

Pittsburgh's Minimum Wage Obsession

Summary: Pittsburgh's mayor has announced a plan to require contractors with professional service contracts of \$100,000 or more to pay their employees \$15 per hour. Once again the role of the marketplace and prudent government are given short shrift.

How many problems and questions are there with this latest proposal to dismiss and ignore marketplace economics? Let's enumerate some of the biggest ones.

1) Is the \$100,000 contract that triggers the minimum-wage requirement an annual amount or total for the life of the contract? Why not \$70,000? Why not any contract amount? Are there employees on contracts of under \$100,000 that will not benefit from the minimum? If so, how many?

2) How many current or potential contractors with contracts of \$100,000 have any of their employees being paid less than the minimum wage? If there might not be any, as the city's chief financial officer claims, why engage in a meaningless gesture designed merely to further enhance elected officials' "progressive" bona fides?

On the other hand, if this proposal could lead to greater expenditures in the future, will it require approval of the oversight authorities (Act 47 and the Intergovernmental Cooperation Authority (ICA)? What assurances are there that it will not result in higher costs? Once the concept of mandating minimum wages is in place, what is to prevent the city from moving the minimums higher?

3) The proposed ordinance calls for the minimum wage to apply only to the contractors' employees who work 30 or more hours a week on the contracted service.

Since the contractors are not required to pay \$15 per hour to their employees not doing work called for by the city contract, this could potentially set up unequal pay rates among employees doing similar jobs—not a situation most companies want to face. The contractors might be pressured to raise wages by employees who are not doing city work—especially if unions are involved. Those are pay raises the companies might not be able to afford. Alternatively, they might abandon bidding on city contracts altogether.

This situation could limit the number of companies willing to bid on jobs and thereby create even more cynicism about cronyism.

4) Most city workers are in unions. Why would the city pay higher wages than collective bargaining agreements would otherwise dictate? The city is effectively negotiating with itself and boosts the trajectory of wages in the future beyond what they would have been absent the minimum requirement it imposes on itself. Assuming some of the contract workers are in unions, why would the city override wage rates reached in collective bargaining agreements?

5) Is this minimum-wage plan designed to strengthen the city's long-standing policy of excluding privatization of services that could save money and reduce staff?

6) Bear in mind that the Pittsburgh city government remains one of the most expensive per resident among comparable size cities in the country with substantially more workers per 1,000 residents. The city also still has seriously unfunded pension liability problems. All of this causes city taxes per resident to be among the highest in the country. Further, only by diverting part of the revenue from its extraordinarily high parking tax rate has it managed to avoid a state takeover of its pension plans.

7) For the time being, the city remains in financial distressed status (Act 47) and under financial oversight by the ICA. Reducing spending, employment and eventually taxes should be its priorities. Tinkering with wage rates of companies doing business with the city or paying its own workers more than the market or union bargaining requires should not be a priority of a prudent government.

8) The recently enacted legislation to oversee and regulate the city's water and sewer authority will impose enormous costs on the city's water users, both residential and business, in the years ahead. The city has been irresponsible and extremely dilatory in not dealing with the well-known infrastructure problems for many years, opting instead to pursue feel-good wage mandates and wasteful development schemes that ignored market forces.

In light of the prospective large increases in water bills city residents and companies will face to pay for the massive upgrade in the water-distribution system, this is certainly not the time to be contemplating additional unnecessary expenditures that will further burden taxpayers.

This new state-mandated oversight of the water and sewer authority is in addition to the financial oversight of city government by two state appointed agencies. What does this say about Pittsburgh's ability to govern itself? It is important to note that the city has lost several court cases recently because of its legislative efforts to interfere with management of private companies.

9) And as Allegheny Institute *Policy Briefs* (Vol. 16, No. 3 and Vol. 14, No. 37) have pointed out, the city ranks very low on new business starts and business climate.

Moreover, *Policy Briefs* (Vol. 16, No. 42 and No. 24) have pointed out the absence of net job growth in the city as well as the decline in population dating to 1990. This lack of job gains has occurred despite the promises made by advocates of the Regional Asset District tax and notwithstanding the claims about job growth that were made to justify construction of new stadiums and a new convention center.

Apparently little or nothing has been learned about the advantages of free markets, low taxes and a friendly business climate.

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