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Summary of Selected Post-Enactment Living Wage Studies

Prepared for
Hillsborough County Department of Health and Social Services

by the
CENTER FOR ECONOMIC DEVELOPMENT RESEARCH
College of Business Administration



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Errata Sheet

From: Center for Economic Development Research, College of Business
Administration, University of South Florida, Tampa, Florida

Date: December 15, 2003

Reference: “Summary of Selected Post-Enactment Living Wage Studies,” an analysis performed by the Center for Economic Development Research, College of Business Administration, University of South Florida, December 2003.

Please make the following changes to the above-referenced analysis. Italics highlight the specific changes.

1) In the section “Average Wages,” change the fifth sentence to read:

At the high end of the range, Detroit paid \$8.35 per hour *with* health care benefits, and \$10.44 per hour *without* health care benefits (\$9.02 per hour and \$11.27 per hour, respectively, in 2002 dollars).

2) In the section “Average Wage Increase,” change the fourth sentence to read:

For the lowest decile of wage distribution, the Adams-Neumark study reported an estimated elasticity of wages of 0.0401, representing a *0.0401* percent increase in wages per 1 percent increase in the living wage - with respect to the local prevailing minimum wage - for these workers.

3) In the section “Employment Change,” change the third sentence to read:

The Adams-Neumark study reported an estimated elasticity of -0.0525 , representing a *0.0525* percent decrease in employment per 1 percent increase in the living wage - with respect to the local prevailing minimum wage - for these workers.

Preface

In order to study the impacts of a proposed “living wage” ordinance, the Hillsborough County Department of Health and Social Services commissioned the Center for Economic Development Research (CEDR) to perform three tasks: (1) quantitatively summarize findings from available post-enactment studies of living wage ordinances and policies, (2) review available pre-enactment studies of living wage ordinances and policies for methodologies that might usefully supplement REMI Policy Insight® economic modeling software, and (3) use the REMI Policy Insight® economic model to estimate the economic impacts of the proposed living wage ordinance in terms of jobs, wage and salary disbursements, and output (sales) on the Hillsborough County economy. This report fulfills the first of these tasks. It is intended to be a guide for the economic modeling component (Task 3).

The Center for Economic Development Research initiates and conducts innovative research on economic development. The Center’s education programs are designed to cultivate excellence in regional development. Our information system serves to enhance development efforts at the University of South Florida, its College of Business, and throughout the Tampa Bay region.

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Executive Summary

Studies Examined

This report examined **five city-based reports and one multi-community regression analysis** of post-enactment living wage outcomes. The four cities examined were Baltimore, MD (examined in two reports), Detroit, MI, Chicago, IL, and Miami Beach, FL. The regression analysis studied 29 communities throughout the United States. These studies were suggested by the Hillsborough County Department of Health and Social Services, and are not intended to be exhaustive in nature. Rather, the outcomes recorded during the course of developing this report will provide guidelines for future study of a proposed living wage in Hillsborough County.

Workers

The **number of affected workers examined in the five city-based reports ranged from 135 (Miami Beach) to 1,739 (Detroit)**. The multi-community report, by design, examined all workers, regardless of any direct effect of a living wage ordinance. As such, the multi-city report examined the workers directly employed by the government, the employees of those governments' contractors and sub-contractors, as well as the employees of organizations receiving tax subsidies or abatements from those governments. The Miami Beach ordinance covers government and contractor workers, but only provided data relating to the contracted workers. The Detroit ordinance covers contractor workers and employees of organizations receiving tax subsidies or abatements exceeding or totaling \$50,000 per year, but the study only examined the latter. The Baltimore and Chicago ordinances cover only contractor workers (sub-contractor workers are also explicitly covered by the Chicago ordinance).

Wages

Wage effects resulting from living wage ordinances ranged from a **32% increase in Miami Beach to a 74% increase in Detroit**. The regression analysis calculated these effects in the form of wage elasticity, and reported a value of 0.04.

Employment

Employment effects resulting from living wage ordinances ranged from a **0.12% decrease in Detroit to 0% change in Baltimore and Chicago**. The regression analysis calculated these effects in the form of employment elasticity, and reported a value of -0.05.

Effect on Municipal Budgets

Each of the studies that examined budget effects found that the living wage ordinance increased city expenses. These effects (measured as a percentage of the cities' annual budgets) ranged from **0.004% in Baltimore to 0.67% in Miami Beach**.

Introduction

We reviewed five post-enactment living wage studies in four municipalities: Baltimore (MD), Detroit (MI), Chicago (IL), and Miami Beach (FL). Additionally, we reviewed a multi-community regression analysis (Adams-Neumark) of living wage ordinances. These six studies were suggested for review by the Hillsborough County Department of Health and Social Services, and are not intended to be exhaustive in nature. Rather, they are intended to provide a range of outcomes to be used as guidelines for future research related to living wages in Hillsborough County.

Affected Workers (Type)

Only the Adams-Neumark study examined persons directly employed by the city. All of the ordinances cover employees of city contractors, with the Chicago ordinance the lone policy to specifically require subcontractors to pay a living wage. The Detroit ordinance also covers establishments receiving annual subsidies or tax abatements meeting or exceeding \$50,000 annually.

Affected Workers (Number)

The number of workers affected by living wage ordinances in the six studies ranged from a low of 135 in Miami Beach to a high of 1,739 in Detroit. The Detroit figure represents the estimated number of workers employed at not-for-profit establishments only and does not reflect workers employed under service contracts. The Economics Policy Institute (EPI) Baltimore study reported jobs rather than employment. Multiple employees may share one job, therefore EPI's estimate of 1,494 jobs affected by a living wage ordinance undoubtedly reflects a higher number of workers affected by the ordinance.

Average Wages

Wages mandated by the various living wage ordinances varied from municipality to municipality. Baltimore and Chicago required lower wages than Detroit and Miami Beach, after adjusting for inflation. Detroit and Miami Beach also required still higher wages to be paid to workers not receiving health care benefits. With or without health care benefits, Baltimore paid the lowest living wage, \$6.10 per hour (\$6.99 in year 2002 dollars), in 1996. At the high end of the range, Detroit paid \$8.35 per hour without health care benefits, and \$10.44 per hour with health care benefits (\$9.02 per hour and \$11.27 per hour, respectively, in 2002 dollars). Miami Beach required an additional \$1.25 per hour in 2001 (\$1.27 per hour in 2002 dollars). The average of the health care "premium," as dictated in the living wage laws of Miami Beach and Detroit, is \$1.76 in 2002 dollars. Living wages in the 29 communities studied by Adams and Neumark ranged from \$6.50 to \$10.86 (2002 dollars reported).

Average Wage Increase

Five of the six studies investigated wage increases as a result of living wage ordinances. The Detroit study of non-profits generated the highest estimate, a 74% wage increase for affected workers, but admitted that wage increases were not a primary research focus. The Chicago study described wage changes in absolute dollars, and reported a \$2.30 to \$3.00 increase amongst affected workers. For the lowest decile of wage distribution, the Adams-Neumark study reported an estimated elasticity of wages of 0.0401, representing a 4.01 percent increase in wages per 1 percent increase in the living wage - with respect to the local prevailing minimum wage - for these workers.

Employment Change

Opponents of living wage laws often cite a disemployment effect as a result of setting wage floors. Four of the studies reported on employment effects, with the Preamble Center for Public Policy (PCPP) and Chicago studies reporting zero disemployment, and the Detroit study of non-profit establishments reported relatively small disemployment – a decrease of 0.12%. The Adams-Neumark study reported an estimated elasticity of -0.0525 , representing a 5.25 percent decrease in employment per 1 percent increase in the living wage - with respect to the local prevailing minimum wage - for these workers.

Effect on Budget

Four of the six studies reported the contract cost increases associated with living wage ordinances. By dividing the cost increase by the annual budget, one can determine a portion of the living wage's impact on the city budget. The PCPP study yielded the lowest impact on the budget, 0.004%, whereas the City of Miami Beach saw the living wage cost increases account for 0.67% of its budget. The range reported in the Detroit study - <1% to 6% - applies to the budgets of the non-profit establishments, and is not directly comparable to the figures listed for the cities.

Effect on Social Services

None of the studies investigated the effect on social services – indigent health care, food subsidies, etc. – despite the fact that proponents of living wage ordinances often allude to the savings in social services expenditures as a reason to support such ordinances.

Cost of Enforcement

Only the PCPP Baltimore study reported costs of enforcing the living wage ordinance. In 1996, the City of Baltimore budgeted \$121,000 for this purpose

Summary of Post-Enactment Living Wage Studies

Community	Baltimore	Baltimore	Detroit	Chicago	Miami Beach	Multi-City
Author	EPI	PCPP	Wayne State	Center for Urban Economic Development	City of Miami Beach	Adams & Neumark
Year Enacted	1994	1994	1998	1998	2001	1996-2002
Year Published	1999	1996	2000	2002	2003	2003
Affected Workers (Type)*	C	C	C, T	C	G, C	G, C, T
Affected Workers (Number)	1,494(a)	NI	1,739	400-600(d)	135(e)	NA
Target Wage						
w/HC	\$ 6.60	\$ 6.10	\$ 8.35	\$ 7.60	\$ 8.56	\$6.50 to \$10.86
w/o HC	\$ 6.60	\$ 6.10	\$ 10.44	\$ 7.60	\$ 9.81	NA
\$2002 w/HC	\$ 7.40	\$ 6.99	\$ 9.02	\$ 8.21	\$ 8.70	NA
\$2002 w/o HC	\$ 7.40	\$ 6.99	\$ 11.27	\$ 8.21	\$ 9.97	NA
Average Wage Increase	35%(b)	NI	10% to 74%	\$2.30 to \$3.00(d)	32%	0.04(f)
Employment Change	NI	0(c)	-0.12%	0(d)	NI	-0.05(f)
Effect on Budget	0.02%	0.004%	<1% to 6%	NI	0.67%	NI
Effect on Social Services	NI	NI	NI	NI	NI	NI
Cost of Enforcement	NI	\$ 121,000	NA	NI	NI	NI
Notes	Based on \$1.16B budget; LWO covers all service contracts	Based on \$1.16B budget; LWO covers all service contracts	Non-profits receiving subsidies totaling or exceeding \$50K annually.	Contractors and subcontractors with employment >25	Based on \$151M 2001 budget; LWO covers service contractors >\$100K annually	Regression analysis of 29 municipalities with Living Wage Ordinances or Policies

* G = government, C = contractors, T = recipients of tax abatements and/or subsidies

NI = Not Investigated

HC = Health Care Benefits

NA = Not Applicable

\$2002 = Value in 2002 dollars, inflated by CPI-U

Notes

(a) Refers to Baltimore jobs, not workers

(b) 26 worker sample

(c) Investigated, but no conclusion drawn

(d) Data drawn from interviews with members of the Chicago Jobs and Living Wage Campaign

(e) The Miami Beach LWO applies to government and contracted workers; the reported data refers to only contracted workers

(f) Figures reported are elasticities for the lowest decile of the wage distribution, and represent the percent change in the examined characteristic per percent change in the living wage with respect to the local prevailing minimum wage, 12 months post-LWO enactment

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