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Living Wages, Poverty, and Basic Needs: Evidence From Santa Monica, California

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LIVING WAGES, POVERTY, AND BASIC NEEDS: EVIDENCE FROM SANTA MONICA, CALIFORNIA

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Biographical Note: Robert Pollin is Professor of Economics and Co-Director of the Political Economy Research Institute at the University of Massachusetts-Amherst.

Since 1995, living wage ordinances have passed in about 60 municipalities and proposals are being considered now in roughly 70 more. In each case, those engaged in the debate have been forced to focus on what exactly constitutes a living wage in their community. The answers have varied by community and as the living wage movement has developed. In my own initial work on this question with colleagues (e.g. Pollin and Luce 2000), we simply worked with the figures for a living wage proposed by supporters of the initiative, estimating the effects of the proposal—including the possibilities that negative effects such as employment losses or business flight would occur—based on the wage rate that was proposed. But as our research has advanced, we also have increasingly understood the need to establish a firmer understanding of what constitutes a living wage, and to be able to quantify that understanding in any given community. This paper reports on the exercise my colleagues and I undertook on this question in studying the living wage proposal in Santa Monica, CA, a community of about 90,000 just adjacent to Los Angeles.

The Santa Monica proposal became law in the spring of 2001, with a living wage rate of $10.50 per hour plus health benefits set for all workers employed in the City's so-called "Coastal Zone" (see Pollin and Brenner 2000 for our full report on the Santa Monica proposal). In our study of this initiative in its proposal form, we estimated the effects of raising the living wage to $10.75, and the figures I report here will be based on assuming a $10.75 living wage. However, our results will not overstate the effects of the actual $10.50 living wage standard, and if anything, will understate these effects. This is because all of our figures are in 1999 dollars. Inflation has eroded the purchasing power of the dollar by about seven percent between 1999 and 2001, and will no doubt reduce it further before the Santa Monica measure is fully enacted—as of this writing in February, 2002, its opponents have deployed various legal tactics to delay its implementation. This means that a living wage of $10.75 implemented in 2002 will be lower in inflation-adjusted dollars than a $10.50 figure expressed in 1999 dollars.

I begin by first asking the question: what is a living wage, generally speaking, and with respect to workers in Santa Monica, California? I then consider how much of an impact a $10.75 living wage minimum would have on the lives on the Santa Monica workers and their families. At the most basic level, a living wage ordinance can only be successful if it produces a discernibly higher living standard for the workers who receive wage increases and their families. The paper closes by examining whether this is likely to happen for low-wage workers and their families in Santa Monica.

Conceptual definitions of living wages

The living wage initiatives that have become law throughout the country are motivated by an initial common initial premise: that people who work for a living should not have to raise a family in poverty. But the term living wage also suggests a more ambitious standard. In *A Living Wage: American Workers and the Making of a Consumer Society* (1997), Lawrence Glickman writes that in the historical development of the living wage movement, supporters used the "living wage" concept to define a wage level that offers workers "the ability to support families, to maintain self-respect, and to have both the means and the leisure to participate in the civic life of the nation, (p.66)."

This Glickman definition of a living wage bears a close correspondence with the ideas of Amartya Sen on defining poverty relative to the achievement of what he calls "capabilities." These capabilities include such things as the ability to read and write, to lead a long and healthy life, to have freedom of movement, and to participate meaningfully in the civic life of the community. But how does one measure the ability to participate in community life? Sen acknowledges the difficulties with this issue, especially when one considers the question according to the level of general affluence of the community in which a person lives. As Sen writes,

> The need to take part in the life of a community may induce demands for modern equipment (televisions, videocassette recorders, automobiles and so on) in a country where such facilities are more or less universal (unlike what would be

> needed in less affluent countries), and this imposes a strain on the relatively poor person in a rich country even when that person is at a much higher level of income compared with people in less opulent countries. Indeed, the paradoxical phenomenon of hunger in rich countries—even in the United States—has something to do with the competing demands of these expenses (2000, pp 89-90).

<u>Quantifying the concepts</u>

Regardless of whether we define the term living wage narrowly, as adequate to provide a poverty-line living standard, or more generously, in line with both the historical meaning of the term and Sen's conception of attaining adequate capabilities, we still face problems in translating these concepts into concrete monetary amounts. What are the proper dollar values that we should assign to a "poverty-level" living standard or to a higher, but still relatively modest standard that would enable a person to participate meaningfully in one's community life? These are the issues we pursued in evaluating the merits of the living wage proposal for Santa Monica.

In posing these basic questions in this paper, we leave aside for the moment some additional concerns that are also, always and everywhere, central for establishing viable living wage standards. This considerations include the relative merits of utilizing government transfer programs, such as the Earned Income Tax Credit, as opposed to reasonable mandated wage floors, as a means of guaranteeing decent minimum income levels for working families; and the negative unintended consequences, such as job losses for low wage workers, that can occur from setting living wage standards that are above what existing market conditions can bear. I have dealt with these issues at some length elsewhere (e.g. Pollin and Luce 2000, and, specifically as concerning Santa Monica, CA, Pollin and Brenner 2000)

The way we proceeded was to provide a range of dollar amounts consistent with both a "poverty-line" level of family income and a modest "basic needs" level, as appropriate specifically to the Los Angeles area. Fortunately, reasonably solid research and data do exist to provide the foundation for such an exercise.

First, in terms of measuring "poverty-line" living standards, the U.S. Census Bureau, of course, has been producing such measures since 1963. But a broad range of researchers argue that the government's methodology—which has not been significantly altered since its introduction in 1963—is no longer adequate. We therefore attempted to develop some viable guidelines for establishing poverty thresholds for our purposes, drawing both from the Census Bureau estimates and the recent professional literature focused on developing improved methodologies.

In terms of measuring a "basic needs" living standard, the California Budget Project (CBP) in Sacramento has done solid research in estimating this. The CBP divided the State of California into 8 regions, of which Los Angeles is one (that with the largest population). The CBP then attempted to measure a "basic family budget" derived from observed costs of housing, food, health care, child care, transportation, clothing, basic telephone service, and a few other essentials. Unlike the Census Bureau's poverty thresholds, the standard of living that the CBP is attempting to measure is, as they explain, "more than a 'bare bones' existence, yet covers only basic expenses, allowing little room for 'extras' such as college savings or vacations," (CBP, p. 5). The CBP estimates should therefore serve as a good reference point in defining a more generous "basic needs" living wage for workers in Santa Monica.

Measuring Poverty Thresholds

Since 1963, the U.S. Census Bureau has set detailed poverty thresholds for families of different sizes. For example, the poverty threshold in 2000 for a family of two was $11,239, and for a family of four with two children was $16,894. The family living at this threshold would subsist on what the Department of Agriculture terms the "thrifty food plan"—which is the amount of food needed for each family member to receive the basic caloric minimum.

The government's methodology then assumes that poor families spend approximately one-third of their budget on food. Thus, to generate the dollar figures for the poverty threshold, the government simply multiples the dollar value of the "thrifty food plan" by three.

In recent years, many researchers and government officials have questioned the adequacy of this method for establishing poverty thresholds. The most extensive scientific survey of these issues was that sponsored by the National Research Council (hereafter NRC; Citro and Michael 1995). According to the NRC study, establishing overall poverty thresholds on the basis of food costs alone presents many problems. For one thing, there are large variations in housing and medical care costs by region and population groups. In addition, food prices have fallen relative to those for housing. Child care costs have also not been adequately accounted for. This has become increasingly important over time, as labor force participation by mothers has risen.

The NRC study reports on six alternative methodologies to the current official method for measuring absolute poverty for a two adult/two child family. [1] The thresholds generated by these alternative methodologies are all higher than the official threshold, ranging between 23.7 and 53.2 percent above the official threshold. The average value of these alternative estimates is 41.7 percent higher than the official threshold. This standard for an alternative absolute poverty threshold will help establish our benchmark for a low-end living wage estimate.

<u>Regional Living Costs.</u> The alternative poverty thresholds reported by the NRC do not take account of regional differences in the cost of living. Considerable evidence suggests that living costs for low-wage workers in the LA area are significantly higher than those in other parts of the country. We consider two basic sources here, that of the American Chamber of Commerce Research Association (ACCRA) Cost of Living Index and the 1999 California Budget Project (CBP) figures.

<u>Cost of Living Estimates.</u> The ACCRA data set provides the most detailed statistics on costs of living in approximately 300 cities within the United States.[2] According to ACCRA, overall living costs in Los Angeles were 26.4 percent above the national average for 1999. Over the 1990s as a whole, this LA living cost differential averages 23.3 percent above the national average for the decade as a whole. From this, it seems reasonable to conclude that for low-wage

workers as well as midmanagers in Los Angeles, living costs are approximately 25 percent above the national average.

LA Living Costs and Poverty Thresholds

We are now in a position to establish a workable "poverty line" living wage standard for Santa Monica workers. It follows from the two basic points that emerge from the material we have reviewed: 1) according to the average of the alternative measures of poverty reviewed by the National Research Council, the national poverty line for a family of four is about 40 percent above the official Census Bureau poverty line; and 2) the cost of living in the Los Angeles area is about 25 percent above the national average.

These two figures suggest that an appropriate poverty-line estimate for the Los Angeles area should be about 65 percent above the official Census Bureau poverty line. To present this result cautiously, let us round down, assuming that an appropriate poverty threshold for Los Angeles would be about 60 percent above the official poverty line. Thus, when we report living wage figures and poverty estimates below, we report a "160 percent of official poverty" threshold as our basic measure. We will also report a "185 percent of official poverty" threshold to measure a "near poor" living standard. Along with these, we will also report the official poverty threshold figures, but will consider these as properly measuring a "severe poverty" standard.

Basic Needs Budget. As mentioned above, the California Budget Project attempts to measure a standard of living that is more than a "'bare bones' existence, yet covers only basic expenses, allowing little room for 'extras' such as college savings or vacations." The CBP estimates typical costs of housing and utilities, child care, transportation, food, health coverage, payroll and income taxes, and miscellaneous expenses such as clothing, personal care and basic telephone service. For example, for a single parent family with two children, the study finds the yearly budget would include (in 1999 dollars) $7,116 for housing and utilities, $11,564 for childcare, $2,993 for transportation, $4,592 for food, $2,320 fore health care, $3,790 for miscellaneous items, and $4,580 for taxes, for a total of $37,237. The study assumes that the typical family rents housing rather than owns a home, and that the rent they pay is at the lower 40th percentile of “fair market value” rents in the area—i.e. that 40 percent of the rental housing in an area is lower the fair market value and 60 percent is higher. The family does own a car, but drives an average of only 25 miles per day for commuting. Doubling the miles driven per month—still a modest estimate and one more likely to correspond to driving needs for workers in the LA area—would increase transportation costs by nearly $3000.[3] No allowance is made for vacation travel or long commutes. The food budget is based on the Department of Agriculture’s “low-cost food plan” which is approximately 25 percent above its “thrifty food plan” used in measuring the official poverty threshold. The CBP assumes that a family includes two children, one below and the other above six years old. The study then estimates basic income budgets for three different family types: a single parent family; two parents, with one wage-earner and the other handling child-care; and both parents earning wages.

Overall, the budget estimates generated by this approach correspond well to what we would consider a “basic needs” living standard, or something akin to a minimum amount needed to become capable, in the sense of Sen, of participating meaningfully in community life.

<u>Alternative Estimates of Living Wage Standards</u>

In the accompanying table, I present alternative estimates for both “poverty-line” and “basic needs” income levels for workers in Santa Monica. As we see, the figures are presented for both a three-person/two-child family and a four-person/two-child family. With the four-person/two-child family, the basic needs figures, derived from the CBP study, are presented in two ways, assuming both one and two wage-earnings in the family. The increased income needs for the two wage-earner family reflects the higher costs of childcare when both adult family-members are working full-time outside the home.

[TABLE BELONGS HERE]

As we see from the table, the alternative “living wage” rates range fairly widely, according to what one defines as a living wage. Given our discussion above on the inadequacies of the official poverty thresholds, especially as a standard relevant for the Los Angeles area, it is reasonable to exclude these official threshold levels—what we are terming the "severe poverty" income thresholds—as a level that we could define as corresponding with a living wage. This still leaves wage rates between $10.32 and $18.07 as the range of values associated with different living wage standards for a three-person family with one working adult. For a four-person family, the corresponding wage rate would be between $13.00 - $15.00 with one wage earner in the family. If both adults in a four-person family were working, the average wage for both would need to be $10.98 for the family to reach the basic needs threshold.

It is clear from these figures that no single dollar amount can be associated with a living wage threshold. Nevertheless, the figures in the table provide a sense of what an appropriate wage level would be, assuming that workers hold full-time jobs and that they are supporting between one and two additional family members on their wages.

In fact, it may be unrealistic to assume that low-wage workers hold full-time jobs over the course of a year. If they do not, their wage rate would clearly have to be higher to earn an income level corresponding with either a poverty-line or basic needs living standard. At the same time, it may not be the case that workers are trying to support additional family members on their wages, in which case a lower dollar amount would be adequate to supply a living wage.

<u>The Impact of a $10.75 Living Wage for Santa Monica Workers</u>

What were the living standards of Santa Monica low-wage workers prior to the passage of the living wage ordinance and how much would an ordinance help them? These are the questions to which we now turn. Once again, I want to first emphasize some methological issues that must be handled with care before one can arrive at reasonable answers to these questions.

The first issue is straightforward: that we can't know the living situation of a worker by examining data on the individual worker's situation alone. We rather need to also examine the family settings in which the workers live. However, obtaining a clear picture of these family structures for workers in a relatively small geographic area such as Santa Monica, California is difficult. The approach that my co-workers and I took was to draw on two separate data sources and draw overall conclusions based on both these sources.

Our first source was data from the U.S. Census Bureau's Current Population Survey (CPS), and in particular their survey for the Los Angeles metropolitan area. This is a large, detailed, random sample of people in the Los Angeles area, which is this survey's strength. The weakness of this data source is that does not focus on the workforce in Santa Monica, for whom conditions may differ relative to those in the Los Angeles area generally.

We therefore conducted our own survey of workers employed by the firms who would be covered by the Santa Monica ordinance. The advantage of this survey is that it does focus in on exactly the right people. The disadvantage is that it was impossible for us to conduct a random sample of these workers. This was due primarily to our inability to obtain cooperation from potentially affected businesses in undertaking such a project. We therefore gathered responses using a combination of three non-random, or "non-probability" techniques: volunteer, purposive, and key respondent referral (or snowball) sampling. Generally, such non-random methods are less reliable than a random sample. At the same time, as Singleton and Straits (1999) note in their textbook on social research methods, "It would be a mistake to rule out non-probability sampling. In many instances this form of sampling either is more appropriate or practical than probability sampling is the only viable means of case selection."

I present the overall results from these two surveys in Figures 1 and 2, with Figure 1 showing data from the CPS survey and Figure 2 reporting findings from the Santa Monica survey. In both figures we show data on average family incomes for two groups. In one group, the surveyed worker in the family earns between $5.75 - $7.40. In the second group, the worker in the family earns between $7.41 and $9.10.

Considering first Figure 1, we found from the CPS survey that that the average size of families in these two wage categories was 3.8 people. Therefore, in the figure, we compare these families' total income against our living wage standard for a family of four. As we see, the median family incomes for these two categories are $28,735 and $30,691. They are somewhat above our poverty-line income level for a family of four, which is $27,030. These low-wage family levels are also about 35 percent below the "basic needs" family income level of $45,635 for a four-person family.

[FIGURE 1 BELONGS HERE]

With the Santa Monica worker survey, we found that the average family size for the workers was 3.5 people. We therefore present their income figures relative to a family of three rathen than a family of four, in order to be conservative in presenting their living situations relative to our poverty and basic needs thresholds. As the Figure 2 shows, the workers in the Santa Monica survey are less well-off than those in from the overall LA survey. The median family incomes for both the $5.75- $7.40 and $7.41- $9.10 workers are below the three-person Los Angeles poverty threshold of $21,475. These family income levels are also barely more than half the amount needed to purchase a basic needs living standard.

[FIGURE 2 BELONGS HERE]

What is the overall picture that emerges from these separate data sources? First, there are significant discrepancies in the data generated from the two sources, with the family income levels from the Santa Monica survey being nearly one-third lower than those we found from the Los Angeles Current Population Survey data set. This disparity is much larger than differences we found between the two surveys in their figures on the individual earnings of workers, rather than their total families' incomes. In part, the differences in family incomes may be explained by the fact that the average family size for workers in the Santa Monica survey was about 10 percent smaller than those in our Los Angeles sample. Another factor in this disparity may be that workers in the Santa Monica sample may have been less scrupulous in reporting sources of unearned income than those in the official U.S. government sample from which the Los Angeles figures are drawn.

But even after we recognize these sources of disparity between our two sets of income figures, we nevertheless reach the same basic conclusion about the living standard of families in the Santa Monica sample as we did with the Los Angeles sample—i.e. that the majority of families of low-wage Santa Monica workers are living in conditions of poverty or near poverty, and that their overall income levels do not bring them close to a basic needs living standard.

<u>What Will the Living Wage Ordinance Do for Santa Monica Workers?</u>

In Figures 3 and 4, we consider how an increase to a living wage of $10.75/hour would affect the living standard of two typical workers and their families from our two surveys. The first typical worker and family are derived from our Santa Monica survey, and the second is from the Los Angeles CPS survey. The figures show how pretax family incomes would change—i.e. before accounting for any adjustments in these families' taxes and subsidies. I present the results this way first because both the poverty and basic needs thresholds that we have been working from are also pretax figures. I will also consider below the effects after accounting for taxes and transfers.

With Family 1, as we see in Figure 3, their income before implementation of the living wage is about $1,500 below what we have termed the LA poverty line of $21,475. The $10.75 ordinance raises the family's income to $26,175. This 31 percent increase in family income means that Family 1 now lives 22 percent above the LA poverty line. Even after implementation of a $10.75 ordinance, Family 1 would remain well below the $37,589 basic needs standard. But raising the family's income significantly above the LA poverty line would no doubt bring tangible benefits to the family.

[FIGURE 3 BELONGS HERE]

Considering Family 2 in Figure 4, their pre-living wage income level of $26,000 is also below, though now just slightly, our LA four-person poverty line of $26,632. A $10.75 ordinance would raise the family's income 20 percent to $31,225. After the raise, Family 2's income would be 17 percent above the LA poverty line. As with Family 1, they would remain well below the basic needs standard of $45,683 for a four-person family. Nevertheless, again, the rise above the poverty line itself should provide some significant benefits to Family 2.

[FIGURE 4 BELONGS HERE]

The rise in living standards would not be as sharp after accounting for taxes and subsidies. This is because the benefits these two families would receive from the government—primarily through the federal Earned Income Tax Credit program—would decline substantially as the families' earned income rises. Still, even after accounting for these, the gains to families remains large. For Family 1, income rises by 20 percent after taxes and subsidies are accounted for, and for Family 2, the after tax and subsidy income increase is 13 percent.

But considering the pre-tax and subsidy vs. after-tax and subsidy income figures is not simply a matter of the numbers. This is also an issue of dignity. The United States has spent decades debating its welfare policies, culminating most recently with the passage of the 1996 law requiring welfare recipients to work. Regardless of the merits of that particular law, there is one point on which all parties to the welfare debate agreed: that earning a dollar of income has dramatically different effects on a person's self-image and attitude toward life and work than being given a dollar of government subsidies. Thus, there are benefits to the gains in workers wages, and families' pretax income—as opposed to their incomes after subsidies—beyond that which can be measured by the calculations alone.

Conclusion

The living wage movement, and the legislative measures that have been won from this movement, are increasingly becoming part of this country's political and economic fabric. But how do we measure whether the movement is achieving its intended aims? It is self-evident that to recognize when a living wage law is a success, we would first need to know how to define a "living wage" in any given geographical setting. We would correspondingly need to be able to estimate the benefits of such wage increases for workers and their families. This paper has attempted to help provide a methodology for addressing these issues. We also have seen that that, for workers in Santa Monica, California, the results are clear: the political movement that produced a $10.50 living wage ordinance in Santa Monica will bring substantial gains in living standards to low-wage workers and their families.

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[1] The NRC study includes consideration of "relative" as well as "absolute" measures of poverty. Relative poverty, as the term suggests, takes account of problems resulting from pronounced inequality in a society, even if that society's average living standard is relatively high. However, we focus here only on absolute poverty measures. For an insightful overview on these themes as well as current poverty trends throughout the world, see Keith Griffin, "Problems of Poverty and Marginalization," (2000).

[2] At the same time, the ACCRA index has limitations for our purposes. The problem is that the ACCRA index is explicitly designed to measure relative living costs in different regions at what ACCRA describes as a "midmanagement standard of living." Our aim is to understand living costs for low-wage workers, which, obviously, will be in a different category than that for midmanagers. Thus, to make use of the ACCRA data, we first have to consider the extent to which differences in living costs at this "midmanagement" level reflect similar relative cost differences at a living standard appropriate to low-wage workers. In Pollin and Brenner (2000) we provide evidence that the ACCRA index is a reasonable standard for measuring relative costs-of-living for low-wage workers as well as midmanagers in various U.S. cities.

[3] The CBP derives transportation expenditures based on the 1998 Internal Revenue Service mileage allowance of 32.5 cents per mile. This figure reflects the cost of gasoline, oil, tires, repairs, insurance, depreciation and related expenses.

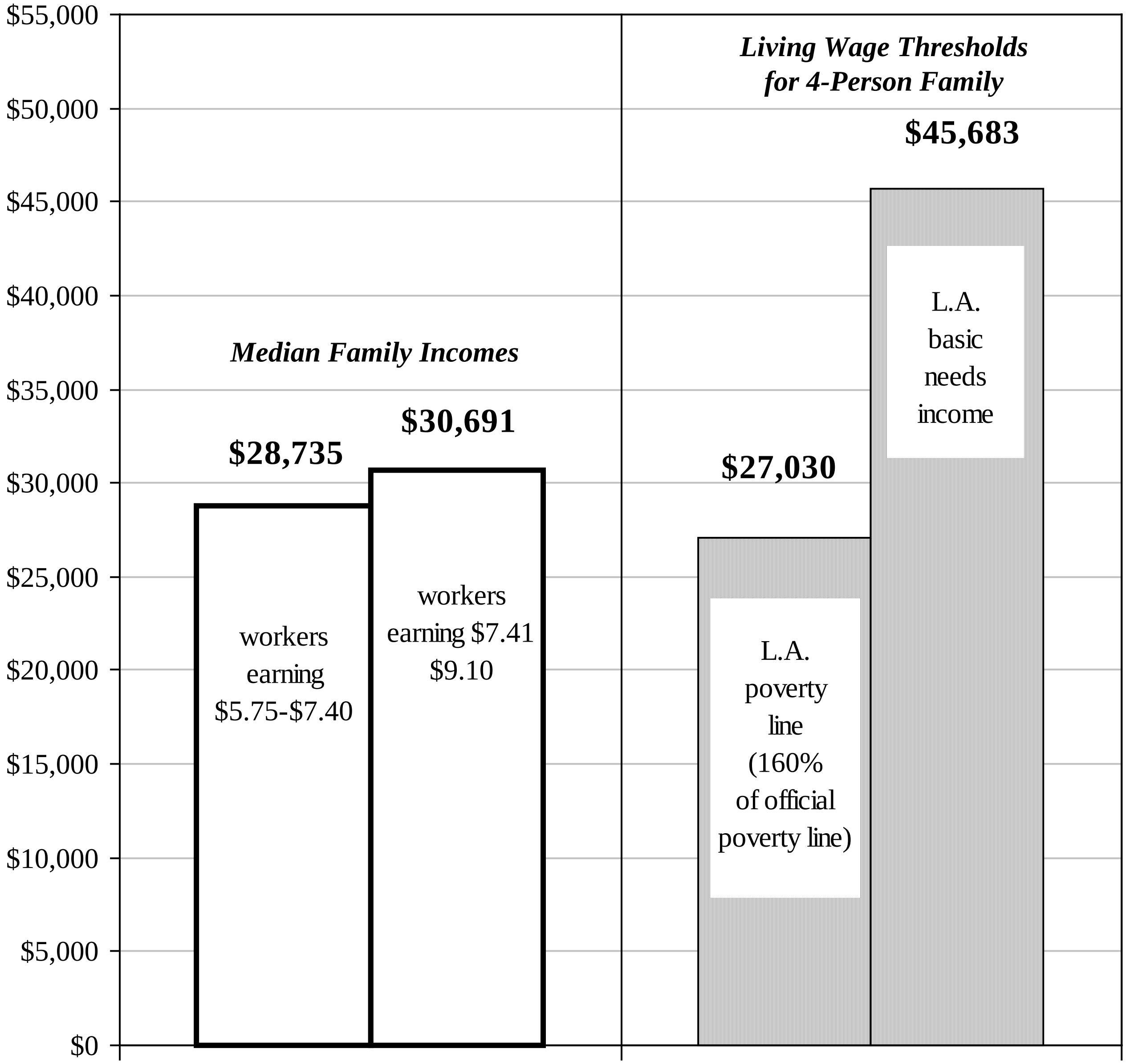
Living Wage Income and Wage Levels for Santa Monica Workers

(Figures are 1999 dollars)

	Poverty-Level Income			Basic Needs Income	
	Severe Poverty (Official Poverty Line)	Poor (160% of Official Poverty Line)	Near Poor (185% of Official Poverty Line)	One Wage Earner	Two Wage Earners
3 Person/2 Child Family					
Annual Income	13,423	21,475	24,831	37,589	---
Hourly Wage Rate for Full-Time Job	6.45	10.32	11.94	18.07	---
4 Person/2 Child Family					
Annual Income	16,895	27,030	31,254	31,298	45,683
Hourly Wage Rate for Full-Time Job	8.12	13.00	15.03	15.05	11.35 (both jobs)

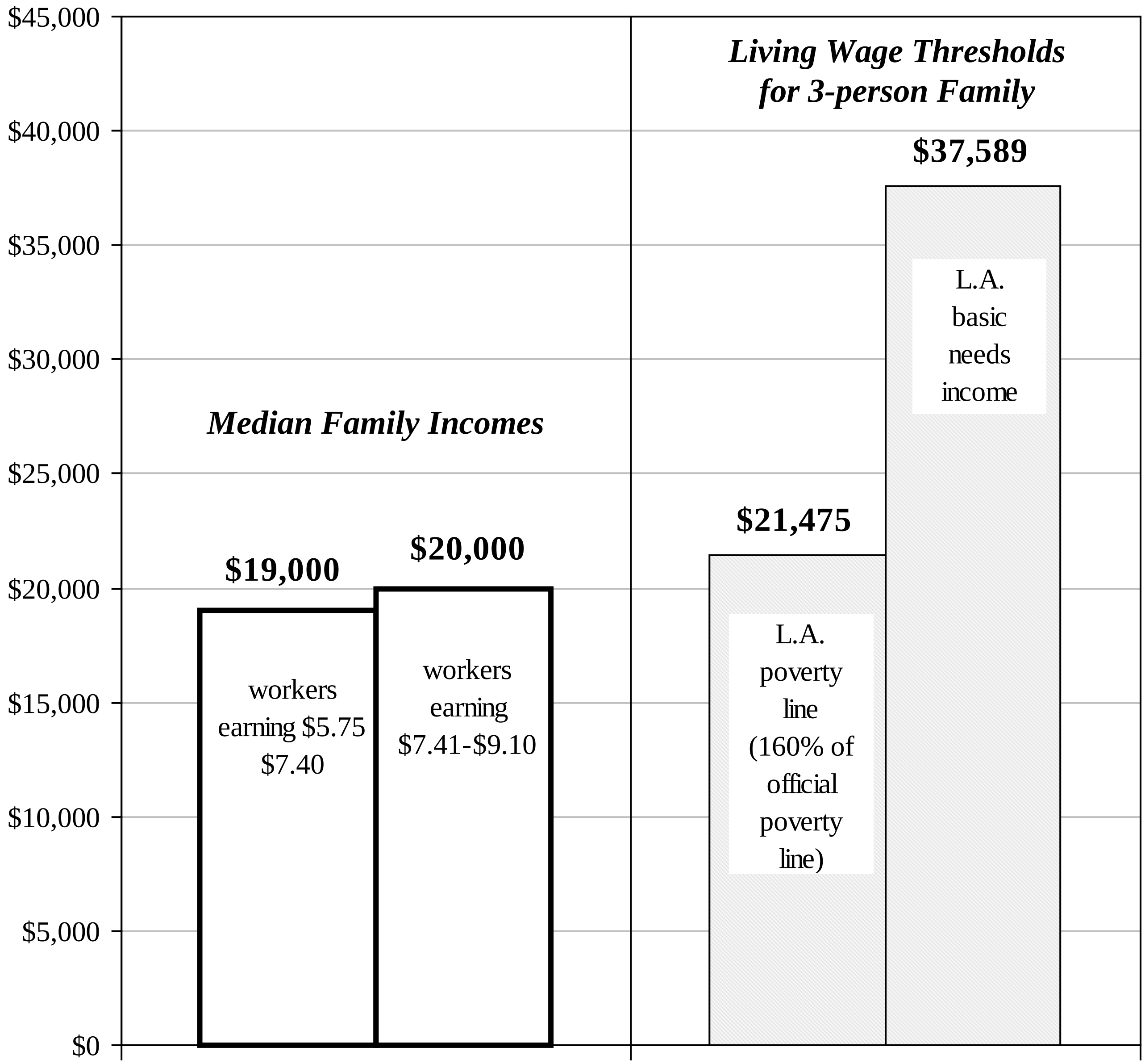
Sources: Current Population Survey (1999); California Budget Project (1999),

Figure 1
Incomes of Low-Wage Los Angeles Families Relative to Living Wage Income Thresholds (1999 dollars)



Source: See Pollin and Brenner (2000).

Figure 2
Incomes of Families of Low-Wage Workers in Santa Monica
Relative to Living Wage Income Thresholds (1999 dollars)

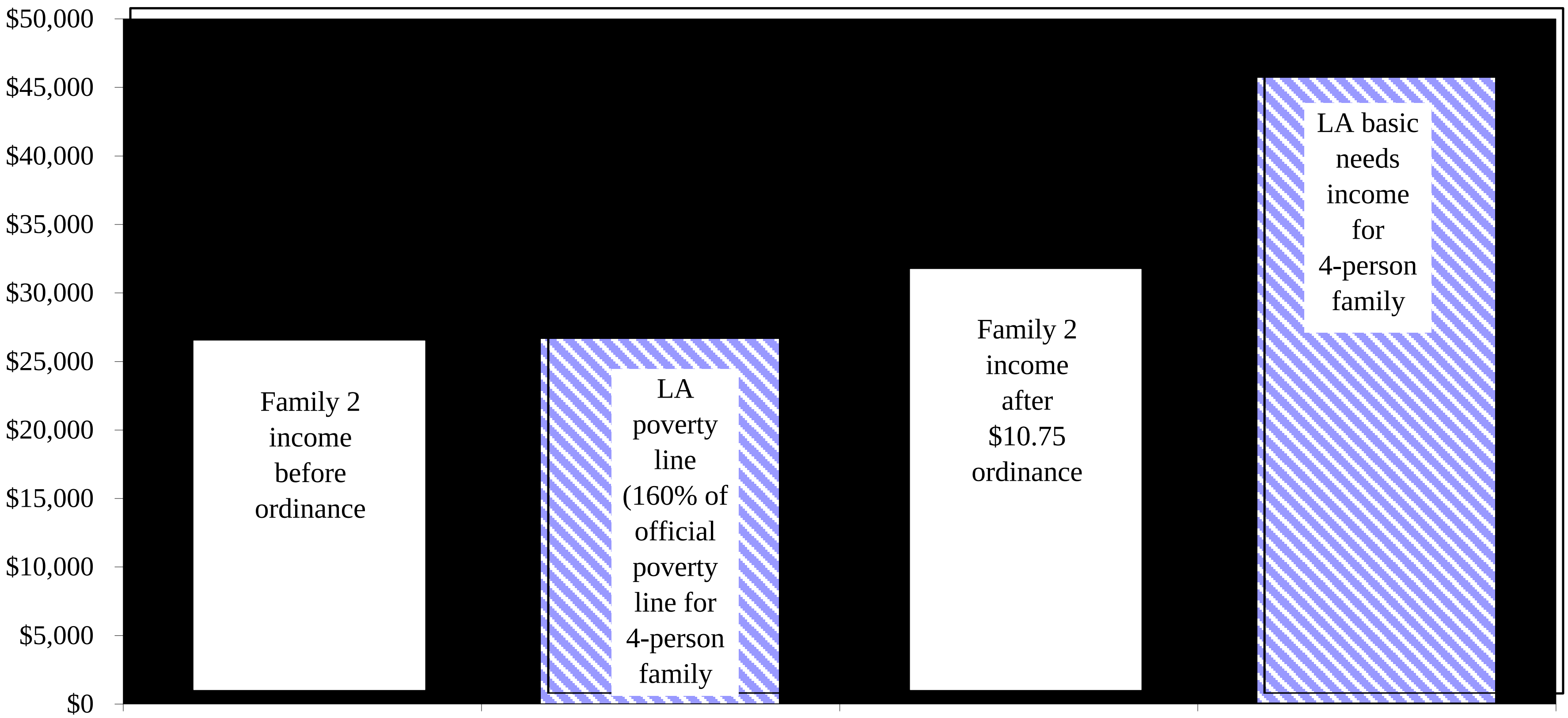


Source: See Pollin and Brenner (2000).

Figure 3
Family 1: Change in Living Standard Under $10.75 Ordinance
***(Family income and threshold levels are prior to* taxes and subsidies.)**
Figures are in 1999 dollars.

Sources: See Pollin and Brenner (2000).

Figure 4.
Family 2: Change in Living Standard Under $10.75 Ordinance
(Family income and threshold levels are prior to taxes and subsidies.)
Figures are in 1999 dollars.



Sources: See Pollin and Brenner (2000).