A Living wage ordinance will create jobs and grow the local economy

Dr. Michael Rosen

December 16, 2013

Milwaukee County Board Finance Committee

America has a good jobs crisis with skyrocketing income inequality and a growing prevalence of low-wage employment; this holds back economic growth and increases in living standards. As President Obama said," Income inequality is the defining challenge of our times."

In Milwaukee, the good jobs crisis is particularly acute.

By 2020, roughly half of all employment will be in low-wage service-sector jobs that cannot support families or a middle class.

An increasingly inequitable distribution of income holds back the economy because low wages for the overwhelming majority undermine aggregate demand, which drives economic growth and job creation.

Turning low-wage, poverty level employment into decent jobs with wages adequate to support a family will boost the economy and lead to decreased social welfare costs.

With half of all jobs paying low wages, unless bold action is taken, the crisis may soon cross a threshold from which we cannot return.

Our nation and community have proven that we can turn poor-paying jobs into good, family-supporting jobs. We built the world's first blue collar middle class by turning low paying jobs in the manufacturing sector into the good jobs with high wages. Since those have increasingly disappeared, replaced by low-wage sectors and employment, the challenge is to turn the jobs of today (and tomorrow) into jobs that pay a living wage.

The economy is inequitable and distorted because wages are too low.

Corporate profits are at record highs because productivity has increased dramatically. Productivity increases represent the ability of our economy to pay higher wages. However, unlike the 1950s and 60 when productivity and wages grew together, wages have not grown with productivity increases. Since the 1960s, average wages in real terms have been stagnant or flat, while wages at the lower end of the labor market have actually declined.

Take for example the minimum wage: had it grown at the rate of productivity since the late-1960s, it would be roughly $19 an hour in real, inflation-adjusted terms, instead of its current historic low of $7.25 an hour.

Raising the federal and state minimum wage would be ideal. However, political polarization and gerrymandering will prevent this from happening any time in the near future. So other solutions must be found. IN the absence of federal action, states and local units of government have developed living wage ordinances to address the defining challenge of our time..

Living wage ordinances are proven, practical tools at the disposal of local governments to accomplish positive wage effects in regional economies, without sacrificing employment levels or increasing taxes.

In 140 communities across the country over the past two decades, living wage laws have been put into place to raise wages.

The research on living wage laws is clear. Despite repeated claims by opponents that their implementation would decrease employment and increase taxes, the empirical data demonstrates such assertions to be false.

Numerous studies conducted by credentialed economists and policy experts find that at worst, no employment effects are found and that in some cases, overall employment actually increased in the jurisdiction. Further, they find that at worst, costs to local governments with living wage ordinances increase negligibly, in the tenths of one percent and in some cases do not increase at all.

This is for two reasons: first, at a time when corporate profits are incredibly high, and the affected firms are national operating in industries where market share matters far more than profit-per-contract, these firms can and do accept lower margins on a given government contract in order to retain it. In other words, experience has demonstrated that they do not pass along increased wage costs to the local government.

Second, labor market economists know that when wages go up, so too does productivity and efficiency while turnover decreases, leading to a greatly diminished increase in labor costs. Years ago the City of Milwaukee required Popeyes' Chicken tom pay wage rates almost a third higher than the minimum wage in return for city support. The franchise's local operator reported he was happy with the arrangement because turn-over was reduced, hiring costs and absenteeism reduced and productivity increased.

Overall, research on living wage laws show that despite claims of adverse impacts that border on blackmail, these policies are sound, effective means of increasing wages for low-income families. As it stands, a living wage ordinance is the sharpest tool in the box for local government to raise wages and boost the economy; and, no other policy adopted by the County could accomplish nearly as much.

A living wage law would have a tremendously positive impact in Milwaukee.

Perhaps most importantly, an analysis released this morning the Center On Wisconsin Strategy, a think-tank based in Madison, found that the proposed living wage ordinance would put about $35-40 million of additional income in the hands of the directly affected workers. Low-wage workers will spend that money in Milwaukee, boosting aggregate demand and growing our local economy.

Instead of Milwaukee County tax dollars subsidizing corporate profits for firms located outside of our community as most of the affected firms are, the living wage ordinance would keep that money here locally, in the hands of low-income workers who have an almost 100% marginal propensity to consume.

A holistic approach to fiscal effects on government demonstrates another key point: Most of the affected workers live in poverty, qualifying for public assistance programs like food stamps and BadgerCare. By raising their wages, there will be less reliance on government assistance, and consequently, lower potential tax burdens for Wisconsinites.

Labor market economists also know that when wages go up for some workers, standards are increased for other workers. This strengthens local labor markets while increasing standards of living.

Considering the successful performance of living wage ordinances in 140 communities over the preceding two decades, only one real economic critique can be levied against the proposed Milwaukee County living wage ordinance: that is, it does not go far enough.

Economists at the Massachusetts Institute of Technology estimate the living wage for the Milwaukee Metropolitan Statistical Area to be $19.66 an hour.

The proposed wage level of 110% of the poverty line for a family of four, equating to $12.45 for the current year, quit modest. Even the median living wage ordinance sets a wage standard at a little over $13 an hour, and many include health insurance and other benefits.

A consensus is growing among economists that raising wages is crucial for economic performance and within the economy's capacity. Only if wages would be raised, in a market like Milwaukee, to something like $17 to $20 an hour, for all workers in the region and not just the 8,000 who would be affected by the proposed ordinance here, would disemployment effects become real.

As an economist and resident and taxpayer in Milwaukee County, I recommend that Milwaukee County adopt the living wage ordinance because it will help address the defining economic challenge of our time: low wages and increasing inequality that hold back economic performance.

Living wage laws have proven effective in 140 jurisdictions across the country. The research demonstrates their efficacy without adverse consequences for employment raised by opponents who routinely cry wolf.

By passing this ordinance, Milwaukee County will ensure that it is doing what it can to improve our local economy and the lives of the people who you represent.