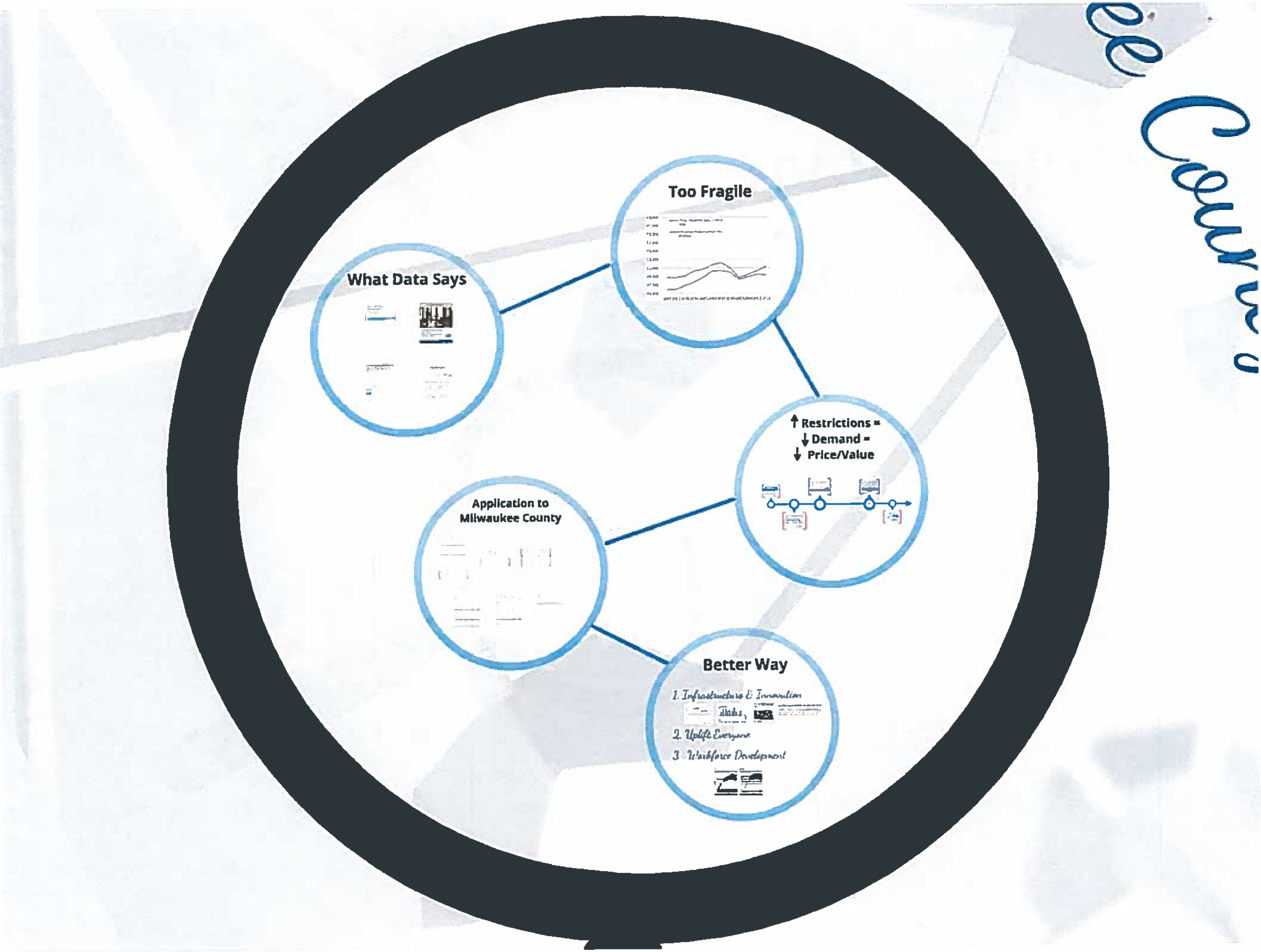
Living Wage

Economic Impact on Milwaukee County



What Data Says
Too Fragile
↑ Restrictions =
↓ Demand =
↓ Price/Value
Application to
Milwaukee County
Better Way
1. Infrastructure & Innovation
2. Uplift Everyone
3. Workforce Development

What Data Says

Simulating the Economic Impacts of Living Wage Mandates Using New Public and Administrative Data: Evidence for New York City

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Abstract

Policy researchers often have to estimate the future effect of imposing a policy in a particular location. There is often evidence on the effects of similar policies in other jurisdictions but no information on the effects of the policy in the jurisdiction in question. And the policy may have specific features not reflected in the experiences of other areas. It is then necessary to combine the evidence from other locations with detailed information and data specific to the jurisdiction in question, with which to simulate the effects of the policy in the new jurisdiction. We illustrate and use this approach in estimating the impact of a proposed living wage mandate for New York City, emphasizing how our *ex ante* simulations make use of detailed location-specific information on workers, families, and employers using administrative data and other new public data sources.

Keywords

living wage, employment, poverty

Introduction

With the advent of the living wage movement in the early 1990s, labor economists and other policy analysts have often been asked to estimate the future effects of imposing a local wage mandate in a city. Lacking a historical record, studies for the cities that implemented living wages early relied on

The New York City Economic Development Corporation (NYCEDC) commissioned a comprehensive study to estimate the effects that Intro 251 would have on labor and real estate markets (Charles River Associates, 2011). The estimates are derived from ex ante simulations specific to New York City, but the parameters used are informed by new lonenforce their business assistance provisions. This study uses a more robust dataset than the previous research and includes background archival research into each treatment city's law, and we find no evidence of negative employment effects from business assistance living wage laws. Our research design is conceptually identical to that of Adams and Neumark, yet we can rule out negative consequences of the scope they report.

One caveat is important here. Our dataset does allow for the detailed consideration of direct and indirect effects across a wide array of potential industries but we cannot use it to measure the effect on local wages. We cannot show that workers directly received wage increases due solely to the application of a business assistance living wage. This finding would be crucial in evaluating how effective living wage laws are on the main problems they attempt to address, such as poverty and inequality. Yet many other studies in the living wage literature have shown that workers and their families do receive wage increases.[44] It is important to consider these findings in conjunction with the type of detailed case studies that can gather direct observations of wages and employment at covered firms.

Our results—which indicate no significant impact on economic development outcomes—are far from an extreme finding. In fact, it is consistent with recent research on the economic impact of minimum wage laws.[45] These general findings that labor decile with respect to business assistance living wages is 0.051, versus a slightly smaller 0.037 for contractor-only living wages.

With regard to employment, the estimates are – as theory would predict – uniformly negative. The preferred estimates are statistically significant, indicating that, for example, a 50% increase in a business assistance living wage reduces employment in the bottom decile of the skill distribution by 2.8 percentage points; the corresponding estimate for contractor-only living wages is 2.4 percentage points.

Looking at what is perhaps a good criterion with which to judge the efficacy of living wages, the updated evidence through 2009 continues to find – as did the earlier research – that living wage laws can reduce urban poverty. The new evidence finds this effect only for business assistance living wage laws. Moreover, there is some ambiguity as to how strong this evidence is statistically. The estimated effect is statistically significant for the full extended sample period, indicating that a 50% increase in a business assistance living wage reduces poverty by 1.2 percentage points. But given concerns over the aggregation of urban areas, if we extend the estimates only to the time when the aggregation becomes necessary (2003 in this case), the estimate, while a shade larger, is no longer statistically significant areas, if we extend the estimates only to the time when the aggregation becomes necessary (2003 in this case), the estimate, while a shade larger, is no longer statistically significant.

All told, in our view this updated evidence is broadly consistent with the conclusions that Holzer's (2008) review of the earlier evidence reached – that living wages have modest benefits for some workers and modest costs for others, and may also result in modest reductions in poverty. And we would add that the latter conclusion is true only of business assistance living wage laws, and not of narrower contractor-only laws. Updating the evidence has led to some changes in the point estimates, and perhaps also introduced a bit more uncertainty because depending on which data one uses and for what period, the estimates sometimes change. But this overall conclusion is still quite consistent with the data. Living wages do reduce employment among the least-skilled workers they are intended to help. But they also increase wages for many of them. This implies that living wage laws generate both winners and losers among those affected by them, and the net effects lean toward modest reductions in urban poverty.

Endnotes

[1] In the United States the federal government sets a minimum wage. States can pass a higher minimum wage for the workers covered by the federal minimum wage, but not a lower minimum wage. They can pass any minimum wage for workers not covered by the federal minimum wage. The federal minimum wage covers most workers.

[2] See Table 1 in Neumark and Adams (2003a).

[3]

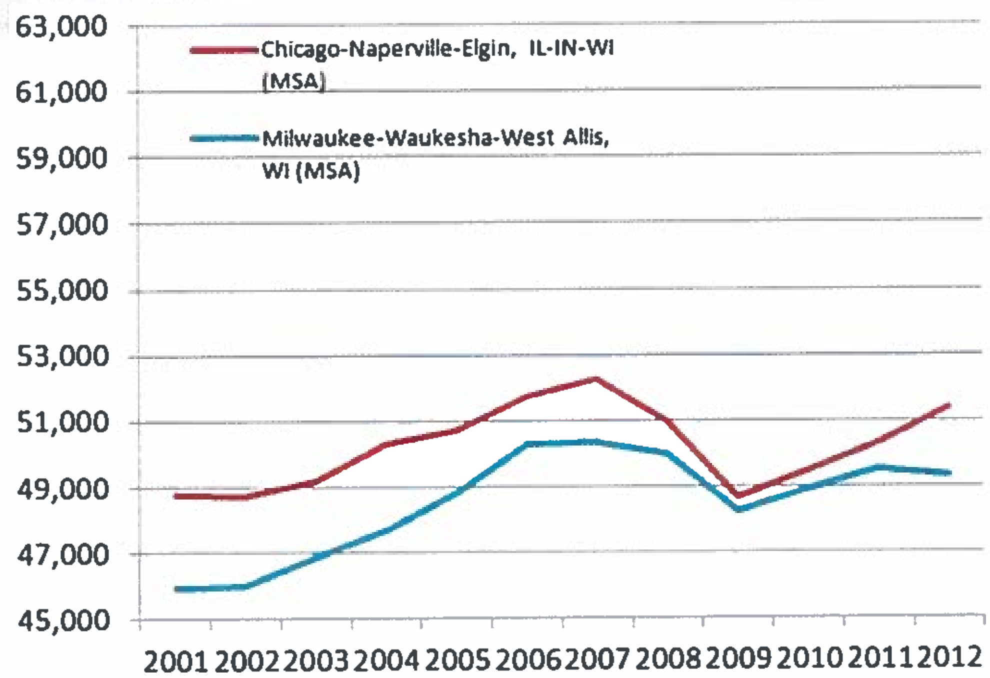
the intended beneficiaries of minimum wage policies. Given evidence that job loss among low-skill workers is minimal following a wage mandate, some have become sanguine about the positive consequences of such policies. However, this evidence is entirely consistent with labor-labor substitution within skill/occupational categories of the sort described above, where low-skill workers are essentially being substituted for other low-skill workers. Under this scenario, while employment loss for low-skill workers might be minimal, the wage benefits for workers nonetheless may be significantly dissipated if higher-wage, low-skill workers replace lower-wage, low-skill workers following a mandated minimum wage.

This paper utilizes a unique employer-employee matched data set to explore the extent of labor-labor substitution and dissipation of wage gains for workers resulting from a significant wage mandate – a living wage ordinance – among city contract firms in Los Angeles. The data offer demographic and human capital characteristics of a sample of stayer and joiner workers at affected city contract establishments, which allows selection on observable skills such as years of schooling, prior formal training, and age at time of hire. We also find evidence of significant substitution towards workers with greater unobservable skills, as evidenced by the finding that the "before" wages of workers new to city contract work following the ordinance are significantly higher the "before" wages of city contract workers preceding the ordinance. The intended wage

[18] Here, we ignore raises for workers in city contract firms whose before wages were higher than the living wage mandate. However, research reveals that this vertical spillover is not insignificant (Fairris et al. 2005). In fact, in addition to the roughly 8,000 workers whose wages were directly affected by the ordinance, another 2,000 received wage increases from employers in order to maintain relative wage norms.

gains for workers are thus dissipated significantly. We estimate that living wage gains for workers were dissipated by roughly 40 percent through labor-labor substitution.

Too Fragile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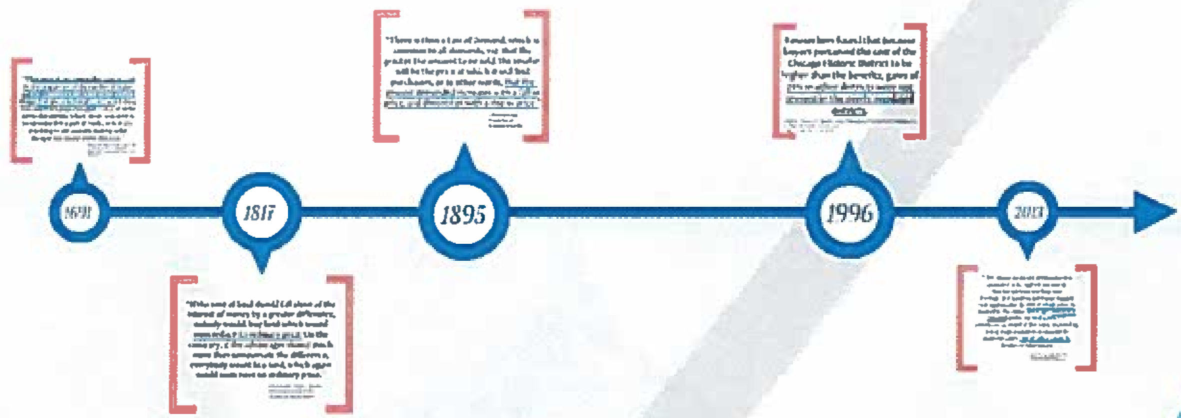
↑ Restrictions =

↓ Demand =

↓ Price/Value



"[T]he price of any commodity rises or falls by the proportion of the number of buyer and sellers: this rule holds universally in all things that are to be bought and sold, bating now and then an extravagant fancy of some particular person, which never amounts to so considerable a part of trade, as to make anything in the account worthy to be thought tan exception to this rule."

John Locke. Some Considerations on the Consequences of the Lowering of Interest and the Raising of the Value of Money (1691)

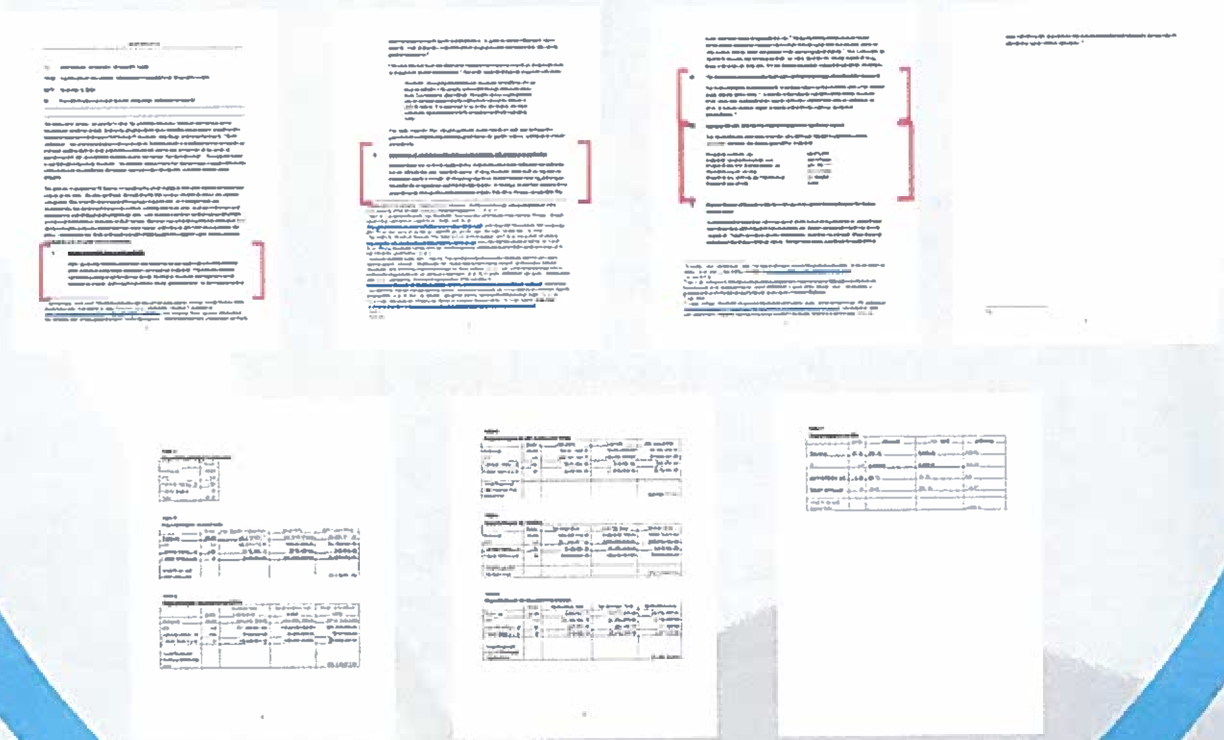
1691

2013

"The impact on future development is expected to be highest outside of Manhattan's central business districts. Our baseline estimates suggest that approximately 33% of retail projects located in the Outer Boroughs would not proceed under current economic conditions as result of the costs imposed by living wage mandates compared to approximately 24% of office projects located in Manhattan

http://www.nycedc.com/sites/default/files/filemanager/Resources/Studies/CombinedReportLivingWageImpacts.pdf

Application to Milwaukee County



The primary impact on the ED Division is regarding the price impact of land sales and the consequential impact on tax base. Despite significant attempts the ED Division was not able to obtain any national comparable data related to the impact of living wage requirements on municipal land sales. Consequently, the closest analysis we can perform is taking data from other land use restrictions and applying it to a percentage of projected land sales. Such analysis is far from perfect but would predict an estimated decrease in land sales of $8.37 Million, decrease in projected property tax revenue of $2.2 Million annually, a loss of 2,098 private jobs in the county, and a loss of $12.5 Million in work for DBE firms. Furthermore, the Draft Ordinance if implemented would likely result in lower density projects focused on uses of higher income occupants.

I. <u>Exact comparable data is not available</u>

After significant research, there does not appear to be any study that has measured the price impact of Living Wage ordinances on municipal land sales. The primary research surrounding Living Wage focuses on (a) the increase of wages for some workers at the expense of a higher unemployment rate for lowest skilled workers;[1] (b) the replacement of

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[1] *See* Neumark, David, et al., The effects of living wage laws on low-wage workers and low-income families: What do we know now? (IZA Journal of Labor Policy Dec. 2012) (hereinafter "Neumark") (available at http://link.springer.com/article/10.1186/2193-9004-1-11#page-1), indicating that "With regard to employment, the estimates are – as theory would predict – uniformly negative. The preferred estimates are statically significant,

hour would affect the private-sector (EDC beneficiaries) anywhere from $2.8 million to $8.8 million. The public-sector would similarly see an increase in payroll and contractual costs of $2 million to $30.75 million. It is important to note that the highest increase represents approximately 3.62% of total government operating costs.[6]

The study, however, does not give guidance on the impact on land sales because the government assistance impacted was grant dollars to specific sectors, not the price impact on land sales.[7]

II. <u>Application of Land Regulation Data would predict a 24% decrease in land value</u>

Because there are no direct studies on the impact of a living wage ordinance on land sales, we are left with the very imperfect analysis of using data from other land use regulations. Fortunately there is a model of measuring impact on land price when local regulation goes beyond federal regulations and market expectations. In Chicago, researchers evaluated the property value of properties within National Historic Districts in Chicago compared to the

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indicating that, for example, a 50% increase in a business assistance living wage reduces employment in the bottom decile of the skill distribution by 2.8 percentage points ..." Id. at 27.

[2] *See* Fairris, David and Bujanda, Leon Fernandez, The Dissipation of Minimum Wage Gains for Workers Through Labor-Labor Substitutions, (South Econ J 2008), available at (http://irle.berkeley.edu/events/fall05/seminars/fairris/fairris.pdf, indicating that "We estimate that living wage gains for workers were dissipated by roughly 40 percent through labor-labor substitution." Id. at 33.

[3] *See* Toikka R, Yelowitz A, Neveu A: "The "poverty trap" and living wage laws.". Econ Dev Q 2005 available at http://gatton.uky.edu/faculty/yelowitz/Yelowitz-povtrap2.pdf, indicated that We also find that nearly 75% of those affected by the living wage were not initially in poverty, and that more than 40% had initial incomes of at least twice the poverty line." Id. at 1.

[4] *Compare* Neumark, supra note 1, arguing "The updated evidence is broadly consistent with the conclusions

more restrictive locally designated districts.[8] Researchers found that because buyers perceived the cost of the Chicago Historic District to be higher than the benefits, gains of 24% in other districts were not present in the overly regulated districts.[9] This is obviously an imperfect measure, but because no study has been done directly on the impact of living wage ordinances on land sales, it is the closest reasonable measure to complete an analysis.

III. The County Has approximately 55.07 acres of Projected Surplus that Would be Impacted

The Draft Ordinance could potentially impact any future surplus property with a Fair Market Value of $200,000 or more.[10] Currently in the surplus inventory of the county there are 15.07 acres that could potentially qualify under this requirement, with an additional 40 acres of potential future surplus property as the county continues to explore consolidation.[11]

IV. Applying the 24% Decrease in Projected Values has Significant Impacts

The attached tables that show when the 24% decrease in value is applied to various economic indicators, the following would be predicted:

Projected Land Sale Loss	$8,376,997
Projected Construction Value Loss	$88,129,622
Projected DBE Construction Value Loss	$12,583,777
Projected Loss of Tax Base	$73,729,622
Projected Loss of Municipal Tax Revenue	$2,208,202
Projected Loss of Jobs	2,008

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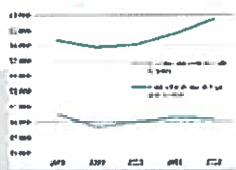
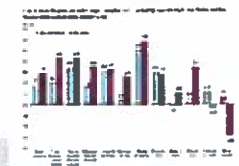
V. Physical Nature of Projects is Likely to Change to be Lower Density Projects for Higher Income Users

In addition to the predicted outcomes above, there is also strong evidence to support that restrictions that add increased costs to projects are likely to significantly lower the density of projects,[12] which can cause several inefficiencies related to mass transit, urban planning and economies of scale of construction. Furthermore, there is evidence to support that

Better Way

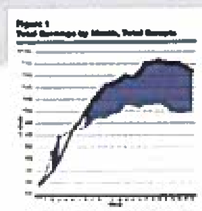
1. Infrastructure & Innovation

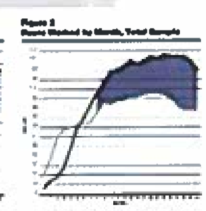


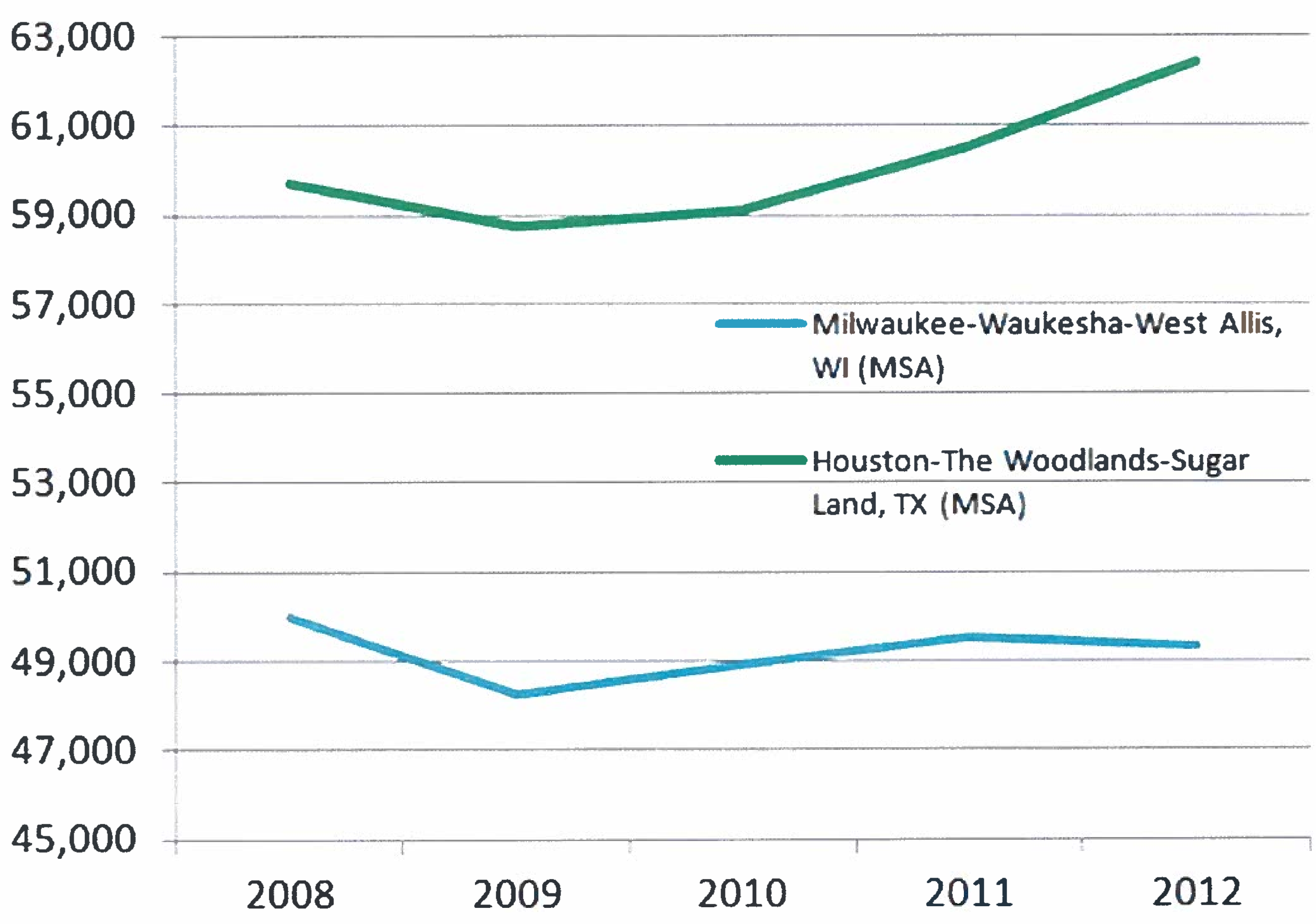


2. Uplift Everyone

3. Workforce Development



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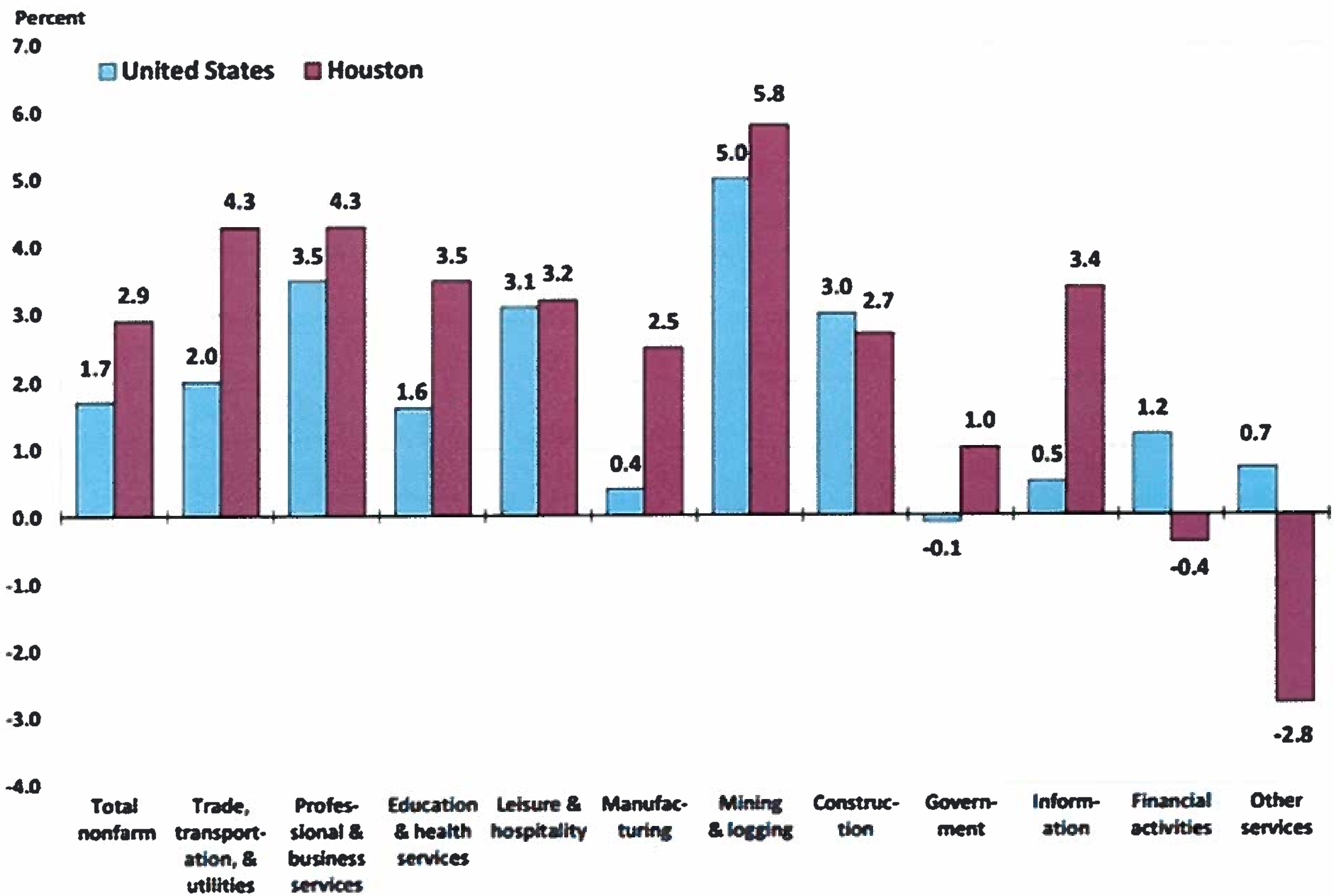
Milwaukee-Waukesha-West Allis, WI (MSA)
Houston-The Woodlands-Sugar Land, TX (MSA)

Chart 2. Over-the-year percent change in employment by industry supersector, United States and the Houston metropolitan area, October 2013



MILWAUKEE·WISCONSIN
JOURNAL SENTINEL

Milwaukee's poverty rate stands at 29.4%

Mark Hoffman
Food is unloaded from a Hunger Task Force truck this week at the Boulevard Apartments, 2627 W. Lapham St. in Milwaukee. New figures show the City of Milwaukee with a poverty rate of 29.4% in 2011, which is unchanged from the previous year.

By Bill Glauber and Ben Poston of the Journal Sentinel

Sept. 19, 2012

Photo Gallery

The Great Recession is over, but the hangover remains in Milwaukee, according to estimates released Thursday by the U.S. Census Bureau.

Greater Houston is one of only a handful of the nation's largest metro areas that saw poverty rates drop last year. But this is one front on which the region has yet to recover from the Great Recession.

In its latest American Community Survey, the U.S. Census Bureau reports that Greater Houston's poverty rate fell by one percentage point in 2012 compared to 2011. That still left the region with 16.4% of its residents living below the poverty line.

"That's about a million people who are getting by on a relatively low income, and may have trouble making ends meet even with that level of income."

Elizabeth Kneebone is a fellow at the Brookings Institution's Metropolitan Policy Program. She says while Houston is improving, it still has a lot of ground to make up.

"That 16.4% poverty rate is still almost two percentage points higher than back in 2007."

The national poverty rate in 2012 was just 15%. The Census Bureau set the federal poverty line as an annual income of roughly $23,500 a year to support a family of four.

Figure 1
Total Earnings by Month, Total Sample

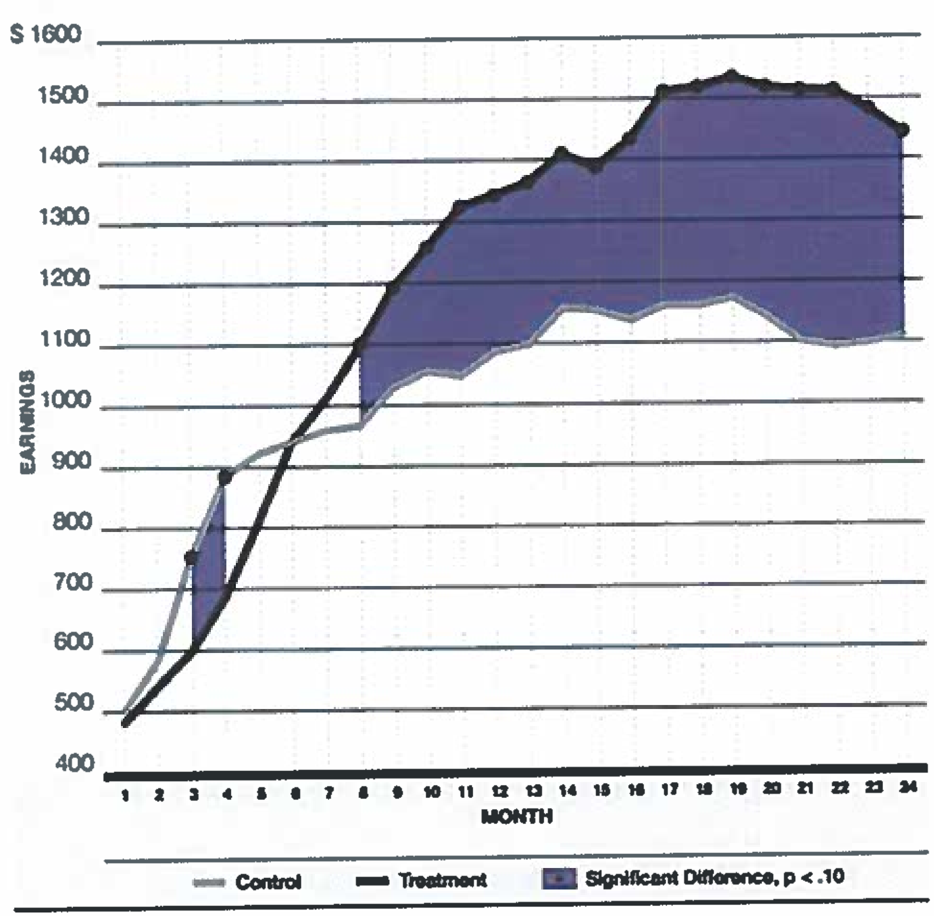


Figure 2
Hours Worked by Month, Total Sample