

Report Summary

Living Wage Laws in Practice: The Boston, New Haven and Hartford Experiences

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Thirty-five years ago, the federal minimum wage guaranteed that full-time workers earned enough to keep their families out of poverty. In 1968, for example, full-time employees making the minimum wage earned \$17,597 annually (in today's dollars). But at today's minimum wage a full-time worker earns just \$10,712 a year—well short of the federal poverty line of \$14,680 for a family of three.

Stepping into this breach are living wage advocates, who aim to ensure that private-sector workers providing public services through city contracts make enough to keep their families out of poverty. A decade after the first modern living wage campaign in Baltimore, more than 120 local governments have adopted living wage laws, and nearly 20 percent of the U.S. population now lives in an area with such an ordinance.

What is the economic impact of these laws? Opponents argue that firms will respond to living wage laws by laying off low-wage workers, reorganizing workplaces, substituting new machinery, hiring better-skilled employees, or even moving to another region. These critics also argue

that living wage laws will swell municipal budgets, as firms raise prices and pass higher wage costs back to cities. Ballooning costs could force cities to raise taxes or cut services, including aid to the working poor.

Despite these predictions, relatively few studies have examined the actual impact of living wage laws. Most studies predict the *likely* impact of living wage laws *before* they pass. This study aims to fill that gap: it investigates the impacts of living wage laws in Boston, New Haven, and Hartford—early adopters in one region of the country—in 2001, several years *after* those laws went into effect. The ordinances in these cities reflect national trends and thus include common elements, but they also differ in the types of services they cover and the provisions they mandate. They therefore provide a good platform for investigating the impacts of living wage laws on city contracts, the firms they cover, and low-wage workers—the ultimate beneficiaries of the laws.

Our study finds that these laws have led to concrete improvements in the lives of workers, without significantly harming firms covered by their mandates or consistently raising costs for cities. However, living wage laws in these three cities often do not lift covered workers up to a more ambitious though still-modest standard of living. Such mandates can also serve as springboards for more comprehensive efforts to improve the living standards of low-wage workers.

The Impact of Living Wage Laws on City Contracting

If living wage laws force companies to raise wages, the price of their services—and therefore costs to cities—may rise. Such laws might also discourage firms from bidding on city contracts, undermining competition and opening the door to even higher prices.

TABLE 1 — Average Annual Change in Contract Costs under the Living Wage

Boston (number of contracts=28)	-7%
Hartford (number of contracts=2)	33%
New Haven (number of contracts=9)	-11%

Source: Adapted from Table 2.6.

Competitive bidding remained strong in our three cities under the living wage:

- In Boston the total number of bids on 28 contracts covered by the living wage did not change after the living wage law took effect. In New Haven the total number of bids on 7 contracts fell by three.
- In Hartford, the living wage law spurred more firms to bid on contracts to provide security guard services and temporary office assistance.
- Many firms reported that the living wage “leveled the playing field”: they no longer had to compete on the basis of low wages but instead could emphasize service quality. Thus they were more willing to compete for city contracts.

The impact of the laws on contract costs was modest and mixed:

- In Boston, the average annual cost of 28 contracts covered by the living wage law actually dropped by 7 percent, while in New Haven average contract costs fell 11 percent. The average annual cost of the 2 contracts in Hartford rose by 33 percent (Table 1).
- The impact on individual contracts varied widely, reflecting the type of services they cover and the type of bidding cities used to award the contracts.
- Declines in contract costs reflected several factors: greater competition among service providers, efforts by the

city to bundle contracts for similar services, and lower profits for firms hoping to maintain their contracting relationship with the city.

- Contracts with rising costs, such as those for security guard services in Hartford, tended to be bid on an hourly basis rather than on the overall cost of providing those services. The former approach encourages firms to apply “cost-plus” markups, and thus appears ill-suited to holding down contract costs under a living wage law.

On balance, experiences in Boston, New Haven, and Hartford indicate that living wage laws do not tend to raise contract costs, and can strengthen competition among city contractors. Our evidence reveals that these laws are only one of many factors influencing the cost and competitiveness of city procurement.

The Impact of Living Wage Laws on Firms

Although some economists maintain that minimum wage mandates actually worsen prospects for low-wage workers, studies show that firms have traditionally relied on mechanisms other than layoffs to absorb a higher minimum wage. Our in-depth survey of 72 service contractors covered by Boston’s living wage law—which include many nonprofits—yielded similar results while also shedding light on the kinds of firms affected by the law:

- Contractors who raised wages did not compensate for higher labor costs by laying off workers. In fact, they significantly expanded their workforce after the living wage took effect.
- This rising employment was not the result of a shift to more part-time employees (*Table 2*). In fact, the number of part-time

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TABLE 2 – Comparing Firms That Did and Did Not Raise Wages, before and after the Living Wage Law

Variable	Raised wages			Did not raise wages		
	1998	2001	Difference	1998	2001	Difference
Number of employees	183	203	21	156	183	27
Number of full-time-equivalent employees	166	188	22	153	175	22
Percentage part-time employees	34%	23%	-11	11%	10%	-1§
Percentage of employees earning < \$9.25	23%	4%	-19	3%	3%	0§§
Percentage of employees earning < \$11.75	41%	41%	0	11%	12%	1

Source: Adapted from Table 3.6.

Note: The number of firms = 51. At the time of our survey the living wage floor was \$9.11.

§ indicates a statistically significant difference in the trend from 1998 to 2001 between firms that raised wages and those that did not, at a 95 percent confidence level.

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jobs actually declined among affected firms, particularly compared with unaffected firms.

- ▶ Firms did not adjust to higher labor costs by raising prices—for either the city or other customers (*Table 3*).
- ▶ Nor did firms reduce turnover, raise productivity, or substitute higher-skilled workers or equipment for their low-wage workforce as a way of adjusting to higher wages.
- ▶ The one clear move a significant number of affected firms pursued in the face of the living wage law was to lower profits.
- ▶ Firms raising wages also saw substantial wage compression. For example, the

proportion of workers earning at or below the living wage in affected firms dropped from 23 percent in 1998 to 4 percent in 2001—compared with a decline of less than 1 percentage point at unaffected firms. Thus living wage laws can effectively counteract rising wage inequality, at least among the modest number of firms they cover.

Contrary to many predictions, Boston's living wage law did not prompt affected firms to cut jobs or reduce employees' hours. In fact, these firms created the same number of jobs as unaffected firms. Our evidence suggests that affected firms are adjusting to higher labor costs by lowering profits rather than resorting to layoffs.

The Impact of Boston's Living Wage Law on Workers

Proponents of living wage laws contend that they can be an effective—albeit modest—mechanism for improving the living standards of low-wage workers. Do employees covered by such laws in fact experience these benefits? Our telephone survey of nearly 100 employees working on contracts covered by Boston's living wage law revealed that:

- ▶ Our respondents were well into their working lives—32 years old on average—with the oldest workers concentrated in the lowest-paying jobs (*Table 4*).

TABLE 3 – How Firms Reported Adjusting to Boston's Living Wage Ordinance

Variable	Percentage
Greater employee effort	25%
Higher employee morale	25%
Raised bid prices on city contracts	15%
Raised prices for other services	8%
Lowered profits	39%

Source: Adapted from Table 3.7.

Note: These figures do not add up to 100 percent because firms could report more than one method of adjustment.

- ▶ Covered workers were primarily women (79 percent) and people of color (64 percent).
- ▶ The proportion of workers living below a reasonably defined measure of poverty—set at 160 percent of the official poverty line to account for the inadequacy of the federal standard and Boston’s high cost of living—fell from 41 percent in 1998 to 28 percent in 2001 (Table 5). The proportion living in severe poverty—the official poverty line—fell from 34 percent to 13 percent.
- ▶ The proportion of workers living in near-poverty—or 185 percent of the official poverty line—fell much more modestly, from 50 percent to 41 percent, after the living wage took effect. The proportion of workers earning below a “basic needs” threshold—one that provides a decent although still-modest standard of living—did not change.

The high incidence of poverty among affected workers before the living wage shows that the law is well targeted to the working poor. Poverty also declined significantly among workers covered by the law. However, the living wage did not lift affected workers and their families up to a more substantial standard of living that reflects the spirit and intent of the living wage law.

TABLE 4 – Basic Demographics of Workers Covered by Boston’s Living Wage

Average age	32
Teenagers	5.2%
Average tenure on current job (<i>years</i>)	2.9
Female	79%
Black	40%
Hispanic	22%
Non-white	64%

Source: Adapted from Tables 4.4 and 4.6.

Living wage initiatives serve as springboards for more ambitious campaigns to expand living wage laws, raise the state minimum wage, and pass citywide minimum wage laws.

Beyond the Living Wage

Our study corroborates the modest scope of most living wage legislation. In Boston, for example, we estimate that the city’s original ordinance likely raised wages for no more than 2,000 people, and exerted a negligible effect on the city’s overall poverty rate. If living wage laws in other cities are often equally limited in scope, what is the point of pursuing such policies?

- ▶ Higher wage mandates for government contractors may become a benchmark for other private-sector firms. For example, firms at the San Francisco airport not

covered by the living wage nevertheless raised wages after it took effect. Similarly, in Tucson more than 100 firms employing more than 10,000 workers have participated in the mayor's Good Business Partnership, which requires them to voluntarily pay their employees a living wage.

of the living wage coalition led a successful effort to raise the state minimum wage and expand the state Earned Income Tax Credit. Boston's living wage ordinance also sparked a campaign to promote the state and federal EITC among low-income residents.

Living wage initiatives also serve as springboards for more ambitious campaigns to expand living wage laws, raise the state minimum wage, and pass citywide minimum wage laws. In Boston, for example, several members

Experience in New England combined with 10 years of experience nationwide reveals that living wage campaigns serve as potent building blocks for more ambitious and comprehensive initiatives to improve the lives of low-wage workers and their families.

TABLE 5 – Poverty and Basic-Needs Status of Covered Workers, 1998 and 2001 (percentage below each threshold)

	Severe poverty	Poor	Near-poor	Below basic needs
Earned below the living wage in 1998 (number of workers=32)				
1998	34	41	50	54
2001	13	28	41	54
Earned above the living wage in 1998 (number of workers=44)				
1998	9	32	46	63
2001	0	23	30	48

Source: Adapted from Tables 4.9 and 4.11.

Note: We set our severe poverty line equal to the current federal poverty line, we define poverty as 160 percent of the federal poverty line, and we define near-poor as 185 percent of the federal poverty line. See the full report for a definition of basic needs.

PERI Living Wage Resources

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- ▶ Brenner, Mark D., Jeannette Wicks-Lim, and Robert Pollin. “Measuring the Impact of Living Wage Laws: A Critical Appraisal of David Neumark’s How Living Wage Laws Affect Low-Wage Workers and Low-Income Families.” PERI Working Paper Number 43, 2002.
- ▶ Luce, Stephanie. *Fighting for a Living Wage*. Ithaca, NY: Cornell University Press. 2004.
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- ▶ Pollin, Robert. “Testimony on Proposed Santa Fe, New Mexico Living Wage Ordinance.” PERI Research Report Number 6, 2003.
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- ▶ Pollin, Robert and Mark D. Brenner. “Economic Analysis of Santa Monica Living Wage Proposal.” PERI Research Report Number 2, 2000.
- ▶ Pollin, Robert, Mark D. Brenner and Stephanie Luce. “Intended versus Unintended Consequences: Evaluating the New Orleans Living Wage Proposal.” *Journal of Economic Issues*. Vol. XXXVI, No. 4, December 2002.
- ▶ Pollin, Robert, Mark D. Brenner, and Jeannette Wicks-Lim. “Economic Analysis of the Florida Minimum Wage Proposal.” PERI Published Study Number 17, 2004.
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- ▶ Pollin, Robert and Stephanie Luce. *The Living Wage: Building a Fair Economy*. New York, NY: The New Press. 1998.
- ▶ Pollin, Robert, Stephanie Luce, and Mark D. Brenner. “Economic Analysis of the New Orleans Minimum Wage Proposal.” PERI Research Report Number 1, 1999.

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