An Argument Against Living Wage Laws—and in Favor of a Sound Alternative

CRAIG GARTHWAITE

Since Baltimore passed the first “living wage” in 1994, union-funded activists have engaged in a well-financed and highly coordinated campaign to mandate artificially high wages in dozens of American cities. Initially, these campaigns focused on mandating a wage for workers employed by businesses contracting with the city government. Now, the policy has evolved into a mandated minimum wage imposed on all businesses within the city limits. Broader living wages such as these were recently passed in Santa Fe and in San Francisco, and activists are gathering signatures for a similar referendum in Madison, Wisconsin.

Living wage campaigners argue that because employees cannot afford to support themselves—much less a family—on the federal minimum wage, cities must mandate a wage sufficient to meet local cost-of-living expenses. Armed with a battery of cost-of-living statistics, the activists argue that a living wage will make up the difference between the minimum wage and the local cost of living. The facts tell a different story.

Affected Families

Pro-wage mandate activists sometimes hold up the poster-child case of a single mother raising a family on one $5.15 per hour income. In reality, very few families are actually in this situation. According to U.S. Census Bureau data, only 15 percent of minimum-wage employees are single earners with children and only 8 percent have more than one child. The remaining 85 percent are teenagers living with working parents, adults living with a working spouse or partner, or adults living alone. As a result, the average family income for a minimum-wage recipient is $43,795.

Even the micro-minority that is trying to raise a family on the minimum wage—usually due to lack of skills—qualifies for the federal earned income tax credit (EITC), our nation’s most successful anti-poverty program. The EITC grants up to four thousand dollars annually in tax-free income, on top of additional benefits granted to qualified single earners with children. Rather than destroy job opportunities with a minimum wage, the EITC has been shown to increase workforce participation among recipients.

Exaggeration of the number of minimum-wage fami-

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lies is used to inflate the number of employees earning poverty-level wages. Activists claim wage levels that fail to keep a family of four above the poverty line are “poverty level” wages. This myth is perpetuated despite the fact that supporters of a living wage know the majority of affected workers are not raising a family at all, let alone a family of four, on one income. According to David Reynolds of Wayne State University, co-author of the ACORN living wage activist manual, “[N]ational figures show slightly over half of very low-wage workers have a second wage earner in their family. And the average size of a low-wage family is between 2 and 2.5” people.³

At least the myth created by manipulating the federal poverty line has a foundation in economics. In contrast, local living wage activists are often instructed by national living wage leaders to simply push for the highest wage possible, without regard for local labor market conditions or potential negative economic consequences. ACORN’s activist manual states, “the living wage amount is a question of politics and organizing strength, not a technical one. Ideally, campaigns want to push for as high a wage as possible.”⁴

The poor targeting of these ordinances results from the fact that living wage mandates, like the federal minimum wage, are unable to discern between a low-wage employee (such as a teenager from a wealthy family) and a low-income family (the intended target of anti-poverty measures). According to economists at Stanford University, only 24 percent of the benefit from increases in the minimum wage goes to earners in the poorest 20 percent of families. By contrast, the richest 40 percent of families in the country get 35 percent of the after-tax benefit.⁵ Similar results would be expected from living wages because both policies are likely to give a similar shock to the wage structure. The facts clearly show that, even ignoring the job loss from mandated wages, these policies are an astoundingly blunt and inefficient means of attacking poverty.

### Lost Benefits and Worker Displacement

Even when the small percentage of benefits actually gets to low-income families, a majority of the impact is often absorbed by the corresponding decrease in government benefits these individuals already enjoy. Research by Daniel Shaviro of the New York University Law School found that a single mother who increases her full-time wage from approximately $5.15 an hour to $12.50 an hour could, in some states, find herself with $2,540 fewer dollars once she accounts for payroll taxes, lost tax credits, and benefits.⁶ Even in the case where mandated wages do not make an individual worse off, it is clear that a large portion of the employee’s “raise” is often eaten up by these tax and benefit shifts. The resulting marginal tax rates decrease the incentive of low-income individuals to increase their work effort. This is assuming, of course, that a more qualified applicant, attracted to the higher wage, hasn’t already displaced the low-skilled employee.

When this inevitable job loss is factored in, an even darker picture of living wages emerges. Hard evidence—and decades of research—confirms Nobel Prize-winning economist Gary Becker’s observation: “a higher minimum [wage] will attract good workers.” Noted living wage supporter and union activist Michael Reich agrees, “Some of the [productivity] increases [resulting from a living wage] can arise because new hires may come from a more experienced or skilled labor pool.”⁷

In a cruel twist of fate, studies show that mandated wage hikes are especially harmful to former welfare recipients as they attempt to build a new life off welfare. Possessing few skills—studies estimate that nearly one third of this group is functionally illiterate—they are simply...
unable to compete at the mandated wage. Research from the University of Wisconsin discovered that “mothers on welfare in states that raised their minimum wage left welfare for work 20 percent less often than welfare recipients in states where the minimum was not raised.”

10 This forces the least skilled among us to depend on welfare for as long as those benefits last.

Union Organizing and the EITC Alternative

Why, in the face of overwhelming evidence, do living wage advocates continue to campaign for these ordinances? In its manual for living wage activists, ACORN states: “One of the most promising uses of living wages is to foster union organizing among low wage workers.”

Indeed, it has become standard practice for living wage ordinances to exempt employers from the living wage if they agree to collective bargaining with a labor union. A collective bargaining exemption was included in the local minimum wage passed recently in San Francisco. This “carrot” creates the economic incentive for employers to sign a contract with a union at a wage level higher than the current minimum but lower than the new living wage. No motive, other than an attempt to use the living wage solely as a means to increase union participation, can convincingly explain why employees covered by a collective bargaining agreement should be exempt from a “living wage.”

There is an alternative to living wages that doesn’t imperil less-skilled workers’ jobs. The EITC actually decreases poverty without contributing to job loss. This highly targeted payment supplements the income of the poor who work, and does so without the unintended consequences or waste of living wage ordinances. Research out of Syracuse University found that 70 percent of EITC benefits actually go to needy families. In sharp contrast, 83 percent of the benefits of the last federal minimum wage hike went to families above the poverty line.

Localities such as Denver and Montgomery County, Maryland, have successfully followed the examples of states across the country and adopted tax credit programs that mimic the EITC. Their effectiveness has been studied in research published by the *Georgetown Public Policy Review*, which found that even a large city like Los Angeles could boost people’s income to the level of a living wage for millions of dollars less—and without the unintended consequence of putting jobs and livelihoods at risk.

Policymakers that are truly interested in benefiting low-skill employees should implement similar policies in their communities.

Notes


