Should We Be Talking About Living Wages *Now*?

By Jeannette Wicks-Lim

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The Department of Labor announced in January that the U.S. economy shed 2.8 million jobs in 2008, bringing the national unemployment rate to 7.2%—its highest level in 16 years. In today's economic climate, the worst since the Great Depression, are the raises demanded by living-wage campaigns a luxury? Should living-wage campaigns take a back seat to pulling the economy out of recession?

For many, the answer is no. Campaigns across the country continue to build on the widespread success of a movement that has put into place more than 140 living-wage laws since the mid-1990s. Take the Hartford Living Wage Task Force in Connecticut, which is trying to expand the number of workers guaranteed a living wage under its original 1997 law. Or Santa Fe's Living Wage Network, which fought for, and won, a cost-of-living increase to its living wage rate for 2009. Or the Nashville Movement in Tennessee, a group laying the groundwork for a campaign to establish a brand new ordinance.

They are right. Today's economic turmoil challenges us to create practical policies to meet the *heightened* imperative of living wages, not to abandon them.

Why do we need living-wage campaigns? Let's consider first the current legal wage floor. At $7.25 per hour, the federal minimum wage as of July 2009, a full-time year-round worker will bring home $15,080—less than the official poverty threshold of $17,330 for a family of three.

Moreover, poverty experts roundly criticize that official poverty line as too severe. According to the National Survey of American Families, nearly two-thirds of people in households with incomes above the poverty line but below twice that level reported serious economic hardships—failing to pay their rent, having their phone disconnected, worrying about running out of food, or relying on the emergency room for routine medical care.

Consider a more realistic poverty line: the "basic budget" thresholds developed by the Economic Policy Institute as a measure of the income required for "a safe and decent standard of living." These range between two and three times the official poverty line depending on local living costs such as housing. For a family of three, a full-time year-round worker would need to earn between $16 and $24 an hour to reach these basic budget thresholds. Two workers would each need to earn between $8 and $12 per hour. The living-wage ordinances enacted in recent years have typically required rates in this range—on average $10.80, or about 50% above the federal minimum wage.

These basic budgets, however, leave out not only extras such as restaurant meals, but also essential, if not immediate, items such as savings for education, retirement, or even emergencies. Any cut in hours or spell of unemployment can immediately compromise these families' ability to meet their basic needs. Unfortunately, these will be all-too-common occurrences in today's economic climate, which will expose the lowest-paid workers to increasingly severe hardships. This is because businesses tend to let the wages of the lowest-paid workers stagnate or fall unless prodded by a minimum-wage hike or a near-full-employment economy. In the 1980s, for instance,

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the federal minimum wage remained the same for ten years. Over this period, the lowest-paid workers saw their real (i.e., inflation-adjusted) wages *fall* by 15%.

In other words, to put living-wage campaigns on hold would not simply mean that conditions for low-wage workers and their families would not improve. Instead, these families would face worsening economic hardships.

But perhaps that's inevitable during a recession. Today, with economic indicators falling by the day, can businesses afford to pay a living wage without slashing jobs?

We can learn from the experience of New Jersey's state minimum-wage hikes in the early 1990s: from \$3.35 to \$3.80 in 1990, then to \$4.25 in 1991, and finally to \$5.05 in 1992. These three raises, about 10% to 20% each, amounted to a 40% overall rise in the wage floor once adjusted for inflation. The first hike took place in April 1990 when the economy was nearing a business cycle peak. The second and third hikes, however, took place on the heels of the 1990 recession. Economists studied their effects extensively among the businesses likely to be hit hardest—fast-food restaurants—and found no significant negative impact on employment.

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One reason businesses can absorb these costs is that for most, minimum-wage hikes require only modest adjustments. For example, in 2003 Santa Fe passed an \$8.50 citywide minimum wage. The average low-wage worker, who earned \$6.91, received about a 23% raise. The resulting cost increases for restaurants—the most heavily affected businesses—equaled 3% of their sales revenue. In other words, a typical restaurant could offset the entire expense of the minimum-wage hike with a 3% price increase, say, 60¢ on a \$20 meal. Unsurprisingly, the city's new wage floor appears to have had no negative impact on jobs.

Even in today's sharp downturn, businesses can likely absorb similar minimum-wage hikes. To see this, consider that U.S. restaurant sales rose by 2.8% between November 2007 and November 2008, almost two percentage points faster than inflation. This is despite a 5% rise in restaurant prices over the same period. In other words, overall sales in this sector grew, albeit sluggishly, even as restaurants raised their prices *and* the recession deepened.

Based on the Santa Fe experience, and using extremely pessimistic assumptions about future sales trends, I estimate that a 20% minimum-wage hike would require, as before, just a 3% price increase to cover these businesses' higher costs.

What can living-wage campaigns draw from these experiences, given that transforming a minimum wage into a living wage requires more dramatic raises on the order of 50%? An obvious possibility is to structure a living-wage ordinance as a series of raises, 10% to 20% each, which gradually achieve an adequate living-wage rate. An added precaution may be in order since we simply do not have extensive data on the impact of minimum-wage hikes during similar economic conditions: each raise could be followed by a year of evaluation, used in turn to adjust future raises up or down. This, by the way, is another lesson Santa Fe's experience offers: the city required exactly such an evaluation before raising its initial \$8.50 minimum to \$9.50 in 2006.

To turn the economy around we need a significant boost in economic activity—an increase in the demand for businesses' goods and services, not minor adjustments to business costs. This is the logic behind President Obama's stimulus package.

Widespread public support for raising minimum-wage rates (in 2006, more than 60% of voters in six states passed state minimum-wage hikes) suggests, however, that we want not only decent schools, decent medical care, decent roads, and a decent environment, but also decent-paying jobs. To create such jobs, living-wage requirements must be tied to the stimulus plan's funding. Without such mandates, private sector businesses that are the main focus for job creation are unlikely to pass some of that stimulus money along in the form of raises for their lowest-paid workers. Current living-wage laws provide a model: these laws impose living-wage requirements on businesses that contract with, or receive subsidies from, local governments.

> **A typical Santa Fe restaurant could offset the entire cost of the city's 2003 minimum-wage hike with a 3% price increase, say, 60¢ on a $20 meal.**

Today's economic crisis highlights the vulnerability of the lowest-paid workers and virtually ensures that their living standards will worsen. These facts compel us to pursue living-wage policies with even greater force. Two policy prescriptions are especially important. First, the economic recovery plan, with its extensive government subsidies, provides a tool to impose living-wage requirements. Second, a broader, longer term living-wage policy of multi-step raises guided by interim economic impact studies will allow us to sensibly wean our economy off of poverty wages. Past experience tells us that our economy, even today, can adjust to such a policy. D&S

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