



Is a “Family Wage” in Pittsburgh’s Future?

Pittsburgh has seen its fair share of mandated wage proposals over the years from the minimum wage to the prevailing wage and even the living wage. Then too, the City recently enacted a mandated sick leave law that is a form of coerced compensation. To date there has been no “family wage” proposed, but perhaps that could be coming soon.

It’s an idea that will be voted on in Spokane, Washington in a referendum this November. The basic premise is that employees should earn enough money to support their family’s “basic needs and a limited ability to deal with future emergencies without the need of public assistance.” Of course like all mandated wage proposals, this has all the trappings of feel good rhetoric without a hint of economic understanding.

The definition of family wage from the petition is as follows: *“Family wage means a wage that provides for basic needs and a limited ability to deal with future emergencies without the need for public assistance. The City of Spokane shall calculate the family wage to include, but not limited to, basic necessities such as food, housing, utilities, transportation, health care, childcare, clothing, and other personal items, emergency savings, and taxes. The City shall calculate the family wage rate based on a household size of two with one person employed and the family wage rate shall not be less than the Self-Sufficiency Standard for Washington State 2014, as adjusted for inflation..... If the City of Spokane does not calculate a family wage, then eligible employers must provide, at minimum, a wage equal to the higher of either (1) three times the federal poverty guidelines for a family of two, or (2) any family wage rate previously calculated by the City of Spokane.”*

There are a couple of points about the Spokane petition worth mentioning. First, the provisions of the petition require any employer with more than 150 employees to pay the “family wage”. This would essentially put into law that corporate and employer rights are subordinate to employee rights.

Secondly, the City is being forced by the courts to place it before the voters via referendum after 2,600 people signed a petition. It is not known, nor has been tested in court, as to whether the provisions of the petition conform to either the Washington State Constitution or its laws. Furthermore, the petition contains language that presumes to take away the right of affected businesses to challenge any part of the new law in court.

Nor could employers assert any state or Federal laws that would overturn the restriction on their rights. It is outrageous that any legislation would contain a provision barring it from being challenged in a court of law. That alone should be enough for a dismissal.

Since there has not been a calculation of “family wage” by the City of Spokane, let’s look at the Federal poverty level for a family of two in 2015—\$15,930. Multiplying this by three, as required in the language above, sets the “family wage” at \$47,790. The Self-Sufficiency Standard for Washington State (2014) for a family of two, one employed, is \$44,806—adjusting for inflation raises that amount to at least \$46,600. Note that the average of *all* workers in the Spokane metro area was only \$43,000 in 2013. In fact many jobs at large organizations in Spokane are low paying with annual wages well below this level in the range of \$25,000 to \$35,000. Health occupations below registered nurse, many factory jobs, general office assistants, the hospitality industry, and low level management typically earn significantly less than \$47,000.

Of course the intent is to force employers to pay enough so families would no longer need to collect public assistance. But how can a company afford to pay a low skilled worker, currently worth only \$28,000 to them, \$47,000 a year? Economic principles in a competitive market place will compel employers to pay wages commensurate with the value of the workers’ productivity. When a company is forced to pay more than an employee is worth in terms of their production value, they must either pass on the higher costs in their prices, try to improve productivity, severely reduce all other benefits, or cut back on the amount of labor used—possibly all three. With the amount of increase the “family wage” law would entail, there is a little chance that productivity or prices can be raised enough or benefits cut enough to offset the higher wage costs, making reduction in the number of workers the only viable option.

Then the question arises: What will be the reaction of those skilled workers with experience and high productivity already earning at or above the family wage? Certainly they will push hard for a substantial raise to maintain workplace salaries that recognize differences in worker value. There might well be cuts to their benefits or hours to help pay for the big increase for the workers that were well below the family wage. And the workplace would become far less amiable. Many would undoubtedly leave absent some sizable pay raise.

All of this will conspire to raise labor costs at these firms. If they cannot pass those costs onto their customers through price increases, they may be forced to lay off enough people to keep those costs down, or in the extreme, close their doors. Either way there will be layoffs of mostly unskilled workers and a larger burden on public assistance.

The arbitrary cutoff of 150 employees will create its own problems. How do we know that a company with 180 employees, many of them low skilled, such as hotel or social service agencies, large department stores, etc. is better able to pay \$47,000 for a low skill worker than a company with 140 workers? At market rates, the smaller company might be paying only \$30,000 for the same job. It will give the smaller firms a competitive advantage in the market place and motivate larger firms to reduce their employee count to

less than 150 through layoffs—again putting more people on social assistance rolls. Who is being served in this case?

It is not clear what governments that are affected by the law but who cannot dramatically reduce services, will do to cover the additional costs of the wage mandate. Higher taxes are almost a certainty. Will the citizens of Spokane consider the prospect of higher taxes as they are tempted to vote for this anti-business, feel good petition? What will hospitals do? They will have to raise prices substantially or see red ink flow in torrents. As a last resort they could slash services and lay off workers. Are voters willing to put up with lower quality and less available health care? Do Spokane residents believe state or Federal taxpayers will stand ready to bail them out of the mess they are about to make? That might be a poor bet.

This proposal is preposterous on its face. Forcing firms to pay the “family wage” will cause more problems than the backers realize. Presumably, the prospect of socking it to evil employers is reward enough for them. Consequences are apparently of secondary importance. As is the case with virtually every statist, anti-free market effort to replace market forces with government dictates, the results will be awful for workers and taxpayers. It will cause layoffs for those who can least afford it and cut off the bottom rung of the economic ladder for the low skilled, inexperienced people looking to enter the workforce.

We hope this ludicrous idea will go down in flames in the November vote in Spokane. If it does not the concept will undoubtedly spread and Pittsburgh will likely be targeted by the same groups pushing the Spokane referendum. Just recently, we were treated to a report from a left leaning group telling us that a Pittsburgh family of four needs \$67,200 per year to maintain a modest life style. What the authors forgot to mention was that the median family income in Pittsburgh is only \$53,800. That means a huge number of families would need a whopping raise if \$67,000 was set by law as the minimum. Even the more modest \$47,000 “family wage” in the Spokane scheme would be disastrous.

The country has enough problems without more self- inflicted economic wounds created by more laws dictating the wage levels.

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