

## Issue Summary

### **Mandated Wages: Living wages**

#### *The Issue:*

The phrase “living wages” refer to a super-high mandated wage—often 50 percent to 150 percent greater than the current federal minimum wage (\$5.15). They usually require any business or firm that receives local government assistance to pay its employees the mandated wage (set by the local government). The key term is “government assistance” which can be a catch all. In its simplest form, government assistance is limited to contracts between a firm and a government agency. In its more complex form, it can include tax abatements, tax increment financing, direct subsidies, as well as any other indirect government assistance.

#### *What We Know:*

The poor are not getting poorer, as they are consuming more goods today than they were thirty years ago. Non-monetary benefits have also increased by one-third over the last two decades. As far as “burger flippers” are concerned, a U.S. Bureau of Labor Statistics report noted that on average, those in the fast food industry earn more than the prevailing minimum wage and approximately 70 percent are teenagers. The best remedy for increasing one’s wages is education, experience and tenacity—not government intervention.

Who supports mandated wage floors? Mandated wages have the support of labor unions as well as activist groups such as ACORN (Association of Community Organizations for Reform Now). ACORN has been successful in getting these ordinances passed in many communities in California including their home community. Ironically, after it was passed, ACORN applied for an exemption from the law so they would not have to comply. They argued that they would have to reduce their workforce and would be unable to continue to operate at the same level.

Labor unions, specifically public sector unions, have viewed mandated wages as a way to push up all wages and not just the entry level ones. If the entry level wage were raised then all wages would rise by an equal amount to keep the hierarchy intact. This allows them to gain wage increases without striking or bargaining. It also helps them stem the tide of privatization among state and local governments as an inflated minimum will negate any savings that would have been achieved by outsourcing to private contractors—thus preserving union jobs.

Measures like mandated wages send signals to a business community that local governments are not afraid to be an active regulator of business operations. This information may be enough to dissuade a firm from locating in such an environment. However, if they choose to operate in this environment and are subject to the mandate they more than likely will follow one of three courses: raise prices to cover the increased

wage costs; reduce costs by (among other things) reducing the number of employees, or reconsider doing business with the city/county. Firms can also substitute away from low-skilled workers to higher-skilled workers with greater productivity, thus hurting the people that the mandate was intended to help. By stipulating that any firm doing business with the government pay the mandated wage, it will cause the number of firms bidding for local government contracts to fall, reducing competition, thus leading to higher contract prices which will be passed along to taxpayers in the form of higher taxes.

*Recommendations:*

Mandated wages, such as the living wage, do not achieve the goal of reducing or eliminating poverty. Labor costs to firms increase when required to raise wage rates which forces them to make decisions. They can reduce labor costs by reducing, among other things workers themselves; cease to do business with the government imposing the new wage; or pass the costs along to customers. Moreover, as workers' incomes rise they may become ineligible for government subsidies such as food stamps, Medicaid, or income tax credits, reducing or offsetting the benefits of the wage hike.

Since raising the wage rate is not a cure for poverty, what alternatives are out there? A more direct approach, used by Harvard University, is to extend benefits such as health care to part-time employees. They also helped lower-skilled employees by offering literacy and GED courses. Other alternatives include increasing earned income tax credits, child care, job training and education, and housing assistance.

*Allegheny Institute References:*

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