Evaluation of Richard Sander, E. Douglass Williams, and Joseph Doherty - *The Economic and Distributional Consequences of the Santa Monica Living Wage Ordinance*

Robert Pollin
Mark D. Brenner

2002
Evaluation of
Richard Sander, E. Douglass Williams, and Joseph Doherty
“The Economic and Distributional Consequences of the Santa Monica Living Wage Ordinance”

By Prof. Robert Pollin
Professor of Economics and Co-Director,
Political Economy Research Institute (PERI)
University of Massachusetts-Amherst

and

Prof. Mark Brenner
Assistant Research Professor, PERI
University of Massachusetts-Amherst

October 2002

Background

A. Overview of Previous Documents

In March 2000, the City of Santa Monica commissioned PERI to conduct a study evaluating the likely effects of a living wage ordinance the City was considering. We submitted the completed study to the City Manager in August 2000. This study can be found at: http://www.umass.edu/peri/pdfs/RR2.pdf

As part of the overall evaluation of the project, Robert Pollin also proposed to the City that they hire Prof. Richard Freeman of Harvard University and Prof. David Neumark, then of Michigan State University, to provide peer reviews of our study. Both Profs. Freeman and Neumark agreed to participate in the project in this way. They submitted their peer reviews to the City shortly after we submitted our August 2000 draft to the City. These peer reviews can be found at: http://santa-monica.org/cityclerk/council/lw_links.htm

In addition to our study and the peer review process our study underwent, Prof. Richard Sander of UCLA Law School and colleagues, E. Douglas Williams and Joseph Doherty, wrote a business-financed evaluation of the Santa Monica proposal. This study was released in September 2000.

Still in September 2000, Robert Pollin submitted to the City Manager a response to the peer reviews as well as to the initial Sander study and another business-financed critique of the PERI study. This response to the peer reviews can be found at: http://www.umass.edu/peri/pdfs/RR5.pdf

Because the voters of Santa Monica are considering the living wage proposal again in the November election, Prof. Sander and his colleagues produced in October 2002 a revised version of their 2000 study (we refer to both the 2000 and 2002 studies by Prof. Sander and his colleagues as “the Sander study,” specifying, as appropriate, whether we are referring to the 2000 or 2002 version of the study). We have also written a Supplement to our August 2000 study, and
presented the main results of this Supplement before a seminar at the Center for Social Theory and Contemporary History at UCLA on Thursday, October 17. Our Supplemental Study can be found at: http://www.umass.edu/peri/pdfs/RR4.pdf

B. Overview of Present Evaluation of Sander 2002 Study

In this document, we focus on some of the main issues of contention between the 2002 Sander report and our own research, as presented both in our August 2000 study and our October 2002 Supplement. We will focus here on issues that were not covered in Pollin’s September 2000 evaluation of the critique presented in the September 2000 Sander study. Pollin summarized his evaluation of the Sander work as follows:

Unfortunately Prof. Sander has made it impossible to benefit from the efforts he and his colleagues have devoted to their critique in his chapter titled “The Pollin Report.” This is because his intention was clearly not to offer an honest, scholarly evaluation of our study in the first place. Prof. Sander simply chose not to rely upon the presentation of legitimate arguments and evidence, i.e. the standard apparatus of any serious analytic work. Instead, he offers hyperbole, sarcasm, vague appeals to authority, and outright—and frequently blatant—misrepresentation. In what follows, I document in detail the methods that Prof. Sander has chosen to employ (p. 11 of Pollin response).

The Pollin response then proceeds to document these points on pp. 11 – 20 of this document. In Chapter 9 of the 2002 Sander study titled “The Pollin Report,” Prof. Sander has modulated somewhat the unprofessional rhetoric that was prevalent in his 2000 study, perhaps partially in response to Pollin’s evaluation. Nevertheless, he repeats most of the basic misrepresentations that Pollin documented in his 2000 response cited above. These misrepresentations includes Sander’s comments on: our discussion hotel pricing and revenues; our analysis of employment effects; our analysis of productivity effects; and our extensive use of the Current Population Survey (CPS) as a data source for documenting conditions of low wage workers in the Los Angeles area. As such, Pollin’s overall critique quoted above of the 2000 Sander conclusions remain valid regarding Sander’s 2002 study. There is no need to examine these issues further.

We therefore now will move into additional major points of contention raised by the 2002 Sander study. The points we wish to highlight are as follows:

1. Number of firms covered by the ordinance, focusing on restaurants.

The Sander study estimates that, based on its current stipulations, the Santa Monica ordinance will cover 100 firms within the City’s Coastal Zone. The estimate we presented in our 2002 Supplement is that 47 firms would be covered. This difference in estimates is most significant as regards the restaurant sector. Sander estimates that 10 restaurants will be covered by the ordinance, while in our Supplement we estimate that 1 restaurant will be covered.

---

1 Sander’s comments on our productivity analysis are presented in Chapter 4, p. 28 and passim.
2. **Coverage for tipped workers.**
   Prof. Sander contends that between 32 – 36 percent of the workers receiving mandated pay increases under the ordinance would be tipped workers. We believe that this figure will be on the order of 10 percent. Moreover, we had already incorporated the full costs of wage increases to the tipped workers in covered hotels in our 2000 study.

3. **Magnitude of ripple effects.**
   “Ripple effects” of living wage laws refer to the non-mandated increases in wages and benefits that businesses provide after a living wage ordinance is implemented. An example of a ripple effect would be if workers earning $10.51/hour or more when the living wage is implemented receive a raise even though the ordinance only mandates a minimum wage of $10.50. In our 2000 study, we estimated total ripple effects as amounting to approximately 10 percent of the total costs of the ordinance to businesses. Sander estimates ripple effects as around 33 percent of total costs.

4. **Hotel revenues.**
   Prof. Sander reports that hotel room rates have “been stagnant or have fallen” (p. 71) since the September 11, 2001 terrorist attacks. We provide a fuller perspective on this characterization.

5. **Evaluation of covered workers**
   Prof. Sander believes that the Santa Monica ordinance will “overwhelmingly” benefit “middle-income and upper-middle income households,” (p. 6). This is in sharp contrast to our own evaluation, both in our 2000 study and our 2002 supplement. Sander also contends that the ordinance would be highly inefficient in providing benefits, since most of the wage increases it will provide will go to workers who live outside of Santa Monica. We offer an alternative perspective on these issues as well.

6. **Reporting of peer reviews.**
   Prof. Sander quotes extensively from the 2000 peer review of Prof. Neumark. But he does not mention in his report the second peer review by Prof. Freeman. To correct this imbalance, we briefly summarize the evaluation of Prof. Freeman.

   Overall, we find that, on a consistent basis, the Sander study does not substantiate its empirical claims. Moreover, we have checked sources Sander himself cites against the claims presented in the Sander study, including on the central questions of number of firms covered and the costs of the ordinance to these firms. We have found that the sources Sander cites in fact contradict the claims in his study. We document these points in what follows.

---

**Coverage of Businesses, Focusing on Restaurant Sector Estimates**

The stipulations of the living wage ordinance that we considered in our August 2000 study included a coverage threshold for businesses within Santa Monica’s Coastal Zone of $3 million in sales or gross receipts. We reported in our 2000 study that there were 72 firms within Santa Monica’s Coastal Zone that received gross revenues of $3 million or more. We reached this conclusion on the basis of the confidential gross receipts figures that businesses themselves provided to the City on their business license applications for 1999. The ordinance that the City
Council passed raised the coverage threshold to $5 million. Based on this new threshold, we have estimated in our 2002 supplement that the ordinance would cover a total of 47 firms in Santa Monica’s Coastal Zone. We reached this result through assuming an increase of 25 percent in the revenues of all Santa Monica firms over the revenues figures they themselves reported in 1999 in their business license applications. We provide a fuller discussion of the basis for this estimate in our 2002 supplemental study.

By contrast, Prof. Sander reports that “there are roughly 100 firms with revenues in excess of $5 million annually (Table 3.1),” (p.23). In fact, their Table 3.1, entitled “Number of Businesses in the Coastal Zone with 50 or More Employees and Estimated Number of Employees by Industry Sector” does not categorize firms at all according to revenues but rather according to number of employees. But let us assume that Sander has in fact generated the Table 3.1 estimates of firm coverage based on revenues, and simply mistitled Table 3.1. Sander states that he based this estimate on businesses from three sources of data—InfoUSA, the 1997 U.S. Government Economic Census, as well as their own interviews and surveys of 45 business owners and managers (p. 20). He explains that InfoUSA is the primary data source for his 2001 coverage estimates, writing:

The InfoUSA data, updated to 2001 permitted us to identify, by name and address, the individual Santa Monica businesses that are likely to be affected by the Coastal Zone Ordinance, with concomitant industry classification, workforce size and annual sales (p. 19).

Of course, the InfoUSA database is not likely to be as reliable a source of data as the City’s own confidential business license records, on which our estimates are based. This follows from the fact that it draws its data from yellow page listings, which are likely to be less complete that business license records, as well as the fact that sales data are not reported by businesses to InfoUSA, but estimated using a proprietary algorithm that takes account of “employment levels, type industry, and industry trends” among other factors. In addition, InfoUSA is only able to classify businesses into broad sales categories such as $2.5 million to $5 million and $5 million to $10 million, rather than reporting a precise level of sales such as that found in the city’s business license database.

Nevertheless, InfoUSA is a reputable data source and its estimates deserve to be considered seriously. We have therefore queried InfoUSA about their own figures on Santa Monica Coastal Zone firms. In particular, we were concerned about their revenue figures for restaurants in the Coastal Zone, since by our estimate, only one restaurant would be covered by the ordinance, whereas, based at least in part on data from InfoUSA, Sander finds that 10 would be covered.

In fact, InfoUSA reported to us that according to their records, two restaurants within the Santa Monica Coastal Zone had sales revenues in excess of $5 million, which we confirmed based on our own analysis of InfoUSA’s database. We therefore have no basis for knowing how Prof. Sander arrived at the conclusion that 10 restaurants would

---

2 Mark Brenner conversation with InfoUSA account executive Mario G. Barajas, 10/22/02, and subsequent analysis of InfoUSA data.
3 Mario G. Barajas interview, op cit.
be covered. No doubt, Prof. Sander’s finding would have to be based on his own 45 interviews and surveys of area businesses. But he provides no documentation as to how he reached his coverage estimate for restaurants that is at sharp variance with that reported by InfoUSA, one of his own basic data sources.

In any case, a large discrepancy exists between our estimate of covered restaurants based on City business license data and Prof. Sander’s undocumented contention that 10 restaurants would be covered. A reasonable next step in this situation would be to examine the findings of another reputable data source, if one were available. We have therefore checked the same revenue estimates for restaurants with Dun & Bradstreet, which is in fact another reputable private source. According to their estimates, there were no restaurants in the Santa Monica Coastal Zone with revenues in excess of the $5 million threshold as of 2001.4

We therefore now have four independent sources of data on revenue estimates for Coastal Zone restaurants:
1. Our estimates based on 1999 City business license data;
2. The InfoUSA report to us as of 10/22/02
3. Dun & Bradstreet as of 10/22/02; and
4. The undocumented estimate in the Sander study.

Of the four estimates, three report the number of covered restaurants as ranging between 0 –2. Sander’s estimate of 10 covered restaurants is obviously much larger than these other three estimates.

In principle, we support the methodology of using multiple sources of information in analyzing an empirical problem. Indeed, our 2000 study relies extensively on this approach. Nevertheless, when a researcher employs this approach, her/his responsibility is to document each step in generating overall statistical findings. This is what we did in our 2000 study—see, for example, Appendices 2 and 3, pp. 188 -203 for our methodology of generating business coverage and cost estimates.

By contrast, the Sander study provides no documentation as to how it derived its coverage estimates. For example, they offer no documentation as to how they conducted their survey of 45 Santa Monica firms. They present no information on the universe of firms identified for their survey, number of firms drawn for the sample, or the response rates they obtained. Nor do they explain how they adjusted the results of their 2000 survey to account for the fact that it was designed to collect information about firms with 50 or more employees not with $5 million or more in sales. Of special practical importance, Sander provides no explanation as to why his study’s estimate of 10 covered restaurants diverges so sharply from the estimate provided in InfoUSA, one of the study’s primary data sources.

Because of this absence of documentation in the Sander study, we conclude that the study’s estimates of number of firms covered by the ordinance, and in particular number of restaurants covered, are not reliable.

4 Based on analysis of Dun & Bradstreet’s North American Million Dollar Database, 10/22/02.
Coverage for Tipped Workers

Prof. Sander estimates that between 32 – 36 percent of the workers covered by the ordinance receive over 40 percent of their income from tips. He writes, “This includes about 900 workers at hotels…and about 700 workers at restaurants,” (p. 55).

Of course, his estimate for the number of tipped restaurant workers covered by the ordinance hinges on his previous conclusion that 10 restaurants would be covered by the ordinance. As we have seen, that undocumented estimate of 10 covered restaurants is at sharp variance with our own estimate (1 covered restaurant) as well as those of both InfoUSA (2 covered restaurants) and Dun & Bradstreet (zero covered restaurants).

As for tipped workers at hotels, we estimated in our 2000 study the proportion of total workers in the hotels that would likely be receiving over 50 percent of their income from tips. We summarized our findings again in our 2002 Supplement on p. 15. As we stated there, based on an analysis of the Current Population Survey (CPS), fewer than 10 percent of all hotel workers were likely to be receiving more than 50 percent of their total income from tips. That would amount to no more than about 130 hotel workers, about 8 percent of the estimate of covered tipped workers presented in the Sander study.

The Sander study offers no detailed documentation comparable to the discussion in our 2002 study as to how it arrived at its figures for tipped workers, simply noting “[w]e collected payroll data from representative employers in each sector of the hotel and restaurant industry to determine the number of tipped employees…” (p. 23). As we have seen above, such undocumented interview and survey data presented in the Sander study has been at sharp variance with documented data sources, including the CPS, InfoUSA and Dun & Bradstreet.

Ripple Effects

Our 2000 study concluded that cost increases to covered businesses due to ripple effects would be about 10 percent of the total costs of the ordinance. Our analysis of this effect is presented in pp. 49 – 55 of our study, along with Tables 4.5 – 4.9. We also further documented our approach in Appendix 3, pp. 204-05.

By contrast, the Sander study claims that ripple effects will amount to fully 33 percent of the total costs of the ordinance. Sander bases this conclusion on a formula presented on pp. 25 – 26 of his 2002 study. This formula assumes that, on top of the wage increases to $10.50 plus $1.75 in health benefits that would be mandated by the living wage ordinance, businesses will voluntarily grant additional wage increases to workers earning up to $17.75 per hour. The full documentation as to how Sander derived this formula is presented in his footnote 23. Footnote 23 reads in full:

We used the same type of assumption in our 1997 Los Angeles report, and our research since has suggested this is a good estimator. See David Card and Alan Krueger Myth and Measurement: The New Economics of the Minimum Wage (Princeton, NJ: Princeton University Press 1995), where they report that in
the 1990-1991 increase in the minimum wage from $3.25 per hour to $3.80 per hour, workers in the 5th percentile of hourly wage workers (essentially, those at or very near the minimum) experienced a rise in wages averaging 18 percent (roughly the amount of the increase) while workers at the 10th percentile (just above the minimum) experienced a 7% increase in wages (Sander et al 2002, p. 25).

Just on the basis of length alone, the degree of documentation that Sander provides to serve as the basis for estimating 1/3 of the total costs of the ordinance would appear inadequate. But let us consider the actual substance of this one footnote as well.

First, they report that they have used this approach before and that their “research since has suggested this is a good estimator.” But they produce no evidence to support their assertion that this formula is a good estimator.

Second, they cite the authority of Card and Krueger (1995) to support their approach. But Card and Krueger are very clear that the ripple effects they observe after an increase in the minimum wage applies only to workers who are earning a wage that is close to the mandated minimum. Card and Krueger provide no evidence or arguments to support Sander’s claim that workers receiving wages 45 percent higher than a new minimum (i.e. in Sander’s case a ripple effect up to $17.75 versus a wage mandate of $12.25, including $10.50 in wages plus $1.75 in health benefits) would also receive ripple effect wage increases.

Card and Krueger, rather, are specifically studying the situation in April 1991 when the minimum wage rose from $3.80 to $4.25. They then examined the extent to which wages would rise for workers who had been earning $4.50 as of April 1991, i.e. only 6 percent above the new $4.25 minimum wage. They conclude that the ripple effect even for the $4.50 workers would be weak. Based on an examination of a series of data plots (p. 165) on which they base this conclusion, Card and Krueger write:

“The figures provide some support for the existence of spillover [i.e. ripple] effects up to $4.50 per hour, but little evidence of spillovers beyond $4.50 (Card and Krueger, 1995, p. 165-66).

Thus, if one were to accurately apply the Card/Krueger estimates of ripple effects to the Santa Monica situation, it would imply that workers receiving ripple effect raises would include only those earning up to six percent above the mandated $12.25 raise (including health benefits). In other words, the Card/Krueger estimates would imply that only workers earning up to $13 per hour would receive ripple effect raises, not, as the Sander study claims, workers earning up to $17.75 per hour.

Overall then, we see that Sander’s estimate of the ripple effect—amounting to, in his view, 1/3 of the total costs of the ordinance—is based on no empirical evidence or corroboration in the relevant academic literature. Moreover, the actual conclusion advanced by Card and Krueger, the single source that Sander cites in his footnote 23, itself provides no support for the Sander formula. It rather provides support for the view that the Sander formula is in error.
Hotel Revenues

One of the principal observations of our 2000 study was that the 11 high-end hotels operating in the Santa Monica Coastal Zone have benefited through the City’s growth restriction policies, in particular Proposition S, which remains in force since it was first passed in 1989. Through a hypothetical exercise, we concluded that the benefits of operating in a restricted market amount conservatively to about $1 million per year for each of the large high-end hotels (pp. 167-69).

The situation for the Santa Monica hotels, as with the rest of the U.S. tourism industry, did of course change dramatically after the September 2001 terrorist attacks. Prof. Sander states that occupancy rates dropped “cataclysmically from the September 11 attacks. Room rates have consequently been stagnant or have fallen,” (p. 71).

As we show in our 2002 Supplement, the high-end hotels did suffer revenue losses in 2001. Nevertheless, in constant 2001 dollars, even during the 2001 trough, average revenue per room, at $161, was still roughly at the level of the boom year of 1997. Moreover, by July 2002, average revenue per room had already risen back to a level above that of one year earlier in July 2001—i.e. three months before the September 11 attacks. This pattern for the high-end hotels, in short, is consistent with Prof. Sander’s observation that, “in the midst of a national economic recession, much of [Santa Monica’s] economy is thriving,” (p. 10). Overall then, there is no evidence to suggest that the high-end Coastal Zone hotels have experienced a permanent decline in their revenue streams from either the recession or the September 11 attacks.

Evaluation of Covered Workers

Prof. Sander states that “overwhelmingly, the beneficiaries of the Ordinance come from middle-income and upper-middle income households,”(p. 5). This conclusion is in sharp contrast with the results we reported in both our 2000 study and our 2002 supplement. In our 2002 supplement, we report evidence from the Current Population Survey showing that about 10 percent of the workers who would be eligible for the living wage increase live in “severe poverty” conditions with their families; 30 percent live in “poverty,” 40 percent live in “near poor” families, and 85 percent live below the “basic needs threshold” established by the California Budget Project (p. 22, Table 5 of our Supplement).

To a considerable extent, the differences in the evaluations of the two reports do not derive from differences in data, but rather from differences over what constitute appropriate thresholds for measuring poverty, near poverty, and a basic needs living standard within the Los Angeles area. In both our 2000 study and our 2002 supplement, we explain in detail how we derived our four living standard thresholds—“severe poverty,” “poverty,” “near-poor,” and the “basic needs” threshold (see pp. 136 – 44 of 2000 study, along with Tables 8.1 – 8.3; as well as pp. 20 – 24 of 2002 Supplement). The reader can judge for him/herself the validity of these various thresholds.
Beyond this point, Prof. Sander contends that less than 1 percent of the benefits of the ordinance would actually reach what he terms its “prototypical beneficiaries: low-wage, low income workers living in Santa Monica,” (p. 8). But Sander reaches this conclusion on the basis of the fact that virtually all of the low-wage workers employed in the Santa Monica Coastal Zone in fact live outside Santa Monica. We had made clear in our 2000 study that, for the most part, workers in the Santa Monica Coastal Zone did not live within the city. We wrote as follows:

From our figures on average round-trip commuting time, we see the basic fact noted earlier that most of our surveyed Coastal Zone workers do not themselves live either in or close to Santa Monica. Rather, they are traveling roughly 1 ½ hours per day to get to their Coastal Zone jobs, 53 percent of them by car (42 percent traveling alone and 11 percent in carpools). As we showed earlier, daily commutes of this distance place a substantial financial burden on low-wage workers and their families (Pollin and Brenner, 2000, p. 152).

It is therefore clearly a matter for Santa Monica voters to decide whether they are willing to support an ordinance whose primary beneficiaries are low-wage workers and their families, in which the workers receiving wage increases would be employed within, but live outside, Santa Monica.

**Reporting of Peer Review Reports**

Prof. Sander refers extensively to the peer review of our 2000 study conducted by Prof. David Neumark (see, for example, pp. 71, 72, and 74). But Sander makes no mention of the procedure through which Prof. Neumark was hired by the City of Santa Monica, which we describe above. Nor does he mention the evaluation of the other peer reviewer, Prof. Richard Freeman. Prof. Freeman is indisputably among the most distinguished labor economists in the world. He is the senior labor economist in the Economics Department at Harvard University. He is also Director of the Labor Studies Program at the National Bureau of Economic Research, co-director of the London School of Economics' Centre for Economic Performance, and visiting professor at the London School of Economics. A balanced evaluation of the peer review reports would of course refer to Prof. Freeman’s evaluation as well as that of Dr. Neumark.

Prof. Freeman’s overall evaluation of our 2000 study includes the following assessments:

I find the results to be quite sensible. Overall, this is a fine piece of applied economic analysis. I hope that the City finds it as informative as I did.

This is a well-done empirical investigation of the potential impacts of several related living wage proposals for Santa Monica. It uses a variety of data -- interviews with businesses to assess the likely business responses to the living wage proposal, econometric analysis of time series, tabulations of the Current Population Survey, and a survey of workers in the potential beneficiary group – to explore the potential effects of a Coastal Zone living wage and alternatives. It deals in a straightforward way with the economic issues involved in applying a living wage to the Coastal Zone. It presents the empirical calculations clearly, and it reaches what seems to me to be a measured assessment. The analysis
shows sensitivity to the fact that the living wage will affect different firms differently and different workers differently.

Conclusion

The 2002 Sander study consistently presents empirical results that have not been substantiated within the text of the study. Moreover, through our independent investigations of the main relevant sources cited by the Sander study itself we have consistently found that the evidence provided by these sources actually contradict the results that the Sander study reports. Thus, in major areas of concern in the analysis of the Santa Monica proposal—including the number of firms covered, the number of tipped workers covered, the magnitude of ripple effects and thus the overall cost estimates, and the conditions of the high-end Coastal Zone hotels after September 11, 2001—we conclude that the evidence and conclusions presented in the Sander study are unreliable.

Our own approach to the gathering, analysis and reporting of evidence, both in our 2000 study and the 2002 supplement, has been to provide detailed documentation of our methods and the means through which we obtained our results. It is on the basis of our approach that Prof. Richard Freeman was able to conclude that our study “presents the empirical calculations clearly, and it reaches what seems to me to be a measured assessment.”