

*In the Fall 2004 issue of **Monitoring Wisconsin**, the Institute for Survey and Policy Research (ISPR) of the University of Wisconsin-Milwaukee (UWM) presents work-in-progress by a faculty member of the Department of Economics. The article is a summary of ongoing research being conducted by Scott Adams, of UW-Milwaukee, and David Neumark of the Public Policy Institute of California (PPIC). All opinions expressed herein are the author's alone, and do not necessarily reflect those of the PPIC or ISPR. Please contact the author at sjadams@uwm.edu for completed papers on this topic. These contain more information about the data and methodology summarized in this article.*

MUNICIPAL LIVING WAGE LAWS

Scott Adams

Introduction

Among the tools that state governments have to improve conditions for low-income families and to alleviate poverty is minimum wage legislation. Wisconsin's minimum wage currently is \$5.15 for most workers, although an increase is being considered (See <http://www.dwd.state.wi.us/er>). At its current level, Wisconsin's minimum wage is the same as the federal minimum wage, which was last changed on September 1, 1997. Although some states have set higher minimum wage requirements (see <http://www.dol.gov/esa/whd/flsa/>), Wisconsin has kept their requirement the same for seven years, despite the fact that average hourly earnings grew 26% over this time period (Bureau of Labor Statistics). This has led to a rapidly declining real value of the minimum wage that is falling increasingly short of the poverty line. Assuming a 2000 hour work year, the annual income of a minimum wage worker is \$10,300. This is \$2,190 short of the poverty guideline for a family of two and \$5,370 short of the guideline for a family of four, according to the Department of Health and Human Services. In short, the minimum wage is not a "living" wage.

Given low mandated wage floors, many local governments across the country have passed legislation setting minimum wage requirements that are much higher than the standard minimum wages set at the federal and state levels. The city legislation passed to date, however, has been

narrow in scope. Madison and Milwaukee are among the over 100 cities that have passed such laws. In Milwaukee, the law covers companies that are under contract to provide services to city residents. In Madison, the law covers companies that are receiving business aid from the city. The aim of both laws is to target some workers who are paid low wages in the hope of lifting their families' incomes to a point that they can afford the necessities of life. Given that other cities in Wisconsin have considered or will be considering living wage legislation in the future, it is worthwhile to review what the impact of laws have been on the labor markets of cities around the country that have enacted them.

Living Wage Laws Across the Country and Their Expected Impact

Baltimore was the first to enact a living wage law in 1995, setting a wage requirement on contractors of \$6.10. This was higher than the minimum wage at the time and has subsequently been increased to account for changes in the cost of living. Other cities set their wage requirements explicitly to the federal poverty guidelines. For example, the city of Detroit sets their hourly wage equal to 100% of the federal guidelines, assuming a family size of four. This amounts to a current minimum wage requirement that is over \$9.00 per hour. There are a number of other cities throughout the country, such as Boston and San Francisco, with living wage laws that impose minimum wage requirements in excess of \$10.00. Table 1 gives some details on a sample of larger U.S. cities with laws.

Advocates of living wage laws suggest that the legislation will boost the wages of some of the lowest wage workers in the city and could succeed at alleviating urban poverty. The former seems likely, although the degree of impact is questionable given the limited coverage of these laws. With the most wide-sweeping of laws still reaching less than 10% of the workforce, substantial wage impacts are uncertain. Even more uncertain are the poverty impacts. This is especially true if the wage requirements place a large enough burden on companies such that they must terminate the employment of some

(continued on page 2).

workers. If the workers who lose their jobs are in poor families, the effects of the laws might actually be to reduce employment and increase poverty.

The Observed Effects on Wage Rates, Employment Rates, and Poverty Rates

Since many U.S. cities have had living wage laws on the books for some time, it is possible to look at how wages and employment rates have changed since the laws were enacted. This can be done by comparing the changes in cities with laws to a control group of cities that have not passed laws over the same time period. The control group allows us to net out any changes that were occurring in the economy generally and identifies the impact of the laws. We utilize Current Population Survey from 1996-2002, available through the Bureau of Labor Statistics, to arrive at our estimates.

When estimating the effects of laws on wages, we focus on the bottom tenth of the wage distribution in cities, as it is these workers who are likely to be affected. We found that on average, when a living wage is enacted, it increases the wage rate in the bottom decile of a city's wage distribution by 1.68%. For those cities that enact broader legislation that covers firms receiving financial assistance from the city, the effect is a larger 3.23% increase. The greater effects of the broader legislation may stem from the greater numbers of workers covered by these laws, thus making it more likely to detect effects. We also looked at employment effects, focusing on those in the bottom 10th of their city's predicted wage distribution. We predicted wages for each worker and non-worker given their personal characteristics and educational level. We find that laws lower the probability of being employed by 2.34 percentage points. Limiting attention to just cities with potentially broader coverage through business assistance coverage, we find a 3.13 percentage point decline. Finally, since the positive wage effects and negative employment effects are offsetting, we estimated whether families are pushed above or below the official poverty line, as defined by the federal government. We find that imposing or increasing a living wage does succeed at lowering the probability that families are in poverty on average, but the effects are modest.

Concluding Remarks

The findings that living wages have had detectible impacts on wages and employment are striking. They point to the fact that there are winners and losers when

living wage laws are passed. Those lucky enough to work for firms covered by the legislation get a boost in their pay. Others, however, lose their jobs, likely due to the high costs that the minimum wage requirements impose upon firms. The poverty results, however, suggest that the winners may outnumber the losers. The question then becomes whether a living wage law is a good way to fight urban poverty in cities in Wisconsin and beyond. Although there have been some observed positive effects of laws, there are clear negative employment effects. This suggests that we should also consider alternative anti-poverty efforts. The Earned Income Tax Credit (EITC), for example, boosts incomes for the poor without imposing additional direct labor costs on firms. Another appeal of programs such as the EITC is that they target those people that are in poverty, rather than those with low wages. Since low-wage workers are not always in poor families (e.g., teenagers in their first jobs), anti-poverty programs that set high minimum wage requirements may help some people that are not poor at the expense of other people who are in poor families. ■

City	Effective Date (wage requirement)	Coverage
Baltimore	July 1995 (6.10; periodically adjusted upward)	Contractors > \$5000
Los Angeles	March 1997 (7.25 with health benefits; 8.64 without; indexed annually for inflation)	Contractors > \$25,000; firms receiving assistance > \$100,000 or \$1 million lump sum
Madison	March 1999 (tied to poverty level for family of four)	Assistance > \$100,000; non-union city employees
Milwaukee	November 1995 (set to poverty level for family of three on March 1 of each year; assumes 2,080 annual hours)	Contractors and sub-contractors > \$5,000
Minneapolis	March 1997 (100 % of poverty level for family of four with health benefits; 110% without benefits)	Assistance > \$25,000, as of December 1998; > \$100,000 initially
Oakland	April 1998 (initially set to 8.00 with health benefits and 9.25 without; upwardly adjusted by prior December 31 to December 31 change in the Bay Area CPI)	Contractors > \$25,000; assistance > \$100,000; port leaseholders
Portland	July 1996 (7.00; adjusted upward periodically)	Custodial, security, and parking attendant contracts

For more information and a complete up-to-date list of cities that have enacted and/or proposed legislation, see the Employment Policies Institute web page (www.epionline.org).

Unemployment Rate 1995—2004

Seasonally-Adjusted Monthly Data

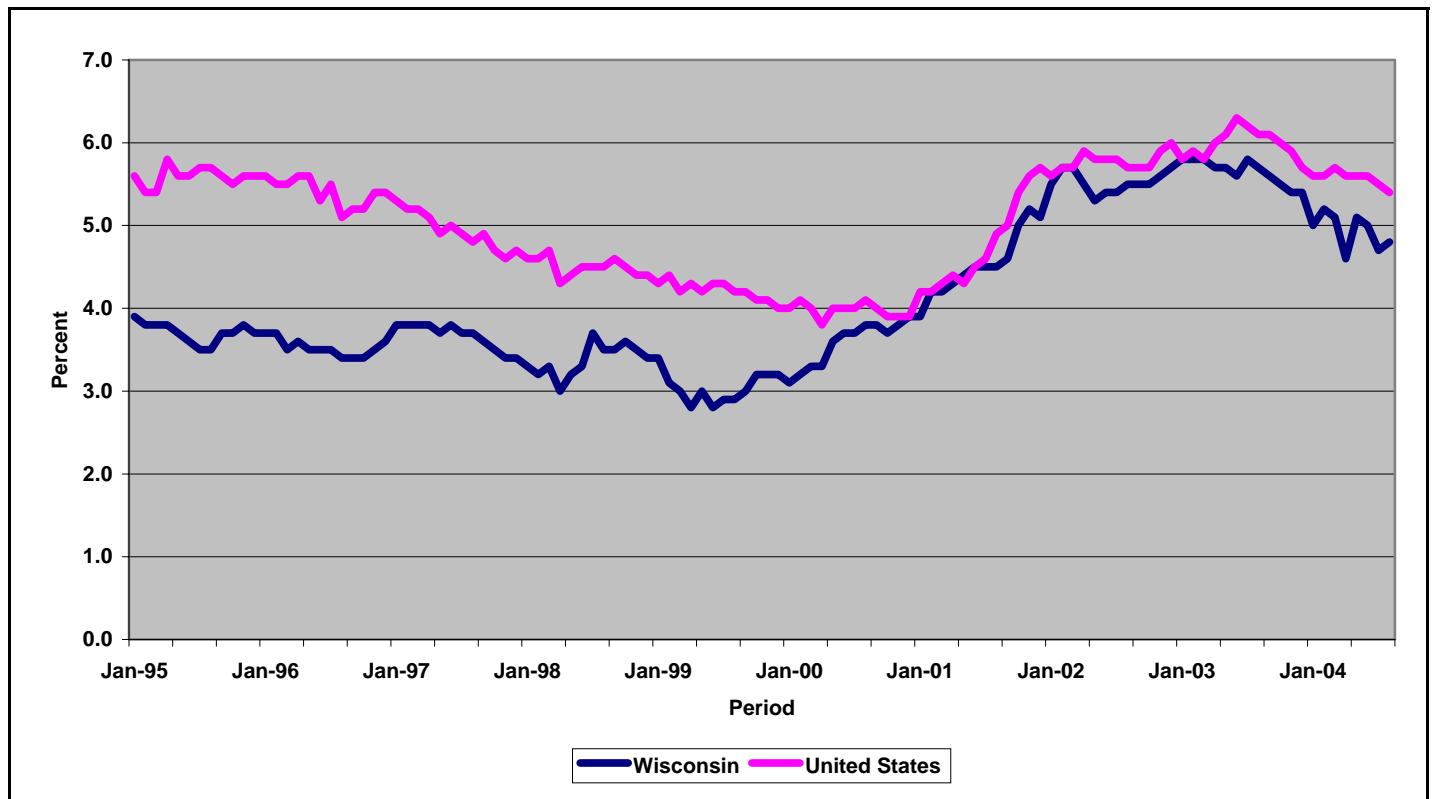


Table 2. Wisconsin Employment Data (in Thousands)

	1990	1995	2000	2001	2002	2003	2004-Q1	2004-Q2
Labor Force	2583.3	2882.3	2968.1	3032.1	3024.8	3078.2	3113.5	3111.0
Total Employment	2468.8	2775.5	2862.7	2895.0	2858.2	2904.5	2953.7	2958.5
Total Non-farm Employment	2291.5	2558.6	2833.8	2813.9	2782.4	2781.1	2794.5	2821.3
Natural Resources & Mining	3.9	4.2	4.0	3.9	3.8	3.9	3.4	3.8
Construction	87.9	101.7	124.8	125.4	124.1	123.4	128.6	125.9
Manufacturing	523.0	566.6	594.1	560.3	528.3	506.9	503.7	511.4
Trade, Transportation & Utilities	458.7	502.4	552.9	547.7	536.7	538.8	543.8	548.2
Information	44.4	45.2	53.6	53.3	51.2	49.7	49.5	48.7
Financial Activities	123.9	134.3	149.1	151.8	153.8	157.7	160.1	159.7
Professional & Business Services	153.6	206.9	247.0	238.5	239.8	244.6	249.1	259.0
Educational & Health Services	237.4	280.4	339.6	349.6	357.2	366.8	373.4	374.5
Leisure & Hospitality	199.3	217.9	236.7	238.6	240.4	245.6	248.1	252.0
Other Services	116.6	120.3	126.3	131.3	132.2	131.9	126.9	130.3
Government	342.9	378.7	405.6	413.7	414.8	411.9	408.1	407.8

Source: U.S. Department of Labor, Bureau of Labor Statistics

About ISPR:

The Institute for Survey & Policy Research (ISPR), a premier institute dedicated to high quality surveys and policy research, was established in 1968. It is a major resource for the University of Wisconsin-Milwaukee (UWM), the greater Milwaukee area, and the State of Wisconsin. Its services include the following:

- **The Greater Milwaukee Survey** – semiannual cost-shared survey of public opinion in the Milwaukee metropolitan area.
- **The Wisconsin Poll** – semiannual cost-shared survey of public opinion in the State of Wisconsin.
- **Monitoring Wisconsin** – quarterly review of the Wisconsin economy. It includes an analysis of a prominent sector of the economy, forecasts by sector using the latest techniques, and reports by UWM faculty on their Wisconsin-based research.
- **Survey Research** – survey research, program evaluation, needs assessment, policy research.
- **Econometric Research** – economic impact studies, economic forecasting.
- **Data Archive**—US Census Data, ICPSR data, economic data, demographic data.

In addition, the ISPR can help meet your organization's survey needs by providing the following services:

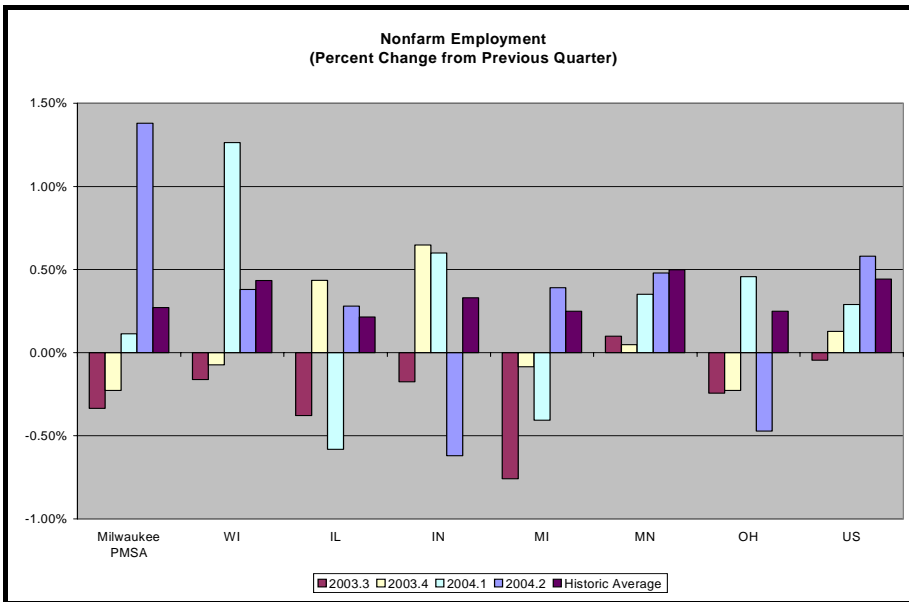
- **Proposal Assistance** – The ISPR can aid in preparing survey cost estimates and the writing of research proposals.
- **Sampling** – The ISPR can help you to choose the proper sampling frames for surveys that your organization conducts.
- **Questionnaire Design** – The ISPR can work with you to create surveys with proper question wording, question order and layout to ensure accurate data collection.
- **Survey Data Collection** – The ISPR can conduct surveys by telephone, in person, by mail, and on the Internet. All data collection is done by the ISPR's professionally-trained and supervised interviewing staff. Telephone surveys are conducted on the ISPR's state-of-the-art Computer-Assisted Telephone Interviewing (CATI) system.
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For more information, please contact Professor Swarnjit S. Arora, Director of ISPR, by email at ssa2@csd.uwm.edu or at 1.414.229.5313. Visit us on the web at <http://www.uwm.edu/Dept/ISPR/>.

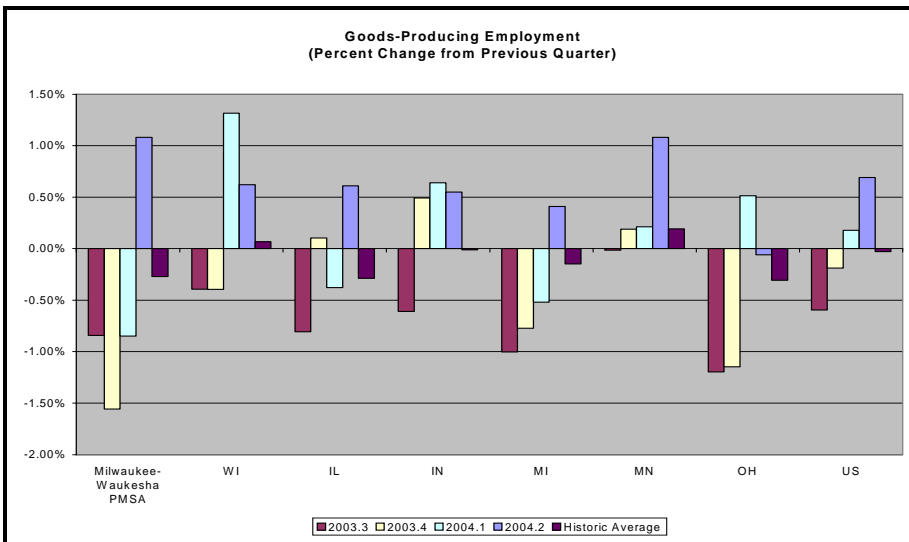


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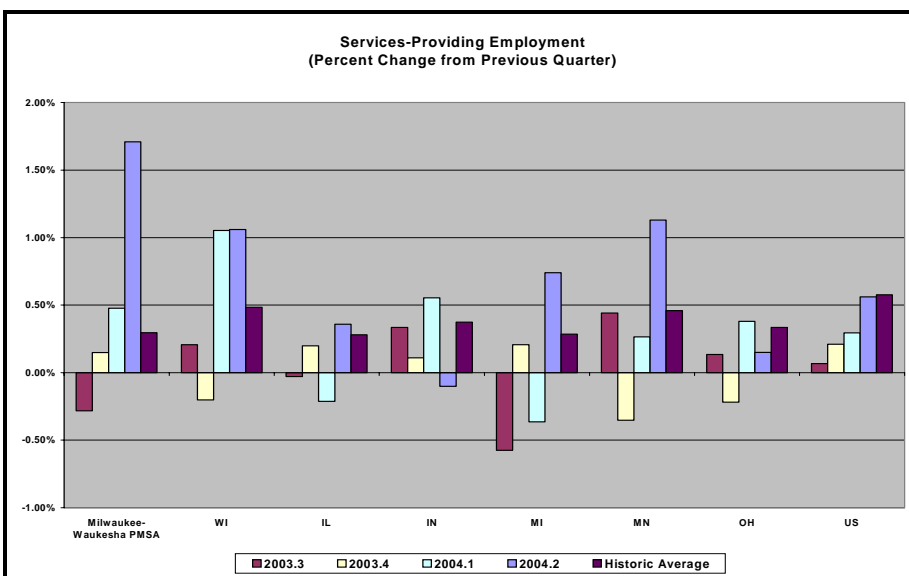


Seasonally-Adjusted, Non-farm Employment (Thousands)		
Quarter	WI	US
2003.4	2,778.8	129,985.5
2004.1	2,794.5	130,367.0
2004.2	2,821.3	131,124.7
2004.3 (forecast)	2,885.2	131,189.1
Average (1977-present)	2,303.6	108,292.4



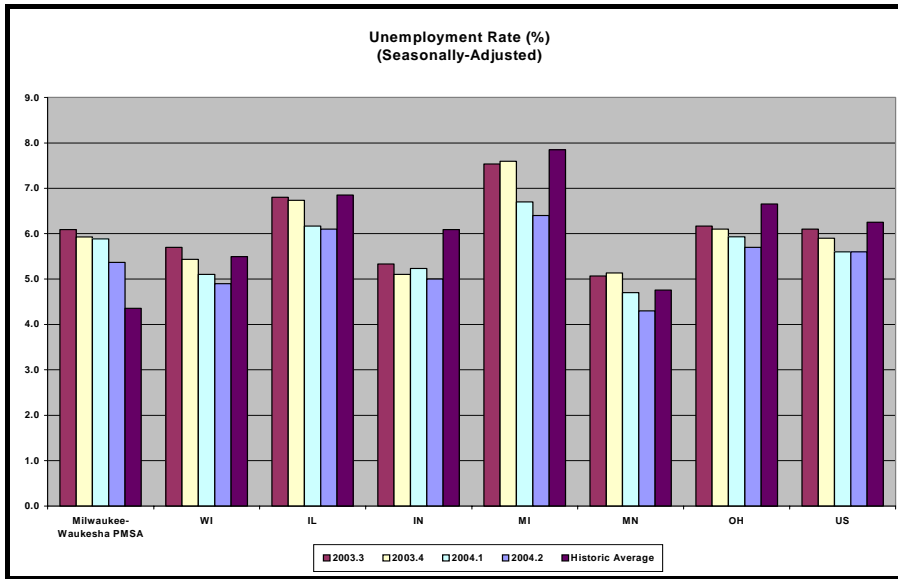
Seasonally-Adjusted, Goods-Producing Employment (Thousands)		
Quarter	WI	US
2003.4	629.4	21,676.7
2004.1	614.3	21,868.0
2004.2	641.6	21,689.0
2004.3 (forecast)	641.0	22,008.7
Average (1977-present)	663.1	23,410.9

Goods-producing includes mining, manufacturing and construction

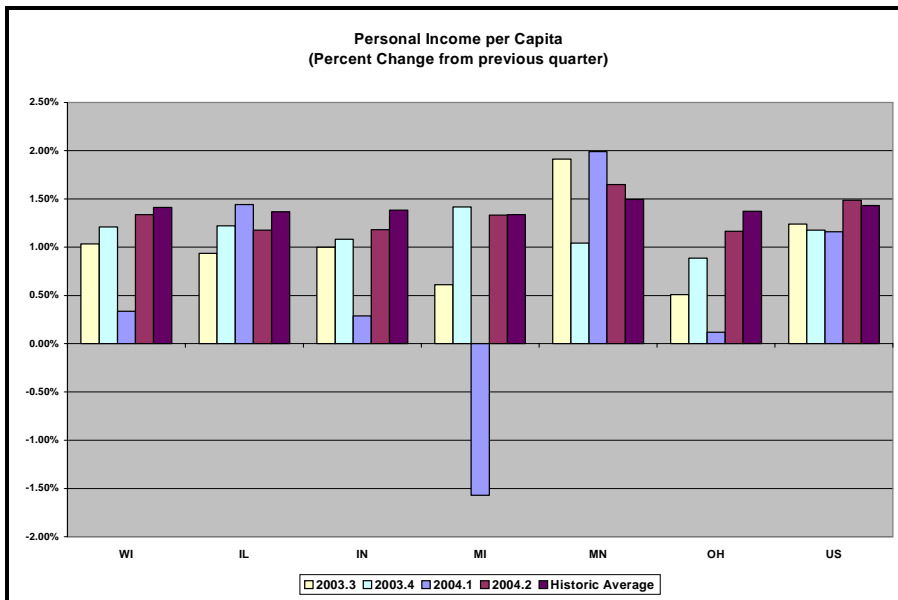


Seasonally-Adjusted, Services-Providing Employment (Thousands)		
Quarter	WI	US
2003.4	2,146.2	108,328.0
2004.1	2,133.1	108,647.7
2004.2	2,191.7	109,255.7
2004.3 (forecast)	2,238.8	109,616.7
Average (1977-present)	1,939.0	84,881.7

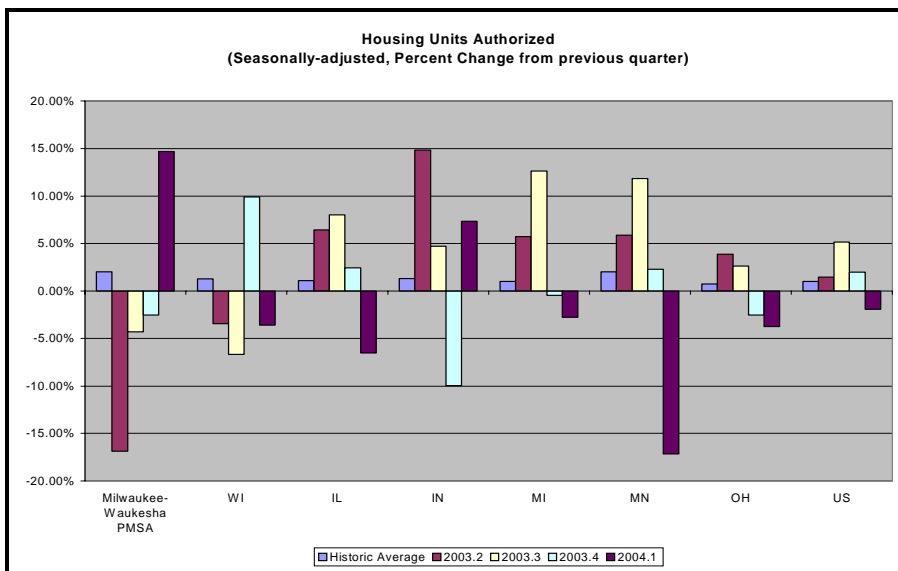
Services-providing employment is non-farm employment less goods-producing employment



Unemployment Rate Seasonally-Adjusted		
Quarter	WI	US
2003.4	5.6	5.9
2004.1	5.1	5.6
2004.2	4.9	5.6
2004.3	4.8	5.4
Average (1977-present)	5.5	6.3



Per Capita Personal Income Seasonally-Adjusted		
Quarter	WI	US
2003.4	\$ 31,261	\$ 32,112
2004.1	\$ 31,385	\$ 32,410
2004.2	\$ 31,805	\$ 32,892
2004.3 (forecast)	\$ 32,177	\$ 33,308
Average (1977-present)	\$ 18,595	\$ 19,411



Housing Units Authorized, Seasonally-Adjusted (Thousands)		
Quarter	WI	US
2003.4	3.4	1,971.3
2004.1	3.3	1,933.7
2004.2	3.3	2,016.0
2004.3 (forecast)	3.3	1,963.7
Average (1977-present)	2.9	1,587.1