates of showing that *their* proposal is not too far out of

²² See <http://www.afscme.org/livingwage/livchart.htm>, <http://www.acorn.org> and Appendix 1.

²³ Of course, any raw time series of this sort is crude, because living wage levels vary so much by metropolitan area and the mix of jurisdictions passing laws in any given year might be skewed. Nonetheless, the general upward trend is real, and apparent from inspection of the underlying data.

²⁴ This, too, is an easy argument to make, since the poverty line itself has never been rigorously justified by the federal government as an actual measure of basic needs. The standard was originally devised around 1960 as an arbitrary multiple of a basic food budget, and has subsequently been simply adjusted for increases in the general consumer price index. The Bureau of Labor Statistics (BLS) undertook a more rigorous effort to define a "basic needs" budget in the 1960s, and their low-end household budget was generally around 25% higher than the poverty line. Poverty guidelines developed in the 1960's were based on the assumption that food cost represented one third of a worker's total budget. The food cost per person was taken from the Department of Agriculture. This number was then multiplied by three to calculate the poverty line. In 1999, the official poverty line was \$11,060 for a family of two, \$13,880 for a family of three, and \$16,700 for a family of four. For additional information see: Ciscel, David, "The Living Wage Movement: Building a Political Link from Market Wages to Social Institutions," Journal of Economic Issues, vol.34, no. 2, 527-535; and "The Cost of Living for Garment Workers in Los Angeles County," prepared for the Business for Social Responsibility Education Fund by the Empirical Research Group, UCLA School of Law, September 1999, by Joseph Doherty and Richard Sander.

line with actions by other jurisdictions.

ii) Should the LWO set benefits as well as wages? Along with higher wage thresholds, jurisdictions have increasingly incorporated benefit packages into LWOs. The premise is analogous to that found in federal "wage and hours" legislation -- that an important part of protecting workers is insuring that they have some of the basic protections provided by core benefits: health care, paid sick days, and paid holidays.

Mandating benefits, however, is more difficult than mandating wages. First, employers are often more resistant. If an employer is not currently providing benefits to any of his workers -- only some of whom work on the government contract -- then providing holidays, health benefits, and the like to some, but not all workers can present both logistical and morale problems. Determining appropriate benefits for part-time workers is difficult. Combined with the more complex reporting and administrative challenges involved with benefits, such mandates may be enough of a hassle to persuade contractors not to bid for such work. Second, it is much harder to evaluate whether an employer is providing an adequate health care plan for workers than to determine whether a mandated wage is paid. Third, many workers may well prefer higher wages to benefits, especially if the worker is already covered by a spouse's health insurance.

One imperfect solution many cities have adopted is a split-tier of wage mandates: one basic wage is set for all covered employees, but employers are allowed to pay a lower wage (e.g., \$1.25 to \$2.00 less per hour) if they provide health benefits for the worker. This provides a simple way out for contractors who don't want to deal with the complexities of benefits, and increases the flexibility of the regulation.²⁵ To address the problem of employers providing uneven or inadequate health benefits, researchers at the UCLA School of Public Health worked with the City of Los Angeles and health care providers to develop an open-enrollment health plan in which employers could enroll interested employees. The scope of the health plan was designed to cost employers essentially the same amount as the wage premium they would pay if employees did not receive health insurance.

iii) Who should be covered by the LWO? Almost all governments that have adopted LWOs have included service contractors within the scope of their mandates, and none include suppliers. More ambivalently, governments have sometimes included businesses that operate on government property and/or businesses that receive economic subsidies. In both cases, the theoretical justification for coverage is obvious: the businesses are "quasi-governmental" because of their dependence on government space or largesse, and thus their workers are entitled to LWO protections. In both cases, however, the theory runs into practical problems.

Many businesses leasing government land are not distinctively different from competing businesses on private land. For example, a car rental agency might operate on part of an airfield that is government owned, or might operate a couple of blocks away on private land. Imposing special requirements on the government lessee could put those businesses at a competitive disadvantage

²⁵ Note, however, that the higher wage does not generally free the employer from responsibility for providing other mandated benefits, such as sick days and holidays.

and hurt the underlying government enterprise -- in this case, the airport. Likewise, economic subsidy recipients often receive subsidies specifically as an inducement to create entry-level jobs, or to operate in an economically distressed neighborhood. Adding costly mandates can directly conflict with the principal motivation of the subsidy, thus either rendering the subsidy program ineffective, or escalating the size of subsidies required to attract business involvement.

Because of these problems, many LWO jurisdictions either do not cover lessees and subsidy recipients, or create significant exceptions.

3. Evaluating Living Wage Laws

Impact on Employment. As we noted earlier, one of the central concerns economists have traditionally voiced against minimum wages is their putative harmful effect on employment. As wages go up, the argument runs, employers have greater incentives to economize on labor costs.²⁶ Employers will try to substitute capital for workers (e.g., replace operators with voicemail) or employ a smaller number of more productive workers to do the same work. How much higher wages lower employment is measured by the "elasticity" of demand for labor. If labor demand is highly "elastic", then employers will find it easy to find substitutes for low-wage workers.²⁷ If labor demand is relatively "inelastic", then employers will find it hard to substitute away from low-wage labor.²⁸

Most research on minimum wage increases has generally found relatively low wage elasticities, of 0.1 to 0.3.²⁹ The Card and Krueger research discussed above essentially found elasticities of zero for the New Jersey minimum wage increase. The 1996 increase in the federal minimum wage, which occurred in a robust market where unemployment has continued to steadily fall, has not helped to clarify the issue.

But much of this research is only tangentially relevant to living wage laws, since these

²⁶ More formally, economists argue that workers will normally be paid a wage that approximates their "marginal revenue product" at the workplace. If the wage is lower than a worker's marginal revenue product, he or she will have an incentive to move to another job; if the wage is higher than marginal revenue product, then the employee is not earning enough revenue for an employer to justify the wage paid.

²⁷ An elasticity of 2.0 means that for a given proportionate increase in wages (say, 10%), the proportionate decline in employment will be twice as great (20%).

²⁸ An elasticity of 0.2 would mean that a 10% increase in wages would produce only a 2% decline in employment.

²⁹ See John M. Abowd, Francis Kramarz, David N. Margolis, Minimum Wages and Employment in France and the United States, NBER Working Paper No. W6996, Issued in March 1999. In addition, a previous report (Valletta, Robert. 1996. "The Minimum Wage." Federal Reserve Bank of San Francisco Economic Letter 96-29 [October 11]) points out that before 1990, most economists agreed that, when minimum wages were raised by 10%, employment among low-skilled groups (e.g., teenagers) declined by 1% to 3%. In the 1990s, however, a number of researchers began reporting that increases in the minimum wage resulted in smaller employment losses. Some also reported that increases in the minimum wage were associated with employment increases as did Card and Krueger 1995. Other relevant research includes: Burkhauser, Richard V., Kenneth A. Couch, and Andrew J. Glenn. 1996. "Public Policies for the Working Poor: The Earned Income Tax Credit Versus Minimum Wage Legislation." Research in Labor Economics, ed. Sol Polachek, pp. 65-110; and Galpern, Dan. California's recent minimum wage increases : real wage gains with no loss of jobs : minimum wage remains inadequate to meet California's cost of living, Sacramento, CA : California Budget Project, 2000.

laws depart from conventional minimum wages in three critical ways. First, living wage laws usually mandate wage increases far higher than those typically contemplated in minimum wage legislation. (Across the forty jurisdictions that have passed living wage laws to date, the average increase in the minimum is about 70%; minimum wage increases rarely exceed 25%, even when spread over a few years. But second, and more importantly, companies affected by living wage laws do so voluntarily as part of a contractual negotiation with a government agency. This fact means that a "living wage" business has much more opportunity to negotiate the pass-through of costs than does a "minimum wage" firm operating in the open market.

To see how the difference operates, contrast a hypothetical private firm in the garment industry that sells exclusively in the open marketplace, with a firm that provides janitorial services for a city. If the garment manufacturer is subject to an increase in the minimum wage from, say, \$5.75 to \$6.75, it can only pass on this cost by raising the prices it charges in the market.³⁰ If price pressures in the market (such as foreign competition) make it difficult to pass these costs on, the garment firm must either lose profits or economize on its workforce. It thus faces strong incentives to substitute machines for workers, shift work from minimum-wage workers to higher skill workers (whose pay has not gone up), cut overtime payments, or take other steps to minimize labor hours.

The firm providing cleaning services to the city faces very different choices. If the new living wage will apply to most of the workers on the contract, the firm's costs will rise very substantially. The firm's bid for the new, covered contract, is likely to reflect these cost increases. The city's decision to contract for particular services is probably largely independent, in a given year, of the price of the bids received -- the city is unlikely to decide at the last minute that it will do without janitorial service in the coming year. The cost of the service for the city will probably rise. Thus, the impact upon employment from the living wage will not necessarily be felt in the janitorial services contract; it may be felt, more diffusely, through broader choices the city makes about what services to fund and what to sacrifice as selective costs go up.

Of course, even if the city is willing to contract the same level of services at a higher price that compensates firms for LWO-related costs, firms still have an incentive to minimize their own costs by substituting away from the now more expensive low-skill labor to more highly-skilled labor, and to capital. But the need to do so is less compelling if costs are passed on, and, moreover, a government service contract often involves more practical constraints on the minimization of labor costs than does an independent manufacturing operation. A city service contract will often specify how many workers are to be deployed on particular tasks, and the services are often labor-intensive in ways that makes it impractical to consider substituting capital (or higher-skill labor) for existing workers.

For all these reasons, the employment effects on contracts covered by LWOs may be significantly smaller than for comparable minimum wage increases in the private sector. One obvious objection to this conclusion is that even if employment on living wage contracts declines very little, employment on other non-covered city contracts will still decline as the city pays for the

³⁰ Assume, for purposes of this hypothetical, that all affected firms actually pay at least the minimum wage to all workers (there are not, e.g., secret deals with undocumented workers).

higher costs of covered contracts by reducing in-house services or reducing spending on non-covered contracts.³¹ In either case, the aggregate effect is likely to be a shift of income from the higher-skill, higher-paid workers in other areas to the low-skill workers on living-wage contracts.

Impact on costs. In theory, the full costs of living wage increases to workers should be passed on by firms to contracting city agencies. In a competitive bidding market, a contractor will only earn a sufficient return to make the contract marginally attractive. When wages go up, the contractor may be able to reduce costs by changing labor mix or structuring the work differently, but the cost increase that remains after these adjustments must be passed on to keep the contractor interested in providing the service.

Even in an uncompetitive market, one would expect that over the long-term costs will be passed forward to government. Imagine a contractor who earns a supra-normal return, and an agency that does not competitively bid the contract, but simply rehires the same contractor year after year. Imagine further that when the living wage goes into effect, the agency informs the contractor that it has no money to spare -- the contractor will have to absorb the higher costs from the ordinance. This situation would be the best-case scenario for costs not being absorbed by government. And indeed, it seems certain that in such a case, a contractor making high profits will cave in and absorb its own costs. However, if the agency does not reform the fundamental institutional weaknesses that allowed the firm to gain supra-normal profits earlier, the firm is likely gradually to win payment increases in successive contracts that restore it to its original position, and again pass the full cost of wage and benefit increases on to the government. Thus, a firm might even be willing to accept short-term negative profits, e.g., low-ball a bid, if it believes that by retaining government business, it will eventually be able to gain excess profits.

Impact on Productivity. Better-paid workers are usually more productive; that's why they are paid more. But is this true if better pay is mandated, rather than resulting from the intrinsic ability of a worker to command a higher wage? There is some reason to think so. There are four ways that such an improvement might occur: (a) if workers receiving the higher pay and better benefits increase work effort and become more productive employees; (b) if the pay and benefit increases reduce worker turnover, thereby increasing the average level of worker experience and reducing training costs; (c) if higher wages, by making the jobs relatively more attractive to prospective workers, enable employers to hire more skilled and productive workers; or (d) if, at higher wages, employers require more effort from employees.

General research on labor markets has firmly established that effects (b) and (c) are real and widespread. Effects (a) and (d) are more speculative. Living wage laws, by providing immediate and substantial pay increases, provide unusually good opportunities for observing these effects.

Impact on Poverty. As we saw in Section 1, the rhetorical appeal of "living wage" laws

³¹ It is indeterminate whether this shift in city spending would produce unemployment among other workers, or simply less income. Consider two possibilities: if the city spends less on architectural or legal services, it seems unlikely that architects or lawyers will actually become unemployed; they will simply have less income. But if the city spends less on, for example, the fire department, then wages would not readily fall and the department would probably adapt by hiring fewer new firemen.

derives, most fundamentally, from their putative impact on poverty.³² In practice, however, there are good reasons to be highly skeptical of the effectiveness of living-wage laws as anti-poverty strategies. First and foremost is the well-documented fact that most low-wage workers are not poor. Such a result is counter-intuitive until one realizes that most minimum wage workers are not the primary earners of their families. Most are, instead, secondary or tertiary workers (and a substantial number are teenagers). The earnings of such workers are therefore not the primary determinant of the family's living standards. On the other hand, government contractors typically do not hire teenagers.

A second factor that mitigates the anti-poverty effects of living wages is the so-called "labor-labor substitution" phenomenon. If mandated wages rise substantially, employers can hire more skilled workers (see the productivity effects above). Many employers view minimum-wage jobs as entry-level training grounds; workers accept low wages in exchange for training and experience, and wages rise as the employee proves his or her value. With higher wages, employers can "afford" workers with more experience and wider skills. In theory, then, an employer might undertake a wholesale replacement of the original, minimum-wage workers with new workers at the living wage levels.

For both of these reasons, most economists view living wage laws as very poor mechanisms for aiding the poor. Indeed, a recent and comprehensive survey of labor economists found that 69% consider living wages to be "not at all efficient" as an anti-poverty strategy (7% consider the laws "very efficient").³³

4. Empirical Research and the Los Angeles Ordinance in Practice

To date, there has been very little academic analysis of the operation of living wage laws. Most of the extant studies of living wages as proposed, or in operation, have been relatively narrow studies funded by supporters or opponents of such laws. A few economists have studied indirect effects of living wage laws,³⁴ and there appears to be growing interest in serious evaluation studies.

³² See Card, David, and Alan B. Krueger. (1995) Myth and Measurement: The New Economics of the Minimum Wage (Princeton University Press, Princeton, NJ); Card, David, and Alan B. Krueger. (1995) "Time-series minimum-wage studies: A meta-analysis." American Economic Review vol. 85, no. 2, Card, David, and Alan B. Krueger. (1994) "Minimum wages and employment: A case study of the fast-food industry in New Jersey and Pennsylvania." American Economic Review, vol. 84, no. 4 as well as "An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance: Final Report," by Dr. E. Douglas Williams, Carleton College, and Dr. Richard H. Sander, UCLA, January 17, 1997

³³ The Living Wage: Survey of Labor Economists, Survey Center University of New Hampshire, August 2000; Employment Policies Institute www.epionline.org/livingwage_survey.htm; and Fuchs, Victor R., Alan B. Krueger, and James M. Poterba. 1999. "Economists' Views About Parameters, Values, and Policies: Survey Results in Labor and Public Economics." Journal of Economic Literature, vol. 36, no. 3 (September), pp. 1387-1425.

³⁴ A survey of this literature would include the following: Macurdy, Thomas E.. "Who benefits and who pays for minimum wage increases in California?: a perspective on Proposition 210", Stanford, Calif. : Hoover Institution, Stanford University, Working Paper 1999, Neumark, David; A cross-national analysis of the effects of minimum wages on youth employment, David Neumark, William Wascher. Cambridge, MA : National Bureau of Economic Research, c1999. 27; Do living wage ordinances reduce urban poverty?, David Neumark, Scott Adams Cambridge, MA : National Bureau of Economic Research, c2000 30;

But there are serious obstacles in the path of careful evaluation, since the work normally requires the active cooperation of government agencies, and disclosure of confidential information from firms. In this section, we report on an unusual study the authors are undertaking in collaboration with the City of Los Angeles. The Los Angeles Living Wage Ordinance, adopted in April 1997, mandated periodic evaluations of its impact within the City.³⁵

Enforcement. When city leaders in Los Angeles debated the proposed living wage laws, the debate focused almost entirely on such factors as cost, possible employment losses, and effects on the local business climate. Implementation and enforcement was largely an afterthought. Yet our study found that effective enforcement was perhaps the greatest challenge and problem created by the Living Wage Ordinance.

There are several reasons why enforcement is difficult:

--In Los Angeles (and apparently, in many other cities) there is no central office responsible for all contracting. Over thirty city departments (and hundreds of officials within those departments) have largely independent authority to enter into service contracts and leases like those covered by the living wage. Effective compliance requires cooperation across this large and heterogeneous group.

--The City of Los Angeles has roughly two thousand service contracts and leases in effect at any time. Yet fewer than one hundred of the businesses involved account for over 90% of the workers affected by the living wage law. (The other 1900 firms are either exempt, or have few low-wage workers, or are too small to account for much). Since the living wage law applies to nearly all firms, then, many contract officials will view the law's requirements as merely so much paperwork, and a high percentage of enforcement effort will yield relatively low returns. Because other City mandates appear to be widely ignored, in some departments initial resistance to the living wage law was high.

--The City had no pre-existing mechanism for gathering wage data from contractors, and thus no existing database through which to monitor compliance.

Initially, the Los Angeles ordinance delegated implementation of the living wage to the Bureau of Contract Administration (BCA), an agency within the Department of Public Works. This agency already had responsibility for monitoring the compliance of public works contractors with a variety of regulations, and which did some city-wide monitoring of affirmative action by contractors. The BCA held informational meetings, developed forms and reports for contractors to complete, and sent notices to departments seeking compliance. The response was underwhelming. A year after the law went into effect, only about a dozen firms had submitted to the BCA evidence

Do minimum wages fight poverty?; David Neumark, William Wascher Cambridge, MA : National Bureau of Economic Research, c1997 31; and The effects of minimum wages on teenage employment and enrollment : evidence from matched CPS surveys, David Neumark, William Wascher. Cambridge, MA : National Bureau of Economic Research, c1995. 34.

³⁵ This recommendation was made in "An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance: Final Report," by Dr. E. Douglas Williams, Carleton College, and Dr. Richard H. Sander, UCLA, January 17, 1997.

of compliance. BCA's response to the widespread lack of compliance could be characterized as "cautious" or "lethargic", depending on one's viewpoint. It was clear by the end of 1998 that full implementation by the BCA's methods would take a long time.

The City Council, however, responded decisively to reports of BCA's difficulties. In January 1999, the council transferred implementation authority to a special office created within the City Administrative Office (CAO), a general oversight agency under the direct control of the Council. Council proponents handpicked an experienced CAO official to run the new operation. The CAO adopted a very forceful approach to implementation. Working with the City Comptroller (responsible for disbursements on all contracts), the CAO mandated that payments would not be made on any service contract in the city until requisite documentation had been submitted indicating either exemption from the living wage law or an intent to comply. A full-time staff of six began a program of hundreds of contract reviews and scores of annual site visits to affected businesses. By the end of 1999, citywide compliance was at least 85% and probably closer to 100%.

We suspect that most cities that have adopted living wage laws have implementation experiences closer to L.A.'s initial failures than to its more recent success. We have had conversations with officials in a number of other LWO jurisdictions, and -- though sources are reluctant to go on record -- we are convinced that many adopted LWOs have been almost universally ignored. In Los Angeles, full enforcement occurred only because of an unusual combination of factors: an outside consultant retained explicitly to study implementation; an usually strong base of support for aggressive enforcement within the city council; and a willingness to spend substantial sums on enforcement. In Los Angeles, the total costs of enforcement, including efforts by the CAO, individual departments, and contractors, probably approach \$1 million annually -- a sizeable fraction of the total transfers accomplished by the law.

Scale. When the Los Angeles LWO was first proposed in 1996, some commentators (using a variety of questionable methodologies) predicted that the law would transfer over \$100 million to workers annually.³⁶ In practice, the effects have been much smaller. Out of a pool of some two thousand contractors and lessees that could have been in reach of the Los Angeles mandate, all but about seven hundred firms have been exempted on various grounds.³⁷ Of these, fewer than one hundred firms have more than fifteen low-wage employees. As of late 1999, we estimated that the LWO had resulted in pay raises for about 2,500 employees. The average wage increase for this group was \$1.25 per hour; about half of these employees began to receive health benefits for the first time. Overall, the amount transferred to workers totaled approximately \$7 million.

This \$7 million impact is certain to increase over time, since some contractors (and many airport lessees) are still operating on agreements negotiated before the LWO came into effect. The fully implemented transfer effected by the LWO will probably be closer to \$15 million. But

³⁶ See Robert Pollin, project director, "Economic Analysis of the Los Angeles Living Wage Ordinance," Oct. 1996, and Richard C. Carlson, "Economic Impacts of the Proposed living Wage Ordinance for the City of Los Angeles, Final Report", Spectrum Economics, Inc., Dec. 9, 1996.

³⁷ This includes firms that qualify for a non-profit exemption in the ordinance and firms that qualify as "professional firms", i.e., firms whose affected employees make high wages or are not paid on an hourly basis.

considering that Los Angeles City contracts alone amount to over \$300 million annually, and that the City earns over \$100 million annually from leases, the relative scale of the LWO is rather small.³⁸

Cost. How much of the Los Angeles LWO's \$7 million cost has been borne by the City? Recall that the economic theory discussed in the last section predicted that essentially all of the cost should eventually be passed through. The actual story to date has been quite different. Contract costs to the City, through the end of 1999, appear to have increased by around \$4 million. More interestingly, the cost increases have been very unevenly distributed. In the case of one very large contractor (a provider of security services at various government facilities), the implementation of LWO prompted the firm to renegotiate its contract with the City, winning agreement from an apparently passive department to pass through more than 100% of the LWO cost increase. In contrast, other departments have responded to similar demands by simply putting contracts out to bid.

In other words, the short-term cost impact of the Los Angeles LWO has been very much dependent on institutional context. Many contractors were already providing benefits and paying wages close to the mandate; most such firms simply absorbed the increase. Firms are more likely at least to try to pass through costs if the contract is big, if benefits are not already provided, and if the contracting department does not routinely re-bid all service contracts. To date, relatively few contracts have met enough of these conditions to experience cost increases.

Over the long term, the story should be different. Nearly every firm we interviewed maintained that it was only a matter of time before it would recoup the added costs from the LWO -- at least, when those costs were non-trivial. The theoretical prediction -- that firms with higher costs will eventually recapture the profit position they held before the LWO was introduced -- seems hard to refute. However, the long-term may take a very long time to arrive. And if the adoption of a LWO prompts city officials to seek competitive bids more aggressively, then the one-time increased cost of the LWO might be largely offset by a one-time decrease in back-scratching with contractors.

Labor effects. Very few workers have lost their jobs as a direct result of the Los Angeles LWO. Because most firms have been willing to absorb the modest increased costs produced by the mandates, city departments have not had to renegotiate the volume of services under most contracts. If the volume of services remains unchanged, contract employment generally remains the same, too. There are a few cases where employers have consolidated positions, reduced worker hours, or have increased the use of capital to reduce the number of workers needed on a contract. But these effects have been small. The 15% wage-and-benefit increase experienced by a typical LWO worker has, thus far, produced a less than 1% decrease in direct employment.

Indirect job losses from the LWO might, of course, be more significant. The \$4 million in additional City funds given to LWO contractors could presumably have gone for other city

³⁸ It is smaller yet in relation to the Los Angeles economy, with over one million persons county-wide living below the poverty line and with a county-wide economic product of \$250 billion or so.

activities, including services provided by low-wage workers. But this is highly speculative. We can note the hypothetical effect of "covering" LWO cost increases from scarce City funds, but we cannot measure the indirect job loss.

While the measurement of job loss is complex, the detection of labor-labor substitution is not. Most of the covered firms we interviewed said they had changed their hiring practices as a result of the LWO. Specifically, they were hiring workers with more experience, more education, or higher skill levels than before. This response did not lead the contractors to replace existing workers, but it does suggest that the composition of many contractor workforces will gradually change.

On one crucial "labor" issue -- the demographic makeup of LWO beneficiaries -- we have as yet no reliable information. The research arm of a Los Angeles labor group is working with the City to conduct a systematic survey of workers, but they do not anticipate any results before the spring of 2001.

Summary. The Los Angeles experience with the LWO suggests both strengths and limitations in the "living wage" strategy. It seems likely that any City that is not highly centralized will have to incur substantial effort and cost to fully implement an LWO. Once in place, a LWO will probably produce only modest dislocations -- some cost pass-throughs and very small direct losses of jobs. The scale effects of the LWO -- in the increases workers receive and the aggregate transfer resulting -- will tend to be modest, too.

It is worth pointing out, however, that the Los Angeles LWO is unrepresentative in one key respect. The current mandated wage levels in the Los Angeles law are relatively low (\$7.73 if health benefits are paid) compared to many of the recent LWOs. And the market price of labor in Los Angeles is higher than in most other cities. Consequently, the impact of an LWO in other jurisdictions could be more dramatic, and thus more harsh.

5. Local Minimum Wage Laws

In many cities, business opposition to living wage laws has been based on concerns that the laws were merely opening wedges to broader wage regulation by local governments. Although some states have, over the years, enacted statewide minimum wage laws different from the prevailing federal standard, the state mandates are rarely much different than the federal minimum. To many observers, the notion that local governments might enact comprehensive minimum wages seemed remote.

In the fall of 1999, however, a coalition of unions, churches, and advocacy groups advanced a proposal in Santa Monica, California, to create a "Coastal Zone" (about two square miles of largely commercial property along Santa Monica's Pacific coastline) within which a high minimum wage (\$10.69 plus benefits) would be applied to all firms employing fifty or more workers. Significantly, the advocates called their proposal a living wage measure, and emphasized the close connection between the national living wage movement (and its success in dozens of cities and counties) and the Coastal Zone proposal. Shortly after the proposal's debut, a majority of Santa

Monica's City Council expressed general support for the proposal's concept, and commissioned a study of its likely effects. Opponents placed a proposition on the November 2000 ballot that would have precluded City Council action by imposing a conventional living wage for government contractors only. However, the proposition was defeated.

A minimum wage zone, of course, has potentially far greater economic effects than an LWO. If a zone is small and heavily populated by retailers and manufacturers that compete with businesses unaffected by the minimum wage, then the likely result of the minimum wage is large-scale business relocation out of the zone. And without any government "pass-through" option, a minimum wage zone is almost certain to induce far more worker displacement than a LWO.

The Santa Monica Coastal Zone proposal focused geographically on a small region dominated by a trendy and hugely popular retail district (the Third Street Promenade) and by a string of beachfront hotels that are essentially tied to their current location. Under such circumstances, the presumptively disastrous economic effects of a high minimum wage are more muted and complex. Nonetheless, a study by two of the present authors predicted very substantial job losses, and little positive impact on poverty, from the Coastal Zone proposal.

Santa Monica has not yet acted on the Coastal Zone proposal. Berkeley, California, recently adopted a similar measure, but in that case the "zone" was limited to bayfront property owned by the City³⁹ -- thus making this initiative closer to a LWO (in this case, for city lessees) than a minimum wage zone. It is too early to say whether minimum wage zone proposals will become a large and recurring feature of the Living Wage movement. But given the success and growing ambitiousness of proposed LWOs, advocacy of targeted minimum wage zones is quite foreseeable.

6. Unionization Effects

As we noted in Section 1, living wage laws have drawn much of their support from a resurgent national labor movement. To some extent, this support derives from the traditional allegiance of organized labor to the cause of redistributing income and alleviating poverty. But labor's support is also fueled by strategies that link living wage laws to broader unionization efforts among low-wage service employees -- the principal source of new union members in the United States over the past decade.

In Los Angeles, campaigns for living wage laws and unionization have been closely intertwined. The Living Wage Coalition that was instrumental in building support for, and lobbying to passage the Los Angeles City LWO, drew support from churches, community groups, and various non-profit organizations, but was founded on union support and funding. The think-tank behind the living wage effort was Los Angeles Alliance for a New Economy (LAANE), which received core funding from unions. More significantly, introduction of the living wage at the Los Angeles International Airport (where most of the businesses are lessees of the City of Los Angeles

³⁹ See Thelen, Jennifer, "Berkeley's Living Wage Draws Suit", Special to the Recorder, October 20, 2000 and The San Francisco Chronicle, October 21, 2000, Saturday, Final; East Bay Edition, news; Pg. A17, 338 words, Berkeley Sued by Restaurant; Living-wage law's extension challenged, Henry K. Lee

and thus covered by the living wage ordinance) has occurred simultaneously with a large union organizing campaign among several previously uncovered workers at airport firms. In these campaigns, the moral and practical example set by local governments seems to be proving effective in rallying the interest and participation of other service workers in unionization.

7. The Wage Subsidy Alternative

During the same years that the living wage movement has developed a strong national presence and impact, there has been a parallel growth of interest (and implementation) of wage subsidy programs. Wage subsidies are payments a government makes to workers (or to businesses to pass through to workers) based on earnings. The goal is to raise the worker income (and work incentive) by increasing the effective hourly wage. The principal national wage subsidy program is the Earned Income Tax Credit (EITC). The EITC provides workers with a federal match of up to 40% on a worker's first \$10,000 in earnings.⁴⁰ (The subsidy is phased out as total household income rises, with phase-out beginning at \$13,000 and ending at \$30,000.) Thus, a family head working full-time at \$5.50 per hour can receive, via the EITC, an effective hourly wage of about \$7.50 per hour.

Although Congress first enacted the EITC in 1978, it has expanded the program substantially over the past decade, most notably in 1994. The EITC is now the largest federal source of income transfers to the poor. Significantly, state and local governments have started to take note of the EITC. Several states have adopted "piggyback" EITC programs, which pay a credit pegged at some percentage of the federal credit. New York City organized a coalition of public and private organizations to increase participation in the EITC in the mid-1990s. The City of Los Angeles, shortly after adopting the living wage ordinance, also enacted a program aimed at increasing local EITC participation. During 1998 the program became a genuine inter-governmental coalition, with representatives from City and County agencies, the Internal Revenue Service, and a miscellany of other organizations. With strategies ranging from billboards to an "EITC hotline", and to neighborhood outreach meetings, the program enjoyed wide support. By at least one measure, it produced over \$10 million in increased EITC disbursements. Given a program cost of about \$120,000 per year, this outreach effort appeared to be much more efficient in helping the poor than the Los Angeles LWO.

Wage subsidy programs like the EITC have several advantages over wage-based regulations like the minimum wage and LWOs.⁴¹ EITCs are less costly to administer (they operate within the tax collection process, where administrative costs are much less than 1% of receipts and disbursements); they reach many more people; they are far better targeted at the poor; and they do not have any of the problematic incentives (e.g., labor-labor substitution) that characterize minimum wage (and, to a lesser extent, living wage) laws.

⁴⁰ The largest EITC payments go to workers with children; much smaller subsidies are available to single workers or households without children.

⁴¹ Using the EITC to help poor families : new evidence and a comparison with the minimum wage, David Neumark, William Wascher. Cambridge, MA. : National Bureau of Economic Research, c2000. 27.

What EITC programs lack, that living wage laws enjoy, is intense support from organized labor. The reasons for this are not obvious, since most union leaders strongly believe in income redistribution. The disconnect, perhaps, exists because EITCs do nothing to organize workers into a unit that can have a voice with business, not simply in wage negotiations, but in the multiplicity of workplace issues that unions address. One living wage activist told us that an EITC "is like welfare. It can be given, it can be taken away. A living wage is a *right*." Although the logical case for the EITC is formidable, the living wage has, to date, been far more effective in stirring supporters' passion.

8. Conclusions: What Should California Do?

As social policy, living wage laws are limited and quite imperfect. In the increasingly large proportion of American local governments that have enacted these laws, they have affected only a tiny sliver of the workforce. They are costly and difficult to administer, shift only part of the cost onto private businesses, and are not especially well-targeted at the poor.

As politics, however, living wage laws are fascinating. They represent an almost unique effort of local governments to pursue income redistribution in favor of the working poor -- a constituency that has generally not figured heavily in the concerns of government. The laws have enjoyed enormous visibility -- much more than is really justified by their very limited scope. And the laws have operated in tandem with private efforts by unions to reach into the ranks of low-wage service workers and reverse America's steady trend away from unionization.

The visibility of living wage laws, one suspects, is a principal reason for their success. From the perspective of progressive local politicians, living wage laws are an affordable way of making a powerful symbolic statement about the plight of the working poor. The laws reaffirm a moral standard to the effect that if government expects private manufacturers to pay decent wages, then the government must set an example. For union leaders, the public living wage standard, though affecting few workers directly, buttresses claims unions want to make to prospective members about what wage levels they should expect, and about the possibility of winning broad-based pay raises.

What should California do? If state policymakers want to do something substantial to help the working poor, a statewide EITC is a tremendously promising alternative. California has no statewide EITC currently, and yet it has a larger pool of low-wage workers, and higher living costs, than much of the nation. Moreover, California already has in place a progressive income tax. California could institute a statewide EITC, with benefit levels at about half the federal level, for about \$1.3 billion per year. The vast bulk of these payments would go to families near or below the poverty line; with a maximum benefit of \$2,000 (again, half the federal level), a statewide EITC would lift roughly 175,000 households -- over half a million people -- above the poverty line.

A statewide living wage law is harder to evaluate, simply because the requisite information about the volume and scale of potentially affected state contracts is not readily available to us. If we crudely extrapolated from the Los Angeles City experience to the State of California (analogizing by the size of direct government operations), one could guess that a statewide LWO would cost the

state on the order of \$50-100 million, would affect some thirty to fifty thousand workers, and would lift several thousand households above the poverty line. The negative side effects of a statewide LWO, if we draw on the Los Angeles experience, are likely to be minimal. But the impact on the problem of inequality would be almost completely symbolic.

Table 1. Two Views of Changes in Family Income

How total family income was divided among categories of families in 1977 and 1989, and each group's share of the overall gain in income over the same span of years. The first set of figures is based on the actual income of families. The second set is adjusted for the shrinking size of average families during the period.

UNADJUSTED DATA

Income Category	Share of total income		Share of the average gain in income between
	1977	1989	'77 and '89*
Highest 20 percent:			
Top 1 percent	7%	12%	70%
Next 4 percent	11	12	25
Next 5 percent	10	10	10
Next 10 percent	16	15	11
Second-highest 20 percent	23	22	8
Middle 20 percent	16	15	2
Second-lowest 20 percent	12	10	-7
Lowest 20 percent	6	4	-11
No income or negative income			-8

ADJUSTED FOR FAMILY SIZE

Income Category	Share of total income		Share of the average gain in income between
	1977	1989	'77 and '89*
Highest 20 percent:			
Top 1 percent	8%	13%	44%
Next 4 percent	12	13	19
Next 5 percent	10	10	8
Next 10 percent	16	15	11
Second-highest 20 percent	22	21	15
Middle 20 percent	15	15	11
Second-lowest 20 percent	11	10	3
Lowest 20 percent	6	4	-7
No income or negative income			-4

*Amount of income gained by families in each category as a percentage of the average gain in income for all families. Negative figures mean that income of families in that category declined an amount equivalent to that percentage of the net gain. All the positive and negative figures total 100 percent of the net gain.

Source: Congressional Budget Office.

Table 2. Living Wages in Effect in 2000

<u>City</u>	<u>State</u>	<u>Year</u>	<u>Wage with benefits</u>	<u>Wage without benefits</u>
Santa Cruz	CA	2000	\$11.00	\$12.00
San Francisco	CA	2000	\$9.75	\$11.37
St Louis	MO	2000	\$8.84	\$10.23
Cleveland	OH	2000		\$8.20
Alexandria	VA	2000	\$9.84	
Toledo	OH	2000	\$8.58	\$10.14
Omaha	NE	2000	\$7.25	\$8.50
San Fernando	CA	2000	\$7.25	\$8.50
Denver	CO	2000		\$8.03
Warren	MI	2000	\$8.35	\$10.44
Berkeley	CA	2000	\$9.75	\$11.37
Corvallis	OR	1999	\$9.00	
Hartford	CT	1999	\$9.02	
Kanakee	IL	1999	\$11.42	
Tuscon	AZ	1999	\$8.00	\$9.00
Buffalo	NY	1999	\$7.15	\$8.15
Los Angeles	CA	1999	\$8.32	\$9.46
Ypsilanti	MI	1999	\$8.50	\$10.00
Sommerville	MA	1999		\$8.35
Miami-Dade County	FL	1999	\$8.56	\$9.81
Cambridge	MA	1999		\$10.00
Hayward	CA	1999	\$8.00	\$9.25
Madison	WI	1999		\$7.91
Dane County	WI	1999		\$8.03
Hudson County	NJ	1999	\$7.73	
San Jose	CA	1998	\$9.50	\$10.75
Detroit	MI	1998	\$8.35	\$10.44
Multnomah	OR	1998		\$9.00
Boston	MA	1998		\$8.43
Pasadena	CA	1998	\$7.25	\$8.50
Cook County	IL	1998		\$7.60
Chicago	IL	1998		\$7.60
San Antonio	TX	1998		\$9.27
Portland	OR	1998	\$8.00	
Oakland	CA	1998	\$8.00	\$9.25
Durham	NC	1998		\$7.55
West Hollywood	CA	1997	\$7.25	\$8.50
Duluth	MN	1997	\$6.50	\$7.25
Milwaukee	WI	1997		\$6.25
New Haven	CT	1997		\$9.14
Los Angeles	CA	1997	\$7.25	\$8.50
Minneapolis	MN	1997		\$8.83
St. Paul	MN	1997	\$8.03	\$8.83
Jersey City	NJ	1996	\$7.50	
Santa Clara City	CA	1995	\$10.00	
Baltimore	MD	1994		\$6.10
Des Moines	IA	1988	\$9.00	

Adapted from www.afscme.org/livingwage/livchart.htm and www.acorn.org.