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Living Wage Ordinances in California

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Abstract

Living wage mandates legislate minimum hourly wages that are considerably higher than minimum wage rates. Since 1994 living wage ordinances have been passed and, in varying degrees, implemented in over ninety-five local governmental entities in the United States; among them are twenty-one California cities. The author presents a summary of the living wage ordinances in California, including their wage mandate levels and their coverage. He discusses how the minimum wage and the federal poverty standard have failed to keep up with increased living costs, especially in California's cities, and reviews arguments for and against living wage policies. The author also surveys older academic studies on minimum wage and living wages and then discusses a new generation of research studies on the impacts of living wages. This new set of studies, which includes detailed analyses of Los Angeles and San Francisco, provides a more careful and complete understanding than was previously available. Using before-and-after surveys of employers and workers and more sophisticated methodology, they reveal that living wage policies increase pay for their intended beneficiaries without creating disemployment effects. Living wage policies also reduce employee turnover and absenteeism and improve worker performance, thereby creating some employer savings in the short run and generating incentives for productivity growth in the long run. The policies' costs to employers and taxpayers are considerably smaller than some have projected. The author concludes by discussing recent developments in living wage campaigns that may lead to greater impacts in the future.

Living Wage Ordinances in California

MICHAEL REICH

SINCE 1994 LIVING WAGE ORDINANCES HAVE BEEN PASSED AND, IN varying degrees, implemented in over ninety-five local governmental entities in the United States; among them (as of July 2003) are twenty-one California cities.¹ Of the six largest cities in California, four have adopted living wage ordinances: Oakland, Los Angeles, San Francisco, and San Jose.² Outside of California, the major cities in the United States that have passed living wage laws include: Baltimore, Boston, Buffalo, Chicago, Cleveland, Detroit, Miami, Milwaukee, Minneapolis, New York, and St. Louis. Brenner (2003) estimates that close to 40% of the population of large U.S. cities live in cities with living wage ordinances.³ By this measure, living wage policies have spread rapidly and widely. Yet our understanding of their dimensions and impacts is only beginning to emerge.

What is a livable wage? Why have cities passed living wage ordinances? What do we know about their impacts on workers, employers, and taxpayers? Given the state and local fiscal crises now affecting California, as well as many other states, what does the future hold for living wage policies?

As their name suggests, living wage ordinances set a mandated wage floor—an hourly rate that is identified as a livable wage for the locality—and defines the employees who are covered. Most often, the ordinance applies only to employees working on municipal service contracts over a given threshold, such as \$25,000. Table 6.1 lists all the known California cities with living wage ordinances, the dates they were passed, the mandated wage and benefit levels, the types of employers and

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1. Campaigns to pass similar laws are underway in a large number of localities.
2. The other two cities are San Diego and Sacramento. Advocates in San Diego have discussed introducing a living wage ordinance, and in September 2003 the Sacramento City Council voted preliminary approval for a living wage ordinance.
3. As in the rest of the United States, most of the California ordinances are in medium and smaller cities as diverse as Hayward and Pasadena.

TABLE 6.1. Living Wage Ordinances in California, as of September 2003

| <i>City</i> | <i>Date Passed</i> | <i>Wage/Benefit Level</i> | <i>Coverage/Threshold</i> | <i>Labor Relations Provisions</i> |
|----------------------------------------|--------------------------------|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| Berkeley and Berkeley Marina | June 2000 Amended October 2000 | \$10.76 with benefits \$12.55 without May be adjusted by city council | City employees Service contracts: \$25,000 Non-profits: \$100,000 Subsidy recipients: \$100,000 Property contracts: * All businesses in Marina Zone with \$350,000 in annual gross receipts | Anti-retaliation ^b |
| Fairfax | August 2002 | \$13.00 with benefits \$14.75 without | Service contracts: \$10,000 Subsidies: \$15,000 Municipal employees | |
| Hayward | March 1999 | \$9.26 with benefits \$10.71 without | Service contracts: \$25,000 Municipal employees | Anti-retaliation Collective bargaining supersession ^c |
| Los Angeles | March 1997 Amended 1998 | \$8.53 with benefits \$9.78 without Indexed to city employee retirement benefits 12 paid days off | Service contracts: \$25,000 Subsidies: \$1 million Property contracts | Anti-retaliation language Collective bargaining supersession Worker retention (separate ordinance) |
| Los Angeles County | June 1999 | \$8.32 with benefits \$9.46 without | Service contracts: \$25,000 | Collective bargaining supersession Worker retention No public funds for anti-union activities Restricts use of part-time workers |
| Marin | January 2002 | \$9.00 with benefits \$10.25 without | Service contracts | |
| Oakland Extended to Port of Oakland | March 1998 November 2002 | \$9.13 with benefits \$10.50 without Indexed to CPI: 9.45/ 10.87 in 2002 12 paid days off | Service contracts: \$25,000 Subsidies: \$100,000 Property contracts | |

| | | | | |
|-------------------------------------------------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Oxnard | July 2002 | \$9.00 with benefits \$11.25 without | Service contracts Subsidies | |
| Pasadena | September 1998 | \$8.20 with benefits \$9.61 without \$9.00 for temp agencies | Municipal employees Service contracts: \$25,000 | Non-retaliation Collective bargaining supersession |
| Richmond | October 2001 | \$12.47 with benefits \$13.44 without | Service contracts: \$25,000 Non-profit contracts: \$100,000 Municipal employees Property contracts | |
| San Fernando | April 2000 | \$7.25 with benefits \$8.50 without 6 paid days off | Service contracts: \$25,000 Subsidies: \$25,000 | |
| San Francisco Living Wage | August 2000 | \$10.25 with annual increase of 2.5% through 2005 \$9.00 for non-profits 12 paid days off | For-profit service contracts: \$25,000 Non-profit contracts: \$50,000 Airport property contracts In Home Support Services Public Authority | Anti-retaliation language Collective bargaining supersession |
| San Francisco Health Care Accountability | June 2001 | Employer must provide health benefits that meet standards or pay \$1.50 an hour into a fund for the uninsured | For-profit service contracts: \$25,000 Non-profit contracts: \$50,000 Property contracts | Anti-retaliation language |
| San Francisco Redevelopment Agency | October 2001 | \$10.25 Annual increase of 2.5% through 2005 Employer must provide health benefits or pay into a city fund 12 paid days off | For-profit service contracts: \$425,000 Non-profit contracts: \$50,000 Property contracts | Anti-retaliation language Collective bargaining supersession |
| San Francisco Airport-Quality Standards Program | January 2000 | \$10.45 with benefits \$11.70 without benefits | Workers whose performance affects safety or security | Labor Peace/Card Check (separate regulation) |

TABLE 6.1. (continued)

| <i>City</i> | <i>Date Passed</i> | <i>Wage/Benefit Level</i> | <i>Coverage/Threshold</i> | <i>Labor Relations Provisions</i> |
|--------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| San Jose | November 1998 | \$10.10 with benefits \$11.35 without Indexed | Service contracts: \$20,000 Direct grants: \$100,000 | Labor peace Worker retention Collective bargaining supersession |
| Santa Clara County | September 1995 | \$10.00 with benefits | Subsidies | |
| Santa Cruz | October 2000 Amended 2002 | \$11.65 with benefits \$12.071 without benefits Indexed annually | Service contracts: \$10,000 | Anti-retaliation Cannot use city funds for anti-union activity Labor peace for city temporary workers |
| Santa Monica | May 2000 Repealed in 2003, prior to implementation | \$10.50 with benefits \$13.00 without 10 paid days off | Service contracts Employers within the Coastal Zone with more than \$5 million in annual gross receipts and 50 employees | Anti-retaliation |
| Ventura County | May 2001 | \$8.00 with benefits \$10.00 without | Service contracts: \$25,000 | Collective bargaining supersession |
| Watsonville | September 2002 | \$11.65 with benefits \$12.71 without Indexed annually 10 paid days off | Contracts in 14 categories | |
| West Hollywood | October 1997 | \$8.00 with benefits \$9.30 without \$9.00 for temp agencies | Service contracts: \$25,000 | |

SOURCES: ACORN Living Wage Resource Center; Employment Policies Institute; Reynolds 2003.

^a Property contracts place wage conditions on leases of public property.

^b Anti-retaliation prohibits retaliating against workers for reporting violations or in other ways exercising rights under the ordinances.

^c Collective bargaining supersession states that provisions may be set aside in a collective bargaining agreement.

contracts that are covered as well as coverage thresholds, and labor relations provisions that are part of the ordinance.⁴

The wage column in Table 6.1 shows how high the mandated wage levels are in these ordinances and how much they vary across jurisdictions. The lowest wage mandate without health care coverage is \$8.50 per hour and the highest without health care coverage is \$14.75. Among large cities, the mandated wage, without benefits, ranges from \$9.78 in Los Angeles to \$11.70 in San Francisco. These rates compare favorably to the California minimum wage—\$6.75 since January 2002—and the federal minimum wage—\$5.15 since September 1997.

The living wage concept derives from a social norm, namely that an employer in the United States pay wages that permit one full-time worker to support a family of four at a “livable” standard of living. The underlying moral principle is that workers obtain dignity when they can support their families without government assistance. The underlying economic principle is that U.S. business and government employers were able to meet such a norm until the mid-1970s and that subsequent improvements in education levels and labor productivity make this norm even more affordable for employers today. Living wage ordinances specifically mandate that taxpayer dollars be used according to such moral and economic principles.

What wage rate, then, constitutes a livable wage? The term “livable” is best understood as an attempt to improve upon two related but highly flawed concepts: that a feasible family budget can be based on the state or federal minimum wage and that the federal household poverty level reflects an accurate assessment of the income needs of the poor. California statute requires that the state minimum wage be benchmarked at a level that permits a worker to meet a minimal standard of living, as calculated by household budget studies that used to be defined and published by the U.S. Bureau of Labor Statistics. The budget studies disappeared long ago, and so did the benchmarking of California’s minimum wage policy.

The household poverty level is set by the federal government using a methodology that simply multiplies by three the cost of food from a basic nutrition diet, using the proportion of income that once went to food expenditures. In 2003 the official federal poverty level for a four-person household was about \$18,000, equivalent approximately to \$9.00 per hour for one year-round full-time worker. The federal approach, which dates to the 1960s, does allow for differences in household size, but it does not provide any allowance for differential housing costs across cities, nor does it include a very big item—child care expenses—that was exceptional in the 1960s and is now the norm. Today’s living wage advocates frequently seek to meet the federal poverty standard while emphasizing its limitations.

4. Typically, the ordinances contain a health benefit incentive and some type of wage indexing. A number of ordinances also contain conditions on worker retention, and they can be superseded by collective bargaining agreements. In these respects California ordinances are similar to those in the rest of the United States.

A “self-sufficiency” standard that allows a family to “make ends meet,” has also been widely used in living wage campaigns. Unlike the poverty standard, this more expansive approach takes into account the importance of local differences in the costs of housing, transportation, and child care. The website of the Economic Policy Institute provides self-sufficiency budgets that have been calculated for 400 communities in the United States, with separate calculations for different numbers of adults and children in the household.⁵

Budgets that meet the self-sufficiency standard for California are generally twice as high as those based on the federal poverty standard. In the Los Angeles–Long Beach area, for example, such a budget ranges from \$29,258 for a family with one adult and one child to \$49,683 for a family with two adults and three children; the comparable figures for San Francisco are \$38,431 and \$62,161. Since child care costs tend to be substantial, the wage rates required for self-sufficiency are higher for households with several pre-school age children, and they are much lower, close to the poverty standard, when households contain two working adults and no dependents.

In 1999, according to the recent decennial census, the median income of all Los Angeles households stood at \$42,189, while median income in San Francisco stood at \$55,221. The Economic Policy Institute reports that 33.1% of all California households do not meet the self-sufficiency standard. It thus appears likely that perhaps two-fifths of the households in Los Angeles and San Francisco do not meet the standard.

Every local living wage policy must choose a single wage level as the floor. Variation among different household structures therefore creates an ambiguity in how one should define the living wage for a locality. One solution is first to estimate the median size of households and the median number of earners, expressed in full-time equivalents, per household, in a locality.⁶ This approach usually involves a household with between one and two full-time earners who support a family of four. The next step is to calculate a self-sufficiency income for that household and the hourly wage needed to meet it.

The high wage levels generated by the self-sufficiency standard sometimes create anxiety among local policy makers. Although the self-sufficiency level is often cited to justify a living wage mandate, no existing living wage ordinance has set a floor at the self-sufficiency level. In practice, the actual wage level (and coverage levels) chosen represents some compromise involving the local self-sufficiency level, the costs as estimated by prospective studies, and the contending political forces in the city.

The issues involved are illustrated by San Francisco’s living wage ordinance, which was passed and implemented in 2000: its \$10.00 per hour mandate was 74% higher than the statewide minimum wage level of \$5.75 then in effect and was still 48%

5. See the Economic Policy Institute website (<http://www.epinet.org>). The institute uses the term “basic” rather than “self-sufficiency.” The concept of a basic consumption good in economics has a fascinating history; see the excellent discussion in Brown 2002.

6. The term “full-time equivalents” takes into account that many earners work part-time or part of the year.

TABLE 6.2. Cost of Living Indices for California Metropolitan Areas, 2002

| <i>Metropolitan Area</i> | <i>Indexed to 100.0 (Cost of Living, National Average)</i> | <i>Indexed to 5.15 (Federal Minimum Wage)</i> |
|--------------------------|------------------------------------------------------------------------|-----------------------------------------------------------|
| San Francisco | 184.1 | \$9.48 |
| Oakland | 139.5 | \$7.18 |
| San Diego | 137.8 | \$7.10 |
| Los Angeles-Long Beach | 135.2 | \$6.96 |
| Orange County | 134.6 | \$6.93 |
| Average, 324 urban areas | 100.0 | \$5.15 |

SOURCE: Association of Community and Economic Development Research Professionals (www.accra.org).

NOTE: San Francisco PMSA consists of San Francisco, San Mateo, and Marin Counties. Oakland PMSA consists of Alameda and Contra Costa Counties.

greater than the \$6.75 per hour state minimum wage that went into effect in 2002. In comparison, the self-sufficiency budget for a San Francisco family with one parent working full-time calls for a wage of over \$17.00 per hour (California Budget Project 2002).

Advocates for living wage ordinances point out that simply adjusting the 1968 national minimum wage for inflation would yield a minimum wage of \$8.54 (in 2003 dollars). Moreover, average worker productivity has grown by more than 50% in the intervening years and low-paid workers are more educated today than in the 1960s. Consequently, an even higher minimum wage would appear to be economically affordable.

The continuing growth in living cost differentials across metropolitan areas, mainly driven by housing costs, has created additional pressure for local living wage ordinances. In 2002, as Table 6.2 shows, the cost of living in San Francisco was 18.4% above the national average. Housing costs alone were more than 300% of the national average.⁷ Housing costs are relatively more burdensome for low-income renter and homeowner households, which tend to spend a higher percentage of their incomes on housing than more affluent households do. This point is particularly apt

7. See the ACCRA website (<http://www.accra.org>). ACCRA stands for Association of Community and Economic Development Research Professionals. The ACCRA index draws on data concerning homeowners' costs but not renters'. The data collected by the National Low-Income Housing Coalition (<http://www.nlihc.org>) shows, however, that apartment rents and house prices correlate highly and positively across metropolitan areas. This means that the ACCRA index would generate similar results if renters' costs were included.

for San Francisco. However, as Table 6.2 shows, it also applies to the rest of California's urban areas, which all have living costs well above the national average for metropolitan areas.⁸

In contrast to the nearly universal coverage of minimum wage laws, the workers who are covered under local living wage ordinances usually represent a small proportion of a city's low-wage workforce. As Table 6.1 shows, most living wage ordinances are limited to the employees of businesses who hold municipal service contracts. A smaller number of ordinances, less than half of the total in the United States, also cover employees of businesses that receive substantial financial assistance from the city.⁹ This narrow scope means that most low-wage workers in a city are not covered by the law. In this regard the first Los Angeles ordinance, passed in 1997, was typical; Brenner, Wicks-Lim, and Pollin (2003) estimated that it affected less than 2% of the city's lowest decile of wage earners. This low coverage rate raises the question of whether traditional living wage ordinances have changed or can change the conditions within the larger low-wage labor market.

Two developments have significantly increased the coverage of living wage ordinances. In Los Angeles, Miami, Oakland, and San Francisco, ordinances have been extended to cover employers who are tenants on city-owned property. The provision primarily affects the cities' airports; in Los Angeles and San Francisco airport workers comprise half of all the workers covered.¹⁰ Employment at the nation's largest airports generally ranges from 20,000 to 50,000 workers, and about a third of them are low-paid. Comparable policies have been under discussion at an additional half-dozen of the largest airports in the nation.

The second development involves the addition of a geographic dimension to local living wage ordinances. This expansion has already begun with the inclusion of airports, which of necessity are geographical entities. It has also already occurred in some coastal California cities, which have extended ordinances to areas on or near the city's waterfront.¹¹ Potentially even more significant, a few cities are experimenting with extending their living wage ordinance to all employers in the city, which would establish a municipal-level minimum wage. (I discuss the implications of these developments at the end of this essay.)

Because minimum wage rates, which are not indexed, have not kept up with the growth of self-sufficiency income levels in California, living wage advocates often emphasize these low-wage workers' unmet needs. In San Francisco, for example, the rallying cry in a current living wage campaign is "Six seventy-five is not enough."

8. San Francisco had the highest cost of living index in 2002 of all metropolitan areas in the United States.
9. In many cities, policy makers have provided exemptions or waivers for many employers, especially those who are non-profit organizations, further limiting coverage.
10. A 2003 statewide Florida law effectively repealed living wage coverage at Miami-Dade Airport. Workers there had already received living wage raises, however.
11. Such ordinances are in effect in Berkeley, Oakland, and San Francisco.

Opponents of living wages see labor markets as operating benignly, with minimum wage jobs serving as teenagers' first stepping-stones to careers and wages that increase with experience. These opponents argue that the public costs of the policies will either be very large, as wage increases are passed on in higher contract costs, or that employers will reduce employment if they cannot pass on their cost increases. A further argument states that employers will substitute more educated workers when pay rates increase, so that the intended beneficiaries will actually lose rather than gain from the policies. These arguments derive from a coherent set of theoretical propositions, but their importance depends on the extent to which they apply empirically. I return in the next section to discussing the evidential basis for these propositions.

The arguments that advocates have developed touch on not only labor market failures and the failures of national- and state-level minimum wage policies; they also refer to efficiency and fairness failures in municipal out-sourcing policies, to the leverage of local governments over service providers, and, finally, to a demonstrated potential affordability of the policies.¹²

First, increasingly deregulated labor markets have not eliminated poverty-level wages. On the contrary, over the past two decades real wage rates have fallen for workers in the bottom two-fifths of the wage distribution, even as labor productivity has grown. Even the sustained economic expansion of the late 1990s brought only small real wage gains, and these were eliminated in the subsequent recession and jobless recovery.

Pay inequality grew faster in California than in the rest of the nation, and real pay for the bottom quintile of wage earners declined while the cost of living in the state outstripped the rest of the country. Indeed, the number of working but poor families did not fall during the 1990s expansion and has risen subsequently (California Budget Project 2003). Real wages in California, in short, have stagnated at best, and have failed to match long-term trends in productivity growth. This wage stagnation suggests either a market or a policy failure that could be corrected through policy interventions.¹³

Second, the decline in low pay resulted especially from a specific policy failure, namely the decline in real value of the national minimum wage, which has fallen

12. Although each point rests on a substantial research literature, I can only present them in a summary form here, and I cite the main research sources only partially; see the more extensive discussions in Reich and Hall 2001 and Reich, Hall, and Jacobs 2003.

13. I am not suggesting that wage growth and productivity must grow at the same rate, but rather that the market-oriented marginal productivity theory of wage distribution suggests that they should and would. The phrase "market failure" refers to the fact that the labor market has not functioned in this way. My previous work, and that of many others, has suggested that long-term "sharing" of productivity gains depends upon institutional rules and that these rules have changed significantly since the mid-1970s. See Gordon, Edwards, and Reich 1982 for a more complete account.

substantially since 1968 and stands considerably below the federally defined poverty level for a single wage-earner with a spouse and two children. Wage rates at the low end of the distribution are much more affected by movements in mandated national and state minimum wage policies than by immigration or by skill-biased technical change (Card and DiNardo 2002; Lee 1999). As many studies have shown (see, for example, Brown 1999), moreover, recent increases in the minimum wage have not restrained employment or economic growth.

Third, this national-level policy failure has only partly been addressed at the state level. Eleven states have set a state minimum wage above the national level, but none provides a living-level wage. Moreover, in California and in some other regions of the nation, urban housing costs have risen substantially, creating a higher cost of living that national and statewide policies do not address. Localities have stepped into this vacuum with living wage ordinances.

Fourth, declining wage rates in municipal services result from efficiency and fairness failures involving contracting out, or outsourcing. In many jurisdictions in the 1980s, taxpayers were told that local services could be made cheaper through outsourcing. The theory was that competition would reduce costs by squeezing public-sector wage overpayments and by increasing worker productivity without affecting service quality. Subsequent research showed that when outsourcing reduced direct costs, it did so primarily by reducing workers' pay below private-sector levels, reducing service levels and quality, and retaining hidden administrative costs in the public sector (Sclar 2000). Voters and legislators have therefore supported living wage mandates because they want to correct these efficiency and fairness failures. They do not want taxpayer dollars to support below-poverty wage rates.

We need to remember that the quality and quantity of local services, which are largely functions of pay rates and staffing levels, are determined in large part through taxpayers' ability and willingness to pay. Just as is the case for local public employees such as school teachers or firefighters, the wages paid to the employees of service contractors are set not only by a market exchange but also by a political exchange. Taxpayers want equitable treatment of workers as well as a fair return for their taxes, but contractors' wage rates can vary substantially and yet be consistent with efficiency and quality. As the expression goes, "you get what you pay for."

Fifth, living wage policies are targeted to local public services, which are not only paid for by taxpayers; they must be performed locally. Consequently, local governments have some leverage over service providers. They need not be concerned that the ordinances will drive contractors to relocate to another area. On the contrary, living wages can function as a local economic development policy, insofar as redistribution of local income to low-savings and local-spending households can increase multiplier effects on the local economy and, perhaps, relocate spending from over-served to underserved neighborhoods.

Finally, and perhaps most important, prospective studies of the potential costs to municipalities showed that the ordinances would increase operating costs by negligible

amounts for most contractors. A typical finding was that the ordinances would increase operating costs by between 1% and 2% and that the costs that would be borne by the city would amount to less than 1% of municipal revenue. Moreover, local government spending on welfare or health care might be less necessary.¹⁴

IMPACTS OF CALIFORNIA'S LIVING WAGE LAWS

The debate over living wage laws has been accompanied by a research literature that generally consists of prospective studies. For some cities, dueling studies have emerged from opposing camps. Prospective studies generally count the number of workers and firms that would be affected by living wage ordinances and calculate the benefits to the workers, the costs to the employers, and the likely costs to the city if employers pass their increased costs on in the form of higher service contracts. Many of the prospective studies suggest that, as crafted, living wage ordinances usually generate costs on the order of 1% to 2% of operating costs for the great majority of contracting businesses, a range that is unlikely to show up in an increased bid price, and that overall costs to the city are likely to constitute an even smaller percentage of local revenue. Other prospective studies come to less benign conclusions. Opponents of living wage laws argue that the policies may have undesired consequences, such as larger increases in city contract costs, adverse employment reductions among contractors' workforces, and the replacement of incumbent and targeted workers by a more educated and advantaged workforce.¹⁵

Since some living wage laws have been in place for several years, it should be possible to advance the debate beyond the prospective studies and to examine the actual impact of the policies. The next section reviews previous research on the impacts of minimum and living wages, discusses some of the methodological issues involved in measuring the impact of a living wage policy, and summarizes the impact studies that have been conducted for Los Angeles and San Francisco.

14. The Los Angeles study by Pollin and Luce (1998) was the first to present such findings. Pollin and his coauthors have found similar results for other cities as well (Pollin 2003). Peter Hall, Ken Jacobs, and I have conducted prospective costs studies for San Francisco, the San Francisco Airport, and the Port of Oakland; we have obtained similar numbers.

15. For examples of such studies, see the website of the Employment Policies Foundation (<http://www.epf.org>). Unfortunately, some of the opponents' studies draw upon survey data that was collected from employers using cover letters that announced the political agenda of the study. The resultant reporting bias casts serious doubt on the findings. For an example and critique involving San Francisco, see the discussion in Reich, Hall, and Hsu 1999. For examples involving Los Angeles and Santa Monica, see the website of the Political Economy Research Institute, or PERI (<http://www.umass.edu/peri>). This controversy parallels a controversy from the mid-1990s involving biases in data on minimum wage effects at fast-food restaurants; see Card and Krueger 2000.

Research on Minimum Wage Impacts in California

California's recent minimum wage increases provide an important background to the debate on living wages. The findings of Card and Krueger (1995) and Reich and Hall (2001) regarding wage compression and employment are especially pertinent because of their focus on California. Card and Krueger looked at impacts in California after the state raised its minimum wage in 1988–89, comparing its experience to that of a group of southern states that did not increase the minimum wage in this period. They found no measurable adverse employment impacts and some, although short-lived, real wage gains for low-wage workers.

Using a similar methodology, Reich and Hall examined the impacts of the 1996–98 California minimum wage increase from \$4.25 to \$5.75, comparing employment and pay trends in high-wage and low-wage industries. Employment grew in low-wage industries that were more affected by the minimum wage at the same rates as in high-wage industries, indicating that the policy did not generate any negative employment effects. Reich and Hall did find longer-lasting wage compression effects than did Card and Krueger, and they also found that the policy impacts were concentrated among workers in low-income families.

More recently, the California Budget Project examined the impacts of the 2001–02 California increases—from \$5.75 to \$6.25 and then to \$6.75—and found that employment grew faster in California than in the rest of the United States (California Budget Project 2002). Indeed, from 1996 to 2002, California's minimum wage increased nearly 60%, yet the state's employment growth rate was higher than that of the rest of the nation—18.3% versus 12.6%.¹⁶

In sum, recent minimum wage research on California examines a policy that has much broader coverage than living wages and finds benign effects. The mandated wages are much smaller than in typical living wage ordinances, however, and therefore these studies provide only limited guidance to the impacts of setting much higher floors.

Research on Living Wage Impacts

To date, most living wage research studies have been *prospective studies*, estimating the costs and benefits of the policies prior to their adoption.¹⁷ Prospective studies often are undertaken to provide guidance to policy makers. Their quality and

16. For a more detailed discussion, see Reich and Laitinen 2003, as well as the survey article by Brown (1999).

17. Previous surveys of living wage policies include Pollin and Luce 1998 and Luce 2002. Neumark and Adams (2000), although attempting to study the impacts of living wage policies, do not have any direct data on workers or employers covered by living wages. See also the California Living Wage Resources website (<http://iir.berkeley.edu/livingwage>) for studies of individual California living wage laws.

findings vary considerably, depending in part on the quality of the data that the authors collect. Generally, the more systematic studies rely upon local governments' contract databases, combined either with regional input-output data and Current Population Survey (CPS) data on pay by industry and occupation, or with researchers' surveys of the affected contractors.

The first major such study, by Pollin and Luce (1998), pointed out that the national minimum wage ceased to function as a "living" wage in the 1980s and then estimated how alternative living wage policy choices might affect Los Angeles workers, employers, and taxpayers. Their approach has been repeated for other jurisdictions.¹⁸ Although individual workers are predicted to benefit, these studies generally find that impacts on other workers, employers, and taxpayers will likely be limited. As previously mentioned, Brenner, Wicks-Lim, and Pollin (2003) reported that about 2% of the lowest decile of wage earners in Los Angeles were covered or affected by the living wage ordinance.¹⁹

More recently, what might be dubbed *adoption studies* (such as Luce 2002) have documented the growing number of cities that have adopted living wage ordinances. These studies have shown that policies have been gradually broadening in coverage and scope. Martin (2001) examined the political and economic characteristics of a sample of cities that were among the first to adopt living wage ordinances. He found that political mobilization variables provided an important independent determinant of adoption (see also Nissen 2000). Levi, Olson, and Steinman (2003) collected and summarized a large number of descriptions of the characteristics of living wage campaigns that resulted in policy adoption. None of these studies examined the actual impact of the policies, however.

Impact studies, the last group of studies, evaluate the effects of living wage ordinances some time after they have been adopted and implemented. Three different approaches to studying these impacts have emerged. One approach, represented by Zabin and Martin (1999) and by Luce (2003), relates the effectiveness of living wage laws to the monitoring and enforcement processes that are instituted following their passage, which in turn are related to the continuing involvement of activist organizations. This approach demonstrates through case studies that the "social movement" effects that are prominent in the adoption studies influence implementation as well. This literature relies on interviews, often with local officials, and does not seek to measure quantitatively the impacts of the policies on workers and employers.

A second approach, represented by Neumark and Adams (2000), uses national CPS data to examine the effects of the ordinances through a cross-sectional regres-

18. Other examples include Reich, Hall, and Hsu 1999; and Zabin, Reich, and Hall 2000.

19. The prospective studies have expanded recently to include research on possible municipal-wide minimum wages. Pollin, Brenner, and Luce (2002) study the potential impact of the \$6.15 minimum wage in New Orleans, and Reich and Laitinen (2003) study the potential impact of an \$8.50 or higher minimum wage in San Francisco. Both papers take up questions of business relocation.

sion methodology. Their findings suggest that some types of living wage ordinances create benefits that accrue widely to low-income urban families; particularly effective are ordinances that cover employees in firms receiving business assistance from the city. Their large econometric effects appear overstated, however, when compared to the small number of affected contracts found in the case studies.²⁰

A third approach uses before and after comparisons of surveyed firms and workers in an individual living wage city. The studies by Brenner on Boston (2003) and by Fairris on Los Angeles (2003) provide excellent examples of such work.²¹ Both authors find substantial positive wage effects for covered workers and negligible dis-employment effects.

Methodological Issues

Living wage ordinances are targeted to benefit low-paid workers while the costs are borne by businesses and the city's taxpayers. The costs to taxpayers depend upon the extent to which the higher wage floors generate higher payroll costs and, then, to the extent that these higher costs are passed on in the form of more expensive service contracts. Costs can also be shifted to the targeted workers, to the extent that contractors cannot obtain pass-throughs of their higher labor costs and respond instead by reducing their workforce or by switching their hiring to a different pool of workers.

Computing the benefits of these ordinances might appear to be a straightforward calculation of the number of workers on city contracts, multiplied by the average wage increase they receive, and adding in the ripple effect on workers who are not directly covered but receive increases because workers just below them receive increases. Using this approach, Fairris (2003) has reported that approximately 10,000 workers and 375 firms in Los Angeles are covered or affected by the city's ordinance.²²

20. Neumark and Adams assume that the passage of ordinances is either exogenous or reflects the weight of local public-sector unions, while the adoption literature emphasizes the presence of strong community-based organizations, suggesting substantial omitted variables bias that may explain their findings. Neumark and Adams are attempting to address these issues in their work in progress.

21. Brenner and Luce, forthcoming, which examines firm data for Boston, Hartford, and New Haven, is another example.

22. To provide some comparative perspective, Brenner (2003) estimates that about 1,000 workers have benefited from Boston's living wage ordinance, which set a base wage of \$9.11 at the time of his survey; the rate was raised to \$10.25 per hour (for new or renewed contracts) in September 2001. A prospective study (Zabin and Kern 2003) of Sacramento's proposed ordinance estimated that 500 workers would benefit at a mandated wage of \$8.60, and 2,000 workers would benefit at a mandated wage of \$10. The Center for Policy Initiatives estimates that a proposed \$11.95 living wage would benefit 1,600 employees of for-profit service contractors in San Diego. At the other extreme, New York City's living wage law for home care workers, scheduled to go into effect, is expected to raise pay for about 50,000 workers.

A number of indirect adjustment mechanisms, comparative trends among living wage and non-living wage contractors, and potential spillover effects further complicate the benefit calculations.²³ The indirect mechanisms (often referred to as “selection effects”) include entry and exit of businesses from the ranks of city contractors and the entry and exit of their workers from their payrolls; both presumably are related to the length of time that a contractor has been under the ordinance. The comparative trends include the relative growth rates of employment and pay in different sectors that might have occurred without the ordinance. The spillover effects concern the extent to which the labor market for comparable workers is affected by pay increases given to the covered workers.

The extent to which costs have increased because of a living wage ordinance can also be computed simply by examining the affected contracts and comparing their before and after costs for comparable service levels (Sclar 2000). Here too, though, selection effects and comparative trends among nonliving wage firms must be considered and the extent to which employers have shifted costs back to the targeted groups must also be computed.

Moreover, as the recent literature on contracting out has emphasized, the quality of municipal services and the hidden administrative costs to cities that are not included in contracts can also vary. If living wage ordinances shift contracting dynamics from competition over price to competition over quality, and firms that pay higher wages tend to provide higher quality services, then cost figures must be adjusted appropriately. An improvement in a city’s capacity to monitor its own contracts and to increase the proportion that is bid competitively also constitutes an indirect effect that can be of considerable importance.

A final consideration for understanding employer costs concerns possible adjustments to the ordinance; these mechanisms are often referred to as *efficiency wage effects*. One insight provided by efficiency wage theory is that firms that make identical products or services can be diverse in their human resource policies and yet be efficient and profitable. For example, higher pay rates induce more efficient management and utilization of the workforce, while also motivating employees to be more effective at the workplace. Studies of living wage impacts thus need to examine changes in human resource policies and worker performance.

In the current context, the most important efficiency wage adjustment mechanisms include: the effects on employee turnover, which in turn affect costs related to quits and replacements; the effects on unscheduled absenteeism; and the effects on worker effort, whether imposed through management edict and supervision or provided voluntarily by workers. Hiring standards and training of incumbent

23. A related question concerns whether the \$1.25 incentive to provide employee health benefits has been effective in expanding employer-based health coverage. Conceptually, it should be possible to examine how many firms opted to add health benefits as well as how many employees chose to take up the new offers.

workers can also be affected. These efficiency wage adjustment mechanisms can mitigate the direct labor cost increases that are mandated by living wage ordinances.

Many of these issues are nicely illustrated by the Brenner (2003) study of living wage impacts in Boston. Brenner surveyed contracting firms in 2001, three years after the ordinance was implemented and when the living wage mandate stood at about \$9.00 per hour. He collected data not only on wages but also on changes in employment, turnover, absenteeism, employee morale, and contract cost changes over the period of implementation.

Brenner divided his sample into two groups: living wage contractors who had to raise wages to comply with the ordinance (the treatment group), and those that were already in compliance because they were already paying more than the mandated level (the control group). He then compared before and after effects.²⁴

Brenner found that about one-fourth of contractors, most of them non-profit organizations in social services, raised pay in response to the ordinance. Comparing the treatment and control groups, Brenner found significant positive wage effects. Among affected firms, the proportion of workers earning less than \$9.25 per hour fell from 31% in 1998 to 4% in 2001, while the percentage among unaffected firms remained constant, at about 3%. Using CPS data to generate a comparison, Brenner found that the proportion of all workers in Boston who earned less than \$9.25 fell from 24% to 19% during the same period.

Brenner did not find significant differences between affected and unaffected firms either in turnover or in unscheduled absenteeism. His qualitative data also suggest that employee effort and morale improved in affected firms. Employment grew in affected firms and unaffected firms alike, although because affected firms were significantly more likely to transform part-time into full-time jobs, they experienced faster employment growth (based on full-time equivalencies).

These studies suggest that a systematic calculation of benefits and costs requires a detailed data set that goes well beyond the administrative data that cities ordinarily collect on their contractors. The methodology must be well designed to take these indirect mechanisms into account. That these are high standards to meet helps to explain why it has taken some time to carry out these studies.

24. This technique, which is designed to hold constant changes that were unrelated to the ordinance, represents a standard method that is generally referred to as “difference-in-difference.” Its primary assumption is that the living wage firms that make up the treatment group are not systematically different from the firms in the control group. In most difference-in-difference studies, this assumption does not hold perfectly, but the resultant biases can be manageable rather than fatal. The technique also presumes the absence of spillover effects from the treatment group to the larger population. This assumption is likely to hold when the number of covered firms and workers is small compared to the local labor market, as is the case in Los Angeles, but not when the number covered is relatively large, as is the case at the San Francisco Airport.

THE LOS ANGELES LIVING WAGE LAW

The Los Angeles living wage ordinance was first passed in March 1997 and went into effect the following month. The campaign for the ordinance was led by LAANE, which continues to be active in enforcement of the ordinance. At the time of passage, Los Angeles was the second city in California and only the tenth in the nation to adopt a living wage ordinance. The Los Angeles ordinance broke new ground because it covered a much more comprehensive group of contractors and workers than did earlier laws in Baltimore or Milwaukee.

The original version of the Los Angeles ordinance specified a living wage level of \$7.25 with employee health benefits or \$8.50 without. At the time, the state minimum wage had just been increased from \$4.25 to \$5.15 and was slated to rise to \$5.75 early in 1998. Consequently, the living wage level (without health benefits) exceeded the state's minimum wage by 47.8%. Coverage included city service contractors and larger recipients of local economic development funds. The ordinance also indexed the wage mandate to future increases in retirement pay for city employees.

Los Angeles amended the ordinance in November 1998, primarily to expand coverage among businesses holding leases at Los Angeles International Airport (LAX), to add city employees, and to create a small-business exception for city lessees. The amendments included administrative changes that strengthened the ordinance's monitoring and enforcement mechanisms. As of 1 July 2003, the living wage rate was set at \$8.53 with health benefits and \$9.78 without. This living wage level (without benefits) exceeds, by 44.9%, the current (and unindexed) statewide minimum wage of \$6.75.

The ordinance applies to service contractors (with contracts worth \$25,000 or more), to recipients of business subsidies of \$1,000,000 or more, and to companies that have a lease from the city (most of these contractors operate at LAX). Implementation has been phased in when leases come up for renewal. Additional provisions call for twelve paid and ten unpaid days off per year.

Other components of the ordinance are also worth noting. Non-profit contractors, who are most often involved in delivery of social services, are exempt from the ordinance if their CEO's pay is less than eight times the pay of their lowest-paid employee. Employers are required to inform employees who are paid less than \$12.00 per hour of their potential eligibility for the federal earned income tax credit (EITC). Finally, collectively bargained contracts may supersede the ordinance, provided that both union and management agree to do so.

Using the city's database of living wage contractors, Fairris (2003) assessed the impacts of the Los Angeles ordinance on employers by collecting information from a stratified sample of covered establishments.²⁵ He also surveyed a comparable sample

25. Sander and Williams (2003) are conducting a separate study, but it is still in progress and has not yet been released publicly. These authors have undertaken forty case studies of Los Angeles city contracts, with a focus on how costs have changed and whether employment or productivity has been affected.

of Los Angeles establishments that were not contractors and were not covered by the ordinance. His “before” dates ranged from 1997 to 2002 for living wage contractors, depending on when they became subject to the living wage ordinance, and 2000 for the control group. The “after” date was 2002 for both groups.

Like Brenner, Fairris used the difference-in-difference methodology that compares before-and-after patterns between the treatment and control groups, and he was careful to check whether the treatment group and the control group differed in important ways. Although Fairris found some possible biases, they appear small; the “before” wage rates in the two samples, for example, were virtually identical.

Fairris’s principal finding is that pay for employees covered by living wage contracts rose significantly faster than pay for the control group, by about \$1.70 on average and \$1.60 for firms that first came under the ordinance in 2002. This difference is remarkably close to the \$1.52 difference between the state’s minimum wage and the city’s living wage in 2002. Fairris did not find any tendency for contractors to increase their offers of health benefits as a result of the ordinance, but he also found that they were and are more likely than non-city service contractors to offer health benefit coverage in any case. He did find that the living wage contractors on average added two days more of paid time off to employee benefits, compared to the employers in the control group.

Fairris also looked at the efficiency wage effects, which he labeled the “indirect effects,” of the ordinance. His measures included changes in unscheduled absenteeism, overtime, employer-provided training, and employee turnover. Fairris found a statistically significant reduction of about one-sixth in unscheduled absenteeism among covered firms compared to uncovered firms, which he regards as an indication of both improved employee job satisfaction and labor productivity. He also found a significant reduction in the use of overtime, but not in the incidence of training.

Fairris found much greater reductions in turnover among the covered firms: one-third lower on average, which is a large effect. His attempts to control for confounding factors still leave estimates of turnover in a range that is from one-fourth to one-half lower than turnover among non-contractor firms. He traced the lower turnover to the higher wage rates offered and, using a conservative estimate (\$807) of the cost of replacing a low-skilled worker, he calculated that lower turnover saves about 6% of the increased wage bill per worker, per year.

There is good reason to believe that the replacement costs per worker are likely to be much higher than reported by the contractors in the Fairris data. Using survey data from hotel, retail, and restaurant employers in Santa Monica, Pollin and Brenner (2003) found that replacing a nonmanagerial worker cost on average \$2,090; even higher replacement costs have been reported by Reich, Hall, and Jacobs (2003) for a number of cities. Higher replacement costs mean that the savings from turnover reductions are even greater. Using data only from his covered service contractors in Boston, Brenner (2003) found that the median replacement cost per employee

was approximately \$2,500. Brenner estimated that turnover costs are equivalent to approximately one-eighth of the total payroll costs of the workers affected by the Boston living wage ordinance. Since the Los Angeles ordinance increased workers' wages by approximately one-fourth, turnover reductions alone could save employers half of the cost of meeting the mandate.

Fairris could not examine many of the important issues surrounding the Los Angeles ordinance. In particular, he could not consider how many employees received increases, whether the number of workers employed changed, or whether firms changed the composition of their workforces.²⁶ His data also cannot tell us whether costs to the city went up as a result of the ordinance, or whether the quality of city services improved. Equally important, for statistical reasons Fairris excluded leaseholders and some service contractors at LAX from his sample. Consequently, we have greater confidence that his results are representative of non-airport contractors, but we have no insight about the ordinance's impact at the airport, where the environment is somewhat different and where perhaps half of the city's covered employees are located. Nonetheless, this study provides the most persuasive evidence yet that the Los Angeles ordinance did increase pay for targeted workers. It also demonstrates that paying higher wages significantly reduces turnover, thereby setting into motion human resource policies that can improve the well-being and productivity of workers in the long run, while generating some employer savings in the short run.

SAN FRANCISCO'S LIVING WAGE POLICIES

San Francisco passed and implemented its first living wage policies in 2000. The mandated wage initially was set at \$9.00 per hour with a separate \$1.50 per hour incentive for employee health benefits, as well as twelve paid days off per year. The wage level was to increase to \$10.00 after one year and then to increase by 2.5% per year through 2005. The current policies are actually comprised of a series of ordinances that cover three main groups of workers (see Reich, Hall, and Jacobs 2003).

The first group of covered workers consists of the employees of service contractors, as in other cities. Nonprofit organizations—mainly deliverers of social services—are not exempt from the law, as they are in most other cities with living wage ordinances, although they were given greater latitude to pass wage costs on in higher

26. An ongoing survey of living wage contractors, directed by David Runsten of UCLA, will help to fill these important gaps. Runsten's preliminary analysis of his data indicates that over four-fifths of employers did not change employment levels. Some employers at LAX have reduced staffing levels, but their magnitude and their relation to recent declines in airport activity are not yet known.

contract costs. Following a subsequent budgetary report, the living wage level for nonprofits was frozen at \$9.00; it increased as originally mandated among for-profit contractors.

Using a then-proposed living wage level of \$11.00, one prospective study (Reich, Hall, and Hsu 1999) estimated that about 6,000 employees of service contractors would be affected by the law and that cost pass-throughs would cost the city about \$30 million. The city subsequently determined that the budgetary allocation required to pay for this component of the policies was virtually identical to the estimate in their study.

The second group of workers who are covered by the living wage ordinance consists of home care workers. Previously, home care workers had functioned as independent contractors who were matched one-on-one with service recipients. Recent legal changes created an employer of record in San Francisco County: In-Home Support Services (IHSS), a quasi-governmental entity. With the advent of IHSS, home care workers' pay increased substantially from minimum wage levels. Nonetheless, it was estimated that 6,700 IHSS workers would get wage increases as a result of the living wage law and that virtually all the costs of these increases would be borne by state and federal sources (Reich, Hall, and Hsu 1999).

Howes (2003) carefully studied the actual impact of living wage laws and simultaneous collective bargaining developments on the IHSS workers in San Francisco. She drew on administrative data over the period from 1997 to early 2002, involving about 15,000 service recipients and 26,000 recipient-provider matches. Her study period thus covers both the transition to IHSS and the living wage policy implementation.

Howes found that the wage increases resulted in a major expansion of labor supply into home care employment, so that more needs in home care were met. Virtually all of the increased costs were borne from federal and state sources, causing substantial new money to enter the city's economy. Turnover among home care workers fell by 30%, turnover of provider-recipient pairs fell by 20%, and the proportion of matches between providers and clients who spoke the same language improved substantially, indicating an improved quality of service.

The third group of workers who are covered by the San Francisco living wage ordinances consists of employees at San Francisco International Airport (SFO). The ordinance that covers airport employees, dubbed the Quality Standards Program, was passed by the Airport Commission in January 2000; it was implemented in April for airline services contracts and in October for airline employees. The program established hiring, training, and compensation standards for all of the eighty employers with workers in security areas or performing security functions. The standards, which exceeded those set at the time by the Federal Aviation Administration, cover some 8,300 workers, including baggage screeners, skycaps, baggage handlers, airplane cleaners, fuelers, and boarding agents—anyone whose performance affects airport security and safety. The design and enforcement of the QSP resulted from

concerted organizing and negotiations by labor, innovative policy making by public officials, and enlightened acceptance by key employers.

The QSP is the subject of a large-scale impact analysis that I conducted with Peter Hall and Ken Jacobs (Reich, Hall, and Jacobs 2003).²⁷ Following a standard evaluation methodology, we surveyed business and working conditions and performance at SFO before and after the implementation of the policies. We faced the usual challenges of isolating the impacts of the program from other changes taking place. Since our sample was not large enough to support multivariate controls, our method for identifying policy effects relies on a series of first-difference comparisons.

For our main comparisons we obtained data from representative samples of all the covered firms both before and after the policy went into effect. These comparisons were made easier because all but one of the firms were operating at the airport at both points in time and because all faced the same changes in the airport's business environment. We controlled for effects that were not directly related to the QSP in the period of study, 1998–2001, such as any changes in passenger volume, the opening of the new International Terminal, improvements in management-labor relations, and the overall strength (or weakness) of the national and regional economy.

From the inception of the QSP in April 2000 to our data collection ending date of June 2001, almost 90% of the 11,000 ground-based non-management workers at SFO—approximately 9,700 workers—obtained a wage increase. The largest increases were recorded among entry-level workers in QSP-covered positions. The increase in the average entry wage was 33% for QSP-covered positions compared to 10% for non-QSP-covered positions.

The pay increases were most marked among the lowest paid airline service workers, including security screeners, baggage handlers, fuel agents, customer service agents, ramp workers, and cabin cleaners. For example, security screeners, who averaged \$13,400 a year with no benefits prior to the QSP, earned \$20,800 plus full benefits by January 2001, a 55% increase in wages, and a 75% increase in total compensation. Prior to the new city and airport policies, 55% of the ground-based non-managerial jobs paid an average of less than \$10.00 an hour. By June 2001 only 5% of these jobs were paying an average of less than \$10.00 per hour. The proportion of entry-level positions receiving \$10.00 per hour or more increased from less than 3% to over 80%.

Prior to the QSP, lower wages in the airport labor market were concentrated among employees of airline service contractors. The pay increases mandated by the QSP significantly reduced the pay differences between in-house (airlines) and contracted out (airline services) ground-based jobs.

27. A preliminary report, issued in October 2001 in the wake of the September 11 attacks, focused on the recent pay increases among SFO's security screeners and the resultant steep decline in screener turnover (Reich, Hall, and Jacobs 2001). This report was influential in national policy debates that led to a doubling of pay for airport screeners throughout the United States.

Large declines in turnover were evident among jobs that received the largest wage increases: turnover rates fell by 80% for airport screeners and by 44% for cabin cleaners. Employee turnover fell dramatically for firms that experienced the greatest increases in wage costs. For those firms experiencing an increase in wage costs of 10% or more as a result of the QSP, turnover rates fell by approximately three-fifths (from almost 50% per year to 20%). In contrast, the turnover reduction was negligible (from 17% to 14%) among firms experiencing an increase in wage costs of less than 10% as a result of the QSP.

Unlike most other living wage policies, which typically cover only a small number of workers and have limited spillover impacts on the local labor market, the policies at SFO had a major impact on the labor market. About 8,000 of the 11,000 low-wage ground-based nonmanagerial workers received wage increases as a result of these policies. Other benefits to workers included new health benefits for approximately 2,000 workers and improved health packages or a wage premium for all 8,300 workers covered by the QSP. Hence, the living wage policies at SFO effectively established a binding minimum wage norm in this distinct labor market. These wage increases substantially reduced the overall level of wage inequality in the airport labor market.

The total costs of the wages, health benefits, leave, and employer-paid taxes that can be directly or indirectly attributed to the living wage policies are \$57.8 million per year, equivalent to 0.7% of airline revenues. These costs are, for the most part, incurred by airlines operating at SFO. If these costs were passed on to consumers, they would average \$1.42 per airline passenger.

We also examined whether the QSP pay increases generated improvements in work effort or productivity. Our employer survey found that higher wages and better benefits at SFO did translate into improved worker performance. Employers were more likely to report improvement than deterioration in overall work performance (35%), employee morale (47%), absenteeism (29%), disciplinary issues (44%), equipment maintenance (29%), equipment damage (24%), and customer service (45%).

Employment of ground-based airline and airline service workers rose 15.6% during the period in which the living wage policies were implemented, a time when airport activity levels increased by about 4% and airport officials forecast that the opening of a new terminal would generate greater levels of activity. Airport activity subsequently declined in concert with the downturn in the Bay Area economy and the aftermath of the events of 11 September 2001.

One concern with living wage laws is that they may lead to the displacement of intended beneficiaries of the policy. We found some evidence that the ordinances slightly changed hiring patterns of firms, specifically the hiring of more male workers in some low-wage occupations. The QSP also entailed the intentional raising of education requirements for screeners, but this requirement was not used to displace any incumbent workers. There is no evidence that the QSP changed hiring patterns by race or age.

In summary, the SFO experience with living wages indicates that such policies can substantially increase pay and benefits, reduce pay inequality, and improve services, all at minimal cost. Some of the SFO lessons, especially those related to the savings that employers realize through efficiency wage effects, would appear to apply in many other contexts. Pollin and Brenner (2000), for example, found that reduced turnover and absenteeism, lower supervision costs, and greater worker effort together offset about 20% to 25% of living wage costs. Our results for SFO are even higher (see Reich, Hall, and Jacobs 2003). In one extremely important dimension—pay for airport security screeners—SFO has already served as a model that has been adopted nationwide. Can SFO’s experience with living wage ordinances be replicated more broadly? The impressive scale of the impacts at SFO derives from three distinct characteristics that can be relevant in other contexts, although they also differentiate this experiment from policies enacted elsewhere. First, since the wage policies at SFO are binding for such a large proportion of the workers in a discrete labor market, they are perhaps more comparable to a local minimum wage ordinance than to most living wage ordinances. Second, beyond simply improving wages and benefits, the SFO policies address a wider range of employment standards and regulations, notably in hiring and training requirements. Such an institutional context might be more conducive to generating the observed efficiency wage-type effects. Third, the policies were implemented in a context that maximized the likelihood that their costs would be borne by consumers, rather than through reduced levels of business or contractor effort, or through increased costs to taxpayers. These conditions, if present together, may suffice to permit higher pay and benefits, less wage inequality, and improved services as well.

PROSPECTS FOR LIVING WAGE ORDINANCES

Until this year the number of cities with living wage ordinance grew steadily, in both California and the rest of the United States, as Table 6.3 shows. The increases in 2001 and 2002 were particularly remarkable. Cities continued to pass living wage ordinances even in the face of the national recession that began in 2000, the shocks to tourism after 11 September 2001, and the subsequent fiscal crises of many states and localities.

As of mid-2003, the momentum has slowed, at least insofar as the number of ordinances on the books is concerned. Only eight new ordinances were passed in the first half of the year—none in California—although campaigns are still underway in many cities.²⁸ The upsurge in local budget crises in 2003 may have made passage of

28. Based on a LexisNexis search, these are Santa Fe (February), Atlanta (passed in March by City Council but not yet signed by the mayor), Prince Georges County, Maryland (June), and Palm Beach County, Florida (June). The ACORN Living Wage Resource Center website (<http://www.livingwagecampaign.org>) also lists four other smaller cities that passed ordinances in June and July.

TABLE 6.3. Number of Living Wage Ordinances Passed, California and U.S., January 1994–July 2003

| Year | CALIFORNIA | | UNITED STATES | |
|------|----------------|-------------------|----------------|-------------------|
| | <i>By Year</i> | <i>Cumulative</i> | <i>By Year</i> | <i>Cumulative</i> |
| 1994 | 0 | 0 | 1 | 1 |
| 1995 | 1 | 1 | 2 | 3 |
| 1996 | 2 | 3 | 4 | 7 |
| 1997 | 0 | 3 | 7 | 14 |
| 1998 | 3 | 6 | 11 | 25 |
| 1999 | 2 | 8 | 15 | 40 |
| 2000 | 5 | 13 | 13 | 53 |
| 2001 | 3 | 16 | 24 | 77 |
| 2002 | 5 | 21 | 18 | 95 |
| 2003 | 0 | 21 | 8 | 103 |

SOURCES: ACORN Living Wage Resource Center; Employment Policies Institute; Luce 2002.

NOTE: Figures for 2003 are for January through July.

further living wage ordinances more difficult. Any ordinance implies some local budgetary costs, and policy makers facing deficits are looking for cuts rather than increases.

This is not to say that living wage developments have stopped altogether. Three trends are visible. First, in many cities that have ordinances in place, efforts are underway to improve the enforcement mechanisms already on the books. Los Angeles, for example, working with LAANE, began such an effort two years after the first ordinance went into effect. San Francisco set up a systematic contract enforcement office program in 2001; the enforcement mechanisms—including random audits and a complaint-driven procedure—were significantly upgraded in 2003. In one of the first such cases in the nation, Hayward was sued in July 2003 to enforce living wage provisions in a contract with an employer who was involved in a collective bargaining dispute.²⁹

Second, in a number of California cities, efforts are underway to broaden local policies to include publicly subsidized development projects. One approach seeks to improve the accountability of local governments' economic development funds and their subsidies to firms. The city would be required to collect information on and, in

29. For a fuller discussion of implementation issues and an innovative classification of living wage cities according to the extent of enforcement activity, see Luce (2003). The study done by Zyblikewicz (2003) for the California Works Foundation represents another excellent discussion of implementation issues.

its decision making, take into account not only the number and quality of jobs that purportedly would be generated but also overall community impacts involving housing, transit, health care, and other issues.³⁰ Thus, community advocates in such cities as Los Angeles, Oakland, San Diego, and San Jose have begun calling for “Community Benefit Assessment and Impact Reports” before building permits are issued for large-scale projects that are publicly subsidized. Such initiatives would go beyond living wage issues in public contracts and would affect a broad set of urban development projects. The curtailment of tax breaks, or at least some demonstrated return from them, makes particular sense in a time of budget deficits.

Third, in a number of jurisdictions, living wage ordinances are beginning to be defined in terms of a geographic area rather than on the basis of individual service contracts. This trend began with the inclusion of property contracts at airports in Miami, Los Angeles, Oakland, and San Francisco. In these cases the contractors are located on a distinct contiguous area, with covered employers accounting for a much greater density among all employers in the area than is the case in ordinances based on service contracts. The trend continued in some small geographic entities, beginning in the Berkeley Marina, which is covered by a living wage ordinance, and in Santa Monica, where an attempt was made to cover much of the city’s waterfront and many nearby retail developments; the ordinance was repealed in 2003 before it could be implemented.

Santa Fe, a city with a private-sector workforce of about 26,000, has passed an ordinance, scheduled to take effect next year, for a citywide minimum wage of \$8.50. The Santa Fe ordinance covers all employers with at least 25 employees and includes scheduled increases to \$10.50 in subsequent years. Similar efforts are underway in New Orleans and San Francisco. Voters in New Orleans passed a municipal minimum wage at \$6.15, one dollar higher than the state minimum; this ordinance subsequently was rejected by a state court and currently is the focus of efforts in the state legislature. An initiative to create a San Francisco municipal minimum wage at \$8.50 has qualified for the November 2003 ballot; if passed, the ordinance would be the first in California and would have the largest coverage to date.³¹

In a time of budgetary shortfalls, the costs of geographic-based ordinances fall not on the public budget but upon the private sector, making such initiatives more appealing to policy makers and voters. Moreover, the intense publicity created by living wage campaigns has spotlighted how difficult it is to live on the minimum

30. An agreement reported in the *Los Angeles Times* in 2001 concerning the Staples Center in Los Angeles represents a model for these efforts. For another important example, based in San Jose, see WPUSA 2003. See also Gross, LeRoy, and Janis-Aparicio 2002. A number of examples in Los Angeles and San Jose in which living wage standards became negotiated into collective bargaining agreements illustrate how the policies can affect workers who are not formally covered by living wage policies.

31. For a detailed prospective study of this initiative, see Reich and Laitinen 2003.

wage, especially in cities with high housing costs. This problem affects all employees, not just those of businesses that have service contracts with the city. The publicity and associated equity pressures may therefore generate more pressure for citywide ordinances. Whether efforts to establish municipal minimum wages will succeed is an open question. Whether or not they succeed, it appears that living wage campaigns have already begun to affect wage norms for many workers, not just those affected by the early living wage ordinances.

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