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Return of the Living Wage

Pittsburgh City Council's attempt to install a prevailing wage for employees at City-subsidized development projects has emboldened one Council member to take it a step further and revisit the idea of the living wage. At a time when the nation is in recession, the City and area are losing jobs, and governments at all levels are struggling to balance their budgets, resurrecting the living wage could not be more ill-conceived. Although hearings on the bill have been postponed for the moment, it will almost certainly be on Council's agenda soon.

To recall, City Council passed a living wage back in 2001 but shelved it when Allegheny County failed to enact a similar living wage ordinance. Council then put in place a contingency that if and when Allegheny County enacted a living wage law, the City's version would be activated as well. For nearly ten years, neither side expressed an interest in reviving the living wage requirement. That is until now as Pittsburgh City Council will attempt to remove the contingency language from its bill.

It is too bad this crippling piece of legislation is now a part of some Council members' agenda. Imposing a living wage is fraught with negative consequences for the City. At a time of grave fiscal problems the wage mandate would put tremendous additional strain on the City's finances.

The living wage law would require all employees of the City, the employees of all contractors doing business with the City, as well as workers at firms receiving City subsidies to be paid a minimum of $11.50 per hour plus health benefits.

Consider first the consequence of boosting wages for City workers who are currently paid less than $11.50 per hour. Raising the lowest rung on the wage ladder will mean that City workers on rungs above the living wage will clamor for higher wages to reflect the need to take into account productivity and seniority value differences. Thus, the living wage bill would boost the City's personnel costs, probably significantly. Personnel costs are the biggest budget item.

Besides elevating the City's expenditures on wages and benefits, legacy costs will also rise. Pension payments are based on the wages paid to employees and years of service. Thus, a permanent and substantial rise in wages will have a ripple effect on pension payouts for years to come. This cannot be a welcome development for a city whose pension plans are woefully underfunded—a city that has been scrambling to find new tax revenues to fund pensions.

And of course there is much more involved than the City's personnel expenditures. Consider the City's payments to contractors subject to this law. In the first place, it is unlikely the City will be able to mandate higher than market wages for firms under the terms of an existing contract. Forcing firms to pay higher wages without adjusting payments to contractors would lead to

reduced profits or losses if the contractor could not cut employees and still deliver the services called for in the contract. Undoubtedly this situation would lead to lawsuits. So, it is likely that a living wage requirement would be a condition imposed in new contracts, allowing bidders to take the higher wages into account in their proposals.

Firms that have received subsidies would find themselves in a situation similar to the contractors only they might not be able to sue depending on the terms of their agreement with the City. But the higher wages would lower their profits or lead to losses. Job cuts would be virtually inevitable. In the future, firms contemplating taking a subsidy would have to seek even more money to compensate for paying above market wages.

In short, whether the living wage raises City employee pay or the pay of contractor employees, the City will see its expenditures rise, forcing hard choices: raise taxes, find new sources of revenue or find ways to cut spending and most likely reduce workers employed in providing services to Pittsburgh. To date, neither the Mayor nor Council has shown any desire or willingness to make service cuts. Therefore, we should expect even more desperate attempts to find revenue.

To add some context to this picture, bear in mind that the City was unable to manage its finances in the past and as a result has been under financial oversight by an Act 47 administrator and the ICA (oversight) board since 2004. Several obvious questions arise. How will the increased personnel costs resulting from the living wage legislation be greeted by the Act 47 administrator in terms of the impact on the state approved recovery plan? Indeed, where are the Act 47 team and the ICA board on this issue? Not one word has been forthcoming from the leaders or the members of either team. They cannot be happy with this proposal and should be voicing serious concerns about it.

The Act 47 team and the oversight board must approve all budgets and rule on the advisability of costs and viability of revenue sources. For instance, the oversight board ruled in December that the projected revenue from a still unpassed tuition tax could not be used in the budget and it would not approve the budget. Given the potentially large impacts on spending, the living wage bill could lead to a loggerheads situation with Act 47 and the oversight board. Budgets might not get approved and the oversight board could withhold gaming funds from the City.

Market distorting laws such as living wage and prevailing wage are the worst possible policies in a financially struggling city. Council cannot lift the City to prosperity by mandating wage rates any more than it can tax the City into prosperity. It is bad enough that Council is unable to abandon its growth inhibiting behavior, but it even worse that the Act 47 team and the oversight board have not issued a stern warning to the City to cease and desist its plans to raise wages artificially and thereby increase expenditures—expenditures Pittsburgh certainly cannot afford.

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