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Do Living Wage Laws Help Low-Wage Workers and Low-Income Families?

Since 1994, nearly 40 cities and a number of other jurisdictions in the United States have passed living wage ordinances. These ordinances mandate that businesses under contract with the city and in some cases businesses receiving assistance from the city (such as subsidies, grants, or tax abatements) pay employees a wage sufficient to lift their families out of poverty, entailing much higher wage requirements than traditional minimum wages. A few cities also impose the requirement on themselves, paying city employees a living wage. To some extent, California has been at the forefront of the living wage movement, comprising nearly one-third of the nation's cities with living wage laws.

California Cities with a Living Wage Law	
Berkeley	San Fernando
Hayward	San Francisco
Los Angeles	San Jose
Oakland	Santa Cruz
Pasadena	West Hollywood

Despite the increasing popularity of living wage ordinances, there has been, to date, no systematic analysis of their effects. David Neumark addresses this knowledge gap in *How Living Wage Laws Affect Low-Wage Workers and Low-Income Families*. Using information on living wages across the United States, he focuses on the following questions:

- Do living wage laws raise wages for at least some low-wage workers? Are wage gains for low-wage workers offset by reductions in employment or in the amount of hours worked as employers seek to accommodate the additional labor costs?
- Do living wage laws achieve their stated policy objective of improving economic outcomes for low-income families? Do the laws reduce urban poverty?
- Given the stated antipoverty goal of living wage campaigns, why do the laws generally restrict coverage to city contractors, rather than imposing wage floors for broad groups of workers? Do living wage laws applied to city contractors reduce incentives for city governments to hire such contractors, hence strengthening the hand of municipal unions and bringing wage gains to unionized municipal workers? Does this help explain why municipal unions are often involved in living wage campaigns?

Living wage laws establish a higher wage floor than the minimum wages set by state and federal legislation. While the current minimum wage in California is $5.75, living wages range from a low of $7.25 in Pasadena and San Fernando to $7.69 in Los Angeles, $9.00 in San Francisco, and a high of $11.00 in Santa Cruz.

Wage and Employment Effects

The empirical evidence examined in this study indicates sizable positive effects of living wage ordinances on the wages of low-wage workers in the cities in which these ordinances are enacted. A 50 percent increase in the living wage would, over the course of a year, raise average wages for workers in the bottom tenth of the wage distribution by 3.5 percent. This wage increase is larger than one might expect, given that the most prevalent type of living wage law is narrow in scope, covering only employers who contract with the city. The relatively large wage effect noted here is driven by those cities where the coverage of living wage laws is more broad—that is, cities that also impose living wages on employers receiving business assistance from the city. Existing analyses of the likely effects of living wage laws based on narrow coverage and ignoring business assistance provisions may be quite misleading.

Although living wage laws raise the wages of low-wage workers, they also appear to reduce employment. The analysis suggests that a 50 percent increase in the living wage would reduce the employment rate for workers in the bottom tenth of the predicted wage distribution by 7 percent, or 2.8 percentage points. This disemployment effect points to the tradeoff between wages and employment that economic theory would predict.

Effects on Family Income and Poverty

The goal of living wages is not necessarily to help low-wage workers but rather low-income families. This distinction is important because low-wage workers are far from synonymous with low-income families. Although there are few low-income families with high-wage workers, there are many high-income families with low-wage workers (such as teenagers). Economic theory offers no predictions regarding the effects of living wage laws on family income or poverty. The effect ultimately depends on the family incomes of workers who experience wage gains and those who face nonemployment or reductions in hours worked. The evidence indicates, however, that living wage ordinances may moderately reduce the likelihood that urban families live in poverty. Although the evidence is not always strong in a statistical sense, the best estimates imply that a 50 percent increase in the living wage would reduce the poverty rate by 1.4 percentage points.

Union Involvement

The analysis points to sizable wage gains for unionized municipal workers when living wage laws covering city contractors are implemented. It appears that living wage laws may reduce the incentives for cities to contract out work that would otherwise be done by municipal employees, thus increasing the bargaining power of municipal unions and leading to higher wages. As indirect evidence of this, labor unions—especially those representing municipal workers—are very active in the movement to pass living wage laws.

Policy Assessment

The evidence examined in this study suggests that, overall, living wages may provide some assistance to the urban poor. Several previous studies have suggested that living wages might have such beneficial effects, whereas others have argued that the effects were more likely to be negative. The evidence in this report is the first that is based on the actual experiences of cities implementing such laws. Although this research indicates that living wages likely help the urban poor, it does not compare the effectiveness of living wages to other policies. Analysts assessing living wage laws, and policymakers contemplating their implementation, should give due consideration to comparisons among alternative methods of reducing poverty. For example, in 1999, after first considering a living wage proposal, Montgomery County, Maryland, opted instead for a local Earned Income Tax Credit.

In addition, many other issues need to be explored before policy analysts can feel confident that they have a well-established set of findings from which to draw strong conclusions. These other issues include the effect of living wages on municipal budgets, the extent to which higher labor costs are absorbed by contractors or passed through to cities, the implications of living wages for economic development, their effects on productivity and the provision of city services, the effectiveness of compliance and enforcement, and the effects of living wages on overall economic welfare. The findings in each case may well differ, depending on the local economy and the specific law considered.

This research brief summarizes a report by David Neumark, How Living Wage Laws Affect Low-Wage Workers and Low-Income Families *(2002, 174 pp., $15.00, ISBN 1-58213-043-4). The report may be ordered by phone at (800) 232-5343 [U.S. mainland] or (415) 291-4400 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California.*

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