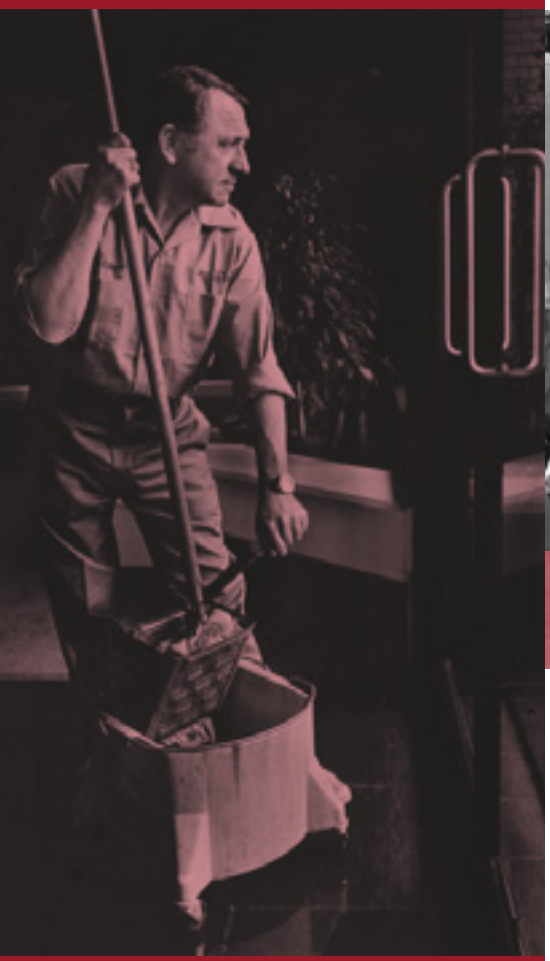
Living Wage Laws in Practice

The Boston, New Haven and Hartford Experiences



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LIVING WAGE LAWS IN PRACTICE
The Boston, New Haven and Hartford Experiences

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Chapter 1

The National Living Wage Movement and the Laws in New Haven, Boston, and Hartford

Over the last decade the United States has witnessed the rapid expansion of a local initiative known as the living wage ordinance. Such measures typically mandate a wage floor significantly above the state and federal minimum wage—usually high enough so a full-time worker can support a family of three or four above the federal poverty level. In 2003, a full-time worker employed for a full year would have had to make $8.85 an hour to reach the federal poverty line of $18,400 for a family of four. Living wage laws typically apply to firms that do business with local governments. Most cover firms that supply city or county services, and many also include businesses that receive local financial assistance such as tax abatements and loan guarantees. A few living wage ordinances cover private-sector businesses with no direct financial ties to the city, while a handful have also emerged in other arenas such as college campuses.

Living wage measures aim to boost the stagnating living standards of low-wage workers and stem rising wage and income inequality in the United States. Both trends are integrally connected to the steady erosion of the national minimum wage—which has fallen 38 percent from its peak of $8.46 in 1968 (in 2003 dollars).[1] In 1968, an individual working full-time for the entire year at the minimum wage had earnings 20 percent above the poverty line for a family of three. By 2003 a similar worker earning the federal minimum wage—$5.15—fell 27 percent below the three-person poverty line, itself considered by many experts today to be an inadequate measure of true poverty.

By the end of 2004 more than 120 localities across the country had enacted living wage ordinances, and nearly one-fifth of the U.S. population resided in a city or county with a living wage law. If we consider only medium and large cities (those with a population of 100,000 or more), we find that nearly 40 percent of the nation's urban residents live in a region with a living wage ordinance.[2] While only a small fraction of the nation's workforce is actually *covered* by such legislation (a point we discuss in detail below), there is no disputing the fact that the modern living wage movement has penetrated deep into the fabric of local policymaking.

What economic impact have these measures exerted? Opponents argue that living wage laws will actually lower the welfare of low-wage workers and their families, warning that firms will respond by laying off such workers and reorganizing workplaces, substituting new machinery, or hiring better-skilled employees. In the extreme, firms may even move to another region to avoid living wage mandates. Critics also argue that living wage laws will swell city budgets, as firms raise prices for contracted services in an attempt to pass higher wage costs back to municipalities. Ballooning contract costs could force cities to raise taxes or cut services, including aid to the working poor. Given the precarious economic position of the lowest-paid segment of the U.S. workforce and the fragile finances of local governments, these are all serious concerns.

Yet despite the proliferation of living wage measures throughout the country, and their potentially disruptive effects, comparatively few studies have examined the economic impacts of living wage laws on the cities that adopt them, the firms they cover, and their ultimate beneficiaries—low-wage workers. Existing research, moreover, has been conducted almost exclusively *prior* to the passage of a particular living wage measure. Most studies therefore analyze the *likely* effects of proposed initiatives. By contrast, this study aims to fill an important gap in living wage research because it examines the economic effects of ordinances in three New England cities well *after* their passage. By concentrating our attention on what happens after the laws are adopted, we can better identify the *actual* impact of living wage measures, deepening our understanding of their dynamics.

New Haven, Boston, and Hartford were early living wage adopters. These three cities—clustered in a single region of the country—therefore offer an excellent vantage point for examining the economic impacts of living wage ordinances. Like most cities, New Haven, Boston, and Hartford established a minimum wage for municipal contracts above a certain dollar value. Yet the three cities differ in the types of services their ordinances cover and the provisions they mandate. These similarities and differences—as we will show below—are a good reflection of national trends. However, before comparing our three cities with the national picture, we must situate living wage ordinances vis-à-vis another important trend: the rapid rise in government outsourcing.

The Link between Privatization and Living Wage Laws

Besides addressing the sharp decline in the real value of the minimum wage and the proliferation of "working poverty," many living wage advocates also aim to stem the erosion of stable public-sector employment. Largely owing to cost pressures, the last two decades have seen many local governments experiment with privatizing—or contracting out—services formerly

provided by public employees. For example, a 2002 survey by the International City/County Management Association (ICMA), the nation's leading group of local administrators, found that "external fiscal pressures such as restrictions on raising taxes" prompted nearly half of all cities and counties in their survey to consider privatization. Most also cited "internal attempts to decrease the cost of service delivery" as a motivating factor.

According to privatization proponents, such moves inject competition into service delivery, making it more efficient. However, the evidence that private contractors are more efficient and therefore less costly is weak. In his comprehensive examination in the academic journal *Public Administration Review*, privatization scholar George Boyne noted that only about half of all quantitative studies have found that contracting out lowers government spending and improves efficiency. What's more, Boyne says, "in some studies, the authors draw conclusions that are not substantiated by their own evidence." Today many local governments are validating these mixed reviews. For example, in the ICMA's 2002 survey, more than one in five local governments reported bringing privatized services back in house. Nearly three-quarters of these localities cited unsatisfactory service quality, and more than half cited insufficient cost savings, as their primary motivation.[3]

"Living wage ordinances provide advocates with a clear, concrete tool to address the sharp decline in earnings for low-wage families.

In contrast with the mixed evidence that privatized service delivery is more efficient and cost effective, the picture is much clearer when it comes to the working conditions associated with these jobs. Research shows that where contracting out does produce cost savings, they typically come from lower wages and benefits for workers performing the privatized services.[4] In this context living wage ordinances provide advocates with a clear, concrete tool to address this sharp decline in employee welfare.

The National Living Wage Movement

The modern living wage movement began in 1994, when proponents waged and won the first living wage campaign in Baltimore.[5] However, the idea of setting wage standards for government contracting is not new. Federal, state, and local laws such as the 1931 Davis-Bacon Act and the 1965 Federal Service Contract Act require contractors to pay a "prevailing wage"—a local market rate that typically approaches a union wage—in certain industries, usually construction. Living wage ordinances similarly set a standard for public funds used to pay outside contractors, but typically aim at jobs in low-wage sectors such as janitorial services, security guard services, and landscaping.

TABLE 1.1 – Ratified Living Wage Ordinances as of December 2003

Type of campaign	No. passed
City council or county board ordinance	104
Ballot measure	6
Adopted by other bodies:	
School board	3
University	4
Library board	1
Hospital	1
Transportation board	1
Road commission	1

Source: Data compiled by authors.
Note: This table includes measures that were later repealed or overturned in court. See Appendix 1 for details.

Coalitions of community, labor, and faith-based groups generally spearhead living wage campaigns, each motivated by different concerns. Community groups often want to address extreme poverty and economic inequality. Many unions participate in living wage campaigns to build coalitions with new partners, organize new workers (typically those benefiting from the laws), or—in the case of public-sector unions—discourage the outsourcing of government jobs. Faith-based groups often see campaigns as an opportunity to foster social justice and put their faith into practice.

Most campaigns work to convince legislative bodies such as city councils, county boards, or state legislatures to adopt living wage mandates, although organizers sometimes rely on ballot initiatives to achieve their objectives (*Table 1.1*). Living wage advocates have also targeted a variety of additional entities ranging from school boards and universities to hospitals and libraries. As living wage laws have proliferated, 14 states have responded by setting their state minimum wage higher than the federal level, and three cities have recently established their own citywide minimum wage.[6]

Who Do Living Wage Laws Cover?

Living wage ordinances may affect any of several economic relationships between local governments and the private sector. These include:

TABLE 1.2 – Number of Living Wage Ordinances with Selected Coverage

Ordinances that cover:	Number	Pct. of total
City service contractors	86	91%
City service subcontractors	44	46%
Firms receiving economic assistance	39	41%
Direct city employees	23	24%
Concessionaires, lessees, or tenants of city-owned land	13	14%
Employers in a geographic region	1	1%
Total ordinances	95	100%

Source: Data compiled by authors.
Note: This table includes only city, county, and school board ordinances that were ratified and remained in effect through December 2002. The list does not include localities for which we could not obtain copies of the ordinance.

Contractors: Almost all ordinances apply to private businesses contracted to provide city services, as opposed to firms that provide supplies and equipment.[7] Many ordinances limit coverage to certain sectors, such as clerical, food service, janitorial, and security services (*Table 1.2*). Ordinances typically apply to contracts above a specific dollar value, and many exempt nonprofits. Most laws also cover only employees fulfilling a city contract rather than all a firm's workers.[8]

Recipients of economic development assistance: Many ordinances also cover firms receiving local tax breaks or subsidized loans designed to convince them to move to, remain in, or expand in the region. Like laws that cover contractors, these ordinances usually apply only to employees working at the subsidized site rather than to the whole firm, and to firms receiving tax breaks above a certain dollar value threshold. For example, St. Paul's ordinance applies to companies receiving $100,000 or more in local financial assistance.

Subcontractors: Nearly half of all ordinances extend to the subcontractors of city contractors, subcontractors of firms receiving economic development assistance, or both.

City lessees and concessionaires: A few living wage ordinances apply to businesses that hold leases or operate concessions on city property, such as vendors located at city-owned airports or sports arenas, and restaurants and hotels at city-owned ports. For example, the Los

Angeles ordinance covers concessionaires at Los Angeles International Airport, while Berkeley's ordinance applies to restaurants and hotels leasing land at the city marina.

City and county employees: Public-sector workers are often unionized and typically receive wages well above the living wage threshold. However, the growing use of part-time and temporary workers by local government has lowered the wages of many public employees and prompted living wage organizers to include them in several ordinances.

Location-based measures: A new form of living wage applies to firms in a geographic region rather than those receiving public funds. The most expansive such measures are essentially citywide minimum wage laws.

Many living wage ordinances exempt specific types of employees, such as part-time or seasonal workers, interns and students in job-training programs, and people with disabilities working in employment programs.[9] Many ordinances also exclude managerial and supervisory employees, and some exempt professional services, such as engineering and legal services. Some living wage laws also exempt nonprofits completely, while others exempt only nonprofits that limit the pay of their CEOs.[10] Efforts to extend living wage coverage into the nonprofit sector have intensified, owing in part to the growing reliance of cities and counties on nonprofit contractors for low-wage human service work such as childcare and home care. Because states usually provide these funds through counties rather than cities, counties are often the entities likely to apply living wage laws to nonprofits.

The Scope of Local Ordinances

The average living wage threshold has risen steadily (*Table 1.3*). Early ordinances typically mandated a wage level high enough to bring a full-time worker with a family of three or four up to the poverty line. In 2003 this amounted to an hourly wage of about $8.85 for a single earner with a family of four.[11] However, organizers have recently begun to push for higher wage levels and more non-wage benefits, on the grounds that the federal poverty line does not accurately measure a minimal cost of living in most cities.[12] As of December 2003, Fairfax, Calif., had the country's highest living wage threshold: $13 an hour with health benefits, or $14.75 without. Several ordinances have raised wages gradually over time. For example, Baltimore's living wage started at $6.10 per hour in fiscal-year 1996 and grew annually until it reached $7.70 in fiscal-year 1999. Other cities have indexed their living wage to changes in the cost of living. These laws phase in gradually, as they apply to new contracts or when existing contracts are rebid.

As in Fairfax, Calif., many living wage laws encompass employee benefits such as health insurance. Many also prevent employers from firing or disciplining employees who speak publicly

TABLE 1.3 – Average First-Year Wage Levels under Living Wage Ordinances

Year	Number of ordinances	Nominal average wage	Real average wage (in 2002 dollars)	Percentage of the federal minimum wage
1994	1	$6.10	$7.45	144%
1995	2	$8.03	$9.54	189%
1996	7	$7.18	$8.28	151%
1997	8	$7.98	$9.00	155%
1998	8	$8.96	$9.95	174%
1999	15	$9.18	$9.97	178%
2000	15	$9.50	$9.99	184%
2001	24	$10.37	$10.60	201%
2002	17	$10.46	$10.46	203%

Source: Authors' calculations.
Note: In cities that set a higher living wage for employers that do not provide a health insurance benefit, we used the lower of the two wage mandates.

about living wages or file complaints of noncompliance, while a significant number protect labor rights, including the right to organize (*Table 1.4*). The Minneapolis ordinance, for example, directs the city to favor employers who are neutral in union organizing drives when it awards contracts and economic subsidies. Some ordinances require employers to make a good-faith effort to hire new employees through community hiring halls—a practice designed to give priority to local residents for jobs created through city contracting and economic development subsidies.

Monitoring Compliance with Living Wage Laws

Monitoring is critical to implementing a living wage law effectively. In the best cases, cities require employers to submit payroll records, and conduct spot checks to verify compliance. However, many cities do not require employers to document their compliance with living wage ordinances. Instead, these cities typically rely on complaints from workers covered by the ordinances to identify potential violations. The resulting penalties often include withholding city payments to a firm, ending or suspending a contract, denying the firm the right to bid on future contracts (for one year after a first violation and three years after a second, for example), and requiring a firm to award employees back wages. Stronger ordinances require employers to pay penalties to the municipality as well. For example, Baltimore levies a fine of $50 per employee per day of noncompliance, while Miami-Dade County and Oakland fine employers $500 per employee per week. Some localities allow aggrieved workers or their representatives, such as a union, to sue for back wages and attorneys' fees.

TABLE 1.4 – Number of Living Wage Ordinances with Selected Provisions

Ordinances that include:	Number	Percent
Health benefits	63	66%
Wage indexing	60	63%
Anti-retaliation language*	34	36%
Labor language**	24	25%
Paid days off	16	17%
Use of community hiring halls	10	10%
Unpaid days off	9	9%
Worker retention clauses	7	5%
Pension provisions	1	1%
Total ordinances	95	100%

Source: Authors' analysis of living wage ordinances.
Note: This table includes only city, county, and school board ordinances that were ratified and remained in effect through December 2002. The list does not include ordinances for which copies could not be obtained.
* Anti-retaliation language refers to explicit provisions protecting individual workers who ask for information about or file complaints under the city's living wage ordinance. In many instances these provisions also protect workers' rights to exercise freedom of association.
** Labor language includes provisions such as labor peace agreements, preference for employers who sign labor-union neutrality agreements, and prohibitions on using public money for union busting.

The Living Wage in New Haven, Boston, and Hartford

How do the laws that we examine in this report compare with the nationwide picture? Adopted during the first wave of living wage legislation in the 1990s, the ordinances of New Haven, Boston, and Hartford highlight several key characteristics of such initiatives. City councils approved all three, and all apply to city service contracts above a certain dollar value, for example. However, our three ordinances also differ from each other in several important respects (*Table 1.5*).

Like many living wage laws, New Haven's ordinance, enacted in July 1997, covers contracts of a certain value, in this case at least $25,000. Also like many ordinances, New Haven's law applies only to firms that provide certain services. These include the preparation and distribution of food on city property, security guard services, transportation among city facilities, custodial work, cleaning, non-technical repairs, and clerical and office work. The ordinance further applies to firms that manage those activities. The New Haven ordinance requires these employers to follow federal, state, and local affirmative action laws, to inform low-wage workers about the federal earned income tax credit, and to give priority in hiring to laid-off city employees and workers referred by a community hiring hall.

New Haven initially designed its wage floor to enable a single wage earner with a family of four to reach the federal poverty threshold. However, the city raised the threshold to 105

TABLE 1.5 – Main Provisions of the Living Wage Ordinances in New Haven, Boston and Hartford

	New Haven	Boston	Hartford
Adopted by:	City council	City council	City council
Adopted in:	July 1997	September 1998	October 1999
Law covers:	City service contracts	City service contracts	City service contracts and economic development assistance
Covers all service contracts?	No	Yes	No
Covers nonprofits?	No	Yes	No
Covers sub-contractors?	Yes	Yes	Yes
Contract value threshold:	$25,000	$100,000 ($25,000 for subcontracts)	$50,000
Employment threshold:	None	25 employees (100 employees for nonprofits)	None
Does wage level rise?	Adjusted annually for first four years	Indexed to inflation.	Indexed to inflation
Higher wage required if no health benefits?	No	No	Yes
Non-wage provisions:	- Employers must follow affirmative action laws. - Employers must give employees information on the earned income tax credit. - Employers are encouraged to hire through a community hiring hall.	- Employers must give employees information on the earned income tax credit. - Employers are encouraged to hire through a community hiring hall.	- Employer must be neutral in any attempt by employees to organize a union.

Note: Details for Boston reflect the ordinance that is the subject of this report—namely, before it expanded in September 2001.

TABLE 1.6 – Minimum Wage and Living Wage Levels in New Haven, Boston, and Hartford

		1997–98	1998–99	1999–00	2000–01	2001–02
New Haven	Living wage	$7.43	$8.03	$8.61	$9.14	$9.75
	Minimum wage	$4.77	$5.18	$5.65	$6.15	$6.40
	Difference	*+56%*	*+55%*	*+52%*	*+49%*	*+52%*
Boston	Living wage			$8.23	$8.71	$9.11
	Minimum wage			$5.25	$6.00	$6.75
	Difference			*+57%*	*+45%*	*+35%*
Hartford *(with health benefits)*	Living wage				$8.77	$8.97
	Minimum wage				$6.15	$6.40
	Difference				*+43%*	*+40%*
Hartford *(without health benefits)*	Living wage				$10.51	$10.71
	Minimum wage				$6.15	$6.40
	Difference				*+71%*	*+67%*

Source: Authors' calculations.
Note: Minimum wages represent the legal rate at the start of each fiscal year (July 1). Massachusetts and Connecticut generally change their minimum wage on January 1, although Connecticut did raise its minimum wage from $4.77 to $5.18 on September 1, 1997. Minimum wage rates thus rose to those listed for the following fiscal year in the second half of several fiscal years.

percent of the federal poverty level in July 1998, 110 percent in 1999, 115 percent in 2000, and 120 percent in 2001, which meant that the living wage climbed from $7.43 to $9.75 per hour over this four-year period. (A Living Wage Task Force must determine any future adjustments, but this group did not convene in 2002 and 2003.) Over the entire period New Haven's living wage floor stood roughly 50 percent higher than the state minimum wage (*Table 1.6*).[13]

Boston's ordinance—adopted in September 1998 as a revision of an earlier law—covers firms with service contracts of at least $100,000 and subcontracts of at least $25,000. Reflecting a more recent trend, Boston's law applies not only to private, for-profit service contractors working in areas such as security guard services or janitorial services, but also to nonprofits providing human services, such as special education, assisted living, and childcare. The law exempts firms with fewer than 25 full-time-equivalent employees and all nonprofits with fewer than 100 employees. Nearly two-thirds of covered contracts in Boston apply to human services, distinguishing Boston even from other cities that have extended coverage to

nonprofits. This is due to the fact that city employees in Boston continue to perform many services that private contractors provide elsewhere.

The law set an initial floor of $8.23 in July 1998. The living wage rises each July 1 to reflect either inflation as measured by the regional Consumer Price Index, or 110 percent of the state or federal minimum wage, whichever is higher. The wage floor has remained at least 35 percent above the state minimum wage. Apart from wage mandates, Boston's law also requires that employers notify employees of the earned-income tax credit and encourages firms with contracts worth more than $100,000 to hire through city job-training centers.[14]

Boston dramatically expanded its living wage ordinance in September 2001, raising the wage floor to $10.25 per hour, lowering contract thresholds to $25,000, and lowering the full-time-equivalent threshold to 25 employees for nonprofits. However, because these changes did not go into widespread use until July 2002, and because they apply only as contracts expire and are renewed, we restricted our analysis to contracts covered under the initial provisions.

Hartford's ordinance—passed in October 1999—covers service contracts of $50,000 or more and also extends to subcontractors. Much like New Haven's ordinance, it does not cover all service contracts. The law applies to firms providing food and security services on city property, and to firms providing custodial services and non-technical maintenance, clerical and non-supervisory office work, and transportation and parking services. However, unlike the ordinances in Boston and New Haven, Hartford's living wage law also applies to any development project greater than $100,000 that is subsidized by city, state, or federal funds, tax abatements, grants, or pension funds. The ordinance also extends coverage to any real estate development costing more than $25,000 on city-owned land where the city is the landlord.

> *"Policymakers and community organizers alike now broadly embrace the need for a living wage.*

Hartford's law sets the living wage at 110 percent of the federal poverty level for a family of four if the employer provides health benefits. Like a growing number of living wage laws across the country, the Hartford ordinance requires a firm to pay a higher rate if it does not offer health benefits. In these cases, the difference between the two wage rates reflects the average cost of comprehensive health insurance for a family of four, as determined by the city's director of human relations. The living wage rate for workers with health insurance was about 40 percent above the state minimum wage in the law's first two years, while for workers without insurance it was as much as 71 percent higher.

Like some 25 percent of ordinances nationwide, Hartford's law includes non-wage provisions relating to labor relations. Specifically, it includes a "labor peace" clause requiring firms engaged in city-financed development projects to sign an agreement with any labor union seeking to represent their employees. In essence, employers agree not to interfere

with union organizing, while unions agree to a no-strike clause for the duration of the contract.

How do the three cities in our study compare with the national picture? First, by 2002 their wage floors were between 7 percent (New Haven) and 17 percent (Hartford) lower than living wage levels established by laws adopted that year. This follows the pattern suggested in Table 1.3, where cities adopting living wage laws in later years set their wage floors higher than their predecessors did. Hartford's decision to apply its law to recipients of economic development assistance is also consistent with the trend of newer adopters, which tend to ratify broader measures. Boston's high contract threshold is also characteristic of many early adopters, which took a more cautious approach.

As these cities show, proponents of a living wage have fought for higher wages and indexed them to inflation, won inclusion of non-wage benefits and other workplace protections, and extended the provisions to new types of jobs and employers. By the end of 2003, almost 10 years into the movement, policymakers and community organizers alike broadly embraced the need for a living wage. With experience with ordinances in New Haven, Boston, and Hartford now in hand, we can examine the economic impacts of the laws on city contracts, the firms that win those contracts, and the employees who perform the essential public services.

Endnotes

1. Throughout this report we make adjustments for inflation using the consumer price index for all urban consumers (CPI-U). Some analysts have begun using an experimental inflation series published by the Bureau of Labor Statistics, known as the research series (CPI-RS), to make historical comparisons. Although the CPI-RS series has not been published for years prior to 1977, were it available the estimated real value of the 1968 minimum wage would most likely be lower than the figure reported here.

2. We calculated these percentages on a population-weighted basis and did not include any cities or counties that adopted and later repealed living wage laws. In instances where cities with living wage ordinances fell within the boundaries of counties with living wage laws, we counted the entire city population and only the net additional county population—that is, our calculations avoid double-counting. See Appendix 1 for a full accounting of cities and counties with living wage laws nationwide.

3. Experts have identified several problems associated with contracting out, including the challenge of assuring service quality, the costs associated with monitoring contractors, the service disruptions that can result when contractors attempt to renegotiate contract prices or void contracts entirely, and the possibility of corruption or mismanagement. See Dilger, Moffett, and Struyk (1997), Hirsch (1995), Pack (1989), Sclar (1997), Steel and Long (1998).

4. See, for example, the evidence cited in Dilger et al. *op. cit.*, Kettl (1993), and López-de-Silanes et al. (1997).

5. Des Moines, Iowa, and Gary, Ind., passed living wage ordinances in 1988 and 1991, but Baltimore was the first campaign to explicitly use the term "living wage." The Des Moines ordinance was called a "minimum compensation policy," and the Gary ordinance a prevailing wage. For more on the historical use of the term and on struggles for living wages earlier in the century, see Glickman (1997).

6. The 14 states are Alaska, California, Connecticut, Delaware, Florida, Hawaii, Illinois, Massachusetts, Maine, Nevada, Oregon, Rhode Island, Vermont, and Washington. Of note, Florida, Oregon, and Washington recently indexed their minimum wage to inflation, a move likely to narrow the gap between the state minimum wage and local living wage levels. The three cities to ratify citywide minimum wages are San Francisco, Santa Fe, and Madison, Wisc. The District of Columbia has long maintained a minimum wage above the federal level.

7. In a few cities across the country, the garment workers union UNITE-HERE! has spearheaded successful efforts to pass "procurement ordinances"—measures that attach living wage standards to government purchases of goods. Our overview does not include such ordinances.

8. The two exceptions are Cleveland, Ohio, and Santa Cruz County, Calif.

9. Construction workers are also typically excluded from living wage provisions, since public construction projects are often already subject to prevailing wage legislation.

10. For example, Los Angeles exempts nonprofits that limit CEO pay to eight times that of their lowest-paid employees.

11. We calculated this wage rate by dividing the U.S. Department of Health and Human Service's 2003 poverty guideline for a family of four ($18,400) by 2,080 hours. However, since most low-wage employees work fewer than 40 hours per week and fewer than 52 weeks per year, in reality they would need to earn a higher hourly wage to reach the poverty threshold. The U.S. Census Bureau also provides annual poverty thresholds based on the number of adults and children living in a household. While the two sets of thresholds are similar, they are used for different purposes. The federal government relies on census figures to calculate the annual poverty rate, while a variety of government programs use Health and Human Services guidelines as a means test to receive specific benefits.

12. See Chapter 4 for more information on poverty measures and different methods of determining a region's cost of living.

13. The average difference over the year may be more or less than the difference at any given point within the year, because governments adjust the living wage and the minimum wage at different times.

14. Boston first passed an ordinance in 1997, which required service contractors to publicly disclose wage and hour records as part of their compliance. However, the city revised the law in 1998 after firms threatened legal action over this provision. Now the ordinance requires only that employers notify employees of the earned-income tax credit, and encourages firms with contracts worth more than $100,000 to hire through city job-training centers.

Chapter 2

The Impact of Living Wage Laws on City Contracting

For many firms, labor costs account for a significant portion of their overall costs. If living wage laws force companies to raise wages for a sizable portion of their workforce, then the price of their services—and therefore contract costs paid by cities—might rise. What's more, if living wage laws raise the cost of doing business with cities, they might also discourage some firms from bidding on service contracts, undermining competition and opening the door to even higher prices from remaining bidders. Although these are indeed possible outcomes from living wage implementation, have they in fact occurred?

Examining the evidence from other cities as well as New Haven, Boston, and Hartford, we found a modest overall impact on contract costs and bidding, and a somewhat mixed picture both within and between cities. For example, contract costs actually fell in two of our three cities after living wage implementation, while contract costs rose in one city.[1] The impact of a living wage law on individual contracts often varied widely, reflecting the type of services they cover and the way cities conduct the bidding. We further found that competitive bidding remains strong under living wage ordinances, and that such laws may even boost the number of bidders on city contracts. On balance, these experiences imply that a living wage law is only one of many factors influencing the cost and competitiveness of city procurement.

The Record in Other Cities

Living wage laws have been in place in many cities around the country for quite some time. What impact have those cities experienced? Fortunately, a growing body of evidence is beginning to shed light on that question. For example, two studies examined Baltimore's living wage law, implemented in 1995. One study, conducted after the first year of implementation, reported that the total cost of 19 contracts had risen only a quarter of one percent since the law took effect. The other, conducted three years later, found that the cost of 26 contracts had risen just 1.2 percent. In both cases the rate of inflation was higher, so real costs actually fell.

Both studies also found that the impact on individual contracts varied substantially. For example, the contract for Baltimore's bus services—by far the largest—rose by just 2 percent. The cost of a small janitorial contract, in contrast, rose by 47 percent, while the cost of a contract for summer food services fell by 12 percent.[2]

Another review of 13 living wage laws across the country found that city and county officials in every location reported higher contract costs, with the absolute amount of overall cost increases varying widely. Unfortunately, in many cases officials did not compare these cost increases with the total value of covered contracts or the rate of inflation, so we cannot judge whether relative costs actually rose or fell in real terms.

As with the Baltimore experience, officials in each city reported considerable variation in changes in the costs of individual contracts. For example, the cost of a janitorial contract rose 22 percent in Warren, Mich., while the real cost of three human service contracts declined in Dane County, Wisc. In Corvallis, Ore., an analysis in June 2001 found that the total cost of 31 contracts covered by a living wage ordinance had risen 13 percent—much faster than the inflation rate of 3.5 percent.[3]

Some cities have taken active steps to mitigate the costs of their living wage laws. For example, in a one-year report filed in February 2000, Pasadena city manager Cynthia Kurtz found that the cost of five contracts rose by $168,000 (the report did not specify the total contract cost). However, according to Steve Mermell, who oversees Pasadena's living wage law, the city had actually budgeted $340,000 to cover an expected cost increase. Officials negotiated with their contractors to split the higher costs, agreeing in exchange to extend existing contracts rather than put them out for competitive bid.

In a similar case, Multnomah County, Ore., reported a 5 percent rise in total contract costs for covered services after implementing its living wage policy. However, costs would have risen 27 percent under the old contracts: the county saved funds by consolidating janitorial services at the Department of Corrections, the courthouse, and the county jail into a single contract. This appears to be an example of "relational contracting"—wherein the parties recognize "that for all intents and purposes they depend on one another," and "that it's in their self-interest to establish a long-term cooperative relationship."[4]

Evidence also shows that living wage ordinances can boost municipalities' satisfaction with service contracts. In Multnomah County, the contractor's performance rating rose from 2 out of 5 before the living wage to 4 out of 5 six months after it took effect. These gains may reflect a drop in annual turnover among janitors, which fell from 60 to 25 percent over the same period.

Some of these studies reveal contradictory effects of living wage laws on bidding patterns. For example, one of the two Baltimore studies found that the total number of bids the city received fell from 93 before the law took effect to 76 after (the number of bidders rose on three contracts and fell on eight). An official in Ypsilanti Township, Mich., in contrast, reported that major contracts attracted "more bidders than ever before, at even better rates," after the living wage took effect, forcing them to "be tighter and provide less of a profit margin." City officials in Alexandria, Va., noted a similar boost to competitive bidding after the city adopted its living wage law.[5]

"Evidence shows that living wage ordinances can boost municipalities' satisfaction with service contracts.

In Corvallis, Ore., several firms indicated that they would not bid on city business because of the living wage, yet every vendor the city contacted submitted a bid, "and the bids have continued to be competitive," according to the city finance director. In Hayward, Calif., the acting finance director reported that all contracts remained competitively bid, and that "productivity and service quality have not been adversely affected."[6]

How We Approached Our Three Cities

To further investigate the impacts of living wage laws on contract costs and competitive bidding, we compared experiences in New Haven, Boston, and Hartford before and after they implemented their ordinances. Because the scope of the law in each city varies, and because the cities differ in the amount of contracting they pursue, we found dramatic differences in the number of covered contracts among the three (*Table 2.1*).

For example, because Boston's law does not restrict its coverage to specific services, the city reported 219 covered contracts in September 2001. Some 53 of these contracts were effectively exempt, leaving 166 with a total value of close to $137 million.[7] Although this large number of contracts would be ideal for analyzing the effects of the city's living wage law, the cost of obtaining copies of each contract proved prohibitive. Thus we restricted our study to "high-impact" contractors—those reporting at least five employees earning between $8.71 (the living wage floor in fiscal year 2000–01) and $12 an hour. To identify high-impact contractors, we relied on quarterly reports that covered vendors must file with the Living Wage Division of the Office of Jobs and Community Services. Those reports include the number of employees falling within several wage ranges.

That strategy made results among the three cities more comparable, as both New Haven and Hartford restrict their living wage laws to low-wage sectors such as janitorial and security guard services (*Table 2.2*). The contracts we excluded from our Boston analysis, moreover,

TABLE 2.1 – Contracts Covered by Living Wage Laws in Boston, Hartford, and New Haven, as of June 2001*

City	Covered contracts	Total contract value
Boston		
Total	219	$201,819,829
Covered	166	$136,803,560
Exempt	53	$65,016,269
Hartford	2	$1,184,959
New Haven	7	$596,574

Source: Authors' calculations based on data obtained from the three cities.
Note: In Boston, "requirement" contracts are exempt from the living wage law. The city taps such contracts—which set the upper limit of work a vendor can perform—only as needed. A vendor with such a contract for automotive repairs, for example, may never actually perform any work.
* Boston data are through September 2001.

cover professional services such as legal, engineering, and architectural services, which are unlikely to have experienced significant cost increases as a result of the living wage law. Overall we found that 25 contract holders in Boston met our criteria—18 of them nonprofits. We asked city departments to provide copies of the contracts we intended to analyze, and only one (Elderly Services) failed to comply with our request. Even so, we could not match many of these contracts with equivalent services performed before the living wage law took effect. To compensate, we added several special-education contracts from the Boston Public Schools to our analysis, because that sector experienced the heaviest impact from the living wage law. (The law forced nearly 60 percent of special-education contractors to raise wages, as we show in Chapter 3.) In all we obtained information on 28 contracts in Boston, 22 of which applied to special education, with a total value of $41 million. Those contracts represented some 30 percent of the total value of all covered service contracts at that time.[8]

In marked contrast to Boston, New Haven's law affected some 15 service contracts at the time of our data collection. However, the city had funded only 8 of those both before and after the law took effect. Because the city merged 2 of these contracts in fiscal year 2001–02, we focused on 7 contracts with a value of nearly $600,000.

In Hartford, the living wage law had affected only 2 contracts worth $1.2 million when we collected our data, although the city reports that the law will eventually affect 8 contracts. Both the contracts covered services, as no economic development projects had yet come under the

TABLE 2.2 – Services Covered by Living Wage Laws in Boston, Hartford, and New Haven

City	Service
Boston	Adult education
	Architectural and engineering services
	Assisted living*
	Consulting services
	Childcare services*
	Cleaning services*
	Community learning center services*
	Computer services and support
	Educational consulting
	General repair services
	Janitorial services*
	Legal services
	Security guard services*
	Special education*
	Supportive housing*
	Temporary office assistance*
	X-ray services*
Hartford	Security guard services
	Temporary office assistance
New Haven	Busing services
	Food services
	Janitorial services
	Security guard services

Source: Authors' analysis of data obtained from the three cities.
* "High-impact" services are those where at least one contractor reports a concentration of low-wage workers. The study focused on those services.

law's purview. That experience is not uncommon: many cities whose living wage law covers economic development aid actually apply the law to few if any projects.[9]

The Impact of Living Wage Laws on Bidding Patterns

How have living wage laws affected competitive bidding in our three cities? In Boston and Hartford the number of bids either stayed the same or grew after the living wage law took effect, while in New Haven the number of bids declined by three. Overall, we found that the total bids for all three cities declined by only one after living wage implementation (*Table 2.3*).

TABLE 2.3 – Total Number of Bids Before and After Implementation of the Living Wage

Service	Before	After	Difference
Boston (*high-impact firms only*)			
X-ray services, Suffolk County Jail	3	1	-2
Temporary office help, Dept. of Neighborhood Development	5	9	4
Janitorial services, Police Dept.	9	7	-2
Security services, Library	3	4	1
Cleaning services, Prop. Management Office	6	5	-1
Boston subtotal	26	26	0
Hartford			
Temporary office help, citywide	3	3	0
Security services, citywide	7	9	2
Hartford subtotal	10	12	2
New Haven			
Security services, Main Library	5	5	0
Janitorial services, Health Office	5	4	-1
Janitorial services, Police Station	9	5	-4
Janitorial services, Main Library	4	4	0
Janitorial services, Branch Libraries	3	4	1
Janitorial services, Senior Center	3	3	0
Food preparation services, Child Develop't	1	2	1
Bus services, Parks Dept.	1	1	0
Bus services, Child Develop't	1	1	0
New Haven subtotal	32	29	-3
All cities total	68	67	-1

Source: Authors' analysis of data obtained from the three cities.

Within each city we saw wide variation among individual contracts. More than a third of all contracts saw no change in the number of bidders, nearly a third saw increases, and bids declined for nearly 30 percent. Declines in the number of bidders were most prevalent in Boston, occurring for three of five types of services. (We excluded special-education contracts here because Boston does not award them through competitive bidding. Instead, special-ed facilities must first receive state certification and then win selection by the Boston Public Schools as placement sites.) Given that less than a third of contracts saw declines in the number of bidders after living wage implementation, forces *other* than the living wage law seem to be exerting at least as strong an effect on the number of firms willing to compete for

contracts. Reinforcing experiences in Baltimore and other cities, we did find that bidding patterns varied systematically across a few sectors. One example is janitorial services: the number of bidders declined for four of seven janitorial and cleaning contracts after the living wage took effect. That total includes two contracts in New Haven, where winning bids usually come from small, individually owned and managed janitorial companies, and two in Boston, where large, commercial building services firms tend to compete for the city's janitorial contracts.

Two out of three security guard contracts, in contrast, saw an increase in the number of bidders, as did one of two temporary office assistance contracts. In these cases, the living wage floor may have actually improved bidding by reducing the ability of vendors to undercut their competition. As New Haven's Controller Mark Pietrosimone noted, the living wage ordinance "puts all vendors on equal footing…[and] it has leveled off undercutting," forcing contractors to compete with one another along dimensions other than wages and benefits, such as service quality.[10] Experience in Hartford sheds light on why and how that occurs.

"For some services, living wage laws can dramatically increase the number of bidders.

Expanding the Bidding Pool: Security Guard Contracting in Hartford

In September 1999, a month after passing its living wage law, Hartford solicited bids for a new city contract for security guard services. The contract was scheduled to begin on January 1, 2000, and run through December 31, 2001. The initial request solicited proposals for some 54,000 hours of security guard services over the two-year period, and firms submitted their bids in the form of an hourly rate the city would pay for each hour of services actually performed. Two companies bid on the contract, including Command Security, which had won the last contract for these services.

That number of bids was much lower than in past years: seven companies had bid during the 1997 round, and five had done so during the 1993 round. (The contract was not competitively bid in 1995; the city extended Effective Security's 1993 contract for two years.) Most firms decided not to compete with Command Security—the incumbent contractor— in 1999, perhaps because the Hartford-based company was guaranteed special consideration under a provision giving preference to local businesses. That provision had been decisive when the city awarded Command Security the contract in 1997.

Upon review, city officials realized that the contract was subject to the new living wage ordinance but that they had not informed contractors. The officials determined that the

TABLE 2.4 – Bids for Hartford Security Guard Contracts

		1999	
Bidder	**1997**	Round 1	Round 2
Command Security Corp.	**$9.75**	**$10.07**	$14.96
Metro Loss Prevention	$9.87		
Elite Security	$9.90		
Tri-City Security Services	$10.38		$18.85
Burns International Security	$10.49		$19.35
Pinkerton Security Services	$11.50	$10.56	$15.65
Wackenhut Corp.	$13.34		
Lance Investigations			**$14.58**
Argus Security Group			$14.61
Jo-Ryu Security			$17.77
Novas Security			$18.55
Al Washington and Associates			$18.62

Source: Authors' analysis of data obtained from the city of Hartford.
Note: Bids for Hartford's security guard contract are made on the basis of an hourly billable rate charged to the city. The values are reported as they were submitted in each year; that is, we have not adjusted them for inflation.

contract should be re-bid, and this time included information on the living wage in all materials they sent to prospective bidders. In this second round the city received nine bids, including new bids from the two companies that had bid during the first round (*Table 2.4*). Hartford's living wage law seems to have sparked a dramatic increase in the number of bidders.

The living wage ordinance was not the only factor underlying the quadrupling of bidders. One second-round bidder, Argus Security Group, pointed out that the city of Hartford did a better job of advertising the request for proposals in the second round. Argus representative Pat Paboway said that the firm would have probably entered the first-round bidding had it been aware of the opportunity.

Still, a closer look at the record shows that the living wage may also have leveled the playing field, encouraging more companies to bid. An analysis by the city two years after implementing the living wage found that under the prior contract, Command Security had employed 10 security guards earning $6.77 and 2 guards earning $6.60 per hour. The former group did not receive health benefits while the latter did, but in both cases the guards were earning only about a dollar above the state minimum wage of $5.65. According to the Bureau of Labor Statistics, those wages were nearly 30 percent below the average hourly wage for security guards in the Hartford area at the time ($9.45), and 20 percent below the median ($8.38).

An analysis of Command Security's contract reveals that wage costs accounted for more than two-thirds of the hourly bid price prior to the living wage. (The company charged the city $9.75 per hour, while the highest-paid guards were earning $6.77.) This suggests that firms paying higher wages were at a disadvantage when competing with Command Security in the city security guard market when the only floor was the statewide minimum of $5.65. By setting a wage floor well above the state minimum wage, Hartford's ordinance substantially enlarged the market for security guard services.

Rod Murdoch of Tri-City Security Services confirmed that his company decided to enter the Hartford security guard market because "the playing field had been leveled." Tri-City, he said, often receives opportunities to work in "low-ball" niches, where the guards make little money and the company's margins are thin. However, he said, Tri-City prefers to work in "'middle niches,' where the guards are making more in the range of $9 to $10 and the company's margins aren't so thin." He also maintained that Tri-City prefers to work with the private sector because the public sector often has more contract requirements but, in his opinion, is unwilling to pay for them. "We'll provide a guard with certain credentials," he said, "but you must be willing to pay for it."

> *"The living wage may also have leveled the playing field, encouraging more companies to bid.*

Donald Coursey of Al Washington and Associates concurred that he considers the municipal contracting market problematic, "because cities are usually obliged to take the lowest bid, which means that there is an incentive to low-ball, and it's hard to compete against that. It means you end up paying people minimum wage, which is very unstable, because people can make that money anywhere, and they may just disappear tomorrow, and the city is calling up saying, 'Where is my guard?' and you are hamstrung, and in the process your reputation gets ruined." He added, "Most companies with any business sense would concentrate on a higher-wage niche, because there is more stability involved, and it gives you better control of the business, and allows you to preserve your reputation." Coursey held that any firm with a long-term approach to working in the security guard industry would avoid the low-wage end of the market.

Mark Cratin of Lance Investigations similarly reported that his company usually avoids low-wage guard work, instead seeking out contracts in which guards can earn at least $10 an hour. He argued that the low-bid method is inefficient; his firm sat out the 1999 bidding on the Hartford security guard contract for precisely that reason. These results reinforce the argument that cities can exert a major impact on the market in which they procure services, a theme we return to in the concluding chapter.

TABLE 2.5 – Real Annual Contract Costs before and after Living Wage Implementation (in 2001 dollars)

City	Before	After	Difference
Boston *(high-impact firms only)*			
Special education (*number of contracts=22*)	$18,356,900	$15,078,551	-18%
Non–special education (*number of contracts=6*)	$1,414,013	$ 1,372,230	-3%
Total (*number of contracts=28*)	$19,770,913	$ 16,450,781	-17%
Hartford (*number of contracts=2*)	$465,338	$617,416	33%
New Haven (*number of contracts=9*)	$692,697	$611,411	-12%

Source: Authors' calculations based on data collected from the three cities.
Note: As noted in the text, for each contract we compared the cost prior to the living wage with the cost afterward. For consistency, we calculated the annual cost of multi-year contracts, and adjusted for inflation by expressing those costs in 2001 dollars.

The Impact on Contract Costs in Our Three Cities

How have living wage laws affected city contract costs? In Boston, we found that the total annual cost of the 28 contracts we analyzed fell markedly in real terms—from $20 million to $17 million, or 17 percent—after the city implemented its living wage ordinance. A 19 percent drop in the 22 special-education contracts drove this decline. However, the 6 other contracts also declined by 3 percent. New Haven similarly registered a 12 percent decline in annual contract costs after implementing its living wage law. The overall cost of the 2 Hartford contracts, in contrast, rose sharply—by 33 percent (*Table 2.5*).[11]

To better understand these results, we examined average cost changes across all the contracts in our study. At first glance, a more detailed view seems to show that living wage laws boosted the average cost of a service contract in these three cities. In Boston, special-education contracts rose an average of 3 percent, while the other contracts rose an average of 7 percent. In New Haven, the average contract rose 0.3 percent, while in Hartford it rose 29 percent *(Table 2.6*).

However, we find a different story when we factor in the size of the contracts, weighting them according to their total dollar value. Adjusting for contract size is important when we want to get a sense of whether a city will experience overall cost increases owing to the living wage. In

TABLE 2.6 – Average Real Annual Change in Contract Costs under the Living Wage (in 2001 dollars)

City	Unweighted	Weighted
Boston *(high-impact firms only)*		
Special education *(number of contracts=22)*	3%	-9%
Non–special education *(number of contracts=6)*	7%	16%
Total *(number of contracts=28)*	3%	-7%
Hartford *(number of contracts=2)*	29%	33%
New Haven *(number of contracts=9)*	0.3%	-11%

Note: To account for the size of each contract, the figures in column two are calculated using weights. Specifically, the percentage change in each contract's cost is weighted according to the proportion of the overall annual cost that each contract comprises.

this case we find that Boston's special-education contracts declined an average of 9 percent, while non–special-education contracts rose 16 percent. New Haven's contracts declined by an average of 11 percent, while Hartford's rose an average of 33 percent. Except for non–special-education contracts in Boston—which reflect a substantial increase in the cost of temporary office services—these results mirror the total average annual changes reported in Table 2.5.

What forces underlie the remarkably different cost outcomes between Boston and New Haven, on the one hand, and Hartford on the other? The most obvious influence is the different nature of services contracted out in Boston. A much higher proportion of Boston's contracts apply to human services such as special education, where reimbursement rates are set by state and federal agencies. These contracts are not competitively bid, and their fixed reimbursement rates do not allow contractors to pass on higher labor costs to the city.

However, contract costs also declined in Boston even for some competitively bid services such as X-ray and janitorial services. The major difference among the three cities seems to be that Hartford bid both its contracts on a unit-cost basis. Under that approach, cities ask vendors to submit the rate they will charge for each hour of work they perform, rather than to submit a bid for the total value of the work. This approach encourages firms to apply "cost-plus" markups, and thus appears ill-suited to holding down total contract costs. Indeed, we find that

most contracts bid on a unit-cost basis in Boston and New Haven display a similar pattern. Because of the systematic impact unit-cost bidding appears to exert on contract costs, their dynamics merit more attention.

How Unit Costs Change under Living Wage Laws

Behind the changes in contract costs reported in Table 2.6, we find a clear pattern of cost increases for security guard services and temporary office assistance in all three cities. Officials rely on unit-cost bidding for these services because they can rarely anticipate their exact need for them in advance. That approach opens the door for significant cost increases under a living wage law.

For example, the winning bidder for security guard services in Hartford raised the average markup—the difference between what the city paid and the amount the vendor paid its workers—from $3.12 to $4.36 after living wage implementation. Some of this undoubtedly reflected higher payroll taxes and worker's compensation payments stemming from the living wage. The company may also have passed on raises for employees not working on city contracts, or raises for employees earning above the living wage. Mandated wage increases for part of a company's workforce are expected to create pressure to raise wages for workers not covered by the mandate. But as the next chapter shows, non-mandated wage increases under living wage ordinances are actually relatively modest. This implies that the firm may have padded its bid not only to recuperate the indirect costs of the living wage, but also to maintain or boost its profit margin on each hour worked.[12]

Higher contract costs after living wage laws take effect are more common in cities where unit-price bidding is more prevalent. Indeed, contractors bidding on unit prices often appear to pass higher labor costs back to the city more than dollar for dollar, as with security guard services in Hartford. While that case represents the extreme among our cities, almost all contracts bid on a unit-cost basis experienced the problem.[13]

The Hartford case also shows that efforts to consolidate services can hold down markups and unit prices even under unit-cost bidding. For example, the real unit cost for security guard services in Hartford grew by 43 percent. In contrast, 6 of the 12 unit prices for temporary office assistance bid both before and after living wage fell, and only 2 rose by more than 15 percent. While these results may partly reflect the market for temporary office services in Hartford, they may also reflect a conscious strategy by bidders to hold down the unit prices of some services while raising them for others in an effort to win the contract for consolidated services. Evidence from Boston and New Haven also suggests that in cases where they consolidated services, even those bid on a unit-cost basis, the cities were able to prevent higher labor costs from translating into higher prices. In sum,

when cities bundle service contracts—such as by awarding a single contract for cleaning all libraries rather than a separate contract for each building—firms appear to lower the amount of overhead they add to their bids.[14] Our results suggest that consolidating service contracts can cut cost pass-through by contractors as much as 20 percent (see Appendix 2).

Do Living Wage Laws Force Cities to Curtail Services?

Concern often arises that cities will curtail services if living wage mandates force contract costs to rise. However, higher contract costs have not prompted our three cities to cut public services. The contract for security guard services at the Boston Public Library is a good example. Unit prices rose nearly 39 percent in real terms after living wage implementation, but the city actually expanded the number of guard hours at the library and total contract costs rose by nearly 60 percent. Diane Collins, who oversees the contract, believes that higher wages actually spurred positive changes that helped sustain the level of services. She agreed that "The guards seem a little happier than the batch that was here before. Plus, they seem to be here longer. Before the living wage, you'd see new faces all the time. With higher wages, the guards seem to take the work more seriously and provide better service."

Joanne Keville-Mulkern, contracting specialist for the Boston Public Schools, reported that the living wage ordinance has not forced the city to curtail services for which BPS contracts, nor have human service agencies proved less willing to bid on city contracts. However, she did express the concern, shared by many of Boston's nonprofit contractors, that if living wage mandates generate significant costs, providers will have no way to pass those costs through to the city, as federal and state agencies set their reimbursement rates. Although this dilemma was not a real issue under the original law, nonprofits were concerned that the September 2001 expansion may lead to hardship.

Overall, staff members responsible for implementing the living wage law in the three cities confirmed our findings that its impact on costs and competitive bidding has been modest. In New Haven, where the ordinance mandates that the city evaluate its impact each year, staff members found only a 6 percent increase in the cost of busing for field trips. They also noted that the workforce for several contracts was unionized, so workers already received wages higher than the living wage threshold. When discussing the Boston law with the Providence City Council, Mimi Turchinetz, director of Boston's Living Wage Division, attested: "We have not seen a decrease in competition for these contracts. We also have not seen increased costs to maintain city contracts. Vendors and the city have successfully absorbed the cost of the living wage ordinance. There has been no adverse financial impact on the city. The living wage ordinance has been good for Boston."

Endnotes

1. Are negotiated contract costs an accurate benchmark of the real costs of procuring services? Bidders may submit artificially low bids to win contracts, only to renegotiate more favorable terms after a contract is awarded. One analyst has labeled this the "hold-up" phenomenon (Hirsch 1991). If such a practice is common, our analysis will understate the true costs of living wage laws.

Interviews with officials in all three cities revealed no evidence that renegotiation is occurring. For example, Diane Collins, who oversees the living wage for the Boston Public Library, held that library staff members invest time up front to ensure that bids describe the work accurately, and that vendors cannot renegotiate the terms of their contract. According to Collins, one director told a vendor "that if they wanted to go that route, the library would exercise their right to void the contract and re-award it 30 days later to another firm." New Haven controller Mark Pietrosimone recounted a similar incident in which the city rebid a cleaning contract after the firm tried to renegotiate it.

2. For details of the first Baltimore study, see Weisbrot and Sforza-Roderick (1996), and for details on the second, see Niedt et al. (1999).

3. For the 13-city review, see Elmore (2003). For details on Corvallis, Ore., see Brewer (2001).

4. This quote comes from Sclar (2000). Multnomah County data come from Facilities and Property Management Division (n.d.). For more on relational contracting, see Sclar (op. cit.).

5. These quotes are drawn from Elmore (2003).

6. The quotes on the Corvallis experience come from Brewer (2001), while those on Hayward come from Finance Director's Office (2000).

7. The contracts that were effectively exempt from Boston's law fell into a category known as "requirement contracts." These are contracts for services that may be performed if the city has a need for them (e.g. auto glass repair, locksmith services, and plumbing and electrical repair). Living wage requirements are only applied should the city make use of more than $100,000 of these services, a phenomenon that we found rarely, if ever, occurs.

8. As noted, Boston dramatically expanded its living wage ordinance in September 2001, raising the wage floor to $10.25 per hour, lowering contract thresholds to $25,000, and lowering the full-time-equivalent threshold to 25 employees for nonprofits. Because of the long process of phasing in these new provisions, we restricted our analysis to contracts covered under the original provisions of the law.

9. See Brenner et al. (2002) for a discussion of how often cities apply living wage laws to recipients of economic development assistance.

10. Elmore (2003).

11. Some contracts are annual while others span multiple years, so we calculated the annual costs for each. Like most cities, Boston, Hartford, and New Haven implemented the living wage law gradually as contracts expired and were rebid or renewed. To account for this phasing in, we compared a contract from the cycle before the living wage took effect to the one negotiated during the ensuing cycle. Where the scope of services clearly changed over time, we adjusted contract values accordingly.

12 Without additional information on the actual overhead costs of the winning contractor, we could not evaluate whether its profit margins actually rose or fell after living wage implementation.

13. One exception was New Haven's nutrition programs for children, where costs declined even though the city bids the contracts on a unit-cost basis. That result probably reflected the high proportion of non-labor costs involved in preparing meals compared with other services bid on a unit-cost basis.

14. Of course, consolidating contracts will not be practical for many services. See Pollin et al. (1999) for a more detailed discussion.

Chapter 3

The Impact of Living Wage Laws on Firms

Most studies of living wage laws—both proposed and enacted—find that they affect a very small number of firms. Such studies also find that the overall costs to firms covered by such mandates are low, averaging between 1 and 2 percent of total operating costs or sales.[1] However, these estimates are averages for all firms covered by living wage laws. The costs to firms in low-wage industries such as food service, janitorial services, parking lot maintenance, and security services are often much higher. How do firms—particularly these low-wage firms—adjust to higher costs?

Some economists maintain that firms respond by laying off workers, and that living wage laws thus worsen prospects for low-wage workers. However, recent research on the minimum wage shows that average firm employment does not drop after the minimum wage rises, even in high-impact industries such as fast food, and that the employment prospects of individual low-wage workers do not worsen. Some analysts have even found a positive relationship between minimum wages and the number of jobs available to low-wage workers. Other studies suggest that lower turnover—and hence lower recruitment and training costs—may offset higher labor costs for firms.[2]

Recent empirical evidence suggests that firms have indeed relied on adjustment mechanisms other than layoffs—particularly raising prices—in the face of higher minimum wages.[3] In light of this evidence, studies of proposed living wage ordinances have predicted that firms can absorb higher costs—even on the order of 10 percent—through some combination of price increases, higher productivity, and lower profits.

Have firms actually taken such steps in the face of living wage mandates? To investigate that question—and to better understand the kinds of firms affected by a living wage law—we conducted an in-depth telephone survey of the 140 vendors holding 212 service contracts covered by Boston's law in fall of 2001 (*Table 3.1*).[4] Among our three cities, Boston offers the

TABLE 3.1 – Number and Value of Contracts Covered by the Boston Living Wage Law, September 2001

City service contracts and contract value, by sector

Type of service	Number of contracts	Percent of total	Total value of contracts (millions)
Education and training services	54	26%	$22
Repair and construction	39	18%	$113
Assisted living/supportive housing	33	16%	$20
Special education services	31	15%	$40
Engineering/architecture/other consulting	27	13%	$22
Childcare	16	8%	$30
Computer consulting	7	3%	$3.3
Trash/janitorial/security	5	2%	$3.5
Total	212	100%	$253

Number of covered firms and survey responses, by sector

Type of service	Number of covered firms in sector	Percent of all firms	Number of firms surveyed	Percent of firms surveyed
Education and training services	24	17%	12	17%
Repair and construction	34	24%	13	18%
Assisted living/supportive housing	7	5%	4	6%
Special education services	27	19%	16	22%
Engineering/architecture/other consulting	20	14%	11	15%
Childcare	7	5%	3	4%
Computer consulting	7	5%	4	6%
Trash/janitorial/security	4	3%	2	3%
Multi-service contractor	10	7%	7	10%
Total	140	100%	72	100%

Source: Authors' tabulation of city records and survey responses.

best conditions for such an analysis because its living wage mandate covers numerous contracts and subcontracts, including those of nonprofits, which often pay low wages.

We conducted our survey three years after Boston implemented its living wage ordinance, when the living wage was $9.11. As mentioned, Boston dramatically expanded its living wage ordinance in September 2001, raising the wage floor to $10.25 per hour, lowering the contract threshold for coverage to $25,000, and lowering the threshold for the number of full-time-

equivalent employees to 25 for nonprofits. However, these changes did not go into widespread use until July 2002, so we evaluated only contractors covered under the earlier terms of the law.

After developing an overall profile of firms covered by the law, we investigated whether firms responded to higher labor costs by reducing the overall number of jobs,or increasing the number of part-time jobs,as predicted by standard models of the labor market. In contrast to such theoretical predictions, we found that firms forced to raise wages actually significantly expanded the number of staff assigned to their city contracts, and did not turn to part-time instead of full-time jobs to absorb higher labor costs. We also found little evidence that firms raised prices—to the city or other customers—to accommodate higher labor costs. Nor did they take other steps, such as cutting turnover, raising productivity, or substituting higher-skilled workers or equipment for their low-wage workforce. The one clear move a significant number of affected firms pursued was to accept lower profits.

"We found no evidence that firms lowered employment levels to adjust to higher labor costs.

How We Conducted Our Survey

We initiated our survey by mailing a copy of a questionnaire to a contact person at each firm, along with a cover letter and a letter from the head of Boston's Living Wage Division. (See Appendix 3 for the questionnaire.) We then called the contact person to determine who could best respond to the survey, and to establish a date and time for the interview. Overall, human resource directors were most likely to answer our questionnaire, but several individuals within a given firm often provided responses to different parts of the survey. For example, the finance director often answered questions on revenues and expenditures, while the human resource director responded to workforce-related questions.

We continued to contact each firm until we obtained an interview—which typically lasted between 20 to 30 minutes—or until the firm declined to participate. Our survey produced 72 valid interviews, a 51 percent response rate. Participating firms held $101 million in city service contracts, or some 40 percent of the value of all contracts covered under the living wage law (*Table 3.1*). Our respondents closely mirror the profile of all covered firms, although our sample includes a smaller percentage from the repair and construction sector than in the overall profile. (That sector accounts for 24 percent of all covered firms but only 18 percent of our sample.)

Because, unlike most cities, Boston's living wage law includes nonprofits, a full 63 percent of the contracts covered by the ordinance involved human services. Those contracts accounted

for 44 percent of the total value of all covered contracts.[5] In most other cities, private, for-profit services such as janitorial and security guard services account for a much larger share of covered services.

This has two important implications for our study. On the one hand, a large number of low-wage workers probably received raises as a result of Boston's living wage law, since human service employees are among the most poorly remunerated in the services sector.[6] However, the high concentration of nonprofits also makes it more difficult to anticipate the behavior of firms, since nonprofits may well respond differently than for-profit firms to higher wage mandates. Although few analysts have investigated how nonprofit human service agencies respond to mandates such as living wage laws, those that have done so suggest that nonprofits—in particular, those in the hospital industry—may try to maintain employment levels even in situations where their for-profit counterparts would not.[7]

A Profile of Boston's Covered Firms

Because we know comparatively little about the firms covered by living wage ordinances, we first used the results of our survey to create an overall profile of the firms covered by Boston's law. We found that those firms are relatively large, averaging 203 employees. (Some 63 percent reported more than 50 employees, and over a quarter reported more than 250) (*Table 3.2.*) Some 80 percent of these employees are non-managerial, and 16 percent work part time. The firms in our survey are substantial enterprises, averaging $105 million a year in revenue. (Four-fifths reported revenues greater than $1 million; nearly two-thirds had revenues greater than $5 million; and close to a third reported revenues in excess of $15 million.)

Despite their significant revenues, we found that many firms covered by Boston's living wage ordinance pay comparatively low wages. Nearly 20 percent of employees in covered firms earned less than $11.75 an hour (about $24,000 a year for a full-time employee) and a third earned less than $14.25 an hour (about $30,000 a year for a full-time employee). For comparison, one recent study estimated that in 2001 a one-parent, two-child family in Boston needed at least $38,000 to maintain a basic living standard, which meant that a wage earner working full-time needed to make $13.60 per hour.[8] These firms may compensate their workforce in other ways: 94 percent offered both individual and family health plans, for example. However, as we discuss in Chapter 4, many workers can't necessarily afford these plans.

Despite the fact that a substantial percentage of employees received low wages, we found that the impact of the living wage law on firms' costs was relatively modest. That's because low-wage labor accounted for a relatively small share of these firms' total costs. For example, work-

TABLE 3.2 – Characteristics of Firms Covered by Boston's Living Wage Law, 2001

Employment, hours, and wages *(number of firms=72)*	
Employees	203
Part-time employees	16%
Non-managerial employees	80%
Employees earning < $14.25	33%
Employees earning < $11.75	18%
Monthly turnover among non-managerial employees*	3.4%
Unscheduled absenteeism (days per employee per year)**	4.6
Revenues and costs *(number of firms=51)*	
Average revenue per firm (millions)	$105
Firms with revenue less than $500,000	10%
Firms with revenue less than $1 million	14%
Firms with revenue greater than $5 million	61%
Firms with revenue greater than $15 million	29%
Labor costs as a share of total costs	63%
Other firm attributes *(number of firms=72)*	
Firms that are nonprofits	47%
Firms offering benefits	94%
Firms that are franchises or branches	38%
Firms reporting some unionized employees	13%

Source: Authors' calculations.
* Only 67 firms reported valid data on turnover.
** Only 44 firms reported valid data on absenteeism.

ers earning less than $11.75 accounted for 9 percent of the average firm's total costs, while workers earning less than $14.25 accounted for 17 percent.[9] (For the median firm, workers earning less than $11.75 accounted for 2 percent of total costs, while those earning less than $14.25 accounted for 9 percent of total costs.) Overall, we found that labor costs accounted for an average of 63 percent of the total costs of these contractors (or a median of 69 percent).

One phenomenon often associated with low-wage work is high employee turnover and absenteeism. How prevalent are these problems among all our firms? We found that monthly turnover averaged 3.4 percent for non-managerial employees—slightly above the national rate of 3.3 percent, and slightly below the national rate of 3.5 percent for the service sector.[10] These figures correspond to an annual average of 41 percent. Our firms reported an average of 4.6 sick days per employee per year, translating into 805 days per firm.

To understand the impact of turnover and absenteeism, we asked firms to estimate the total cost—including separation, search, and training—of replacing their lowest-paid workers. The 43 responding firms reported a median of $2,500 and an average of $9,297 per new hire, with the former representing about 3 percent of the firm's wage bill for workers earning less than $11.75. These figures do not account for productivity lost while new workers become proficient at their job, which can account for as much as 60 percent of total turnover costs, even in low-wage industries.[11] Even if we account for lost productivity, however, it is not clear that these costs are substantial for most firms covered by the Boston law.

The firms in our survey reported a total of 14,606 employees, with 2,771 working on city service contracts (*Table 3.3*). Although city contract workers represent about 20 percent of all workers in covered firms, for the average firm about 31 percent of their workforce is involved in city contracting.[12]

Service contractors in Boston reported substantial continuity in working with the city: some 72 percent had held the same contract before the adoption of the living wage law. However, 12 percent said they did not immediately comply with the law when it first applied to their contracts. Nonprofits disproportionately accounted for these delays, particularly those working in assisted living and supportive housing, and those with contracts for more than one service. One very important finding from our survey is that the living wage law forced nearly a quarter of covered firms to raise wages to comply. Although we did not directly query firms as to how many workers received raises as a result of the law, our estimates indicate that as many as 2,000 current employees did. (See Appendix 4 for more detail.)

Comparing Firms That Raised Wages and Those That Did Not

We now have a picture of the firms covered by Boston's living wage law. However, our main goal is to determine how firms forced to raise wages under the law dealt with rising costs. To do this, we want to compare their experience with that of firms not forced to raise wages. Concretely, that means we need to compare changes experienced by these two groups of firms between 1998 and 2001 on a number of counts. In so doing, we attribute any differences in how the two groups reacted to the impact of the law.[13]

The fact that we conducted our survey nearly three years after the living wage law took effect raises the risk that any changes in these two groups over time may reflect other influences. However, this time lag also better enables us to uncover firms' long-term adjustments to Boston's living wage law, including approaches such as reorganizing workplaces and adopting new technologies. Because 10 percent of our firms reported delays in raising pay to comply

TABLE 3.3 – The Scope of Living Wage Coverage in Boston, 2001

Total number of employees of firms participating in our survey	14,606
Estimated number of employees in all firms covered by Boston's living wage law	26,440
Number of employees working on city contracts among firms in our survey	2,771
Estimated number of employees working on city contracts among all covered firms	5,177
Average percentage of employees working on covered contracts among firms in our survey	31%
Firms in the survey that delayed implementing the living wage*	12%
Firms in the survey with the same contract before the living wage law**	72%
Firms in the survey that raised wages to comply with the living wage law***	23%

Source: Author's calculations.
* Number of firms=60.
** Number of firms=62.
***Number of firms=66.

with the law, our time horizon also ensures that we have not missed any adjustments that occurred because of a lag in implementation.

To see if unaffected firms would provide a good control group for our study, we compared them to the affected firms on a couple of fundamental characteristics. We found that firms that raised wages were roughly the same size as firms that did not, with both employing roughly 200 people at the time of our survey (*Table 3.4*). Both sets of firms were roughly similar in terms of revenues as well, with affected firms reporting median revenues of $8.9 million, versus $6.6 million among unaffected firms.

Not surprisingly, affected and unaffected firms differed in a few key areas related to the living wage. Affected firms were overwhelmingly nonprofit: 80 percent versus just a third of unaffected firms. And, as we would expect, affected firms reported more workers earning near the living wage threshold: an average of 37 percent of their employees earned less than $11.75, versus 12 percent at unaffected firms. Affected firms also averaged significantly higher labor costs as a share of total costs: 73 percent, versus 60 percent for unaffected firms. Affected firms

TABLE 3.4 – Comparing Firms That Raised Wages to Comply with Boston's Living Wage Law with Firms That Did Not

	Raised wages	Did not raise wages
Employment and wages	*Number of firms=15*	*Number of firms=51*
Average number of employees	206	193
Average percentage of employees earning < $11.75	37%	12% §§
Average monthly turnover among non-managerial employees*	7.4%	2.6% §§
Average unscheduled absenteeism (days per employee per year)**	5.5	4.2
Revenues and costs	*Number of firms=12*	*Number of firms=36*
Median revenue per firm (millions)	$8.9	$6.6
Revenue < $1 million 17%	14%	
Revenue > $5 million 67%	56%	
Labor costs as a share of total costs	73%	60% §
Other firm attributes	*Number of firms=15*	*Number of firms=51*
Nonprofit	80%	33% §§
Offers benefits	93%	98%
Unionized	20%	10%

Source: Authors' calculations.
* Only 62 firms reported valid data on turnover, including 14 that raised wages and 48 that did not.
** Only 44 firms reported valid data on absenteeism, including 10 that raised wages and 33 that did not.
§ Indicates a statistically significant difference between the averages for firms that raised wages and those that did not, at a 95 percent confidence level.
§§ Indicates a statistically significant difference, at a 99 percent confidence level.

also had a much higher turnover rate among non-managerial employees—7.4 percent a month—compared with unaffected firms, which had a turnover rate of 2.6 percent a month. We found that firms that raised wages to comply with the Boston law varied dramatically by type of service even within the nonprofit human services sector (*Table 3.5*). The largest concentration of affected firms occurred in special education, where 57 percent of all firms reported raising wages. A third of childcare firms raised wages, as did over a quarter of firms in education and training. None of the assisted living/supportive housing firms, in contrast, reported raising wages.

TABLE 3.5 – Firms That Raised Wages under Boston's Living Wage Law, by Type of Service

Type of service	Percentage
Education and training services	27%
Repair and construction	8%
Assisted living/supportive housing	0%
Special education services	57%
Engineering/architecture/other consulting	9%
Childcare	33%
Computer consulting	0%
Trash/janitorial/security	0%
Multi-service contractor	17%
All firms	23%

Source: Authors' survey of affected firms.

How the Two Groups Reacted to the Living Wage Law

Did firms that raised wages and firms that did not react to the living wage law differently? For example, perhaps the former shrank in size to cope with higher labor costs, or grew at a slower pace than they otherwise would have. Perhaps they reduced the number of hours worked by their staff, or substituted more part-time employees. Perhaps they coped with higher labor costs by hiring more experienced or more skilled workers at the higher wages. These are all possible methods of adjustment. But did firms in fact rely on those or other adjustment channels in the face of higher wages?

We did find evidence that employment grew more quickly among unaffected firms than among affected firms between 1998 and 2001 (*Table 3.6*). Among the former it grew by an average of 17 percent (from roughly 156 to 183 employees), while among the latter it grew 11 percent (from 183 to 203).[14] Although the difference between the two groups is not statistically significant, we can't dismiss this finding entirely. (For example, it is possible that the relatively small size of our sample has limited the power of our statistical test.)

However, these figures do not account for changes in the number of full-time versus part-time employees. Did affected firms react to higher costs under the living wage law by reducing the number of full-time employees? Upon examination, we did not find that to be the case. In fact, we found nearly identical trends for affected and unaffected firms. The number of full-time jobs at affected firms actually *rose* by an average of 13 percent (from 166 to 188), while the

Table 3.6 – Comparing Firms That Did and Did Not Raise Wages, Before and After the Living Wage Law

	Raised wages			Did not raise wages		
Variable	1998	2001	Difference	1998	2001	Difference
Number of employees	183	203	21	156	183	27
Number of full-time-equivalent employees	166	188	22	152	175	22
Percentage part-time employees	34%	23%	-11	11%	10%	-0.9 §
Number of employees working on city contracts covered by the living wage*	69	87	18	15	15	-0.2 §§
Percentage of employees earning < $9.25	23%	4%	-19	3.4%	2.6%	-0.8 §§
Percentage of employees earning < $11.75	41%	41%	0	11%	12%	1.0
Average monthly turnover rate** (percentage of non-supervisory employees)	4.8%	5.6%	0.8%	3.6%	1.6%	2.0%
Average annual absenteeism rate*** (days per employee per year)	5.3	5.7	0.4	4.4	4.2	-0.2

Source: Authors' survey of affected firms. The number of firms=51.
* Only 36 firms reported valid information on the number of contract workers in both years, including 10 firms that raised wages and 26 that did not.
** Only 43 firms reported valid data on turnover in both years, including 10 that raised wages and 33 that did not.
*** Only 36 firms reported valid data on absenteeism in both years, including 9 that raised wages and 27 that did not.
§ 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.
§§ Indicates a statistically significant difference in the trend from 1998 to 2001 between firms that raised wages and those that did not, at a 99 percent confidence level.

number of such jobs similarly rose 14 percent among unaffected firms (from 153 to 175). What's more, the average number of part-time staff actually declined substantially among affected firms —from 34 to 23 percent—versus a much more modest decline among unaffected firms, from 11 to 10 percent.[15] These findings are striking, because they reveal that affected firms did not respond to higher wages by laying off staff, cutting hours, or shifting to more part-time employees. Quite the opposite – there was growth in overall employment and a shift away from part-time to full-time staff.

How else might firms have adjusted to higher wages? Rather than reducing the overall number of jobs or employees' hours in response to higher wage mandates, could firms have responded by cutting the number of employees working on city contracts while expanding the number of employees performing other work? Again, we did not find that to be the case: the number of employees working on covered contracts grew much faster among firms forced to raise wages

than among firms not forced to raise wages. The average number of contract workers at affected firms rose from 70 in 1998 to roughly 87 in 2001; at unaffected firms the number remained relatively stable at 15. (This difference is also highly statistically significant.) We found virtually identical results when we analyzed changes in the number of contract jobs on a full-time-equivalent basis, and changes in the percentage of contract workers.

Perhaps the living wage law raised wages for only a marginal number of workers at affected firms. As one of us has noted in related work, many localities do not implement or enforce living wage ordinances effectively.[16] If we find little direct evidence that firms raised wages in response to the living wage law, that may explain why we failed to detect any negative effects on employment or hours, and instead found an increase in firms' use of full-time staff.

*"Affected firms **did not** respond to higher wages by laying off staff, cutting hours, or shifting to more part-time employees.*

The evidence, however, does not support that proposition. Affected firms saw a substantial decline—from 23 percent in 1998 to 4 percent in 2001—in the proportion of workers earning below $9.25. Firms unaffected by the law, in contrast, reported a decline of less than 1 percentage point.[17] The proportion of workers earning less than $11.75 did not change for either group of firms. That implies that affected firms saw a substantial degree of wage compression: that is, the number of workers earning mid-range wages grew from 1998 to 2001. This is important evidence that firms raised wages for a substantial number of workers, and that the living wage ordinance was effectively enforced.

If firms did not reduce the number of employees or the hours worked in the face of higher wages, what other avenues could they have pursued to adjust to Boston's living wage mandate? One possibility is that firms offset higher direct labor costs by trying to reduce turnover and absenteeism, which are essentially indirect costs to firms. Examining the evidence, however, we found that average turnover and absenteeism actually rose among firms forced to raise wages, while firms unaffected by the law saw a sharp drop in turnover and a more modest reduction in absenteeism. This seemingly contradictory finding is most likely the result of Boston's extraordinarily low unemployment rate between 1998 and 2001, which averaged less than 3 percent for the entire period. This tight labor market (coupled with the substantial increases in the state minimum wage over this period) may have actually made alternative employment more attractive for some covered employees. At a minimum, it significantly reduced the cost of finding (and perhaps taking) a new job.

What other methods could firms have used to adjust to higher wage costs? Perhaps higher wages boosted productivity by spurring greater worker effort, thereby enabling firms to absorb

TABLE 3.7 – How Firms Reported Adjusting to Boston's Living Wage Law

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%
Changed hiring standards	0%
Changed hiring methods	27%
Changed production techniques	0%

Source: Authors' survey of affected firms.
Note: This information is based on reports from 13 firms.

these higher costs. There is solid empirical evidence that such effects exist, although analysts disagree on whether greater employee effort results from positive forces, such as higher morale, or negative ones, such as fear of losing a higher-paying job.[18] A quarter of affected firms reported that employee effort and morale had improved somewhat or significantly under the living wage law (*Table 3.7*). Although we have no way of assessing whether this greater effort and higher morale translated into higher productivity, such impacts are unlikely given the modest number of firms reporting such improvements.

Another alternative to lowering employment or hours among firms with rising labor costs is raising prices. This adjustment method seems to explain a lack of job losses in the fast food industry after increases in federal and state minimum wage levels. According to one study of the fast food industry, "Pretax prices rose 4 percent faster as a result of the minimum-wage increase in New Jersey—slightly more than the increase required to fully cover the cost increase caused by the minimum-wage hike." Another study similarly found that restaurant prices in the United States and Canada generally rise with changes in the wage bill, and that these changes typically occur in the first quarter after a minimum wage increase.[19]

However, in Boston only 15 percent of our affected firms reported raising the prices they bid for city contracts after the living wage took effect, and only 8 percent reported raising prices for other customers. This evidence is consistent with our finding that overall contract costs did not rise after living wage implementation in Boston (see Chapter 2). One explanation for the

scant evidence of higher bid prices in the wake of higher labor costs is the fact that funding for many of Boston's covered contractors ultimately comes from state and federal sources. Because many state and federal programs set reimbursement rates associated with their programs, firms cannot pass costs through to the city. This situation is particularly true for nonprofit human service providers.

> *"Rather than passing on higher costs, firms may be lowering profits to adjust to the law.*

Rather than passing on higher costs, firms may be lowering profits to adjust to the law.[20] And indeed, 39 percent of affected firms reported doing so. This suggests that firms may have been maintaining high profit margins—or, in the case of nonprofits, large operating surpluses—before the living wage law took effect. Such a situation is not uncommon with government contracting, where markets are often thin or otherwise uncompetitive. However, analysts do not typically attribute such behavior to the types of nonprofit social service agencies covered by Boston's living wage law. [21]

If substantial operating surpluses are indeed prevalent among nonprofit government contractors, these firms may have greater incentive than their for-profit counterparts to lower such surpluses in the face of higher wages. That's because nonprofit status—while conferring many advantages to firms—also comes with legal restrictions on the use of operating surpluses. More research is needed to fully understand whether many nonprofits do, in fact, reap operating surpluses, and whether they have more incentive than for-profit firms to lower those surpluses in the face of higher wages.

Another possibility is that firms may have responded to higher wage mandates by replacing existing workers with more educated or otherwise more skilled employees. Such an outcome would not necessarily lead to changes in employment or hours, but it could limit or erase any benefits to low-wage workers. However, no firms in our study reported changing hiring standards after the passage of Boston's living wage law.

A related concern is that firms might also change their methods of hiring in the wake of living wage implementation, and that these changes might undercut poor workers. And we did indeed find that more than a quarter of affected firms reported changing their methods of hiring. Investigating further, however, we uncovered two types of adjustments. Firms expanded their use of city-sponsored referral centers, as mandated by the living wage law, and they also increased their use of the internet to advertise jobs. The former may enlarge the pool of job applicants from disadvantaged neighborhoods, while the latter is likely to undercut the chances of job seekers without regular internet access.

A final option for firms in adjusting to higher wages is to change production techniques, either reorganizing the way work is performed or substituting machinery or equipment in an attempt to minimize the use of (now more expensive) labor. One example might be to eliminate security personnel in a multilevel parking garage by installing remote security cameras. Another would be to shift to responsibility-sharing teams as a way to reduce the number of people involved in cleaning an office building. However, we found that no firms reported changes in their production techniques after the living wage law took effect. Boston contractors do not seem to have displaced low-wage labor with machines and other equipment, or reduced employment with other types of work reorganization.

On balance, our study confirms other research showing that living wage laws affect a minority of firms. Yet we did find that the law exerted a significant effect on the pay of low-wage workers. While unaffected firms saw virtually no changes in the proportion of workers earning less than $9.25, affected firms reported a drop from nearly 25 percent to less than 5 percent in the number of such workers.

In summary, firms did not respond to the Boston living wage ordinance—and its higher wage mandates—by reducing employment or hours. Indeed, firms who were forced to raise wages actually significantly expanded the number of staff assigned to their city contracts compared with firms that did not have to raise wages. Nor did affected firms raise prices—to the city or other customers—to accommodate higher labor costs.

In the absence of changes in jobs or hours, firms might have lowered the indirect costs linked to turnover and absenteeism to offset higher labor costs. However, turnover and absenteeism actually rose among affected firms, while unaffected firms saw a substantial decline. Employee effort and morale rose somewhat at affected firms, but those forces alone were not enough to offset rising labor costs. We also found little evidence that firms adjusted to living wage mandates by substituting higher-skilled workers or equipment for their low-wage workforce. The one clear move a large number of affected firms made was to accept lower profits.

Endnotes

1. For a review of the living wage literature, see Brenner (2004).

2. Studies that fail to find employment declines following an increase in the minimum wage include Katz and Krueger (1992); Spriggs (1993); Card and Krueger (1994; 1995; and 2000); and Zavody (2000). For labor market models that admit the possibility of a positive relationship between a higher wage floor and employment, see Bhaksar, Manning, and To (2002) and Manning (2003). For examples of how lower costs associated with turnover and absenteeism may offset a higher wage floor, see Akerlof and Yellin (1986) and Stiglitz (1987). These ideas reflect those of economists writing earlier in the twentieth century, such as Clark Kerr, Richard Lester, Lloyd Reynolds, and Sumner Slichter.

3. See the discussion of price adjustments in Card and Krueger (1995, Chapter 2) and Aaronson (2001).

4. In most cases we collected information at the establishment level. However, several multi-establishment contractors reported data for operations covered by the law on a consolidated basis. Thus our unit of analysis is more accurately the firm, not the establishment. Of course, our information does not represent the national operations of large companies.

5. We include educational and training services as well as special education, assisted living, supportive housing, and childcare in the human services category, because all fall under the purview of "caring labor." See Folbre (1995; 2001) for a more detailed treatment of caring labor.

6. Indeed, the relatively low pay of human service providers in Massachusetts prompted advocates to introduce a statewide living wage bill for human service workers in 2000, which would have required providers to pay a wage of $12.89 to employees working on state contracts.

7. For a review of the theoretical and analytical issues separating the behavior of nonprofit and for-profit firms, see Glaeser (2003); Malani, Philipson, and David (2003); and Hansmann, Kessler, and McClellan (2003).

8. Boushey et al. (2001). Annual figures are based on 2,080 hours of work per year.

9. In Santa Monica, by contrast, Pollin and Brenner (2000) estimated that labor costs for workers earning less than $10.75 accounted for close to 17 percent of revenues of firms potentially affected by a proposed living wage ordinance. Had the city implemented its law, those low-wage labor costs would have risen to more than 23 percent of total revenue. Note that we estimated low-wage labor costs based on the approach used in Pollin, Brenner, and Luce (2002).

10. We relied on data from the Bureau of Labor Statistics to calculate this rate because they correspond most closely to our survey question: "In the last month, how many non-managerial employees have quit, been discharged, or laid-off?" To calculate the turnover rate, we divided a firm's response by the number of non-managerial employees.

11. For more on the costs associated with employee turnover, see Hinkin and Tracey (2000).

12. In this approach, we averaged the ratios of such workers at each firm, rather than calculating the percentage of all city contract workers among all firms.

13. Because we are using firms unaffected by the living wage mandate as a control group, our study closely parallels Katz and Krueger's (1992) analysis of the impact of a minimum wage increase in Texas.

14. The first increase was only weakly statistically significant, likely because of the relatively small number of firms, while the second increase was statistically significant.

15. The difference between the two is highly statistically significant. To test the robustness of this finding, we limited our analysis to human service firms reporting valid information for both years. While the reduced sample sizes drastically limit the power of the statistical tests, the resulting patterns for employment, full-time-equivalent employment, and hours are broadly similar to those for the complete sample.

16. See Luce (2004).

17. The difference between the two groups is statistically significant.

18. See Cappelli and Chauvin (1991); Levine (1992); and Campbell (1993).

19. See Card and Krueger (1995) and Aaronson (2001).

20. In the context of our survey, nonprofit respondents used "profits" as a shorthand for operating surpluses. It is therefore important to note that nonprofits differ from for-profit entities not in their ability to accrue such surpluses, but merely in the ways they are allowed to distribute them.

21. For more on the dynamics of government contracting, in particular the character of nonprofit contracting, see Boyne (1998); Steel and Long (1998); Sclar (2000); Milward and Provan (2000); and Van Slyke (2003).

Chapter 4

The Impact of Boston's Living Wage Law on Workers

Proponents of living wage laws contend that they can be an effective mechanism for improving the living standards of low-wage workers. Do employees covered by these laws in fact experience such benefits?

Studies of proposed living wage ordinances show that potential beneficiaries are likely to be overwhelmingly adults supporting at least one family member and living below or slightly above a realistically defined poverty level.[1] Far fewer studies have examined the impact on workers after living wage ordinances have actually been implemented. Notable exceptions are an analysis of workers at San Francisco International Airport, and of home care workers in San Francisco County. Both these studies shed light on the job tenure and earnings of living wage beneficiaries, finding marked reductions in turnover and (unsurprisingly) substantial wage gains for workers covered by the living wage vis-à-vis their counterparts not covered by the law. But neither study examines the family situation of covered workers, in particular whether living wage ordinances help lift families out of poverty.[2]

To shed light on these unanswered questions, we conducted an in-depth telephone survey between November 2001 and May 2002 of workers covered by Boston's living wage law. Our findings mirror prior research showing that workers covered by living wage ordinances—particularly those likely to receive mandated raises—are overwhelmingly adults well into their working lives. In Boston, living wage beneficiaries are also primarily women and people of color. The high incidence of poverty among these workers before implementation of the living wage law attests that it is well targeted to the working poor. We found significant wage gains among covered workers after the law took effect, while the incidence of poverty fell sharply. However, close to a third of these workers remained poor even after the law took effect—if we define poverty realistically and take into account Boston's high cost of living. Not surprisingly, therefore, we found that the living wage level was generally not sufficient to lift covered workers and their families up to a still-modest but more substantial living standard that allows them to fulfill basic needs.

Defining a Poverty Threshold

Before weighing the impact of the living wage law on low-wage workers in Boston, we first needed to determine an adequate standard of living for the metropolitan area. The starting point for any such analysis is the federal poverty line. For almost four decades the U.S. government has defined and measured poverty using the pioneering methods developed by Mollie Orshansky, an economist at the Social Security Administration, in the early 1960's. Orshansky based the absolute poverty threshold on the cost of the U.S. Department of Agriculture's "economy food plan," which in turn drew from the USDA's 1955 survey of household food consumption. The economy food plan, which provided a nutritious but monotonous diet, was designed for "temporary or emergency use when funds are low."[3]

"In Boston, we concluded that a reasonable upward adjustment of the official poverty line is 60 percent.

After calculating the proportion of after-tax expenditures the average family dedicated to food (33 percent), Orshansky multiplied the cost of an economy food plan by three to derive poverty thresholds for a variety of family types. The government initially adjusted these thresholds according to the annual cost of the economy food plan, but in 1969 began basing them on the Consumer Price Index. This method for establishing poverty thresholds has remained largely unchanged ever since.

Many analysts now question the accuracy of this approach to measuring poverty, given dramatic structural changes in the U.S. economy and demographic shifts in the population. For example, a panel convened by the National Research Council (NRC) in 1995 concluded that the measure no longer "provides an accurate picture of the differences in the extent of economic poverty among population groups or geographic areas of the county, nor an accurate picture of trends over time."[4] After examining six detailed studies that suggested raising the poverty threshold 24 to 53 percent, the panel recommended raising the poverty threshold 14 to 33 percent, citing concern about large regional variations in housing and medical costs, inadequate measures of childcare costs, and rising living standards.[5] Although the Census Bureau has incorporated these recommendations into experimental measures of poverty, the government has not revamped its official approach to measuring poverty.

Based on this body of research, we concluded that a reasonable upward adjustment of the official poverty line is 34 percent—the mid-point among all the estimates examined in the NRC's report. However, such an upward revision does not address dramatic regional differences in the cost of living. Such differences are as important for low-wage workers as for those higher up the wage ladder.

TABLE 4.1 – Cost of Living Indexes for Boston (U.S. average=100)

	Index
Bureau of Labor Statistics Experimental Interarea Index, 1989	122
Bureau of Labor Statistics Experimental Index for Shelter, 1995	114
National Research Council Housing Index, 1990	121
American Chamber of Commerce Research Association Cost of Living Index, 3rd Quarter 2002	136

Source: David S. Johnson, John M. Rogers, and Lucilla Tan (2001), "A Century of Family Budgets in the United States," *Monthly Labor Review* 124: 5, Table 8. ACCRA index reported at www.accra.org.

We drew on four sources to estimate a regional cost-of-living adjustment for Boston: two from the Bureau of Labor Statistics, one developed by the NRC panel, and one created by the American Chamber of Commerce Research Association for 300 cities.[6] These measures show that Boston's cost of living is 14 to 36 percent higher than the national average, with a mid-point of 25 percent (*Table 4.1*). Combining that increase with the 34 percent upward revision of the federal poverty level, we concluded that the poverty threshold for the Boston area should be some 160 percent of the federal measure. Given that price inflation in Boston continues to outpace the national average, that estimate is conservative.[7]

While such an approach establishes an appropriate measure of poverty in Boston, the term "living wage" suggests a higher standard. When the concept first gained widespread use at the onset of U.S. industrialization in the 1870s, a broad consensus held that a living wage should provide "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."[8]

Two measures come close to capturing this historic meaning of a living wage. The first—the "self-sufficiency standard"—was created in 1998 by the Massachusetts Women's Educational and Industrial Union (WEIU), in conjunction with Wider Opportunities for Women (WOW). The second measure—the "basic family budget"—comes from research on the cost of living conducted by the Economic Policy Institute (EPI).[9] Both the EPI and WEIU / WOW thresholds are substantially above not only the federal poverty line (which we believe

TABLE 4.2 – Living Standard Thresholds for Boston, 2001

	Family type *1 adult, 2 children*	Family type *2 adults, 2 children*
Severe poverty(official poverty line)		
Annual income	$14,270	$17,960
Hourly wage rate for full-time job	$6.86	$8.63
Poor(160% of official poverty line)		
Annual income	$22,830	$28,740
Hourly wage rate for full-time job	$10.98	$13.82
Near-poor(185% of official poverty line)		
Annual income	$26,400	$33,230
Hourly wage rate for full-time job	$12.69	$15.97
Self-sufficiency standard (Women's Educational and Industrial Union and Wider Opportunities for Women)		
Annual income	$44,700	$48,600
Hourly wage rate for full-time job	$21.49	$11.68
Basic family budget(Economic Policy Institute)		
Annual income	$48,550	$54,190
Hourly wage rate for full-time job	$23.34	$13.03

Source: The official poverty line is from www.census.gov/hhes/poverty/threshld/thresh01.html. The basic family budget is from Boushey et al. (2001), Tables A4.2 and A4.5. The self-sufficiency standard is from Bacon et al. (2000), Table 1. Calculations of the hourly wage assume one wage earner per family. All figures are in 2001 dollars.

is more accurately described as a measure of severe poverty), but also our adjusted poverty thresholds for Boston (*Table 4.2*). In fact, the EPI family budget for a one adult-two child family is more than three times the official poverty line, and more than double our adjusted poverty threshold.

While substantially above our poverty thresholds, these two measures are not extravagant. Both aim "for a safe and decent standard of living, accounting for major family expenditures related to housing, childcare, food, transportation, health care, other miscellaneous expenses, and taxes."[10] Both also reflect the cost of living "in the regular 'marketplace' without public or private subsidies—such as public housing, food stamps, Medicaid or childcare—or private 'informal' subsidies such as free baby-sitting by a relative or friends."[11] These measures include no savings, even for retirement or education, nor any expense for restaurant meals, movies, or vacations. Both measures also assume that both parents in a two adult-two child family work.[12] (See Appendix 5 for more information on the standards.)

EPI calculated its measure for 6 family types living in 12 regions of Massachusetts, while WEIU/WOW calculated its measure for more than 70 family types in 40 regions of the state. We combined those two standards to establish the outer bounds of a decent yet modest living standard that we call "basic needs." That standard implies a wage of $12–$13 an hour for a family with two wage earners, and $21–$23 an hour for a family with one wage earner—in contrast to the city's living wage of $9.11 at the time of our study. We used the "basic needs" measure—along with 185 percent of the federal poverty line as a measure of near-poverty—to evaluate the impact of Boston's living wage law on the living standards of low-wage workers.[13]

A Profile of Covered Workers in Boston

To develop a profile of workers covered by the law and assess its impact on them, we surveyed 105 individuals employed by covered service contractors, 97 of whom provided usable information. (See Appendix 6 for more information on our survey.) As in many such situations, we could not conduct a random sample of workers covered by the Boston living wage law because a master list of those workers did not exist. We therefore relied instead on a non-random sampling technique, soliciting respondents among workers employed in "high-impact" sectors—those with large concentrations of low-wage workers.[14] Because our firm survey revealed that 93 percent of covered workers who earned less than $11.75 in 2001 worked in childcare, assisted living/supportive housing, education and training, and special education, we solicited respondents from those sectors (*Table 4.3*).[15] An overwhelming majority of these respondents worked in nonprofit organizations.

"Individuals covered by Boston's living wage ordinance were adults well into their working lives. These workers were overwhelmingly women and people of color.

Our respondents sat on the lower rungs of the wage scale among firms covered by the law. Some 70 percent earned between $9.11 (the living wage at the time of our survey) and $12.74, and more than a third made between $9.11 and $10.74 (*Table 4.4*). (One respondent, a teenager, reported an hourly wage of $8.75—the only violation of the law we found.)

This workforce was overwhelmingly female: women composed 80 percent of all respondents, and at least three-quarters of each wage category. The workforce was also overwhelmingly non-white: 64 percent were people of color, with African Americans composing the largest single ethnic group. Race and earnings appeared to be related, as more than 70 percent of workers in two lower wage categories were non-white, while less than 50 percent in two upper wage categories were non-white.

TABLE 4.3 – Surveyed Workers Covered by Boston's Living Wage Law, by Sector

	Firms	Number of surveyed workers	Percent of covered workers at the firms
Childcare	7	40	42%
Assisted living/supportive housing	7	19	20%
Education and training	24	19	20%
Special education	27	16	17%
Trash/janitorial/security	4	2	1%
Other	71	0	0%
Total	140	96*	100

Source: Authors' survey.
Note: Here, unlike in Chapter 3, we do not specify multi-service contractors. Instead we classify firms that provide services in more than one area according to their largest activity.
*One survey respondent did not provide sector information.

Our workers averaged 32 years of age, with the oldest workers concentrated in the lowest-paid jobs. Just 5 percent of our respondents were less than 20 years old, and they, too, fell mostly in the lowest wage category.

Despite the fact that these workers had participated in the workforce for a number of years, their average tenure in their current position was just 3 years. Job tenure varied significantly by wage group, with workers earning between $10.75 and $12.74 averaging 4.1 years, and those earning between $9.11 and $10.74 averaging 1.9 years.

Over a third of our respondents held no more than a high school degree, while more than half reported a two- or four-year college degree, and 11 percent held advanced degrees (*Table 4.5*). This large divergence in education despite relatively narrow differences in earnings is characteristic of the nonprofit social services sector from which the bulk of our respondents were drawn.

These employees were working a substantial number of hours, with those in all wage groups averaging over 40 hours per week (*Table 4.6*). The high proportion of full-time work reflects the fact that these employees often worked for more than one firm, averaging 1.3 jobs. Our respondents also worked during a substantial part of the calendar year, averaging 44 to 49 weeks annually.

These workers averaged $24,402 in earnings, ranging from $18,590 in the lowest wage category to $30,910 in the next-to-highest category. Our respondents reported wages ranging from

TABLE 4.4 – Basic Demographics of Workers Covered by Boston's Living Wage Law

		Hourly wage rate			
	All workers	$9.11–$10.74	$10.75–$12.74	$12.75–$14.74	+$14.75
Number of workers	97	34	33	16	13
Percentage	100%	35%	34%	17%	13%
Average age	32	34	32	31	30
Percentage teenagers	5.2%	4.1%	0%	0%	0%
Average tenure on current job *(years)*	2.9	1.9	4.1	2.4	3.0
Percentage female	79%	77%	82%	75%	85%
Percentage black	40%	47%	46%	25%	31%
Percentage Hispanic	22%	24%	24%	13%	15%
Percentage non-white	64%	71%	72%	44%	46%

Source: Authors' survey.

TABLE 4.5 – Education of Workers Covered by Boston's Living Wage Law

	Number of workers	Percentage
Less than high school	7	7%
High school/GED	29	30%
Two- or four-year college degree	50	52%
Master's degree	11	11%

Source: Authors' survey.

$9.61 to $16.18, averaging $11.90. Differences in hours worked among people in different wage categories exerted a strong effect on their annual earnings. Workers earning between $12.75 and $14.75 an hour, for example, averaged higher earnings than those making more than $14.75 an hour, largely because the former worked 26 percent more hours.

Turning to the demographic characteristics of our sample, we found that the model of the nuclear family does a poor job capturing the living situation of these workers. The majority

TABLE 4.6 – Wages and Earnings of Workers Covered by Boston's Living Wage Law

		Hourly wage rate			
	All workers	$9.11–$10.74	$10.75–$12.74	$12.75–$14.74	+$14.75
Hourly wage					
Average	$11.90	$9.61	$11.83	$13.60	$16.18
Median	$11.60	$9.38	$12.00	$13.46	$15.68
Average hours per week	43	44	42	48	42
Average weeks per year	47	44	49	49	45
Average hours worked last year	2,038	1,918	2,112	2,345	1,863
Average number of jobs	1.3	1.3	1.2	1.4	1.3
Earnings *(2002 dollars)*					
Average	$24,402	$18,590	$25,071	$30,910	$30,008
Median	$23,324	$18,949	$24,960	$28,538	$32,050

Source: Authors' survey.

were single heads of household: 43 percent were single with no children, and another 14 percent reported only one adult in a family that includes children under 18 (*Table 4.7*).[16] Although a majority were supporting only themselves, some 47 percent supported at least one other family member, while some 30 percent live in families with children. We also found that the number of respondents supporting children was very much in line with figures for the city as a whole.

Our respondents reported a wide range of family incomes—from an average of $18,000 for two-adult families without children, to $25,000 among single adults with children, to $39,000 to $49,000 among families with more than one wage earner (*Table 4.7*). These families faced relatively high rates of poverty: 11 percent lived in severe poverty—below the federally defined poverty line—while close to a third fell below an adequate poverty threshold. Nearly 40 percent of these families were near-poor, while half fell below the basic-needs threshold (*Table 4.8*). Our respondents had much lower living standards than similarly situated workers in the Boston-area labor market. (See Appendix 7 for a profile of all low-wage workers in the region.)

TABLE 4.7 – Family Incomes and Dependency Ratios* of Covered Workers in Boston, by Family Type

Family type	Number of families and percent of total	Dependency ratios* (median)	Average income (2001 dollars)	Median income (2001 dollars)
One adult, no children	41 (43%)	1	$24,085	$25,000
One adult, with children	13 (14%)	2	$24,473	$25,033
Two adults, both wage earners, no children	10 (10%)	1	$43,348	$33,898
Two adults, both wage earners, with children	13 (14%)	2	$39,197	$40,000
Two adults, one wage earner, no children	4 (4%)	2	$18,000	$20,250
Two adults, one wage earner, with children	4 (4%)	3.5	$24,410	$18,995
Multiple adults/ wage earners	11 (12%)	1.7	$49,067	$35,000
Total, all family types	97 (100%)	1.5	$30,813	$26,076

Source: Authors' survey.
* The dependency ratio is the number of family members divided by the number of income earners in the family. This measure indicates the number of people a wage earner is supporting with his or her earnings.

What helps explain the low living standards among covered workers? Perhaps the clearest predictor of poverty is a high "dependency ratio"—that is, the number of wage earners in these families divided by the number of people they are supporting (*Table 4.7*). More than half of workers supporting another person lived in families that were poor. (The exception was two-adult families with two wage earners, of which only 31 percent were poor.) This effect becomes even clearer when we divide our respondents into families with and without children. Some 40 percent of respondents with children were poor, 43 percent were near-poor, and a full 79 percent fell below our basic-needs standard. Although respondents without children were more likely to surpass our poverty thresholds, a substantial fraction of these families also lived on relatively modest means: nearly 25 percent were poor, while roughly 38 percent were either near-poor or fell below the basic-needs threshold (*Table 4.8*).

Not surprisingly, we found strong links between lower wages and poverty (*Table 4.9*). For example, the families of 25 percent of individuals earning between $9.11 and $10.74 were severely poor. Half of these families were poor, 69 percent were near-poor, and 68 percent fell below the

TABLE 4.8 – Poverty and Basic-Needs Status of Covered Workers in Boston, by Family Type (percentage of workers in each category falling below each threshold)

Family type	Severe poverty	Poor	Near-poor	Basic needs
One adult, no children *(number of families=41)*	8%	18%	35%	35%
One adult, with children *(number of families=13)*	8%	46%	46%	100%
Two adults, both wage earners, no children *(number of families=11)*	0%	11%	11%	22%
Two adults, both wage earners, with children *(number of families=13)*	8%	31%	31%	44%
Two adults, 1 wage earner, no children *(number of families=4)*	25%	50%	50%	75%
Two adults, 1 wage earner, with children *(number of families=4)*	25%	50%	75%	100%
Multiple adults/wage earners *(number of families=11)*	27%	54%	64%	-
Total, families without children* *(number of families=64)*	9%	25%	38%	37%
Total, families with children** *(number of families=30)*	13%	40%	43%	79%
Total, all family types *(number of families=94)****	11%	30%	39%	50%

Source: Authors' survey.
* We cannot define a basic-needs threshold for any household with more than two adults, so the basic-needs calculation is based on only 54 families.
** The basic-needs calculation for this category is based on 24 families.
*** The basic-needs calculation for this category is based on 86 families.

basic-needs threshold.[17] None of the families of workers in the $10.75–$12.74 wage bracket lived in severe poverty, but 28 percent were poor. More than a third were near-poor, and 46 percent fell below the basic-needs threshold. Less than 8 percent of individuals in the two highest wage groups were poor or severely poor, yet roughly 40 percent fell below the basic-needs standard.

Despite the high incidence of poverty among our respondents, as many as half reported incomes above a basic-needs standard—many more than in cities such as Los Angeles and Santa Fe, where as many as 80 percent of potentially affected workers fell *below* such a standard. Who are these Boston workers above the basic-needs threshold?[18]

TABLE 4.9 – Poverty and Basic-Needs Status of Covered Workers in Boston, by Wage (percentage falling below each threshold)

		Hourly wage rate			
	All workers	$9.11–$10.74	$10.75–$12.74	$12.75–$14.74	+$14.75
Severe poverty	11	25	0	6	0
Poor	30	50	28	6	8
Near-poor	39	69	34	13	8
Basic needs	50	68	46	38	42

Source: Authors' survey.

In several respects, workers living above this threshold were similar to those living below it (*Table 4.10*). The former were, on average, the same age as all covered workers (32 years in both cases), and women appeared in roughly the same proportion: 74 percent of workers above the basic-needs threshold were female, compared with 79 percent of the entire sample. However, workers above the basic-needs level also differed from other respondents in several important respects. For example, half of this group was white, versus one-third of all respondents. Workers above basic needs also averaged about a dollar more per hour in earnings compared with all respondents. Employees above basic needs further average some 200 more hours of work a year than all covered workers.

But the most dramatic difference between workers above the basic-needs threshold and those below it is the type of family in which they reside. Close to 70 percent of workers above basic needs were single adults, while another 16 percent resided in two-adult households with no children and both spouses working. Only 16 percent of workers above basic needs had children, and all of those reported a second adult in the household working for wages.

Is the Boston law doing a bad job of targeting workers in poverty, compared with living wage laws in other cities? Our evidence suggests that the Boston law is at least as well targeted as other ordinances across the country. The main difference between our findings and earlier research is that we define basic-needs thresholds for a broader range of family types, including those without children. If we examine only covered workers *with* children, we find that some 80 percent of these families fall below basic needs—virtually identical to the situation in Los Angeles. The rates of severe poverty, poverty, and near-poverty among these Boston families with children are also higher than among low-wage workers in Los Angeles.[19]

TABLE 4.10 - Characteristics of Covered Workers above the Basic-Needs Threshold

Number of workers	39
Average age	32
Percentage teenagers	0%
Average tenure on current job *(years)*	3.2
Percentage female	74%
Percentage black	31%
Percentage Hispanic	13%
Percentage non-white	49%
Hourly wage	
average	$12.76
median	$12.60
Average hours per week	45
Average weeks per year	48
Average hours worked last year	2,205
Average number of jobs	1.4
Earnings *(2002 dollars)*	
average	$27,940
median	$26,098
One adult, no children (percentage)	69%
Two adults, both wage earners, no children (percentage)	16%
Two adults, both wage earners, with children (percentage)	16%

Source: Authors' survey.
Note: The percentages for family type do not add to 100 percent because of rounding.

The Impact of the Living Wage Law on Wages and Earnings

What changes are associated with the implementation of Boston's living wage ordinance? Did the living wage law exert a discernable impact on the poverty status of any of our survey respondents? Did it lift any of these low-wage workers out of poverty, or raise them to a higher standard of living that enabled them to meet their basic needs? To answer these questions, we asked our respondents to compare their wages and family incomes in 1998, before the law took effect, with their situation in 2001.[20]

We found that workers who earned below the living wage in 1998 had reaped significant gains by 2001: $2.10 per hour in real terms (*Table 4.11*). These employees also worked a higher

TABLE 4.11 – Hourly Wages, Annual Earnings, and Family Income of Covered Workers in Boston, 1998 and 2001

	Hourly wage	Annual earnings	Family income
Earned below the living wage in 1998			
(number of workers=21)			
1998	$9.22	$16,990	$37,310
2001	$11.32	$26,990	$40,960
Difference	$2.10	$10,000	$3,650
Earned above the living wage in 1998			
(number of workers=38)			
1998	$12.78	$27,350	$33,750
2001	$12.87	$27,800	$36,620
Difference	$0.09	$450	$2,870

Source: Authors' survey.
Note: All wages, earnings, and incomes are expressed in 2001 dollars. Annual earnings and incomes refer to the prior year.

number of hours. Their $10,000 rise in real earnings reflects longer hours along with higher real wages. The boost in hours confirms our finding in Chapter 3 that covered firms—particularly those forced to raise wages to comply with the living wage law—shifted from part-time to full-time staffing. Living wage beneficiaries also experienced significant gains in family income, which grew on average by $3,650.

Workers who already earned above the living wage in 1998, in contrast, saw little wage growth—a mere $0.09 in real terms—and their real annual earnings remained flat. These workers did see increases in family income, however, reflecting gains by other family members. We also saw differences in wage and earnings gains between people who changed employers and people who did not. By far the largest wage gains accrued to individuals earning less than the living wage and working for a different employer in 1998: those employees saw a real increase of $2.88 an hour and $11,880 per year (*Table 4.12*). Affected workers who remained with the same employer saw a much more modest real increase of $0.83 per hour and $6,950 per year. Workers who already earned above the living wage in 1998 who remained with the same employer saw real earnings decline by $1,590, while affected workers who changed employers saw real gains of $2,100.

The fact that workers earning less than the living wage in 1998 who changed employers saw the greatest gains runs counter to some claims that higher wage floors prompt employers to substitute lower-paid (and presumably lower-skilled) workers with higher-skilled (and presumably

higher-paid) workers. In this case lower-paid (and possibly lower-skilled) workers appear to be the prime beneficiaries of the living wage law.

These results also suggest the need for a broader understanding of the benefits of living wage policies. Analysts often discuss those benefits solely in terms of the higher wages that accrue to lower-paid individuals. However, our evidence suggests that the Boston ordinance has benefited more than just the individuals who received raises when the law went into effect. The law has also turned a discrete set of jobs into better-paying jobs—typically with better hours and sometimes better benefits. Our results also show that far from disadvantaging lower-paid workers, the living wage policy has given many a pathway to a better job.

Changes in Family Income and Living Standards

Although unaffected workers who changed employers experienced the largest gains in *family* income between 1998 and 2001 (increasing by $7,140), affected workers who changed jobs saw significant increases as well, with family income rising by $5,640 (*Table 4.12*). Family income for affected workers who remained with the same employer rose modestly, in contrast, while family income fell by $2,410 among unaffected workers remaining with the same employer (*Table 4.12*).

How did these shifts in earnings and family incomes affect living standards? We found that for individuals earning *less* than the living wage in 1998, the percentage living in severe poverty dropped from 34 percent to 13 percent (*Table 4.13*). The proportion of families considered poor also fell markedly, from 41 percent to 28 percent. The percentage who were near-poor fell from 50 to 41, but the proportion with family incomes below a basic-needs threshold did not change.

Family living standards among workers earning *above* the living wage in 1998 also improved, with the percentage of severely poor families falling from 9 percent in 1998 to 0 by 2001, and the proportion of poor families dropping from 32 percent to 23 percent. However, the proportion of families living near poverty fell even more markedly—from 46 to 30 percent—while the proportion below basic needs fell from 63 to 48 percent.

For those in poverty, the living standards of affected workers and their families improved much more substantially than for unaffected workers. How much of this is due to the living wage ordinance? One way to measure this is to compare the trends in living standards between the two groups. Although our survey design does not lend itself to formal statistical testing, we can still reasonably attribute differences in these trends to the living wage law. Making such a comparison, we find that from a third to half of the decline in poverty and severe poverty stems from the living wage ordinance. (See the "difference in trend between the two groups" in *Table 4.13)*.[21]

TABLE 4.12 – Hourly Wages, Annual Earnings, and Family Income of Covered Workers Who Changed Employers and Those Who Did Not, 1998 and 2001

	Hourly wage	Annual earnings	Family income
SAME EMPLOYER *(number of workers=25)*			
Earned below the living wage in 1998			
(number of workers=8)			
1998	$9.81	$21,770	$35,690
2001	$10.64	$28,720	$36,090
Difference	$0.83	$6,950	$400
Earned above the living wage in 1998			
(number of workers=17)			
1998	$12.27	$28,210	$36,310
2001	$13.12	$26,620	$33,900
Difference	$0.85	-$1,590	-$2,410
DIFFERENT EMPLOYER *(number of workers=33)*			
Earned below the living wage in 1998			
(number of workers=13)			
1998	$8.86	$14,060	$38,310
2001	$11.74	$25,940	$43,950
Difference	$2.88	$11,880	$5,640
Earned above the living wage in 1998			
(number of workers=21)			
1998	$13.20	$26,660	$31,680
2001	$12.67	$28,760	$38,820
Difference	-$0.53	$2,100	$7,140

Source: Authors' survey.
Note: All wages, earnings, and incomes are in 2001 dollars. Annual earnings and incomes refer to the prior year.

However, these benefits seem restricted to those living in poverty or severe poverty. Unaffected workers saw much greater drops in the proportion of families who were near-poor or just below basic needs. Since affected workers were making substantially less money in 1998 compared with 2001, it is not surprising that we see the benefits of Boston's living wage law restricted to the lower reaches of the income distribution. However, while the living wage policy cut the proportion of families living in poverty, it did not appear to improve living standards for families just above the poverty line who remain in some degree of insecurity.

As above, to deepen our understanding of these findings, we considered differences in *family* incomes between workers who changed employers and those who did not. Among workers earning less than the living wage in 1998 who *changed* employers, the proportion with families

TABLE 4.13 – Poverty and Basic-Needs Status of Families of Covered Workers in Boston, 1998 and 2001
(percentage below each threshold)

	Severe poverty	Poor	Near-poor	Basic needs*
Earned below the living wage in 1998				
(number of workers=32)				
1998	34	41	50	54
2001	13	28	41	54
Difference (1998–2001)	22	13	9	0
Earned above the living wage in 1998				
(number of workers=44)				
1998	9	32	46	63
2001	0	23	30	48
Difference (1998–2001)	9	9	16	15
Difference in trend between the two groups	**13**	**3**	**-7**	**-15**

Source: Authors' survey.
* We cannot define the basic-needs threshold for any household with more than two adults, so these figures are based on fewer individuals than the other thresholds. That is why, in one case, the proportion of families living under the basic-needs threshold is lower than the proportion of families that is near-poor.

in severe poverty fell from 42 percent to 17 percent, while the proportion in poverty fell from 50 to 38 percent (*Table 4.14*). The percentage of families in this group living near poverty declined modestly, while the proportion below basic needs remained the same.

Among workers earning less than the living wage in 1998 who remained with the *same* employer, the proportion of severely poor and poor families fell from 13 percent in 1998 to 0 in 2001, while the proportion of near-poor families fell from 38 percent to 13 percent. The proportion of families that remained below a basic-needs threshold did not change. Poor or severely poor workers earning *above* the living wage in 1998 experienced much more modest gains, whether they stayed with employers or changed jobs over that time period. By contrast, the gains for families living near poverty or below a basic-needs threshold were much more substantial.

Overall, then, poor workers who received raises as a result of the living wage law experienced much sharper improvements in their living standards than did poor workers already earning

TABLE 4.14 – Poverty and Basic-Needs Status of Families of Covered Workers Who Changed Employers and Those Who Did Not, 1998 and 2001
(percentage below each threshold)

	Severe poverty	Poor	Near-poor	Basic needs*
SAME EMPLOYER *(number of workers=26)*				
Earned below the living wage in 1998 *(number of workers=8)*				
1998	13	13	38	29
2001	0	0	13	29
Difference (1998–2001)	13	13	25	0
Earned above the living wage in 1998 *(number of workers=18)*				
1998	0	28	44	56
2001	0	22	28	44
Difference (1998–2001)	0	6	17	13
Difference in trend between the two groups	**13**	**7**	**8**	**-13**
DIFFERENT EMPLOYER *(number of workers=50)*				
Earned below the living wage in 1998 *(number of workers=24)*				
1998	42	50	54	64
2001	17	38	50	64
Difference (1998–2001)	25	13	4	0
Earned above the living wage in 1998 *(number of workers=26)*				
1998	16	35	46	67
2001	0	23	31	50
Difference (1998–2001)	16	12	15	17
Difference in trend between the two groups	**9**	**1**	**-11**	**-17**

Source: Authors' survey of workers covered by Boston's living wage law.
* We cannot define the basic-needs threshold for any household with more than two adults, so these figures are based on fewer individuals than the other thresholds. That is why, in one case, the proportion of families living under the basic-needs threshold is lower than the proportion of families that is near-poor.

above the living wage. Yet only a modest percentage of affected workers moved above the near-poverty and basic-needs thresholds after the living wage took effect, particularly compared with workers unaffected by the law. By comparing affected workers with similarly situated unaffected workers, we conclude that the Boston living wage ordinance has been relatively effective at lifting workers out of poverty. However, at current wage levels it appears unable to

lift all workers out of poverty, or to help lower-wage workers achieve a higher standard of living that enables them to meet their basic needs.

Based on our evidence, we also conclude that these benefits have by and large been concentrated among workers who managed to obtain jobs with a covered firm *after* the living wage law took effect. Affected employees who worked for the same employer before implementation experienced much more modest gains. These results suggest that policymakers must expand their concept of who benefits from living wage laws to include not only current but future jobholders as well. Indeed, one of the primary benefits of Boston's living wage law is the fact that it led to qualitative improvements in the jobs themselves. These jobs will remain better jobs as long as they remain covered by the living wage law.

The Impact of the Living Wage Law on Employees' Quality of Life

In this study we also wanted to include more than just a quantitative assessment of the impact of Boston's living wage law on the employees it covers. We also wanted to convey a deeper sense of the concrete impact of wage increases on workers' quality of life. Thus in the summer of 2003 we conducted follow-up phone interviews with eight employees who received raises as a result of the living wage ordinance. We selected these respondents randomly from the pool of employees earning less than $9.11 in 1998 (8 percent of the initial sample). The results illuminate the modest but concrete benefits that accompany higher wages, as well as many of the challenges low-wage workers face.

For example, higher wages had enabled virtually all these workers to boost their savings. One worker reported that she had opened her first bank account, while another had created a 401(k) retirement account. Debt was a near-unanimous concern, and six of the eight reported that they had been somewhat successful in reducing their debt burden in the wake of higher wages.

Respondents also signaled small but concrete advances in their personal and professional lives. Five had begun classes, four had been able to take vacations, and four had used higher disposable incomes to assist their families financially. This ability to help out friends and family was especially meaningful, as it signaled a degree of independence and security that these workers had not been able to attain with lower earnings. For example, one woman was able to regularly purchase groceries for her aging mother, and even to save enough money to buy her mother a new set of living room furniture and help her son with college expenses. One man was saving money to help his mother make a down payment on a house. Another woman was able to help two of her family members pay for funeral arrangements. Three individuals used the higher wages to help buy a car, and one young man had managed to

improve his housing situation by leaving his mother's house to share an apartment with friends. Three respondents reported that they were able to reduce their work hours after receiving the living wage.

"Boston's living wage law has brought modest but concrete quality-of-life improvements to covered workers.

All our interviewees confirmed that the living wage law had exerted a positive but modest impact on their lives, but that the higher wages did not provide enough money to avoid trade-offs. For example, the workers who took vacations tended not to offer their families financial support, while the ones who bought a car tended not to enroll in classes.

In spite of incremental financial improvements, our respondents also clearly conveyed that the higher wages did not leave them feeling more financially secure. Only two workers indicated a greater sense of financial security; in both cases these individuals had been able to reduce their debt and increase their savings. The overriding lack of security among these workers mirrors findings by analysts examining living wage effects in San Francisco—which also experienced rapid rises in the cost of living. These researchers concluded that higher wages did not permit workers to get ahead, but merely to avoid falling behind.[22]

Employees' Benefits and Job Satisfaction

To further gauge employees' quality of life, we also gathered information on the benefits available to low-wage workers through their jobs as well as their job satisfaction. The most common benefit reported was health insurance: 87 percent of our respondents said they had access to individual health insurance, and 75 percent reported access to family health insurance (*Table 4.15*). More than three-quarters received paid sick leave, 79 percent received paid vacation days, 60 percent reported receiving retirement benefits, and 53 percent said they received formal training on the job. Those receiving sick pay averaged 7 days per year, and those receiving paid vacation averaged 10.6 days.

When we queried employees on their attitudes regarding workplace issues, we found that they varied widely. A majority of interviewees reported being very satisfied with parking and transportation to the job, relations with their supervisor, and safety and health issues (*Table 4.16*). Respondents with children were strongly split in their satisfaction with childcare benefits: more than one-third were not at all satisfied while a quarter were very satisfied. Similarly, more than a quarter responded that they were very satisfied with health benefits for the family, while more than a quarter were not at all satisfied. Those unsatisfied with health benefits reported cost as a major concern. More than half of our respondents reported being very or somewhat

TABLE 4.15 – Benefits and Training Available through Current Job

Benefit	Yes
Retirement	60%
Health insurance for self	87%
Health insurance for family	75%
Paid sick leave	77%
Paid vacation days	79%
Received formal training on job	53%

Source: Authors' survey of workers covered by Boston's living wage law.

satisfied regarding their own health benefits, paid time off, hours, and job security. We take these results as evidence of substantial heterogeneity among the workplaces covered by Boston's living wage ordinance.

The Overall Impact of the Law on Workers

Our survey revealed that workers covered by Boston's living wage law have low living standards. In 2001 the families of some 11 percent fell below the official poverty line, which we consider a measure of severe poverty in the Boston area. Using a more accurate measure of poverty for the region, we found that close to a third of covered workers were poor, while nearly 40 percent were near-poor, defined as below 185 percent of the official measure. We found that nearly half of covered workers fell below a more comprehensive "basic-needs" living standard. Further examination revealed that workers with children were much more likely to fall below each of our living standards, with 40 percent of these workers below poverty, 43 percent near poverty, and a full 79 percent below the basic-needs threshold. While these figures confirm that Boston's living wage law is well targeted toward working poor individuals, they are a sobering reminder that for many people $9.11 is still inadequate to lift their families out of poverty and achieve a higher standard of living.

Nevertheless, we found solid evidence of real wage increases and gains in annual earnings since implementation of the Boston living wage ordinance. Real wages rose nearly 25 percent for affected workers, while real annual earnings rose by roughly 60 percent. The steep rise in annual earnings reflects a parallel rise in hours worked per week and weeks worked per year. This shift to more full-time employment is consistent with our findings in Chapter 3, where

TABLE 4.16 – Satisfaction with Elements of Current Job

	Percent reporting level of satisfaction (1=very satisfied; 5=not at all satisfied)					
Element	1	2	3	4	5	Mean score
Wages	5%	27%	18%	23%	27%	3.4
Health benefits for self	34%	34%	13%	7%	13%	2.3
Health benefits for family	26%	18%	18%	11%	27%	3.0
Paid time off	32%	32%	10%	11%	16%	2.5
Hours	39%	34%	7%	11%	9%	2.2
Safety/health issues	53%	26%	9%	8%	4%	1.9
Parking/transportation to job	60%	25%	6%	6%	3%	1.7
Childcare*	25%	25%	14%	0%	35%	3.0
Relations with supervisor	59%	23%	8%	6%	2%	1.7
Job security	48%	28%	12%	4%	7%	1.9

Source: Authors' survey of workers covered by Boston's living wage law.
Note: Totals may not add to 100 percent because of rounding.
*Asked only of workers with children.

we also saw evidence of a shift to more full-time, higher-wage jobs. Upon closer examination we found that the biggest changes accrued to low-wage employees who took jobs with covered firms *after* the law was implemented—rather than to those who worked for these firms beforehand. This means that policymakers should broaden their understanding of the benefits of living wage laws to include the creation of better-paying jobs and more full-time jobs.

We found clear evidence of sharp reductions in the incidence of poverty among workers covered by the Boston living wage ordinance, and we attribute as much as half the reduction in severe poverty, and a third of the reduction in poverty, to the law. However, we also found that the Boston living wage law was not enough to lift affected workers to a higher standard of living that better reflects the spirit and intent of the ordinance.

Endnotes

1. For studies of proposed living wage ordinances that consider the situation of potential beneficiaries, see Pollin and Luce (1998); Reich et al. (1999); and Pollin and Brenner (2000).

2. Reich et al. (2005) examines employees at San Francisco Airport, while Howes (2005) investigated home care workers in San Francisco County.

3. Orshansky actually developed two sets of poverty measures, one based on the USDA's economy food plan and the other on its "low-cost food plan." Welfare agencies had long used the latter "as a basis for food allotments for needy families," but federal officials decided to opt for the former—the lower of the two thresholds—thereby cutting the number of people officially living in poverty (Fisher 1992).

4. For the full NRC report, see Citro and Michael (1995). See Iceland (2000) and Short (2001) for more on the issues entailed in adjusting the U.S. poverty line.

5. See Pollin and Brenner (2000) for a more complete discussion.

6. Both BLS measures are for large metropolitan areas. The first is based on the prices of all commodities from July 1988 to June 1989, while the second reflects the cost of shelter in 1995. Johnson et al. (2001) adapted the BLS shelter index and the NRC housing measure to make them comparable with the BLS commodities index. The analysts then combined these measures with the calculations used by the Department of Labor in implementing the Workforce Investment Act to estimate family budgets for a variety of urban areas, including Boston.

Several studies have assessed the strengths and weaknesses of the detailed figures in the ACCRA index, published since 1967, finding that they are designed to represent a "mid-management standard of living" (Healy and Cox 1982; Raper 1999). Thus we should view the ACCRA measure as an upper bound on the cost of living for low-wage workers in Boston. See Pollin and Brenner (2000) for more discussion.

7. The estimates from both the BLS and NRC are somewhat dated. Based on an analysis of the Consumer Price Index, we found that prices rose 10 percent faster from 1989 to 2002 in the Boston area than in the country as a whole, and 32 percent faster from 1995 to 2002. This gap suggests that the BLS and NRC estimates in Table 4.1 understate the true cost-of-living difference between Boston and the rest of the country.

8. For more on the historical notion of a living wage, see Glickman (1997).

9. The two standards are detailed in Bacon et al. (2000) and Boushey et al. (2001). The WEIU/WOW standard is historically significant, as WEIU released a study of working women in Massachusetts in 1911 as part of its campaign to establish a statewide minimum wage, a goal achieved in 1912. See Luce (2002a).

10. Boushey et al. (2001, p. 7).

11. Bacon et al. (2000, p. 4).

12. If we adjusted transportation and childcare costs to allow for only one working parent in the two adult-two child family, the resulting threshold would be about 75 percent of the two adult-two child standard—that is, $40,502 for the EPI measure, and $35,531 for the WEIU/WOW standard. Health care costs are based on a self-purchased family plan, adjusted to reflect the fact that some 60 percent of families have some form of employer-provided coverage.

13. See Appendix 5 for the thresholds for each family type.

14. For a review of the merits and limitations of non-random sampling, see Pollin and Brenner (2000).

15. Our survey respondents resided throughout the Boston metropolitan area, with the single largest concentration in the Dorchester neighborhood (20 people), followed by the city of Boston (11) and the Jamaica Plain neighborhood (10). The rest of the respondents resided in 26 different cities and towns throughout the Boston metropolitan area. The employees in the assisted living/supportive housing sector in Table 4.7 work for establishments classified as multi-service contractors in Chapter 3.

16. Table 4.9 reports a slight decline in the proportion of workers earning between $9.11 and $10.74 who are near poverty versus below a basic-needs threshold. This is due to the fact that the basic-needs threshold is not defined for all family types, and therefore several individuals included in the calculations for the near-poor are not included in calculations for those below basic needs.

17. The 80 percent figure is for workers earning $5.75 to 10.75 in Los Angeles in 1999, calculated from figures in Tables 8.4 and 8.8 in Pollin and Brenner (2000).

18. Another example of why the law is well targeted comes from the results in Appendix 7. There we show that covered workers in Boston are substantially worse than similarly situated workers in the Boston-area labor market. Indeed, workers in the Boston-area labor market earning less than the living wage were nonetheless better off than covered workers already receiving a living wage, reporting lower rates of severe poverty and poverty for example.

19. Because firms that reported raising wages to comply with the law reported annual turnover of 89 percent, and because our respondents averaged job tenure of just 3 years, we had little chance of surveying many current employees who had worked for the same employer before the law took effect. We therefore considered all our respondents who reported earning less than $9.11 in 1998 as direct beneficiaries of the law.

20. For example, we find that severe poverty dropped by 22 percentage points among affected workers while dropping by 9 percentage points for unaffected workers. The difference between these two – which we attribute to the living wage ordinance – is 13 percentage points. This is more than half of the total decline.

21. See the qualitative assessments reported in Reich et al. (2005).

Chapter 5

The Impact of Living Wage Laws and Their Implications for Government Policy

Taken together, what are the implications of our findings regarding the impact of living wage laws on contracting in our three cities, the firms that provide services under those contracts, and the low-wage workers that the laws are designed to benefit? On balance, our research shows that living wage ordinances can exert a modest but significant impact on the living standards of low-wage workers, without causing layoffs or reducing workers' hours among covered firms. Two of our three cities also saw overall contract costs decline in real terms after implementing a living wage, although cities may face higher contract costs for some services as a result of such a mandate. We further found that living wage laws do not appear to reduce the competitiveness of city contracting, and in some instances can dramatically improve the bidding process. Broader experience with living wage laws in New England and beyond shows that they can also spur proponents to take other steps to improve the living standards of low-wage workers.

Living Wage Laws and City Service Contracting

Chapter 2 shows that the real costs of many contracts actually decline after a living wage law takes effect. This evidence is consistent with earlier findings from Baltimore. Such cost savings result from the interaction of several factors. Those include greater competition among service providers; efforts by the city to restructure contracts, especially by bundling those for similar services; and internal firm dynamics, including a willingness among companies to accept lower profits to retain city contracts.

Like other researchers, we also found that cost declines are not universal. The cost of many contracts we examined—particularly those bid on an hourly or "cost-plus" basis—rose after the living wage law took effect. For example, in all three cities contract costs rose for security guard services following living wage implementation. Hartford saw higher costs for security guards despite more bidders for the contract, suggesting that the city's "cost-plus" bidding methods outweighed the influence of greater competition. Governments therefore need to use

caution when designing their bidding and procurement systems, and may need to reexamine them in light of a living wage law.

We found an equally wide range of experiences regarding the impact of living wage laws on the number of bidders competing for specific contracts. The number of bidders declined for some contracts in both Boston and New Haven, while the number of bidders rose in other cases in all three cities. More than a third of all contracts saw no change in the number of bidders. This dramatic variation in both costs and bidding patterns suggests that many different forces influence city contracting, including the bidding process itself, the price of non-labor inputs, and the degree of market competition in an industry. Our results show that the living wage ordinance does not uniformly outweigh these other influences.

Our findings also suggest that contracting by local governments exerts a major impact on certain markets. Prior research has shown that markets for publicly provided services—particularly social services—are often fragmented or otherwise not competitive. For example, Boston's living wage law covers specialized social services such as education for the disabled. Few providers offer such services, and many depend on public-sector contracting for survival. Local governments do not enter such markets at arm's length but may instead have to actively intervene to preserve, expand, and even create them.[1]

Experience with Hartford's security guard contract highlights the fact that a city's influence on markets can apply to private, for-profit service providers as well as nonprofits. Several security guard contractors chose not to bid on Hartford contracts when forced to compete solely on low wages. Other research suggests that low-cost bidding itself can sometimes destroy the very competition needed to make it a cost-effective method for procuring services.[2] In such situations, living wage laws can "level the playing field" and force government contractors to compete along dimensions other than wages such as service quality.

Officials in our three cities were clear that monitoring service contracting and enforcing living wage laws requires careful planning and substantial expertise, which they acquired over time. For example, Boston living wage administrator Mimi Turchinetz refined her techniques for monitoring employers and verifying compliance over several contract cycles, interacting with employers regularly to solve implementation problems. In New Haven, city staff members worked with small-business owners to ensure that they could still compete for city contracts while paying a living wage.[3]

These experiences support the view of Professor Donald Kettl, an expert on privatization, that third-party service delivery requires "aggressive management by a strong, competent govern-

ment." These experiences also raise broader questions about the pitfalls associated with privatized service delivery. Much like low-cost bidding, contracting-out can be a Catch-22 for cities, as agencies risk losing not only the ability to provide the services themselves but also the expertise to ensure that a third party delivers services effectively.[4] One team of researchers has gone so far as to refer to the shrinking role of government and its atrophied capacity to manage its remaining responsibilities as "governing the hollow state."[5]

The Impact of Living Wage Laws on Firm Behavior and Profitability

Contrary to the predictions of many economic models, our evidence in Chapter 3 shows that firms have not responded to living wage mandates by reducing employment or creating part-time jobs. Firms forced to raise wages under Boston's living wage law actually created the same number of full-time jobs as did firms unaffected by the law. They did so, in part, by shifting from part-time to full-time employment—reducing the percentage of part-time employees from 34 percent to 23 percent. The percentage of part-time workers among firms that did not raise wages remained virtually unchanged. This parallels evidence that average firm employment does not decline when the minimum wage rises, even within high-impact industries such as fast food.[6] This research—called the "new economics of the minimum wage"— similarly shows that a rising minimum wage does not undercut the overall employment prospects of low-wage workers.[7]

"The real costs of many contracts actually decline after a living wage law takes effect.

This divergence between theory and evidence highlights the fact that firms may rely on several mechanisms to adjust to higher wage mandates, including raising prices, expanding sales, changing production techniques, boosting productivity, and lowering profits. Indeed, firms chose precisely these channels—particularly raising prices—in the face of a higher minimum wage.[8] In Boston, firms did not respond to the living wage law by raising prices, but a significant minority did report accepting lower profits, or operating surpluses in the case of nonprofits.

What are the implications of adjusting via reduced profits, especially for the many nonprofit firms covered by Boston's living wage law?[9] Is such a strategy among government contractors viable over the long term? As Chapter 3 notes, several nonprofits expressed concern that continued increases in the living wage floor could cause financial hardship down the road. Many of their clients depend on public funding, but state and federal agencies have not adjusted their reimbursement rates in step with the Boston living wage law. Without the ability to "raise prices," these firms fear they will need to take more drastic measures to cope with the city

council's decision to further boost Boston's living wage floor. These firms also noted that state and local budget shortfalls are leading to cuts in social spending, shrinking service contracts and further limiting their ability to cope with a higher wage floor.

Boston officials have responded to these challenges by using the waiver process to exempt firms for whom the living wage law would pose a real financial hardship. Living wage advocates and service providers have also discussed coping strategies with the state Department of Education, which sets reimbursement rates for Community Partnerships for Children, the primary childcare program affected by the living wage law. Although these efforts may eventually bear fruit, the challenge reveals how policies and regulations beyond the immediate control of local officials constrain their ability to apply a living wage law to nonprofits.

The Impact of Wage Floors on Poverty and Wage Inequality

Chapter 4 suggests that Boston's living wage law has exerted a substantial impact on poverty. Among workers affected by the mandate, severe poverty fell by 22 percentage points, and poverty fell by 13 percentage points. Our evidence suggests that the living wage accounts for more than half of the drop in severe poverty, and about a quarter of the decline in poverty. These results are much stronger than those showing a small drop in poverty after the minimum wage rises, in part because living wage ordinances set much higher wage floors.[10] Nevertheless, the living wage raised only a modest percentage of affected workers above the near-poverty and basic-needs standards of living. This suggests that at $9.11 the living wage ordinance is unable to lift covered workers and their families up to a more substantial standard of living that reflects the spirit and intent of the law.

Recent research suggests that as much as 20 percent of the rise in U.S. wage inequality is due to the declining real value of the minimum wage.[11] In Chapter 3, we found evidence that Boston's living wage law has substantially reduced wage inequality within covered firms. Specifically, firms forced to raise wages saw the proportion of employees earning less than $9.25—slightly above the living wage—fall from 23 percent of the workforce to 4 percent, while unaffected firms saw virtually no change.

While these drops in both poverty and wage inequality are important, do the effects of living wage laws extend beyond covered firms? At first glance, this seems improbable. Using the most generous assumptions, we calculate that the Boston ordinance raised wages for some 2,000 individuals—compared with 351,000 people living below the official poverty line (which we term severe poverty) in the Boston area in 1999.[12] Even if all 2,000 covered workers were severely poor, and even if the law lifted every one out of poverty, it would have reduced the

metro-area poverty rate by only one-tenth of 1 percent. Moreover, a more realistic estimate based on our evidence in Chapter 4 is that the law lifted just 440 of 2,000 families out of severe poverty, thereby reducing the regional rate of severe poverty by a mere three one-hundredths of 1 percent. The impact of the law on wage inequality in the region—although more difficult to estimate—is likely to be equally small.

Beyond the Living Wage

If the scope and impact of living wage laws is limited, what is the point of pursuing them? After examining evidence in our three cities and around the country, we find at least four reasons to believe that the impact of living wage laws may be greater than these numbers suggest.

First, higher wage mandates among government contractors may become a benchmark for other workers and firms. For example, we found that that a significant number of firms in Boston provided raises to workers not directly covered by the law. Firms in the San Francisco Airport—even those unaffected by the law—appear to have similarly raised wages after the living wage ordinance took effect.[13] In Tucson, more than 100 firms employing 10,000-plus workers participated in the mayor's Good Business Partnership, which asks firms to pay employees a living wage.[14] We do not know whether these firms voluntarily raised wages because they are competing directly with government contractors for new employees, or because they want to burnish their public image and thus attract customers. However, the establishment of wage norms is one indirect consequence of living wage ordinances that deserves further investigation.

"Living wage campaigns have proven effective in raising public awareness of the problems facing the working poor.

A second reason that the impact of such laws may be greater than the raw numbers suggest is that living wage campaigns have proven effective in raising public awareness of the problems facing the working poor—often creating substantial pressure to address those problems.[15] For example, living wage initiatives have served as a springboard for more ambitious campaigns to expand their purview, establish a citywide minimum wage, and raise the state minimum wage. In Boston, for example, community and labor leaders who participated in the original living wage coalition led a successful campaign to raise the state's minimum wage to $6.75. These leaders were clear that their experience in pushing for a living wage helped drive the minimum wage campaign.[16] Successful efforts to establish a citywide minimum wage in San Francisco, Santa Fe, and Madison similarly built on campaigns to pass living wage laws.

Living wage campaigns have also sparked initiatives designed to address other problems confronting the working poor. For example, advocates in California pressed the state to allow firms covered by local living wage laws to join the state's health care purchasing pool.[17] In Montgomery County, Md., debate over a living wage ordinance prompted officials to implement the country's first local earned income tax credit (EITC), which now serves as an important complement to the county's living wage law.

"Living wage campaigns foster coalitions among groups that have not historically worked together.

Boston's living wage campaign also spurred several related EITC initiatives. Besides convincing the state to raise its minimum wage, advocates also won a substantial expansion of the state's EITC program. These efforts also sparked an extensive effort by the city to promote the EITC among low-income residents. The living wage administrator spearheaded this initiative with the backing of the city's Living Wage Advisory Committee, composed of business leaders and other community members. According to the city, it established 16 free tax-preparation centers in 2003 that helped more than 4,000 city residents file their taxes and claim more than $2 million in tax credits.

Finally and perhaps most fundamentally, living wage campaigns foster coalitions among groups that have not historically worked together. In Boston, the Association of Community Organizations for Reform Now (ACORN) approached the Boston Central Labor Council in the mid-1990s to collaborate on the living wage campaign. Despite the fact that ACORN's membership is primarily low-wage African-Americans while the Labor Council represents many higher-wage, white men from the building trades, Labor Council leader Tony Romano later called the collaboration one of the most important of his career in the labor movement. Such joint efforts not only improve relationships among individuals and organizations, but also build their capacity to mount other successful campaigns, such as, in Boston, for a statewide minimum wage, expansion of the state's EITC, and a citywide EITC promotion program.

The concept of a living wage enjoys tremendous popular support, making it a natural base for building coalitions, and participating organizations find that working with new allies boosts their chance of success. A decade of experience nationwide shows that these alliances serve as potent building blocks for promoting more ambitious and comprehensive public policies that may dramatically improve the lives of low-wage workers and their families.

Endnotes

1. Sclar reports that a 1996 audit found that the state of California let almost two-thirds of consultant contracts on a sole-source basis, implying that the contractor was the only provider of such services (State of California, Office of the State Auditor 1996, reported in Sclar 2000). For more discussion of the link between local governments and their contractors, see also Van Slyke (2003).

2. Sclar's description of public transit privatization in Denver in the late 1980s is instructive. Eight companies initially submitted bids to operate portions of the transit system, and the city divided the privatized portions among three of them. Within seven years only two companies remained in the transit market, and prices charged the city had nearly tripled.

3. For more on the challenges city governments face monitoring and implementing living wage laws, see Luce (2004).

4. See Kettl (1993, p. 6). The relationship between government capacity and contracting out is also addressed in Milward (1994); GAO (1997); and Van Slyke (2003).

5. Milward and Provan (2000). The authors note that atrophied capacity to provide services in-house can hasten the erosion of competitive bidding, as it strengthens firms' bargaining power by removing the credible threat that the government can leave the market. This is particularly true in markets with few bidders.

6. For examples of this research, see Katz and Krueger (1992); Spriggs (1993); Card and Krueger (1994; 1995; 2000).

7. For more evidence on the effect of the minimum wage on employment outcomes, see, Zavodny (2000) and the reanalysis of Linneman (1982) and Currie and Fallick (1994) presented in Card and Krueger (1995).

8. See Card and Krueger (1995, p. 54), and Aaronson (2001) for more on the link between higher minimum wages and higher output prices.

9. Although the name suggests otherwise, as we discussed in Chapter 3 many nonprofits actually generate operating surpluses which are functionally analogous to profits.

10. See, for example, Mincy (1990); Card and Krueger (1995); and Addison and Blackburn (1999).

11. See, for example, Dinardo, Fortin, and Lemieux (1996); and Lee (1999).

12. Data on poverty in Boston for 1999 come from ferret.bls.census.gov/macro/032000/pov/new25_001.htm.

13. See Reich, Hall, and Jacobs (2003, p. 40) for evidence on the "wage norm" effect of the Quality Standards Program at the San Francisco Airport.

14. See Luce (2004, p. 177) and Grant and Trautner (2002) for more discussion of the Tucson case.

15. See Luce (2004, p.195–198) for a more detailed discussion of the impact of living wage campaigns on public awareness of the issues surrounding low-wage work.

16. This case appears in Luce (2004, p. 204).

17. See Brenner (2002) for a discussion of the potential cost savings for the state of California that could result from this measure.

APPENDIX 1: U.S. Living Wage Ordinances

This appendix provides a catalogue of living wage ordinances passed throughout the United States between 1991 and December 2003. The three tables depict the cities and counties that have legislated above-minimum wages for at least some private-sector firms; other entities such as school boards and universities that have also established a living wage; and the cities and counties that have created living wage standards for direct employees. Although we have tried to be as comprehensive as possible, we may have omitted some ordinances.

TABLE A1.1
City and County Living Wage Ordinances, as of December 2003

City or county	Population (2000)	Year passed	Amendments, modifications, or changes
Alexandria, VA	128,283	2000	
Ann Arbor, MI	114,024	2001	
Arlington County, VA	189,453	2003	
Ashland, OR	19,522	2001	
Baltimore, MD	651,154	1994	
Bellingham, WA	67,171	2002	
Berkeley, CA	102,743	2000	amended 2000 to add marina
Boston, MA	589,141	1997	amended 1998 and 2002
Bozeman, MT	27,509	2001	
Broward County, FL	1,623,018	2002	
Buffalo, NY	292,648	1999	
Burlington, VT	38,889	2001	
Cambridge, MA	101,355	1999	
Camden NJ	79,904	2001	vetoed by mayor 2001
Charlottesville, VA	45,049	2001	
Chicago, IL	2,896,016	1998	expanded 2002
Cincinnati, OH	331,285	2002	
Cleveland, OH	478,403	2000	
Cook County, IL	5,376,741	1998	
Corvallis, OR	49,322	1999	
Cumberland County, NJ	146,438	2001	
Dane County, WI	426,526	1999	
Denver, CO	554,636	2000	
Des Moines, IA	198,682	1996	
Detroit, MI	951,270	1998	
Duluth, MN	86,918	1997	amended 2000
Durham, NC	187,035	1998	
Eastpointe, MI	34,077	2001	2001 ballot to repeal is defeated
Eau Claire County, WI	93,142	2000	
Fairfax, CA	7,319	2002	
Ferndale, MI	22,105	2001	
Gary, IN	102,746	1989	
Gloucester County, NJ	254,673	2001	
Hartford, CT	121,578	1999	
Hayward, CA	140,030	1999	
Hazel Park, MI	18,963	2002	repealed 2002
Hempstead, NY	56,554	2001	repealed 2001
Hudson County, NJ	608,975	1999	
Ingraham County, MI	279,320	2003	
Jersey City, NJ	240,055	1996	
LA City, CA	3,694,820	1997	amended 1998
LA County, CA	9,519,338	1999	
Lawrence, KS	80,098	2003	
Madison, WI	208,054	1999	
Marin County, CA	247,289	2002	
Meriden, CT	58,244	2000	
Miami Beach, FL	87,933	2001	
Miami-Dade, FL	2,253,362	1999	
Milwaukee City, WI	596,974	1995	
Milwaukee County, WI	940,164	1997	
Minneapolis, MN	382,618	1997	amended 1998
Missoula, MT	57,053	2001	
Monroe County, MI	145,945	2001	
Montgomery County, MD	873,341	2002	
Multnomah County, OR	660,486	1996	amended 1998
New Britain, CT	71,538	2001	
New Haven, CT	123,626	1997	

TABLE A1.1 *(cont.)*
City and County Living Wage Ordinances, as of December 2003

City or county	Population (2000)	Year passed	Amendments, modifications, or changes
New Orleans, LA	484,674	2002	overturned by court 2002
New York City, NY	8,008,278	1996	expanded 2002
Oakland, CA	399,484	1998	expanded to cover port 2002
Omaha, NE	390,007	2000	repealed 2001
Oxnard, CA	170,358	2002	
Oyster Bay, NY	2,262	2001	
Pasadena, CA	133,936	1998	
Pima County, AZ	843,746	2002	
Pittsburgh, PA	334,563	2001	repealed 2001
Pittsfield Township, MI	30,167	2001	
Port Hueneme, CA	21,845	2003	
Portland, OR	529,121	1996	amended 1998
Prince Georges County, MD	801,515	2003	
Richmond, CA	99,216	2001	
Rochester, NY	219,773	2001	
Salem, OR	136,924	2001	
San Antonio, TX	1,144,646	1998	
San Fernando, CA	23,564	2000	
San Francisco, CA	776,733	2000	expanded to city 2003
San Jose, CA	894,943	1998	
Santa Clara County, CA	1,682,585	1995	
Santa Cruz County, CA	255,602	2002	
Santa Cruz, CA	54,593	2000	
Santa Fe, NM	62,203	2002	expanded to city 2003
Santa Monica, CA	84,084	2001	overturned by ballot 2002
Sebastopol, CA	7,774	2003	
Somerville, MA	77,478	1999	
Southfield, MI	78,296	2002	
St. Louis, MO[1]	348,189	2002	
St. Paul, MN	287,151	1997	
Suffolk County, NY	1,419,369	2001	
Taylor, MI	65,868	2002	
Toledo, OH	313,619	2000	
Tucson, AZ	486,699	1999	
Ventura County, CA	753,197	2001	
Warren, MI	138,247	2000	
Washtenaw County, MI	322,895	2001	
Watsonville, CA	44,265	2002	
West Hollywood, CA	35,716	1997	
Westchester County, NY	923,459	2002	
Ypsilanti Township, MI	49,182	1999	
Ypsilanti, MI	22,362	1999	

	Ordinance passed:	*Ordinance in effect:*
Total population with living wage:		
In cities	30,051,564	28,602,815
In counties	30,640,579	30,640,579
Total U.S. Population	**287,973,924**	

Source: ACORN National Living Wage Resource Center website: www.livingwagecampaign.org.
U.S. Census Bureau website: www.census.gov/popest/estimates.php.
Population data for Pittsfield Township, Mich.: www.pittsfieldhistory.org/; for Ypsilanti Township, Mich.: www.twp.ypsilanti.mi.us/officials/roe.shtml.

[1] Voters approved an earlier ordinance in 2000. The city refused to implement it, and the state supreme court ruled that state law invalidated parts of the initiative. Advocates campaigned for a new ordinance, which the city council approved in 2002.

TABLE A1.2
Living Wage Ordinances, Other Jurisdictions

	Year passed
Central Arkansas Library Commission	2001
Harvard University	2001
Johns Hopkins University	2002
Milwaukee School Board	1996
Richmond School Board	2001
San Antonio University Health System	2002
San Diego Metropolitan Transit Development Board	2000
Stanford University	2002
Washtenaw County Road Commission, MI	2001
Wesleyan University	2001

TABLE A1.3
Municipalities with Direct Living Wage Policies*

Barre City, VT	1999
Bexar County, TX	2000
Burlington, VT	1998
Dayton, OH	1998
Gainesville, FL	2001
Hidalgo County, TX	1999
James City County, VA	2001
Montpelier, VT	1998
Orange County, NC	1998
Tompkins County, NY	2003
Travis County, TX	2000

* These policies or ordinances set living wage levels for all direct municipal employees. The policies do not cover private-sector employers that hold public contracts or receive public subsidies. Some cities and counties have since passed ordinances covering contractors and subsidy recipients.

APPENDIX 2: How Consolidating Services Can Influence Contract Costs

In Chapter 2 we found evidence that cities can curb increases in contract costs after living wage laws take effect by consolidating similar services in a single contract. How much can cities reasonably expect to save through such consolidation?

We can shed some light on that question by comparing the behavior of unit prices with that of total contract costs after living wage implementation. Even though most contracts are not bid on a unit-cost basis, many contracts include them as a point of reference. One type of service—such as temporary office assistance—may encompass numerous unit costs. For example, Boston reported 4 contracts encompassing 14 unit costs for which we could calculate changes after the start of the living wage (*Table A2.1*). These include contracts for janitorial and security guard services, each with one unit cost; an X-ray services contract, with two unit costs; and a contract for temporary office assistance, with 10 unit costs. We found that unit costs (weighted by contract size) rose by nearly 12 percent.[1]

In Hartford—which reported just 1 unit price for security guard services and 12 for temporary office assistance—weighted costs rose by 27 percent. However, in New Haven, which had 6 contracts with unit prices—1 for security guard services and 3 for janitorial services, each with 1 unit price; and 2 for busing services, with 59 unit prices—average unit prices fell.

To understand the link between unit costs and total contract costs, we compared changes in the two. In weighted terms, we found that changes in the two costs differed by about 20 percent across the three cities. In Boston, total costs *rose less* than unit costs, and in New Haven they *fell more* than unit costs. That suggests that consolidating service contracts can cut cost pass-through by contractors as much as 20 percent.

However, in Hartford total costs *rose more* than unit costs—a seemingly anomalous result. We obtained that result because of the way we weighted the unit costs associated with temporary office assistance in Hartford. Because we have no information on the city's use of various types of temporary help, we weighted each unit price equally. It seems likely that were we able to control for the share of total contracting that each temporary job represented, the two figures would more closely mirror the patterns in Boston and New Haven.

TABLE A2.1 – Changes in Unit Costs versus Total Costs under the Living Wage Law

City	Percentage change
Boston*	
Change in unit costs *(number of unit costs=14)*	12%
Change in contract costs *(number of contracts=4)*	10%
Difference	2%
Difference as a percentage of change in contract costs	20%
Hartford	
Change in unit costs *(number of units=13)*	27%
Change in contract costs *(number of contracts=2)*	33%
Difference	-6%
Difference as a percentage of change in contract costs	18%
New Haven	
Change in unit costs *(number of units=63)*	-11%
Change in contract costs *(number of contracts=6)*	-14%
Difference	3%
Difference as a percentage of change in contract costs	21%

*In Boston, costs are for non–special education contracts. Most contracts in these two cities include several unit prices.

APPENDIX 3: Survey of Covered Firms in Boston

A: FIRM PROFILE

A1. What category best describes your establishment?

_____ FOR-PROFIT ORGANIZATION
_____ NON-PROFIT ORGANIZATION
_____ OTHER (PLEASE SPECIFY): _____

A2. What best describes your establishment's situation?

_____ IT IS AN INDEPENDENT, SINGLE ESTABLISHMENT FIRM (skip to Section B)
_____ IT IS A FRANCHISE OR BRANCH OF A LARGER COMPANY

A2a. What is the name of your establishment's parent company? _____

A2b. How many other establishments does your parent _____
company operate in your area?

B: CURRENT EMPLOYMENT CONDITIONS

B1. How many employees were on the payroll at this establishment _____
in the last pay period? (*excluding temporary and contract workers*)

B1a. Of these, how many are non-managerial personnel? _____

B1b. How many of the total work part-time? (35 hours or less) _____

B1c. Can you estimate the average hours worked per week _____
by a typical part-time employee?

B1d. Can you estimate the average hours worked per week _____
by a typical full-time employee, including overtime?

B2. How many temporary or contract employees do you have? _____
(if 0, then skip to B3)

B2a. How long has your most senior temporary or contract _____
employee been working with your establishment?

B3. Now I would like to ask you to put the managerial and non-managerial employees on your payroll into wage/salary categories. Can you tell me how many full-time and part-time workers earn the following amount? (*Please include salaried workers in this answer*)

Workers earning:	Full-time Employees	Part-time Employees
Less than $6.75 per hour	_____	_____
Between $6.75 and $9.24	_____	_____
Between $9.25 and $11.74	_____	_____
Between $11.75 and $14.24 (*between $24,400 and $29,640*)	_____	_____
More than $14.25 (*more than $29,640* per year)	_____	_____

B4. In the last month, how many non-managerial employees have _____ quit, been discharged or laid-off?

B5. How many of your employees currently work on city service _____ contracts in Boston? (*excluding temporary and contract workers*)

B6. Consider the lowest paid occupational group working on your _____ city service contract. About how many hours of training are required for a new worker to become competent in this job?

B6a. If you were to replace one of these workers with a new $_____ worker, what is your best estimate of the total costs of such an action (including separation, search and training costs)?

B7. What is your rate of unscheduled absenteeism, in days per _____ employee per year?

B8. What proportion of your employees are covered by a collective _____ bargaining agreement?

B8a. Which union(s) represent these employees?

B9. What sort of health benefits plan do you currently offer your non-supervisory employees?

_____ INDIVIDUAL COVERAGE

_____ BOTH INDIVIDUAL AND FAMILY COVERAGE

_____ NO HEALTH BENEFITS OFFERED

B9. Please describe the two or three NON-MANAGERIAL jobs in this establishment where you have the most employees:

Title	Job 1	Job 2	Job 3
How many people are employed with this job title?			
Please describe what people in this job do:			
What are the minimum educational qualifications required to fill the position?			
What is the starting wage for this job title?			
What is the average wage for this job title?			
What is the highest wage in this job title?			

C: PAST EMPLOYMENT SITUATION AND QUALITATIVE CHANGES

For comparison purposes, we now want to ask you about the situation of your business several years in the past. Specifically, we are going to ask you many of the same questions about your business as it was in 1998.

C1. How many employees were on the payroll at this establishment in the current pay period three years ago, i.e. in 1998? (*excluding temporary and contract workers*) _____

C1a. Of these, how many were non-managerial personnel? _____

C1b. How many of the total worked part-time? (35 hours or less) _____

C1c. Can you estimate the average hours worked per week _____ by a typical part-time employee in 1998?

C1d. Can you estimate the average hours worked per week _____ by a typical full-time employee in 1998, including overtime?

C2. How many temporary or contract employees did you have at that time? _____

C3. Now I would like to ask you to put the managerial and non-managerial employees on your payroll in 1998 into wage/salary categories. Can you tell me how many full-time and part-time workers earned the following amount? (*Please include salaried workers in this answer*)

Workers earning:	Full-time Employees	Part-time Employees
Less than $6.75 per hour	_____	_____
Between $6.75 and $9.24	_____	_____
Between $9.25 and $11.74	_____	_____
Between $11.75 and $14.24 (*between $24,400 and $29,640*)	_____	_____
More than $14.25 (*more than $29,640 per year*)	_____	_____

C4. In 1998 how many non-managerial employees quit, were discharged_____ %
or laid-off in an average month?

C5. In 1998 how many of your employees worked on city service _____
contracts in Boston? (*excluding temporary and contract workers*)
(if 0, then skip to C7)

C6. Consider the lowest paid occupational group working on your _____
city service contract in 1998. About how many hours of training
were required for a new worker to become competent in this job?

C6a. In 1998, if you were to replace one of these workers with $_____
a new worker, what is your best estimate of the total costs
of such an action (including separation, search and training costs)? (skip to C8)

C7. Consider the lowest paid occupational group working at your _____
establishment in 1998. About how many hours of training
were required for a new worker to become competent in this job?

C7a. In 1998, if you were to replace one of these workers with $_____
a new worker, what is your best estimate of the total costs
of such an action (including separation, search and training costs)?

C8. In 1998, what was your rate of unscheduled absenteeism, in days _____
per employee per year?

C9. What proportion of your employees were covered by a collective _____
bargaining agreement in 1998?

C10. What sort of health benefits plan did you offer your non-supervisory employees in 1998?

_____ INDIVIDUAL COVERAGE
_____ BOTH INDIVIDUAL AND FAMILY COVERAGE
_____ NO HEALTH BENEFITS OFFERED

C11. Please describe the two or three NON-MANAGERIAL jobs in this establishment
where you had the most employees in 1998:

Title	Job 1	Job 2	Job 3
How many people were employed with this job title?			
Please describe what people in this job did.			
What were the minimum educational qualifications required to fill the position?			
What was the starting wage for this job title?			
What was the average wage for this job title?			
What was the highest wage in this job title?			

D: PRODUCTIVITY AND WORKFORCE CHANGES

We would now like to ask you some questions about your business as it relates to your current city service contract. In particular, our records indicate that your city service contract is one of many that is subject to Boston's living wage ordinance, which currently mandates a minimum wage of $9.11 for all of your employees working on this city contract.

D1. On what date did your city service contract become subject to _____ the Boston living wage ordinance?

D2. Was there a delay in your compliance with the ordinance? YES NO (*circle one*)

D2a. If yes, when did you begin to comply with the ordinance? _____

D3. Did you have a contract for the same service with the city before your firm became subject to the living wage law? YES NO (*circle one*)
(if no, skip to D4)

D3a. If yes, do you currently have the same number of workers assigned to the city contract as you did before you were subject to the living wage ordinance?

YES NO DON'T KNOW (*circle one*)

D3a1. If you have changed the number of employees working on your city service contract since the living wage law was applied to your business what was the reason for the change?

D4. Do you have employees who received raises as a result of the implementation of the city's living wage ordinance? YES NO (*circle one*)
(If No, Skip to E1)

D4a. If yes, how would you say the following have changed?

1 = Decreased Significantly; 2 = Decreased Somewhat; 3 = No Change;
4 = Increased Somewhat; 5 = Increased Significantly

Employee turnover	1	2	3	4	5
Absenteeism	1	2	3	4	5
Effort	1	2	3	4	5
Morale	1	2	3	4	5

D4b. Could you comment further on these changes?

D5. When you gave raises to your workers directly covered by the ordinance to raise them to the living wage level, did you also raise wages of other employees in your establishment who were already earning above the living wage?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to D6)

D5a. If yes, please list the job categories and number of workers who received these wage increases.

Job category	Number who received raise	Average wage before raise	Average wage after raise
1.		$	$
2.			
3.			
4.			

D6. When you gave raises to your workers directly covered by the ordinance to raise them to the living wage level, did you also raise wages of other employees in your establishment who were earning below the living wage but not working on the city contract?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to D7)

D6a. If yes, approximately how many other workers got raises? _____

D6b. How much were their raises? (*Pick one*)

____ UP TO THE LIVING WAGE AMOUNT
____ BELOW THE LIVING WAGE AMOUNT, APPROXIMATELY $_____
____ VARIOUS AMOUNTS

D7. Since raising wages to comply with the living wage ordinance, have you changed your hiring standards? (e.g. high school diploma, number of years work experience)

YES NO DON'T KNOW (*circle one*)
(If No, Skip to D8)

D7a. If yes, in what ways have you changed your hiring standards?

D8. Since raising wages to comply with the living wage ordinance, have you changed your method of hiring? (e.g. newspaper ads, employee contacts, increased internal promotions, etc.)

YES NO DON'T KNOW (*circle one*)
(If No, Skip to D9)

D8a. If yes, in what ways have you changed your method of hiring?

D9. Have you ever utilized the career centers run by the city of Boston to fill vacant positions at your establishment?

YES NO DON'T KNOW (*circle one*)

D9a. If no, what are the reasons you have not made use of these services?

D10. Since raising wages to comply with the living wage ordinance, have you found that your average time to fill an unfilled position has changed?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to E1)

D10a. If yes, how has the time to fill an unfilled position changed?

____ Decreased Significantly (*Mark one box*)
____ Decreased Somewhat
____ No Change
____ Increased Somewhat
____ Increased Substantially

D11. Since raising wages to comply with the living wage ordinance, has the equipment, machinery, or general way of doing the work that is required changed for the jobs on your city service contract?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to SECTION E)

D11a. If yes, can you describe what sorts of changes have taken place?

E. COSTS AND REVENUES

We would now like to ask you some questions about your costs. This information is simply for statistical purposes and will remain completely confidential.

E1. What were your total annual revenues for the year 2000? $_____

E2. Approximately what were your total operating costs for theyear 2000 $_____ (including labor costs, materials, depreciation of machines, computers and other equipment, rent or mortgage and amortization, utilities, telephone, and mail).

E3. Approximately what proportion of your total operating costs _____% are total labor costs (wages and benefits)?

E4. What percentage of your establishment's revenues come from _____% any city service contracts?

E5. What percentage of your establishment's revenues come from _____% city service contracts with the city of Boston?

F. GENERAL PERSPECTIVE ON THE LIVING WAGE ORDINANCE
(for all employers)

Now, we'd like to ask you for your assessment of how the city's living wage ordinance affects you.

F1. Did the passage of the living wage law affect your willingness to bid on city service contracts?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to F2)

F1a. If yes, please describe.

F2. Did the passage of the living wage law allow you to better compete for city service contracts?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to F3)

F2a. If yes, please describe.

F3. Do you believe that the existence of the ordinance has had an impact on the overall quality of service for your contract?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to F4)

F3a. If yes, please describe.

F4. Have you received any information from the city about the Earned Income Tax Credit?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to F5)

F4a. If yes, have you been providing that information to your employees?

YES NO

F5. Has your establishment experienced cost increases due to the passage of the ordinance (either from direct wage increases, indirect wage increases, or compliance costs)?

YES NO DON'T KNOW (*circle one*)
(If No, Skip to F6)

F5a. If yes, how are you paying for those increases? Please check all methods that apply. In the space to the right, please indicate what proportion of your total cost increase is being absorbed by each method. (For example you could cover half of the cost increases (50%) through a higher bid price, and half (50%) through higher productivity.)

____ Higher bid price _____
____ Raising prices of other services _____
____ Lower profits _____
____ Lower or no raises to higher wage personnel _____
____ Costs recouped through higher productivity / lower turnover & absenteeis _____
____ Other. Specify: _____

F6. Overall, how do you assess the Boston living wage ordinance, and what have been your general impressions about the law?

APPENDIX 4: How Many Workers Received a Raise under Boston's Living Wage Law?

Our survey of firms covered by the Boston living wage law revealed that the ordinance forced nearly a quarter of these firms to raise wages. While we did not ask firms directly how many workers the law affected, in this appendix we provide several estimates of the number of workers who received direct raises as a result of the law (*Table A4.1*). These estimates each make different assumptions, which we explain in more detail below.

The most conservative assumption we can make is that that only workers who were earning less than $9.25 and working on a city contract in 2001—some 500 employees—benefited from the law. However, based on our survey responses, it is clear that the living wage law also led many firms to raise the wages of low-wage employees not working on city contracts. By our estimates, about 30 percent of workers in this category saw raises as a result of the Boston law. If we include these workers, then our estimate of the number of beneficiaries rises to some 900 employees overall.

What about people who might have received raises in 1998 but leapfrogged out of the lowest wage range by 2001? If we define the beneficiaries as workers on city contracts earning less than $9.25 in 1998, then we estimate that some 1,000 workers were affected by the law. If, as before, we count those low-wage workers who were likely affected by wage spillovers but who were not working on city contracts—some 30 percent according to our data—then we arrive at a figure of 1,300 beneficiaries.

A more generous assumption is that the living wage law may have forced firms to raise the wages of *all* their employees making less than $9.25. If we take the figures reported for 2001 as a guide, this represents about 1,900 workers. If we consider figures from 1998, that number rises to about 2,000 workers. Of course, these estimates represent fixed points in time: they do not include other individuals who benefited from the law between 1998 and 2001. With covered firms reporting annual turnover rates of close to 60 percent for non-supervisory staff, the total number of employees who benefited from Boston's living wage law is probably much higher than the figures reported in Table A4.1.

TABLE A4.1 – Workers Receiving Raises as a Result of Boston's Living Wage Law

	Estimated number of affected workers
Estimate 1 (Assumes only workers earning less than $9.25 in 2001 and working on covered contracts received raises)	473
Estimate 2 (Same as estimate 1, but adds 30% of workers earning less than $9.25 in 2001 but not working on covered contracts)	897
Estimate 3 (Assumes only workers earning less than $9.25 in 1998 and working on covered contracts received raises)	1,004
Estimate 4 (Same as estimate 3, but adds 30% of workers earning less than $9.25 in 1998 and not working on covered contracts)	1,287
Estimate 5 (Assumes all workers earning less than $9.25 in 2001 received raises)	1,884
Estimate 6 (Assumes all workers earning less than $9.25 in 1998 received raises)	1,948

Source: Authors' calculations.
Note: Because we had no firm way of determining how many workers received raises owing to the living wage law, we used several approaches to estimate that number. This table summarizes those approaches.

APPENDIX 5: Basic-Needs and Self-Sufficiency Standards

In Chapter 4, we used several benchmarks to evaluate the living standards of workers covered by Boston's living wage law. In addition to those based on the federal poverty line, we also used a more ambitious standard that we termed "basic needs." In Table A5.1 we provide an example of the types of items included in the WEIU/WOW and EPI budgets on which the basic-needs standard is based.

The first two columns provide the threshold for a one adult-two child family, as reported in Bacon et al. (2000) for the city of Boston. The authors assume that one child is a preschooler and the other is school age. The second two columns present a similar budget by Boushey et al. (2001) for a two adult-two child family in the Boston metropolitan area.

Just to illustrate the content of these budgets, let us examine the EPI budget for a two adult-two child family in more detail. It includes $986 for housing (with utilities), $555 for food, $1,071 for childcare, $240 for transportation, $421 for health care, $478 for other expenses, and $765 for taxes. Housing is assumed to be rented at the Department of Housing and Urban Development fair market rent for Boston, defined as the 40th percentile of "privately owned, decent, [structurally] safe, and sanitary rental housing of a modest (non-luxury) nature with suitable amenities" (Bernstein et al. 2000). Food costs are based on the USDA's low-cost food plan, and childcare costs are based on average statewide rates and assume that one child is under 4 while a second child is in public school.

Health care costs are based on a self-purchased family plan, adjusted to reflect the fact that some 60 percent of families have some form of employer-provided coverage. Transportation costs assume that an individual's commute equals the citywide average and that that person drives to work, and values each mile at the IRS reimbursement rate of $0.32 per mile. Other necessities total 31 percent of housing and food costs, based on a BLS survey. Finally, taxes are based on the assumption that all wages come from income, that all families have the maximum amount of dependent-care expenses, and that school-age children are under 13 years old and thus eligible for the dependent-care credit. This measure also assumes that the individual takes no adjustments in computing adjusted gross income, although it does make an adjustment for federal income taxes in calculating state taxes.

The two methods differ in their transportation budget and in the costs they allocate to miscellaneous expenditures such as clothing, personal care, and household cleaning supplies. However, as these figures show, such differences are minor. Thus the combination of the two thresholds offers a useful, more ambitious benchmark with which to measure the effects of the Boston living wage ordinance. Table A5.2 provides the monthly thresholds for all eight family types we used in this combined analysis in Chapter 4.

TABLE A5.1 – Monthly Budgets for Self-Sufficiency and Basic-Needs Thresholds

	One-adult, two-child family		Two-adult, two-child family	
	(1997)	(2001)	(1999)	(2001)
Housing	$839	$957	$906	$986
Food	$355	$405	$510	$555
Childcare	$985	$1,123	$984	$1,071
Transportation	$46	$52	$221	$240
Health	$183	$209	$387	$421
Miscellaneous	$241	$275	$439	$478
Taxes	$694	$792	$703	$765
Childcare credit	-$80	-$91	$0	$0
Total	$3,266	$3,725	$4,150	$4,515

Source: Bacon et al. (2000) for one adult-two child family and Boushey et al. (2001) for two adult-two child family.

TABLE A5.2: Self-Sufficiency and Basic-Needs Thresholds, by Family Type

Family type	Monthly threshold (nominal)	Monthly threshold (2001 dollars)	Annual threshold (2001 dollars)
Type 1: One adult, no children Bacon et al (2000)	$1,324	$1,510	$18,121
Type 2: Two adults, no children Bacon et al. (2000)	$1,680	$1,916	$22,994
Type 3: One adult, one child Boushey et al. (2001)	$3,191	$3,472	$41,664
Type 4: One adult, two children Boushey et al. (2001)	$3,718	$4,045	$48,545
Type 5: One adult, three children Boushey et al. (2001)	$4,803	$5,226	$62,712
Type 6: Two adults, one child Boushey et al. (2001)	$3,598	$3,915	$46,978
Type 7: Two adults, two children Boushey et al. (2001)	$4,150	$4,515	$54,186
Type 8: Two adults, three children Boushey et al. (2001)	$5,120	$5,571	$66,851

Source: Authors' calculations based on Bacon et al. (2000) and Boushey et al. (2001).

APPENDIX 6: How We Surveyed Boston Workers

We relied on a survey of Boston low-wage workers to study the impact of the living wage law, because we were unable to obtain cooperation from affected firms to conduct a random sample of their workforce. We gathered responses using a combination of three non-probability techniques: volunteer, purposive, and key-respondent referral (or snowball) sampling.[2]

Such methods are thought to suffer from several limitations, the most important being the inability to use probability theory to explain variations among respondents, and thereby generalize to the entire population. As Singleton and Straits note, however, "It would be a mistake to rule out non-probability sampling. In many instances this form of sampling either is more appropriate and practical than probability sampling or is the only viable means of case selection."

Our first means of soliciting interviews was to approach potential respondents at or near their place of employment to give them information about the survey and how to contact our research team (via a toll-free number) if they were interested in participating. We tried to vary the times and locations of such direct contact, to ensure that we did not introduce any bias into our sample, such as by omitting or favoring workers from certain industries or on certain shifts. We conducted many interviews in person with workers leaving work or on break, but conducted the majority via telephone.

We conducted interviews in English or Spanish, depending on the preference of the respondent, and they typically lasted between 20 to 30 minutes. After the interview, we mailed respondents a stipend of $25. Such payment is standard practice among researchers, both to increase participation rates and to partially compensate individuals for their time and for providing confidential information. Analysts have shown that such payments do not bias results or undercut the quality of the data, but rather, if anything, reduce the amount of missing data.[3]

Utilizing snowballing, we relied on help from participants to put us in touch with co-workers. These employees either gave us names and contact information for co-workers directly, or we enclosed our contact information with their stipend checks. We also tried to use purposive sampling – recruiting respondents from specific worksites – to assure that workers in certain key occupational categories were represented in our sample.

Our 97 valid responses represent some 1 percent of all workers earning less than $14.25 in covered firms, and 3.5 percent of workers earning less than $14.25 and working on covered city contracts. Such coverage is extensive, and far higher than the CPS for the Boston PMSA, which in 2002 included 1,634 respondents representing some 5.7 million people—a sampling rate of 0.03 percent. Our sampling rate is high even compared with other non-random samples. For example, one study of Vietnam veterans reported a sampling rate of 0.01 percent, while a recent study of occupational health by reported a sampling rate of 0.2 percent.[4]

The survey follows.

The Boston Worker Survey

INTRODUCTION

Good morning/afternoon. My name is _____, and I work with the University of Massachusetts. We are doing a study of work in Boston. In particular, we are interested in studying the effects of the Boston "living wage" ordinance. In 1998 the Boston city council passed a measure known as a "living wage ordinance" which required certain employers to raise the minimum wage for certain workers in Boston. According to our records, you are potentially covered by this law. If you do work at a covered work-site, we would like to get information about your job in Boston, and to find out how this law has affected your family's financial situation. The interview should take only 20-30 minutes, and we will pay you $25.00 for your time. However, we first we need to verify that you work at a qualifying work-site.

SCREENING QUESTIONS

S1. Who is your current employer(s)? (verify that this is one of the covered contractors)

S2. At what location do you work for this employer? _____
OR
S3. What kind of work do you do for this employer? _____

(Verify that the location or kind of work is part of a covered contract)

We appreciate you taking the time to help us with this project. I assure you that all information you provide us today will be kept strictly confidential. No one except the researchers on the project will see this information, and there is no way that anyone will be able to identify your answers in the results.

Please let me know if you do not understand a question or would like me to repeat it. Since this is a voluntary survey, you are not obligated to answer questions that you do not wish to answer. However, it is important that the information we get is as accurate as possible, so that our study represents the real working conditions for workers in Boston.

A. LABOR MARKET EXPERIENCE - CURRENT

A1. I'd like to start by asking you about your current work experiences. _____
How many jobs are you working at now, including self-employment?
(Include jobs where you are laid off or on leave but expect to return.)

A2. Including paid vacation (if any), how many weeks did you work during 2000? _____

A3. How many hours do you usually work for pay per week on <u>all</u> jobs? _____

A4. The next questions are about your current job in Boston with [LIVING WAGE CONTRACTOR]. How long have you been working for this employer?
_____ Years _____ Months

A5. In this job are you a permanent, temporary, or seasonal employee?

1 REGULAR/PERMANENT
2 TEMPORARY
3 SEASONAL
4 PART-TIME
5 OTHER

A6. How many hours a week do you usually work at this job? _____
(If more than 35 hours then skip to A7)

A6a. What is the reason you usually work less than 35 hours a week?

1 NOT ENOUGH WORK. COULD ONLY FIND PART-TIME WORK. HOURS REDUCED.
2 HAVE ANOTHER JOB THAT I WANT TO KEEP
3 HEALTH/DISABILITY.
4 FAMILY CARE/HOUSEKEEPING
5 AGE
6 PREFER TO WORK LESS THAN 35 HOURS.
7 STUDENT
8 OTHER (SPECIFY:_____)

A7. What is your hourly wage on this job before taxes, tips and bonuses? $_____

A8. Through this job with [LIVING WAGE CONTRACTOR], are any of the following available to you?

A8a.	Retirement Plan	YES	NO	DON'T KNOW
A8b.	Hospital or Health Insurance available for yourself	YES	NO	DON'T KNOW
A8c.	Hospital or Health Insurance available for your family or dependents	YES	NO	DON'T KNOW
A8d.	Paid Sick Leave	YES	NO	DON'T KNOW

A8d1. How many days of paid sick leave do you get per year?

1 _____ DAYS

2 DON'T KNOW

A8e.	Paid Vacation Days	YES	NO	DON'T KNOW

A8e1. How many days of paid vacation do you get per year?

1 _____ DAYS

2 DON'T KNOW

A9. If you do not have health benefits through your job, do you receive them through another family member?

1 YES
2 NO
3 DON'T KNOW

A10. If someone with your same level of education but no experience were to start your job tomorrow, how long would it take (him/her) to become fully able to do the job?

1 ____ (circle one: years months weeks days)
2 DON'T KNOW

A11. Did you have any previous experience in this type of job before you were hired (excluding schooling)?

1 YES
2 NO
3 DON'T KNOW

A11a. How much experience? _____ (circle one: years months weeks days)

A12. Did you receive any formal, classroom style training from your employer on this job?

1 YES
2 NO
3 DON'T KNOW

A12a. How much training? _____ (circle one: years months weeks days)

A13. What do you perceive is the main reason preventing you from working at a job with higher wages?

1 SKILLS/EXPERIENCE
2 NOT ENOUGH TRAINING
3 EDUCATIONAL REQUIREMENTS
4 LACK OF TRANSPORTATION TO HIGHER PAID JOBS
5 FAMILY CARE/HOUSEKEEPING
6 NO NEED/DESIRE.
7 LANGUAGE
8 OTHER (SPECIFY:_____)

A14. Does your employer require you to speak English on your job?

1 YES
2 NO

A15. Do you view this job as:

1 A LONG TERM CAREER
2 A SHORT TERM JOB TO MAKE MONEY
3 OTHER (SPECIFY: _____)

A16. Are you a member of a union or covered by a collective bargaining agreement on this job?

1 YES A16a. IF YES: Which Union? _____
2 NO
3 DON'T KNOW

A17. How satisfied are you with the following issues related to your job?
Please indicate whether you are
1 = Very satisfied; 2 = Somewhat satisfied; 3 = Not sure;
4 = Somewhat unsatisfied; 5 = Not at all satisfied

1	2	3	4	5	WAGES
1	2	3	4	5	HEALTH BENEFITS FOR SELF
1	2	3	4	5	HEALTH BENEFITS FOR FAMILY
1	2	3	4	5	PAID TIME OFF
1	2	3	4	5	HOURS
1	2	3	4	5	SAFETY/HEALTH ISSUES
1	2	3	4	5	PARKING/TRANSPORTATION TO JOB
1	2	3	4	5	CHILD CARE
1	2	3	4	5	RELATIONS WITH SUPERVISOR
1	2	3	4	5	JOB SECURITY

B. LABOR MARKET EXPERIENCE - PAST

B1. Now, I'd like to ask you to think back to this same time in 1998 (e.g. November _____ 1998), and answer similar questions about your work experiences at that time.
How many jobs were you working at in 1998, including self-employment?
(Include jobs where you are laid off or on leave but expected to return.)

B1a. If you were working more than one job, how many of these jobs were in Boston? _____

B2. Including paid vacation (if any), how many weeks did you work during 1998? _____

B3. How many hours did you usually work for pay per week on all jobs? _____

B4. Were you working for [LIVING WAGE CONTRACTOR] in 1998?
[note: should be consistent with A4]

1 YES (if yes skip to B5)
2 NO

B4a. If no, what was the name of your primary employer in 1998? _____

B4b. Please describe what you did at this job? _____

B5. How many hours a week did you usually work at that job? _____
(If more that 35 hours skip to B6)

B5a. What was the reason you usually worked less than 35 hours a week?

1 NOT ENOUGH WORK. COULD ONLY FIND PART-TIME WORK. HOURS REDUCED.
2 HAVE ANOTHER JOB THAT I WANT TO KEEP
3 HEALTH/DISABILITY.
4 FAMILY CARE/HOUSEKEEPING
5 AGE
6 PREFER TO WORK LESS THAN 35 HOURS.
7 STUDENT
8 OTHER (SPECIFY:_____)

B6. What was your hourly wage on this job before taxes, tips and bonuses? $_____

B7. Through this job with [LIVING WAGE CONTRACTOR], were any of the following available to you in 1998?

B7a. Retirement Plan YES NO DON'T KNOW

B7b. Hospital or Health Insurance available for yourself YES NO DON'T KNOW

B7c. Hospital or Health Insurance available for your family or dependents YES NO DON'T KNOW

B7d. Paid Sick Leave YES NO DON'T KNOW

B7d1. How many days of paid sick leave did you get per year in 1998?

1 _____ DAYS
2 DON'T KNOW

B7e. Paid Vacation Days YES NO DON'T KNOW

B7e1. How many days of paid vacation did you get per year?

1 _____ DAYS
2 DON'T KNOW

B8. If you did not have health benefits through your job, did you receive them through another family member?

1 YES
2 NO
3 DON'T KNOW

C. DEMOGRAPHICS AND HOUSEHOLD COMPOSITION

C1. Interviewer: Mark respondent's sex (ask if necessary): _____ Male _____ Female

C2. How old are you? _____ Years

C3. What is your race/ethnicity?

1 WHITE
2 BLACK/AFRICAN-AMERICAN
3 HISPANIC/LATINO
4 AMERICAN INDIAN, ALEUT OR ESKIMO
5 ASIAN OR PACIFIC ISLANDER
6 OTHER (SPECIFY: _____)

C4. What is the highest level of schooling you have completed?

1 LESS THAN HIGH SCHOOL
2 HIGH SCHOOL / GED
3 TECHNICAL COLLEGE
4 TWO OR FOUR YEAR DEGREE COLLEGE
5 OTHER (SPECIFY: _____)

C5. Are you currently enrolled in school?

1 YES
2 NO (SKIP TO D1)

C5b. What level of school are you enrolled in?

1 LESS THAN HIGH SCHOOL
2 HIGH SCHOOL / GED
3 TECHNICAL COLLEGE
4 TWO OR FOUR YEAR DEGREE COLLEGE
5 OTHER (SPECIFY: _____)

D. FAMILY INCOME STRUCTURE - PRESENT

D1. To help us understand your living situation, I would like to make a list of persons who usually live with you. Please include the adults as well as the children. What I need to know is their relationship to you, their sex, and their age on their last birthday.

	Relation to you	Sex	Age
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

D2. Next are a few questions about your income for the past year (2000). Including yourself, how many family members living with you were employed in 2000?

1 _____ FAMILY MEMBERS EMPLOYED
2 DON'T KNOW

D3. Including yourself, how many family members living with you had any income from any source (including wage income, as well as other sources such as SSI or alimony) in 2000?

1 _____ FAMILY MEMBERS WITH INCOME
2 DON'T KNOW

Now I would like to ask you about your sources of income. In the past year, have you or a family member living with you received any income from the following sources:

D4. Money from relatives or others living outside your home? YES NO DON'T KNOW

D5. Social Security, SSI, or other retirement payments? YES NO DON'T KNOW

D6. Unemployment (Insurance) compensation? YES NO DON'T KNOW

D7. Temporary Assistance to Needy Families (TANF) or other cash assistance welfare payments? YES NO DON'T KNOW

D8. Food stamps? YES NO DON'T KNOW

D9. What was your family income before taxes in 2000? This figure should include your income from all sources, and the income of all family members living with you. It should include salaries, pensions, self-employment earnings and public assistance.

1 $ _____ (skip to D10)
2 DON'T KNOW

D9a. Can you tell me your best guess as to what your family's income was before taxes from the following choices?

1 LESS THAN $5,000 FOR THE YEAR
2 BETWEEN $5,000 AND $10,000
3 BETWEEN $10,000 AND $20,000
4 BETWEEN $20,000 AND $30,000
5 BETWEEN $30,000 AND $40,000
6 MORE THAN $40,000 PER YEAR

D10. Do you rent or own your home/apartment/condo?

1 RENT
2 OWN
3 OTHER (SPECIFY: _____)

D11. How much is your monthly rent or mortgage? $_____

D12. In a typical week, how many hours are your children cared for by someone outside your immediate family?

0 RESPONDENT DOESN"T HAVE CHILDREN LIVING AT HOME
1 _____ HOURS PER WEEK
2 DON'T KNOW

D13. How much do you pay per week for this care?

1 $ _____ PER WEEK
2 DON'T KNOW

D14. I have a question about the amount your family owes for things (other than your home), such things as credit card debts, personal loans, or a car?
What is the approximate amount you owe for things (other than your home)? $_____

D15. Some people have assets such as deposits in the bank, savings accounts, checking accounts, savings bonds, stocks and bonds, and individual retirement accounts (IRAs). Please indicate the approximate amount of your family's current assets—(please do not include any equity you may have in your home or the value of your car). $_____

E. FAMILY INCOME STRUCTURE - PAST

E1. Now we'd like to ask you some of the same questions about income, but again for the year 1998. Including yourself, how many family members living with you were employed in 1998?

1 _____ FAMILY MEMBERS EMPLOYED
2 DON'T KNOW

E2. Including yourself, how many family members living with you had any income from any source (including wage income, as well as other sources such as SSI or alimony) in 1998?

1 _____ FAMILY MEMBERS WITH INCOME
2 DON'T KNOW

E3. What was your family income before taxes in 1998? This figure should include your income from all sources, and the income of all family members living with you. It should include salaries, pensions, self-employment earnings and public assistance.

1 $ _____ (SKIP TO E4)
2 DON'T KNOW

E3a. Can you tell me your best guess as to what your family's income was before taxes from the following choices?

1 LESS THAN $5,000 FOR THE YEAR
2 BETWEEN $5,000 AND $10,000
3 BETWEEN $10,000 AND $20,000
4 BETWEEN $20,000 AND $30,000
5 BETWEEN $30,000 AND $40,000
6 MORE THAN $40,000 PER YEAR

E4. In 1998, did you rent or own your home/apartment/condo?

1 RENT
2 OWN
3 OTHER (SPECIFY: _____)

E5. How much was your monthly rent or mortgage? $_____

E6. In 1998, what was the approximate amount your family owed for $_____ things such as cars, credit cars, and student loans (other than your home)?

E7. In 1998, what was the approximate amount of your family's assets? $_____
(Deposits in the bank, savings accounts, checking accounts, savings bonds, stocks and bonds, and individual retirement accounts (IRAs); NOT including any equity in home or value of car).

F. LIVING WAGE ORDINANCE

F1. Finally, I'd like to ask you about your opinions about the Boston Living Wage ordinance. First, are you aware that the city of Boston has a Living Wage ordinance?

1 YES
2 NO

F2. How did you first hear about the law?

1 FROM EMPLOYER
2 FROM NEWSPAPERS/RADIO
3 FROM CO-WORKERS
4 I WAS ACTIVE IN THE LIVING WAGE CAMPAIGN
5 OTHER: Specify: _____

F3. Did you receive a raise as a result of the Living Wage ordinance?

1 YES
2 NO (skp to F5)
3 DON'T KNOW

F3a. If YES, when did you receive the raise? _____

F4. Do you find that you are working harder on your job since you received a wage increase?

1 YES
2 NO

F5. Has your employer laid off workers since they began complying with the Living Wage ordinance?

1 YES
2 NO

F6. Has your employer reduced your work hours since they began complying with the Living Wage ordinance?

1 YES
2 NO

F7. Has your employer increased the pace of work since they began complying with the Living Wage ordinance?

1 YES
2 NO

F8. Can you tell me what impact, if any, the Living Wage Ordinance has had on you and your family?

APPENDIX 7: A Profile of Low-Wage Workers in Boston

To profile the pool of low-wage workers in the Boston area, and to compare those workers to our survey respondents, we relied on the Current Population Survey (CPS). The CPS—a monthly survey of some 50,000 households conducted by the Census Bureau—is widely recognized as the primary source of information on the U.S. labor market, and serves as the basis for calculating the U.S. unemployment rate. CPS data on the Boston primary metropolitan statistical area (PMSA) offer a broad, statistically reliable picture of people employed in low-wage jobs.

To ensure an adequate number of people in different wage categories, we pooled data from the 2001 and 2002 Annual Demographic Survey, a supplement to the CPS conducted every March. (We used the Consumer Price Index for the Boston PMSA to put wages and incomes for 2001 into 2002 terms.) Our sample of 1,943 individuals represented some 1.9 million people.[5]

We found that some 173,000 people in the Boston area—close to 10 percent of the workforce—were earning between the state minimum wage ($6.75 per hour) and the living wage ($9.11 per hour) (*Table A7.1*). Some 389,000 people—21 percent of the labor force—fell into the $9.11–$14.74 wage range, representing the next rung on the wage ladder.

We also found that most workers in the Boston area earning less than $14.74 were adults, not teenagers, even in the lowest wage ranges, and most have close to 20 years of labor market experience. On average, these individuals were working close to full-time, year-round jobs, although with substantial variation across wage ranges (*Table A7.2)*. The majority of these employees live with families, and they are making a substantial contribution to total family income (*Table A7.3*).[6]

On average, family incomes for these workers were fairly high: less than 10 percent fell below a reasonably defined poverty threshold (defined in Chapter 4), except for workers in the very lowest wage ranges (*Table A7.4*). From 75 and 80 percent of the families of workers earning more than the living wage of $9.11 an hour lived above a basic-needs threshold. However, at least 40 percent and as many as 65 percent of the families of individuals earning less than the living wage fell below the basic-needs threshold. Thus Boston's living wage policy has substantial scope for raising affected workers up to a more comprehensive living standard.

Close comparisons between these results and our survey data show that researchers must exercise care when extrapolating earnings and family structure for people covered by living wage laws from large databases. The percentages of CPS workers who were women and who were non-white were much lower than in our survey, for example. However, 85 percent of CPS employees working in social services were women and 44 percent were non-white.[7]

The slightly higher representation of people of color in our survey may reflect a difference in the workforce composition of Boston's covered contractors compared with other social service providers in the Boston area, or it may reflect a bias in our sample. However, given the small number of workers in the social services sector in the CPS sample, the differences are probably real, not least because most employers are in the central city, where the population is more heavily African American and Latino. (The population of Suffolk County, which includes Boston, is 48 percent non-white, according to U.S. Census data for 1999, while Middlesex County, which is 13 percent non-white, has the highest non-white percentage among the other counties in the Boston PMSA.)

Even when making a more precise comparison between our respondents and workers in the social services sector of the CPS sample, we found that family incomes for our respondents were between 20 to 25 percent lower than those reported in the CPS. While we have good reason to believe that these lower family incomes, much like the demographic differences between the two groups, reflect real differences, our estimates of family income may be biased downward. This follows from the fact that workers in our survey reported higher earnings than the general CPS population (because our respondents worked far more hours per week and per year than workers in the CPS sample).

TABLE A7.1 – Basic Demographics of Low-Wage Workers in Boston, 2001

	Hourly wage rate		
	$6.75–$9.10	$6.75–$8.00	$8.01–$9.10
Number of workers	172,832	86,935	85,897
Percentage of workforce	9%	5%	5%
Average age	35	34	36
Estimated labor force tenure (years)	17	16	18
Teenagers	16%	14%	17%
Non-white (including Hispanic)	30%	27%	33%
Hispanic	13%	12%	13%
Female	54%	50%	58%

	Hourly wage rate			
	$9.11–$14.74	$9.11–$10.74	$10.75–$12.74	$12.75–$14.74
Number of workers	388,710	113,892	137,826	136,991
Percentage of workforce	21%	6%	7%	7%
Average age	39	39	40	39
Estimated labor force tenure (years)	20	20	20	20
Teenagers	4%	6%	0.7%	5%
Non-white (including Hispanic)	22%	20%	25%	19%
Hispanic	8%	9%	9%	6%
Female	58%	55%	60%	58%

Source: Current Population Survey (2001 and 2002).

TABLE A7.2 – Hours and Earnings of Low-Wage Workers in Boston, 2001

	Hourly wage rate	
	$6.75–$8.00	$8.01–$9.10
Average wage *(2002 dollars)*	$7.39	$8.53
Average hours per week	35	33
Average weeks per year	43	43
Average yearly hours worked	1,508	1,396
Average annual earnings *(2002 dollars)*	$11,430	$12,182

	Hourly wage rate		
	$9.11–$10.74	$10.75–$12.74	$12.75–$14.74
Average wage *(2002 dollars)*	$10.05	$11.76	$13.63
Average hours per week	37	38	39
Average weeks per year	48	47	46
Average yearly hours worked	1,774	1,765	1,761
Average annual earnings *(2002 dollars)*	$17,865	$20,492	$24,009

Source: Current Population Survey (2001 and 2002).

TABLE A7.3 – Family Structure and Earnings of Low-Wage Workers in Boston, 2001

	Hourly wage rate	
	$6.75–$8.00	$8.01–$9.11
Average family size	3.3	3.4
Average number of wage earners per family	2.3	2.2
Average dependency ratio *(family size/number of wage earners)*	1.5	1.7
Family earnings *(2001 dollars)*		
median	$32,169	$40,728
mean	$50,090	$60,966
Family income *(2001 dollars)*		
median	$39,057	$52,313
mean	$55,869	$73,536

	Hourly wage rate		
	$9.11–$10.74	$10.75–$12.74	$12.75–$14.74
Average family size	2.9	2.8	3.0
Average number of wage earners per family	2.0	1.9	2.1
Average dependency ratio *(family size/number of wage earners)*	1.6	1.6	1.5
Family earnings (*2001 dollars*)			
median	$49,083	$36,552	$49,865
average	$56,777	$54,481	$63,129
Family income (*2001 dollars*)			
median	$59,300	$49,615	$51,255
average	$66,229	$62,548	$73,537

Source: Current Population Survey (2001 and 2002).

TABLE A7.4 – Poverty Status of Low-Wage Families in Boston

	Hourly wage rate	
	$6.75–$8.00	$8.01–$9.11
Families in severe poverty *(below official poverty line)*	6%	1%
Families in poverty *(below 160% of official poverty line)*	27%	10%
Near-poor families *(below 185% of official poverty line)*	38%	17%
Below basic-needs threshold	64%	41%

	Hourly wage rate		
	$9.11–$10.74	$10.75–$12.74	$12.75–$14.74
Families in severe poverty *(below official poverty line)*	4%	3%	4%
Families in poverty *(below 160% of official poverty line)*	10%	7%	9%
Near-poor families *(below 185% of official poverty line)*	14%	12%	13%
Below basic-needs threshold	24%	19%	5%

Source: Current Population Survey (2001 and 2002).

Endnotes

1. We calculated the weights by dividing the real annual contract value by the number of unit costs. Thus the impact of each contract remains the same as in Chapter 2.

2. For more on these and other non-probability sampling techniques, see Babbie (1998) and Singleton and Straits (1999).

3. For a more thorough discussion of this practice, see Levy and Lemeshow (1991); Groves (1989); Groves and Couper (1998), and Singer et al (2000).

4. Rothbart, Fine, and Sudman (1982), cited in Singleton and Straits (1999); and Hammond et al. (1995).

5. Our respondents lived in the Massachusetts portion of the Boston PMSA, which includes residents of Suffolk County and parts of Essex, Middlesex, Norfolk, Bristol, Worcester, and Plymouth counties. The PMSA also includes parts of southern New Hampshire. See OMB (1999).

The analysis in this section largely follows the CPS results reported in Pollin and Brenner (2000), and examines civilian labor force participants over 14 years of age. Thus the information represents some 1.9 million people, based on a sample of 1,943 individuals.

6. In the CPS, income includes unemployment, workers' compensation, Social Security or railroad retirement, Supplemental Security Income, public assistance or other cash welfare payments, veterans payments, survivor's income, disability, retirement income, interest, dividends, income from estates or trusts, net rental income, child support, alimony, and private financial assistance.

7. We calculated the average figures for social service workers in the CPS based on pooled data from the ADS for 1999 to 2002, restricted to workers earning $9.11–$14.74 in 2001 dollars. We added the extra two years of data to boost the number of observations in the social services sector. In total, these results are based on 28 individuals who reported working in the social services sector.

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Donald Coursey, Al Washington and Associates (June 11, 2003)

Dianne Collins, Boston Public Library (June 12, 2003)

Mark Cratin, Lance Investigations (June 11, 2003)

Michael Fumiatti, New Haven Purchasing Department (June 13, 2003)

Joann Keville-Mulkern, Boston Public Schools (June 12, 2003)

Steve Mermell. Pasadena Purchasing Administrator (January 14, 2002)

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Mimi Turchinetz testimony before the Providence City Council (March 5, 2002)