

THE VALUE AND IMPACT OF LIVING WAGE LEGISLATION

**A Review of Research Literature on
Living Wage Legislation**

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Executive Summary

Nationally, living wage legislation is supported by the Association for Community Action Now and the Economic Policies Institute and is opposed by the Employment Policies Institute.

Little research has been done on the impacts to low income workers, the costs to the municipalities, and the cost and reactions of municipal contractors. Most studies found and reviewed are pre-operative and suggested opposing impacts. A few studies were post-legislation impact studies. The following potential impacts are compiled from this later group of studies.

Possible Impacts to the City of Jacksonville

Impacts on the City of Jacksonville -

- Increases in contract costs.
- Increases in salaries of city employees.
- A wage push and compression in salaries.
- Changes in bargaining powers of employee unions.
- Possible improved quality of received services.
- Reduced poverty level.

Impacts to low wage workers -

- Increased wages for affected workers.
- Loss of some jobs by lower skilled workers affected by ordinance.
- Possible reduction in need to access city-supported health/social services.

Impacts to city contractors -

- Increased labor costs.
- A wage push and compression in salaries.
- Potential improvement in turnover, absenteeism, and productivity rates.
- Some affected workers will be in families whose income greatly exceeds the poverty level.

Impacts to the area economy -

- Increased spending due to a multiplier effect particularly in areas of city where affected workers live.

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Introduction and Overview

Over the past few years, policy makers in a number of cities in the United States have debated the need to increase the wages of employees, either working for the city and/or those employed by companies contracting with the city, to a level that is commonly referred to as a "living wage." In general, a living wage is usually defined as the wage a full-time worker would need to earn to support a family above the federal poverty line. A growing number of cities, over 83 as of June 2002 including Boston, Baltimore, Chicago, Los Angeles, New Orleans, Milwaukee, Miami, Gainesville, and San Antonio, have adopted living wage ordinances and a number of active campaigns are on-going in other communities. Currently, living wage legislation for Jacksonville has been proposed by the Jacksonville Coalition for a Living Wage.

This paper presents and critiques the positions of groups supporting living wage proposals and those arguing against the idea. The paper also reviews the important research studies funded by cities considering action and those with living wage legislation. At the end of the paper, some rough estimations are offered as to the possible impact and consequences of such legislation to the City of Jacksonville and our community.

Economic Theory on Wages

Economic theory on production costs, according to Neumark and Adams and others, suggests that firms tend to minimize cost so as to either improve profit or reduce price. As this is applied to changes in minimum wage, an increase in the cost of an input - labor - leads to two sets of effects. First, employers may substitute away from the now-more-expensive input to another less costly input. More often, employers may substitute a mechanized process for labor, thereby eliminating a number of positions, or may employ fewer low-skilled workers, replacing them with a

lesser number of more productive high-skilled workers. This loss of employment as a consequence of a minimum wage increase is referred to as elasticity of demand for labor¹.

However, this first effect does not always return costs to their original lower level. Thus, the second effect, called a scale effect, is to raise the price for the firm's goods or services. In a private market, this often leads to reduced demand, resulting in the reduced use of all inputs. In general, research on the effect of wage increases on employers has shown some combination of (1) reduced sales (output), (2) changes in the mix of inputs, (3) higher prices, and (4) reduced employment of low-skilled labor.

However, a few recent studies by economists have found that the impact of minimum wage legislation, as suggested by economic theory, may not be as great as it once was in earlier years. One reason suggested is that the consequences of a wage increase are now far more uniform across all workers. Thus, some economists suggest that local living wage effects may, likewise, not follow economic theory. As the positions of the proponent and opponent groups discussed in the next section will demonstrate, support of or opposition to living wage proposals depends in large part on whether one accepts or rejects the conventional economic theory on production cost.

Positions of National Policy Groups

Nationally, one major citizen activist group, the Association for Community Action Now (ACORN), and two economic policy institutes, the Economic Policies Institute and the Employment Policies Institute, have taken positions on the living wage issue.

The Employment Policies Institute, headquartered in Washington, D.C. and supported in large measure by restaurant and hotel associations, is opposed to federal and local legislation calling for minimum floors on labor wages. The Institute, however, is not against wage earners receiving a higher hourly wage. Rather, it argues that a

¹Elasticity is $\% \text{ change in employment} \div \% \text{ change in minimum wage}$. Thus, a 10% increase in wages reduces employment by 1%. Numerous studies on minimum wage have found a -0.10 to -0.20 overall rate. However, the real elasticity for low-wage earners may be higher.

Targeted Living Wage Subsidy is a more effective and less costly approach than is a general living wage approach.

The Institute's position on living wage legislation is that it raises employer costs, thereby limiting job growth and employment opportunities for low-skilled workers. Thus, the legislation accomplishes the opposite of its intended objective - raising the economic well being of low income workers - and saddles the public with more costly service contracts. Further, employees married to a spouse earning a higher salary are felt to unduly benefit from the wage hike. The Institute's position is to use a Target Wage Subsidy² to accomplish the objective. The subsidy could be employee-based or employer-based.

The positions taken by the Economic Policy Institute, a Washington-based think tank on economic policy matters related to low-income workers, and ACORN are 180 degrees opposite those of the Employment Policies Institute. The Economic Policy Institute suggests that the economic wellbeing of low-income workers is raised at a very minimal and acceptable cost to the local government by a living wage. The reason is that much of the increased labor cost is absorbed by the employer, who often realizes increased efficiencies from better paid employees. The increased efficiencies result from reduced employee turnover and increased work production and quality. The Institute also argues that few jobs are lost. Importantly, the worker, although losing some federal subsidies, has a higher net income and this income can more easily pave the way to homeownership and creditworthiness.

Research Studies on Living Wage City Ordinances

Pre-ordinance impact studies

Few research studies have looked at the actual impact of living wage legislation passed by specific cities and counties. Most studies reviewed were preliminary impact studies, hypothesizing what might happen. The four most

² A Targeted Living Wage Tax Credit would be a direct credit against city/state income taxes or a cash payment by the municipality to those who qualify for federal EITC. Payment or credit could also funnel through the employer. Both types of subsidies would increase the employment and net incomes of the low-skilled worker without any adverse job loss or reducing of federal tax credits and supports. It targets only those in financial need, although some suggest it also may reduce incentives for employers and workers to increase productivity.

thorough of these hypothetical studies are discussed next. Also discussed is the impact study on Jacksonville commissioned by the Jacksonville Coalition for a Living Wage. All relied on historical studies on the impact of minimum wage legislation and economic theory to support their conclusions.

Next, the only four major studies done on the impact of an existing living wage law to the city and community are reviewed. We believe that they may, in general, provide a more realistic analysis addressing the impact of such legislation.

Studies critical of a living wage. Studies that support the positions of the Employment Policies Institute are the Chicago impact study by Dr. George Tolley et al. and recent studies by Dr. David Macpherson on California and Florida. Dr. Tolley is professor of economics at the University of Chicago and Dr. Macpherson is an economics professor at Florida State University and a research analyst for the Pepper Institute on Aging at the school.

Also providing some credence to the positions of the Employment Policies Institute was a survey by The Survey Center at the University of New Hampshire, *The Living Wage: A Survey of Labor Economists* (2000). Conclusions were that more than three-fourths of the responding economists believed that a living wage policy would result in employment losses and in hiring better skilled applicants than before the wage increase.

Chicago - The Chicago City Council was considering an ordinance requiring all firms doing business with the city to pay their workers an hourly wage of \$7.60. The Council contracted Tolley to conduct a cost study on the ordinance. His research of a living wage ordinance calling for a 79% minimum wage hike for employees of firms contracting with the city of Chicago concluded:

- The annual cost to Chicago would be \$20 million for 8,470 workers, necessitating a permanent tax increase to pay for the increased labor costs.
- Labor costs to the contractors would rise by an estimated \$37.5 million.
- The city could expect at least 1,300 lost jobs.
- Although the average salary increase would be \$7,000, disposable family income would rise by only \$1,900, the difference between the two being the dollars going to the

state and federal government in the form of taxes and lost food stamp/Medicaid benefits.

Dr. Tolley noted that, faced with \$37.5 million of increased labor costs, contractors might respond in one of four ways - raise prices to the city, reduce cost by reducing the number of employees, not bid on future city contracts, or relocate out of the city. He and his associates concluded that non-profits, which provide services to the community, would have to absorb the increased costs by better efficiency or reducing the number of employees. However, firms selling goods and services to the city would pass the cost on, as all potential competitors would be affected by the ordinance. Thus, Tolley notes the elasticity of demand of labor was closely tied to a firm's ability to pass increased costs on to their customers. [Chicago adopted a proposed ordinance affecting contractors in July, 1998.]

Florida - Dr. Macpherson's study on the probable effects of a statewide increase in the minimum wage to that of a livable wage was contracted for by Employment Policies Institute and released in June of 2002. The study used 1998 through 2001 Current Population Survey Outgoing Rotation Group files to develop a statistical portrait of the state's working population and the aggregate numbers by various sub-categories. He then applied a labor demand elasticity of -0.22 for minimum wage workers and used minimum living wages of \$8.81 and \$10.09. His results estimate that approximately 131,000 workers would lose their jobs if the rate were set at \$8.81 and approximately 222,000 would lose their jobs at \$10.09 an hour. Further, Florida's employers would see their labor costs increase by \$4.9 to \$8.8 billion annually. The greatest potential impact by category of worker would be borne most by people in a 44-47 age bracket (30% of all ages), making a \$25,000 to \$29,999 salary (24% of all would be in this bracket), female (59%), and white (79%). Most jobs lost would be in the retail and service industries.

California - Dr. Macpherson's study on the probable effects of a California statewide increase in the minimum wage to that of a livable wage suggest 280,000 workers losing their jobs and a \$12.5 billion annual cost to businesses. Most workers projected to lose their jobs would be the sole family wage earner. Further, many of the wage gains would go to low-wage workers in higher income

brackets (because of a spouse having a wage in a higher wage bracket), rather than to those most in need.

Studies supportive of a living wage. Three detailed pre-ordinance studies - New Orleans, Miami-Dade County, and San Francisco - were found and are summarized here. Dr. Robert Pollin, a professor of economics and Director of the Political Economic Research Institute, and his associates at the University of Massachusetts-Amherst did the New Orleans study. Dr. Bruce Nissen, an economics professor at the Florida International University Center for Labor Research and Studies, did the Miami study, using a model based on Pollin's work. Dr. Michael Reich, professor of economics and research chair of the Institute of Industrial Relations, University of California-Berkeley, coordinated the San Francisco study.

New Orleans - The proposed New Orleans ordinance called for a citywide minimum wage of \$1.00 over the federal minimum wage. In a follow-up study to an earlier New Orleans study (not reviewed here as it was less complete and formulated the same conclusions), Dr. Pollin and associates surveyed businesses within the city and received completed questionnaires from 444 area businesses, employing 23.4% of the total city workforce. Of the 293,330 workers in the city, they estimated that 47,050 would be covered by the proposed ordinance. The mandated cost for all 12,262 city firms was estimated at \$53.5 million plus the additional costs of any ripple effects. Ripple effect, also called wage push, is caused by the employer's need to re-adjust other salaries so as to maintain a measure of pay hierarchy between the lowest and highest paid workers [an outcome noted in most minimum wages studies is a compression in the wage spread, but still a weak ripple effect]. The researchers calculated that this effect would add an additional \$17.9 million increase in payroll costs. Although large, Pollin noted that the total \$71.4 million in new labor costs would be only 0.09% of the firms' operating budgets.

To compensate for the increased input labor cost of the living wage ordinance, Dr. Pollin suggested that firms would absorb the cost by either (1) raising prices, (2) increasing productivity, and/or (3) redistributing costs within the firm. He and his associates did not believe relocation to be an attractive option for any but a few businesses. Analysis of the survey data suggested that

price increases were a viable option for most firms and most buyers would accept it. The most affected would be those few firms with high labor needs or which provide goods and services to other areas outside of the city. Also, some slight increase in worker productivity was expected. Finally, their analysis suggested that the firms could further compensate through wage compression coupled with some substitution of low skilled workers with better skilled ones. [Voters rejected a first ordinance in 1997 but approved a second one in February 2002; it is being challenged in the courts.]

Miami-Dade - The proposed Miami-Dade County ordinance called for a pay rate of 110% of the federal poverty rate for a family of four. A cost analysis by David Nissen and associates used survey data from county contractors, 1990 Census business sales/costs data, and Department of Labor industry information in order to determine the numbers at specific salary levels of workers by type and size of county contract. Their analysis determined that 43% of the contractors' employees were earning a wage that placed them below the poverty level minimum wage. Thus, the new ordinance would cost the contractors an additional \$4.2 million in direct annual labor costs. An additional ripple effect was anticipated, but not calculated. The county's compliance monitoring cost was expected to be \$230,000 annually.

The researchers anticipated that contractors would be able to adjust their increased costs as per economic theory, but would still be forced to pass 36% of the labor cost on to the city. Adding the pass-through costs to the city's costs for monitoring and to adjust the salaries of its own workforce resulted in a total cost of \$3.2 million to the city in the first year, with less than a million in cost in each of the two following years. This amounted to about one-tenth of 1% of the operating budget.

San Francisco - Michael Reich and associates estimated the principal costs plus benefits of a wage ordinance calling for a wage of \$11.00 and health insurance that would benefit about 5,200 employees of city contractors. Using data from a variety of sources, they estimated:

- A cost of \$31 million in new direct labor costs not including ripple effect (wage push), 4% of the total prior year's contracts. Indirect wage gains were

expected to be \$3.7 million. Some wage compression was expected.

- Most increased costs to nonprofits and no more than one-third of the costs to for-profits were expected to be passed-through to the city.
- The city would see savings of \$5.7 million in the city's public health budget because of a reduced use of the city's hospital and other medical services by employees formerly without health insurance.
- The city's economy would grow by \$20.8 million per year, yielding increased sales tax revenue. This growth would be concentrated more in the areas within which most of the lower-paid workers live. The injection of new money, in the form of wages, would have a multiplier effect. Numerous multiplier studies have shown that the area multiplier differs with income distribution. Lower wage earners spend a greater portion of their new money within the area than do higher income wage earners. The researchers used a income multiplier of 1.7, concluding that approximately 40 cents of each additional dollar received by a resident would be re-spent locally³.
- Increased productivity and enhanced quality of city services was anticipated, but no economic value was assigned to the benefits.

Jacksonville - Bruce Nissen, the chief researcher of the Miami-Dade study, and Brian Underhill were contracted to use the same methodology and modeling used in Nissen's Miami-Dade study to determine the impact of a living wage of \$9.19 plus health benefits or \$10.19 without health insurance for city employees and employees of contractors doing more than \$30,000 annual business with the city. The hourly rate was based on the income needed for a family of three to generate an income such that 33% of the income

³ A multiplier is a numeric value, greater than 1.0, representing the ratio of the total impact—i.e., the sum of the direct and indirect effects—of a change in output or final demand of a basic industry to the initial, direct impact. Multipliers can be developed for any factor measurable in terms of a unit of output—economic factors, fiscal factors, resource factors, or environmental factors. Area multipliers are influenced by a number of factors, such as economic makeup, population size, and income distribution. Multipliers can be expressed in terms of direct and indirect effects (Type I multipliers) or in terms of direct, indirect, and induced effects (Type II multipliers). The latter multipliers incorporate the induced effects of changes in household incomes and spending due to changes in direct and indirect impacts. Reich used $1.7 - 1.3 = 0.4$. In general, larger more diverse areas have larger multipliers.

could pay the HUD Fair Market Rent value of an apartment [The 2000 Census reports a mean family size of 3.09 at P>.9 for Jacksonville]. Their conclusions were:

- Approximately 310 fulltime employees of contractors would be affected. Temporary help contracts were not included.
- The direct labor cost for the 310 workers at \$10.19 per hour, including compliance bookkeeping costs, would be \$2.34 million annually.
- Annual city monitoring costs would be \$103,500.
- 763 city employees would be impacted at a cost of \$1.83 million (at \$9.19).
- City contracts run for three years. Thus, the contractor's impact, even if all were passed on to the City, would be less the first two years after the ordinance went onto effect.

[In a very preliminary response (Nov. 2001) to the proposal, Calvin C. Ray, Director of Administration & Finance, estimated the city employee costs to the City at \$4.13 million (590 positions at \$1.44 million and 1.99 million budgeted hours at \$2.69 million). The cost to contractors was not determined.]

Yet, data on Jacksonville from another study paints a different picture. Macpherson, in his 2002 study on the impact of a minimum statewide wage in Florida, calculated that an \$8.81 minimum wage would result in a loss of 7,976 jobs, 6.1% within the work force that the living wage plan was meant to help, in the Greater Jacksonville area. The cost to employers was estimated at \$278 million a year. At a \$10.09 wage, job losses would rise to 13,726, 6.2% within the affected work force, costing employers an estimated \$519 million. Most jobs lost would be in the retail and service industries.

Post-ordinance impact studies

Four studies were reviewed that sought to determine the impact of existing living wage legislation on the municipal budget, impact to workers, and actions of contractors. The study of Detroit is limited in scope. Likewise, so is a study of the San Francisco Airport. The study of Baltimore looks at all the issues. Neumark's multi-city study is the most important because of its sophisticated research design, which analyzes data from 36

municipalities with living wage laws against a control group of cities without such ordinances.

Detroit. The 2000 study of the impact of Detroit's legislation was coordinated by Dr. David Reynolds of the Center for Urban Studies at Wayne State University. His survey study only focused on the impact the law had on non-profits. [Employers receiving over \$50,000 had to pay the federal poverty line plus health insurance or 125% of the poverty limit.] The findings were:

- 50% of the non-profits supported the wage ordinance.
- Only a small proportion of the workers were affected.
- The financial impact on 75% of non-profits was minimal.
- 25% had problems that affected internal wage scales and budgets.
- Only two part-time workers among 64 non-profits lost their jobs. Most of the budgetary problems of the organizations hit the hardest were due more to the language used in the city contracts, which specified funding by specific categories.

San Francisco Airport Authority (SFAA). As part of the national effort to improve airport security and safety, the San Francisco International Airport Authority implemented a program in January 2000 to increase training, performance and compensation to a livable wage. The program impacted nearly 10,000 of the 34,000 ground-based employees. Dr. Reich, who also coordinated the City of San Francisco study, coordinated a 2001 study on the impact of the program. The study addressed worker turnover, employee performance, and business impacts. The results were:

- Turnover fell dramatically, from a pre-program rate of 110% annual turnover to an overall rate of 25%.
- Overall job performance improved significantly as rated by contract employers. Further, recruitment became easier and the quality of applicants improved.
- The ripple effect was apparent with wages improving in other positions. Employers reported higher morale and reduced absenteeism.
- The cost of the wage and health benefits was estimated at \$57 million. Surveyed employers noted they were able to pass the costs on to airport travelers through increased prices (\$1.37 each).

Baltimore. Baltimore was the first city, in 1994, to pass a living wage ordinance. The Baltimore Bureau of the

Budget and Management Research had projected a 9-13% increase in city contract expenses as a direct result of the anticipated passage. A 1999 study, by Dr. Niedt et al at John Hopkins University, analyzed data from two year's worth of implementation data and concluded:

- Contract prices increased just 1.2% in the two years. Corrected for inflation, they decreased. The researchers hypothesized that the less-than-expected rise was due, in part, to an increase in the intensity of the work, that is the same amount of work done in less time. However, cost changes before and after implementation varied greatly by contract types. Labor intensive contracts, such as janitorial services, showed the largest increases at an average of 16.6% over the two years.
- There was no significant decrease in employment.
- A ripple effect to maintain the old wage differential seems to be beginning.
- Non-compliance was a problem, in particular with bus contractors.

Neumark study. The Neumark studies (2002, 1999) are interesting for two reasons. First, David Neumark, professor of economics at Michigan State with a doctorate from Harvard, is widely regarded as an economic conservative who does not support federal minimum wage legislation. Second and more importantly, his research on living wages is the most sophisticated. His study is a quasi-experimental design using regression⁴ analysis to compare outcome differences between a group of living wage cities and a control group of comparable non-living wage cities.

Neumark's 2002 study does not dwell on the cost to the local government, but rather on the ordinances' effects on wages, poverty levels, and unionized city workers, the underlying reason for the living wage legislation. His 146-page monograph includes a review of existing research on living wages in which he critiques the methodologies used by others. He explains why he believes the negative conclusions reached by Tolley on Chicago and the positive impacts reached by Pollin and other using his methodology,

⁴Multiple regression analysis is a statistical method for studying the relation between a dependent variable and two or more independent variables. Its value is that it removes the effect of other factors, thus providing a prediction (probability) equation. The value is that the results from the sample can be generalized to the population with a known degree of probability.

at New Orleans, Baltimore, Miami, and Jacksonville, are incorrect. He believes their validity is questionable because of the economic assumptions made by both and that their calculations are hypothetical, done in the absence of any empirical evidence.

Neumark's regression analysis showed that there were significant differences between the 36 living wages cities group and the control group. Significant differences (a numerical value difference between the experimental and control groups that cannot be accounted for by mere chance) found were:

- On average, wages of low-wage workers receiving a living wage improved more than those of the control group. The data indicate that a living wage 50% higher than the minimum wage would raise average wages of workers in the bottom 10% of the wage distribution by 3.5%. The analysis showed that larger effects were produced by broader coverage of the ordinance, as generally provided in the larger cities.
- Employment of low-wage workers was reduced by 7%, showing limited elasticity of the bottom 10% rung of wage earners. The substitution was in favor of higher-skilled workers. This impact counteracted some of the positive effect gained above.
- A small, but significant decrease in the percent (1.8%) of families living in poverty was found.
- Unionized municipal workers received sizable wage gains when narrow living wages laws were enacted. Therefore, living wage laws may reduce the incentives for cities to contract out work, thereby increasing the bargaining power of municipal unions and leading to higher wages.

Possible Impacts to the City of Jacksonville and Community:

What does prior research tell us?

Unfortunately, the research studies reviewed in this paper, in general, provide us with little in the way of definitive conclusions about the effects of a living wage in Jacksonville.⁵ There are at least two reasons for this conclusion. First, many studies, such as the Jacksonville study by Nissen-Underhill, are pre-operative - hypothetical

⁵ Two studies that provide data on Jacksonville come to very different conclusions. The Macpherson statewide study calculates thousands of lost jobs in the Greater Jacksonville area at a substantial cost to employers while the Nissen-Underhill suggests very few lost jobs with a minimal percentage increase to the City' operating budget.

in design - offering 'what-may-be' conclusions. Or secondly, they are studies describing the actual impact of existing living wage ordinances using a research design that offers only limited generalization to other communities; in reality, they are case studies.

Yet, the conclusions reached by this second category of studies - post-operative - do offer some light as to what may happen in other communities contemplating similar legislation. The information could especially be valuable in drafting specific living wage legislation once the idea of a living wage had been, in general, accepted by policy makers. But caution is needed in using the findings as a basis for determining the impact to Jacksonville of a living wage proposal. Each community is unique in composition of its needs, economy, income groups, employment categories, operation and structure of municipal government, and so on. In short, what may have happened in Baltimore, Los Angeles or other city, may not materialize elsewhere even if the legislation were identical.

The only study reviewed that does allow for generalizations to other communities is the complex mega-city regression analysis by David Neumark. Using his results, supplemented by some results of other post-operative studies, the following potential impacts to the City of Jacksonville and the community were estimated:

Impacts on the City of Jacksonville -

- Increases in contract costs. Baltimore saw a limited total increase. Detroit and SFAA found that contractors passed on some to most of the costs.
- Increases in salaries of city employees.
- A wage push and compression in salaries of other city and contracted employees.
- Changes in bargaining powers of employee unions. Neumark found this as a partial explanation of the frequently narrow coverage of living wage laws.
- Possible improved quality of received services. SFAA found substantial improvement due to increased morale, less attrition and absenteeism, but the applicability to other cities is difficult to determine. Also, increased rates may not be sustained over time.

- Reduced poverty level. Neumark found a significant mean decrease in the poverty rate of 1.8% with a 150% increase in the living wage.

Impacts to low wage workers -

- Increased wages for affected workers. A 3.5% mean increase for workers in lower 10% of wage distribution (Neumark). This percent increased as the city's living wage coverage became broader in scope.
- Loss of some jobs by lower skilled workers affected by ordinance. Baltimore and Detroit found no loss. Neumark found a 7% loss, suggesting limited elasticity of this group. This percent increased as the city's living wage coverage became broader in scope.
- Possible reduction in need to access city-supported health/social services (Reich - San Francisco).

Impacts to city contractors -

- Increased labor costs. Some contractors could absorb some cost, but it would be hardest on labor-intensive contracts and for non-profits to do so.
- A wage push and compression in salaries.
- Potential improvement in turnover, absenteeism, and productivity rates.
- Some affected workers will be in families whose income greatly exceeds the poverty level (All studies).

Impacts to the area economy -

- Increased spending due to a multiplier effect particularly in areas of city where affected workers live (Reich - San Francisco).

Interestingly, of all the studies reviewed, only Reich in his study on San Francisco discusses the economic benefit to the city of a living wage. Policy makers in municipalities must make decisions in allocating scarce resources for the benefit of the community. A great part of that decision often revolves around the probable future return benefits to the community of an earlier decision to spend resources. Economic impact multipliers are one tool in cost-benefit analysis often employed by policy makers.

Conclusion

In conclusion, living wages and research on them are in some degree in their infancy. Neumark's research found initial overall income gain by lower income workers and a modest reduction in poverty - the intended results of living wage legislation. Yet, we are unsure of the long-term effects of the legislation. Also, his models did not address the overall cost-benefit to municipal governments and their governed communities. Very little research has investigated the full impact of the costs and benefits of a living wage to the community and those directly impacted. Further, no research has been done comparing such legislation with alternative methods of reducing poverty. It may be that other approaches also begin to accomplish the same goal - providing a living wage to low income employees.

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