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1999

RESEARCH REPORT

Number 1

POLITICAL ECONOMY RESEARCH INSTITUTE

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ECONOMIC ANALYSIS OF THE NEW ORLEANS MINIMUM WAGE PROPOSAL

July 1999

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ECONOMIC ANALYSIS OF NEW ORLEANS MINIMUM WAGE PROPOSAL

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Economic Analysis of New Orleans Minimum Wage Proposal

Highlights of Major Findings and Responses to Basic Matters of Concern

Citizens in New Orleans, Louisiana have proposed a policy to raise the minimum wage in the city by one dollar over the national minimum. At present, the national minimum is $5.15, so the New Orleans minimum would become $6.15.

⇒ The basic motivation behind the proposal is that the national minimum wage has fallen by 31 percent from its peak of $7.49 (in inflation-adjusted dollars) in 1968. A full-time worker cannot raise even a two-person family above the poverty line without the assistance of substantial government support.

⇒ Critics of such proposals argue that they will hurt the very low-income families they are intending to help. The critics make two primary claims: that raising the minimum wage would cause unemployment among the working poor; and that it would frighten firms away from doing business in the city.

CONCLUSIONS FROM OUR RESEARCH

Benefits

⇒ The policy will bring significant, if frequently modest, gains to low-wage working people and their families in New Orleans. For the average low-wage working family, income before taxes and subsidies (mainly Food Stamps and Earned Income Tax Credit) will rise by 11.8 percent. After taxes and subsidies, the gain in disposable income will range between about 3 and 4.5 percent.

⇒ Low-wage workers will also benefit through the dignity of earning a higher share of their livelihood and thus becoming less dependent on government subsidies. As a result of the debate in the U.S. over welfare policy, it became clear that the vast majority of people would much prefer to work for a decent wage than rely on government subsidies.

⇒ Even when modest, these gains are important to the city, given that between 27-40 percent (depending on which poverty measure one utilizes) of its population is poor.

⇒ The policy will benefit the retail stores operating in the city's low-income neighborhoods, as residents of these neighborhoods, with higher incomes, will increase their local spending as well. For the average low-income neighborhood, spending in retail stores should rise by roughly 2.7 percent. The sales boost for these retail firms should promote business activity and improved public amenities in these neighborhoods.

⇒ The federal government will benefit, because the amount it spends on Food Stamps and the Earned Income Tax Credit will fall as the *earned income* of low-wage workers and their families rises. Thus, low-wage poverty and government subsidies would both decline though this measure. These gains to the federal government will be substantial, on the order of $15 - $20 million, i.e. roughly what it spends per year in Orleans parish on its Head Start program.

Costs

⇒ The primary costs are those incurred by businesses that will pay the increased wages to the low-wage workers they employ.

⇒ But these costs are low when spread across all firms in New Orleans. The average cost per firm is 0.9 percent of the firm's operating budget.

⇒ Because the increased costs per firm are low, the overwhelming majority of firms will not lay off workers or relocate out of New Orleans to avoid paying these costs. Instead most firms will either:

a) Raise prices by a small amount and thus pass on the added costs to consumers;

b) Raise productivity in the firm, which should occur in any case since the wage increases will promote lower turnover and absenteeism, and thus also lower training and supervisory costs; and/or

c) Allow that low-wage workers will receive a slightly larger slice of the firm's total income pie, at least in the short-run.

⇒ Around 200 of the 12,682 firms in New Orleans will experience significantly higher cost increases, on the order of 6.6 percent of their operating budget. As a hypothetical exercise of the potential high-end effects of this on the city, we assume that perhaps as many as half of these firms would relocate outside the city limits to avoid incurring these costs. If these firms did relocate, the major cost to New Orleans would be a $2 million loss of sales and user tax revenue. This would amount to about 0.4 percent of the adopted total budget for the City for 1999.

Weighing Benefits and Costs

⇒ We conclude that the benefits of the minimum wage increase, especially to low-wage working families, but also to retail store owners in low-income neighborhoods and the federal government, significantly outweigh the costs of the program.

⇒ The reason that the New Orleans minimum wage proposal is a relatively efficient policy initiative--i.e. one in which benefits significantly outweigh costs--is straightforward. It is that the primary benefits of the policy would be concentrated, among low-wage workers, their families, and neighborhoods, while its costs are readily and widely diffused among the city's businesses, consumers, and government.

SUMMARY OF KEY RESEARCH FINDINGS

Poverty in New Orleans

⇒ Nearly 27 percent of the population of New Orleans lives below the official government poverty line and more than 40 percent are below the 150 of poverty threshold.

⇒ More than 50 percent of poor households in New Orleans do not have any members with paying jobs. As such, raising the minimum wage will not, by itself, address the needs of all the New Orleans poor. Measures to increase employment opportunities are also needed.

⇒ Raising the city's minimum wage to $6.15 will not itself lift above the poverty line even the households which now include at least one low-wage worker. On average, the wage-earning worker in such a household would need a raise to $9.96 to lift her or his household above the official poverty line, assuming all else stayed equal with the household's work situation.

The Minimum Wage in the United States

⇒ In 1998, the real value of the $5.15 minimum wage was 31 percent below its peak in 1968 of $7.49.

⇒ The fall in the minimum wage since 1968 occurred while the productive capacity of the U.S. economy rose by 50 percent. If the national minimum wage had been rising since 1968 at exactly the rate of the economy's productivity growth, the minimum wage in 1998 would have been $11.21.

⇒ There is no statistical correlation over time between changes in the national minimum wage and unemployment in the United States. This is contrary to the claim made frequently by critics that increasing the minimum wage will also induce increases in unemployment. The critics' claim follows from the point that when the price of anything (such as low-wage labor) rises, the demand for it (businesses hiring low-wage workers) must fall.

⇒ The most important reason as to why increases in the minimum wage are not statistically correlated with higher unemployment is that when demand for the products businesses sell is high, firms will hire more workers to meet that demand, even if it means paying higher wages. Correspondingly, when demand for their products is lower, firms will higher fewer workers, even if the wage at which they could hire is lower.

⇒ The New Orleans minimum wage proposal is an outgrowth of a broader "living wage" movement throughout the United States. Since 1994, living wage ordinances of various types have passed in 39 municipalities, and proposals are currently being considered in approximately 80 other municipalities. In addition, state-wide minimum wage standards above the national minimum have passed in California, Oregon and Washington since 1996.

Survey of New Orleans Businesses

⇒ Our most important research tool was an extensive survey of businesses in New Orleans.

A) We received responses from 444 firms.

B) They answered 12 detailed questions about the nature of their organization, the number of workers they employ, how much they pay in wages, and how much they pay in wages, and the amount of taxes they pay to and possible subsidies they receive from city, state and federal governments.

C) The firms that responded to our survey employ 68,751 workers, which amounts to 23.4 percent of the entire work force in New Orleans.

Economic Impact of the New Orleans Minimum Wage Proposal

⇒ There are 12,682 business firms in New Orleans.

⇒ 47,050 workers would receive mandated wage increases if the minimum wage in New Orleans rose to $6.15. The current average wage for low-wage, wages-only workers (i.e. non-tipped workers) is $5.50, so that they would receive a wage increase of 65 cents per hour. The average yearly increase would be $1,003, assuming 1,700 hours of work.

⇒ We estimate that an additional 27,314 workers will receive raises through the a so-called "ripple effect." When the minimum wage increases, the ripple effect refers to those wage increases that employers give beyond what is

legally mandated. These raises would go to workers earning above the minimum wage, but who are in roughly the same pay range as the minimum-wage workers. We estimate that ripple effect pay raises will amount to roughly $17 million.

⇒ Total costs of the New Orleans minimum wage increase, including mandated and ripple effect pay raises, is $71.4 million. For the city's 12,682 firms, that means an average total cost per firm of $5,630. For the average firm, these costs as a proportion of their operating budget is 0.9 percent

⇒ For smaller firms, with less than 50 employees, the cost per firm is lower, averaging only 0.5 percent of the average firm's operating budget. This result is contrary to the widely-held view that minimum wage increases are most burdensome for smaller firms.

⇒ Industries accounting for 86 percent of production and 79 percent of employment in New Orleans would face cost increases of less than one percent due to the minimum wage increase.

⇒ The two industries that would face the largest average cost increases are the restaurant industry, which would face a 2.2 percent cost increase, and hotels, whose cost increase would be 1.7 percent. But in these two industries, firms compete almost completely with other businesses within New Orleans, who would also face the same cost increases. As such, firms in these industries should have less difficulty passing on their higher costs through price increases.

Responses to Basic Matters of Concern

1. Would the New Orleans minimum wage increase induce firms to relocate out of the city and discourage outside firms from moving into the city?

Based on our evidence, we conclude that there is virtually no incentive for firms to either relocate out of the city or decide against moving into New Orleans. The principal reason is that, as we have seen, on average, the cost increases relative to firms' operating budgets is too low to induce businesses to incur the costs of relocating. This is especially true since, for most firms, it will not be difficult to absorb their additional costs through some combination of small increases in prices and productivity, or through allowing low-wage workers to have a somewhat larger share of the firm's total income, at least in the short run.

2. Would the New Orleans minimum wage increase bring employment losses to low-wage workers in New Orleans?

We conclude that the minimum wage increase will not induce employment losses in New Orleans. We base this conclusion, first, on the extensive evidence

we review on the impact throughout the country, both at the national and state levels, of minimum wage increase on employment patterns. In addition, because the cost increases due to the minimum wage increase are low, firms, again, will almost always find it more cost effective to absorb these costs through small price, productivity, or income distribution changes, rather than incurring the large expenses associated with laying off workers. Of course, employment opportunities will fluctuate in New Orleans over time, but an increase in the minimum wage to $6.15 will not be a significant factor influencing those fluctuations.

3. Would the New Orleans minimum wage increase induce low-wage workers to migrate to New Orleans, perhaps creating unemployment in the city and labor shortages in other parts of Louisiana?

Poor working people are active migrants. But the two primary factors attracting the working-age poor to a new community are a large number of entry-level jobs and low housing costs. The higher minimum wage in New Orleans should not have any significant effect on either job growth or housing costs. As such, it should have no impact on migration patterns. This general view is consistent with evidence on actual migration patterns in New Orleans and Louisiana generally. Specifically, New Orleans has long had a higher per capita income than other parishes in Louisiana. Despite this, the parish has experienced a net domestic out-migration between 1990-97 of 55,078.

Economic Analysis of New Orleans Minimum Wage Proposal
EXECUTIVE SUMMARY

OVERVIEW OF STUDY

Citizens of New Orleans, Louisiana have formally petitioned the City Council to call an election that would consider a proposal to raise the minimum wage within the city by one dollar above the federal minimum wage. With the current federal minimum wage at $5.15, the New Orleans proposal would mean that all workers in New Orleans, with the exception of those in job categories that are explicitly exempted from the law, would have to be paid at least $6.15 an hour. The New Orleans proposal grows out of a nationwide "living wage movement," various versions of which have already passed in 38 other municipalities around the country.

The aim of this study is to provide a careful evaluation of what the overall impact would be if New Orleans were to increase its minimum wage to $6.15 an hour, given today's national minimum of $5.15. Drawing on a wide range of evidence, we identify the costs and benefits of the propoosal and weigh the importance of costs versus benefits. Section II presents data on the extent of poverty, and the relationship between poverty and low-wage labor in New Orleans. Section III then examines changes in the the national minimum wage over time, and then considers, among related concerns, whether raising the minimum wage causes unemployment. In Section IV, we begin to introduce data from an extensive survey of businesses in New Orleans that we undertook. We use these data to examine the expected costs of the minimum wage proposal. We estimate how many workers would receive raises, and the size of the raises. We then consider the impact of these on the private businesses that would be giving the raises, as well as, more generally, on the economies of New Orleans and Louisiana. Finally, in Section V, we

estimate the expected benefits of the proposal for low-wage workers and their families; the retail businesses in neighborhoods where low-wage workers live; and, finally, for the government, which will be able to reduce Food Stamp and Earned Income Tax Credit (EITC) support payments to the families of workers who have received pay increases.

Based on the research we present, we are able to reach the following conclusions:

Benefits. Implementing a city-wide minimum wage of $6.15 will produce somewhat modest but still significant improvements in the living standards of tens of thousands of low-wage working families in New Orleans. Raising the municipal minimum wage will also generate more retail sales for the businesses located in low-income neighborhoods in New Orleans. In addition, the higher minimum wage will relieve the federal government of a substantial amount of subsidy support payments to low-income families in New Orleans.

Costs. The benefits of raising the municipal minimum wage are attainable without imposing significant costs either to businesses, consumers, the city government, or, more generally to the functioning of the New Orleans and Louisiana economies. *The average business in New Orleans will incur cost increases due to the higher minimum wage of less than one percent of its total operating budget.* Most firms can readily absorb these costs through small increases in their prices, productivity, or the share of the firm's total income that goes to low-wage workers. As such, increasing the minimum wage in New Orleans will not induce significant layoffs, business relocations or an in-migration of low-wage workers into the city.

Why Benefits Exceed Costs. There is a simple logical reason why this happens with the New Orleans minimum wage increase. It is that the primary benefits of the policy are concentrated, among low-wage workers, their families, and neighborhoods, while its costs can be readily and widely diffused among the city's businesses , consumers, and government.

BASIC RESEARCH QUESTIONS

The petition to the City Council states that the purpose of the measure is to "provide for a minimum wage to be paid to employees who work in the City of New Orleans that will make it reasonably possible for them to earn a sufficient income to afford the basic necessities of food and shelter." The petition states that the current federal minimum of $5.15 is "insufficient to provide a living wage under conditions existing in the City of New Orleans."

In fact, as of 1998, the real value of the $5.15 minimum wage was more than 30 percent below its peak in 1968 of $7.49 (in 1998 dollars), even though the U.S. economy was 50 percent more productive in 1998 than 1968. More to the point, at the 1998 national minimum wage, someone who works full-time for 50 weeks would earn $10,300 over a year. This figure is below the 1998 national poverty threshold of $10,640 for a family of two, and almost 50 percent below the national poverty threshold for a family of four.

However, recognizing that the national minimum wage has fallen dramatically by no means establishes that raising the minimum wage in New Orleans is necessarily either a viable or desirable policy intervention. This is because a higher minimum wage in New Orleans could produce negative effects for the economies of the city and the State of Louisiana, which could create more harm than good for the very low-wage workers the measure is intended to help.

Three major issues are of concern are:

1. Would businesses move outside the New Orleans city limits to avoid higher labor costs? Similarly, would outside firms be deterred from locating there, because of the higher minimum wage?

2. With the price of low-wage labor having risen, we might expect businesses to demand less of it. Would a higher minimum wage therefore cause increased unemployment among low-wage workers?

3. Even if the higher minimum wage did not cause increased unemployment, it could still disrupt employment conditions in New Orleans and throughout Louisiana, if workers migrated to New Orleans in search of higher wages.

This study presents and examines a wide body of evidence on which to judge these expected benefits and costs.

POVERTY AND LOW-WAGE LABOR IN NEW ORLEANS

To evaluate whether the national minimum wage is too low for preventing poverty among the working poor, we first need a reliable measure of what constitutes poverty in New Orleans. In recent years, many researchers have questioned the adequacy of the U.S. government's poverty thresholds. Indeed, a National Research Council study finds that 10 methodologies alternative to the government method all generated higher thresholds, by between 21 and 53 percent. We therefore report figures on poverty thresholds that are 150 of the official threshold, as well the official thresholds themselves.

The upper panel of Table S-1 shows the extent of poverty in New Orleans as of 1998. We see that nearly 27 percent of the city's population lives below the official poverty line and more than 40 percent are below the 150 percent of poverty threshold. We then see in the lower panel of Table S-1 the relationship between work status and poverty. More than 50 percent of poor households in New Orleans do not have any members with paying jobs. As such, raising the minimum wage will clearly not, by itself, address the needs of all of the New Orleans poor. Measures to increase employment opportunities are also needed. The table also shows that among the poor households that have working members, about 40 percent of those working members earn below $6.15 an hour. A higher minimum wage will certainly benefit that group of poor households. Overall, to seriously attack poverty in New Orleans, higher wages needs to be combined with job expansion--these two strategies being mutually supportive instruments for alleviating poverty.

Table S-1.
Poverty in New Orleans
(figures are for 1998)

	Population below Poverty line	**Population below 150% of poverty line**
People	129,771 *26.6% of population*	195,798 *40.1% of population*
Households	53,935 *28.8% of total*	78,971 *42.2% of total*
	Work Status of Poor Household Members	
	Households below Poverty line	**Households below 150% of poverty line**
Percent of households with no wage earners	59.0	52.5
Poor households with wage earners: percentage with at least one wage-earner below $6.15	40.7	40.2

Source: See Appendix 1.

MINIMUM AND LIVING WAGE LAWS IN THE UNITED STATES

Declining Value of Minimum Wage

The national minimum wage has been an effective policy tool for getting benefits to its intended recipients, the working poor. In the most recent 1996-97 increase in the national minimum wage, 35 percent of the benefits went to the poorest 20 percent and 58 percent went to the lower 40 percent of working households. Despite this, the minimum wage has had only limited, and diminishing, impact in addressing the problems of low-wage poverty. This is because, as we see in Figure S-1, the real buying power of the minimum wage (after adjusting for inflation) has fallen 31 percent since its peak in 1968 at $7.49. The effect of this becomes clear in the lower panel of Figure S-1, which plots values for the minimum wage as a percentage of the official poverty threshold for a three-person family. As we see, the minimum wage equaled 117 percent of the poverty threshold in 1968 but has fallen to 80 percent by 1998.

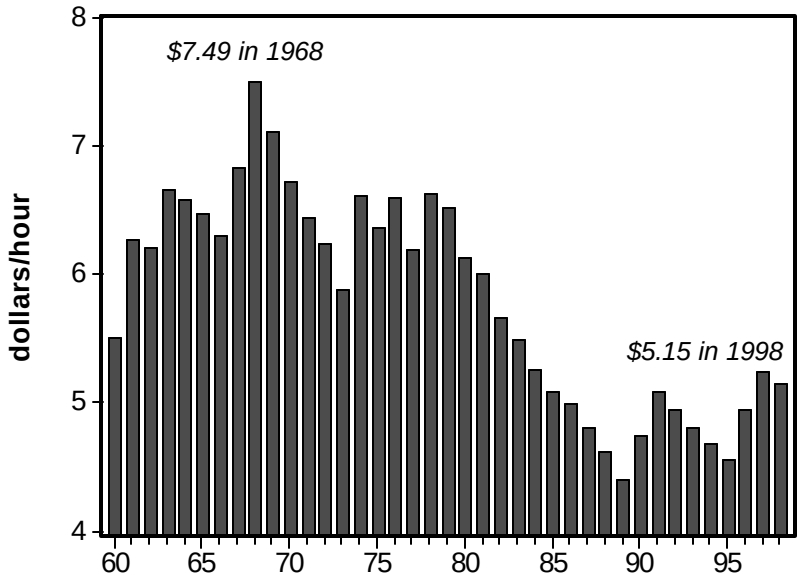
The fall in the real value of the minimum wage since 1968 is all the more remarkable considering that, as of 1998, the productivity of the U.S. economy--our ability to produce goods and services with a given number of people and a given dollar value of machines--is 50 percent higher than it was in 1968. In Figure S-2, we see that if the minimum wage had been rising since 1968 at exactly the rate of the economy's productivity growth--no more and no less--the minimum wage in 1998 would be $11.21.

Minimum Wage and Unemployment

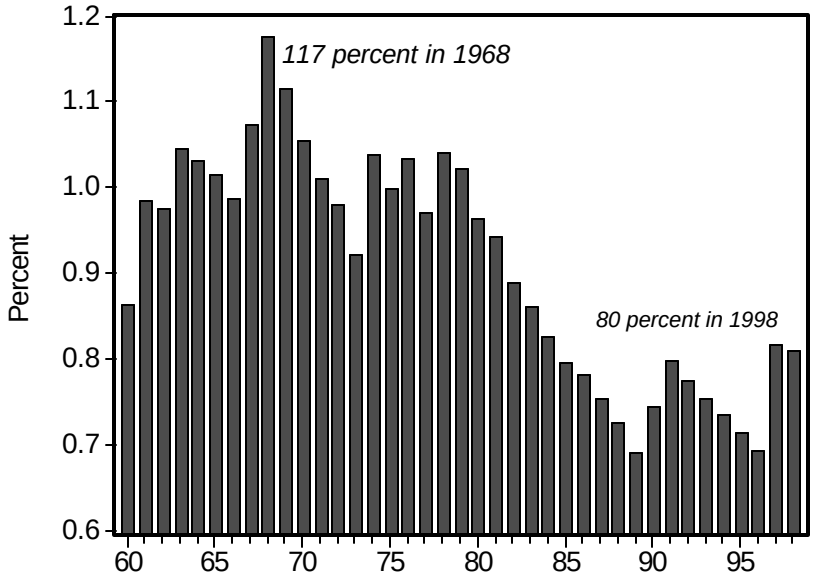
Despite the inadequacy of the national minimum wage as an anti-poverty tool, the most severe critics of minimum wages actually contend that its effects are too strong, not too weak. The critics argue that *any* government mandated minimum higher than the market-established wage will reduce employment opportunities for workers.

Figure S-3 shows the relationship between the minimum wage and unemployment between 1960-98. Considering the upper panel of the figure, we see that the unemployment rate

Figure S-1.
Real Value of United States Minimum Wage, 1960-98
(in 1998 dollars)

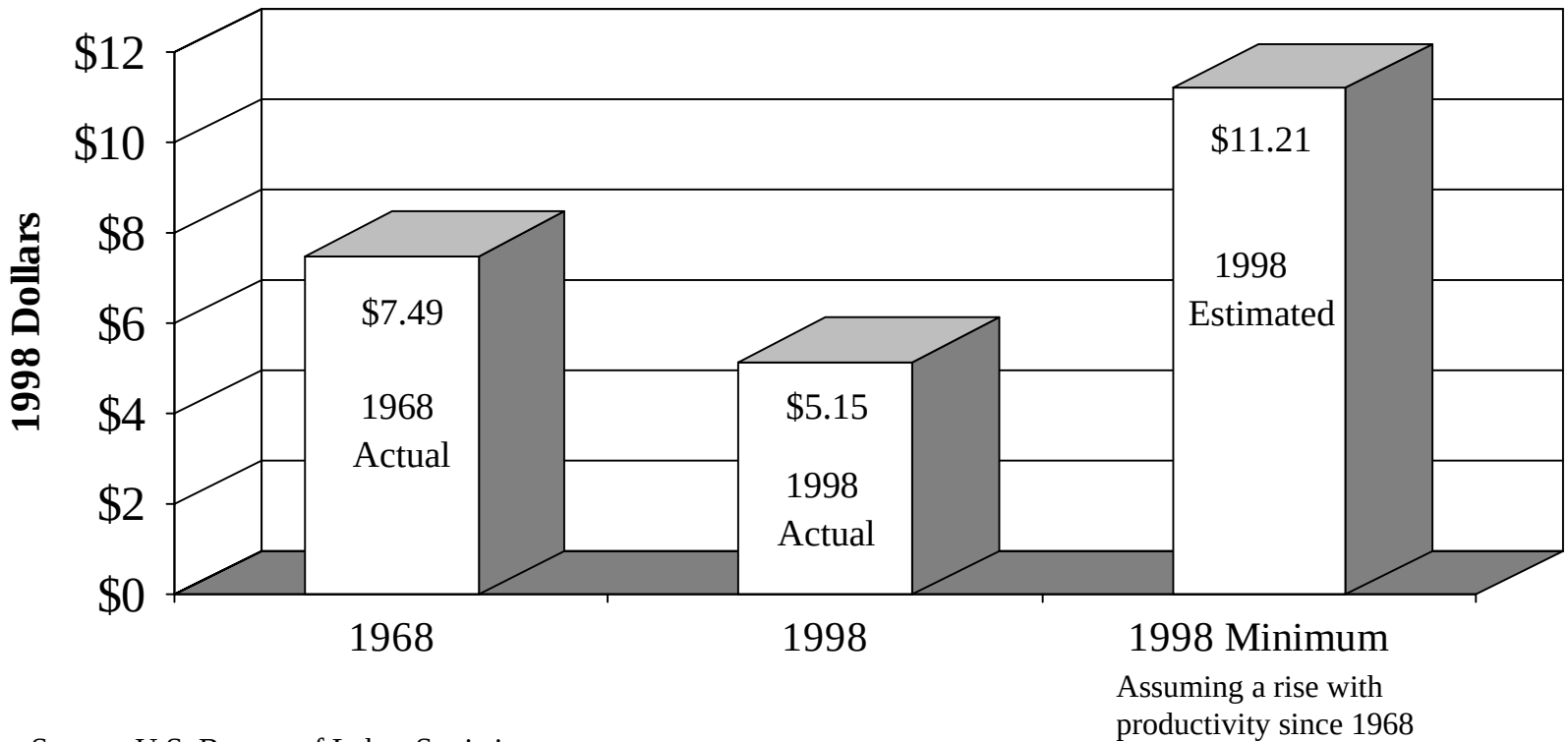


One Full-Time Minimum Wage Income as Percentage of Three-Person Family Poverty Threshold



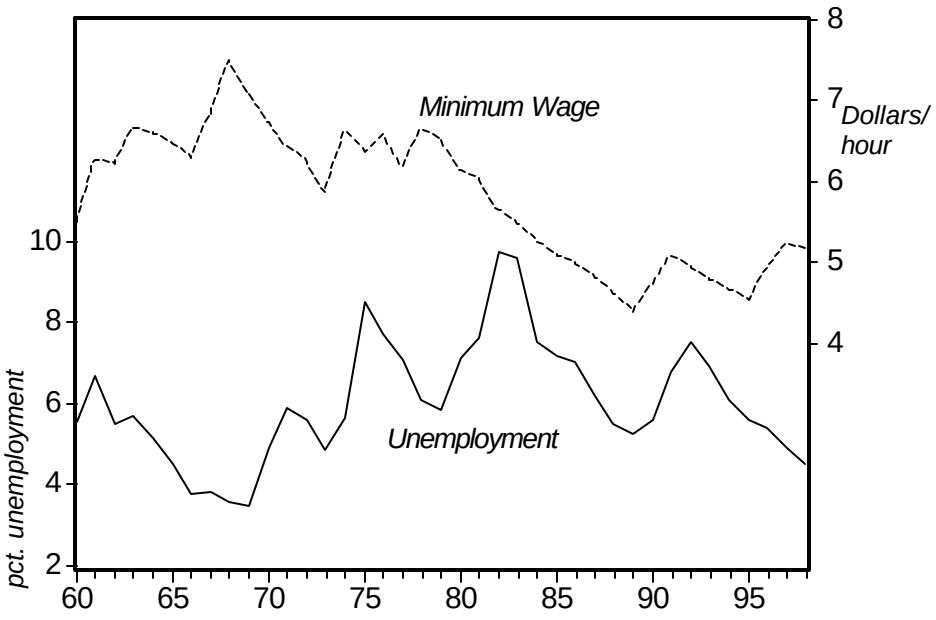
Source: U.S. Department of Labor Statistics
and Bureau of Census

Figure S-2:
The Minimum Wage and Productivity

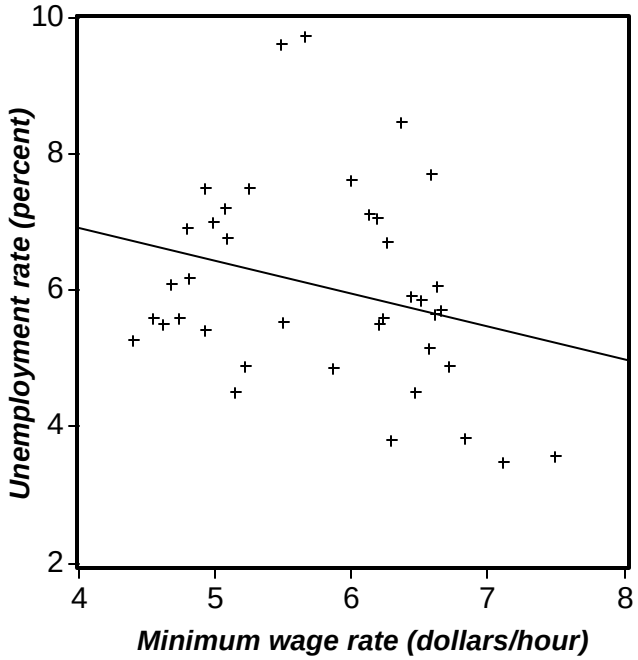


Source: U.S. Bureau of Labor Statistics

Figure S-3. Minimum Wage and Unemployment (1960-98)



Minimum wage and unemployment trend



Source: U.S. Bureau of Labor Statistics

does not fluctuate in the same way as the minimum wage. Indeed, if anything, the unemployment rate seems to be *rising* over the 1970s and 1980s as the minimum wage is *falling*. This relationship becomes even more clear in the lower panel of Figure S-3. The very wide dispersion of the scatter points signifies that there is not any close relationship between the minimum wage and unemployment. Nevertheless, the trend line which cuts across this figure is actually sloping downward. This means that, if anything, the unemployment rate *goes up* when the minimum wage *goes down*--a result opposite to the view that a rising minimum wage will bring more unemployment. However, this observed downward trend is actually not a reliable observation, because the scatter points in the figure are so widely dispersed. All we can confidently say is that there is no stable relationship between the minimum wage and unemployment over time.

In terms of causality, one plausible explanation for what we observe in Figure S-3 is that even if a higher minimum wage did produce some unemployment if everything else in the economy were held constant, in fact, in the real world, everything else is not held constant. Other influences, such as investors, consumers and the government demanding more goods and services, could lead firms to hire more workers even if their wages are higher. Correspondingly, when demand is lower, firms would want to hire fewer workers, even if the wage at which they could hire is also lower. Such situations would therefore entail a higher minimum wage *along with* falling unemployment, and a lower minimum wage along with higher unemployment.

Living Wage Ordinances Throughout the Country

Since 1994, the inadequacies of the national minimum wage have led to movements throughout the country for legally mandated "living wage" floors, i.e. minimum wage rates, i.e. minimum wage rates high enough to keep workers and their families out of poverty. These movements have been focused primarily at the level of municipalities, but there have also been state-wide initiatives. The first victory of a municipal living wage movement was in Baltimore in 1994. The ordinance there stipulated that firms that hold service contracts with the city pay a

minimum wage that began at $6.10 an hour in 1996 and then rose to $7.70 an hour in 1999. Similar ordinances, applying to firms holding city service contracts and frequently also concessionaires and subsidy recipients, have passed in 38 other municipalities. Proposals are currently being considered in approximately 80 other municipalities. These are in addition o the state-wide minimum wage standards in California, Oregon, and Washington higher than the federal minimum wage that have passed and have been implemented since 1996.

The proposal in New Orleans is an outgrowth of this broader living wage movement. In terms of its specifics, it is a hybrid between the municipal-type ordinances and the state-wide minimum wage laws that have passed since 1994. This is because it would be an municipal law, but, as with the laws in California, Oregon, and Washington, it would cover all workers within the municipality, not only those employed by city contractors. Thus far, studies have been conducted of the effects of these laws in Baltimore and Los Angeles. For the most part, the ordinances in these cities have not significantly affected either employment conditions in the affected firms or bidding patterns by businesses seeking government contracts.

COSTS OF THE NEW ORLEANS MINIMUM WAGE INCREASE

To provide a solid empirical foundation for our analysis, we have conducted an extensive survey of businesses in New Orleans. We received responses from 444 firms. They answered 12 detailed questions about the nature of their organization, the number of workers they employ and how much they pay in wages, and the amount of taxes they pay to and possible subsidies they receive from city, state and federal governments. The firms that responded to our survey employ 68,751 workers, which amounts to 23.4 percent of the entire labor force in New Orleans. In addition to the figures generated by our sample, we also present here data from other states that have experienced higher minimum wages than the national average. Finally, as appropriate, we incorporate results from related academic research.

Table S-2 provides a broad picture of what the impact would be of raising the minimum wage in New Orleans to $6.15. It shows that there are 12,862 firms in the city, and that 47,050 workers would receive mandated raises through the law. The total direct costs associated with these mandated raises would be $53.5 million, or an average of $4,218 per firm. In addition to these costs, it is also likely that other workers in the firms, who are earning above $6.15 an hour but are roughly in the same pay range as those getting mandated raises, will also get "ripple effect" pay increases. We estimate that roughly 27,000 workers will get such ripple effect raises, totaling another $16.6 million. As we see in Table S-3, adding together direct mandated costs and indirect ripple effect raises, the total costs of the New Orleans proposal would be $71.4 million.

By itself, the total cost figure of $71.4 million provides little information as to how the increased minimum wage would affect the New Orleans economy. To understand what the impact might be, we have to consider how large each firm's costs will be, on average, relative to their total operating budgets. We present cost figures for firms in several ways--for an average business, and for a range of businesses, breaking down firms by size and industry type. Table S-4 shows our results for an average firm, *the most important finding there being that total costs would amount to 0.9 percent of the average firm's operating budget.*

In Table S-5, we show these cost breakdowns by industry. The table lists industry groups according to the total cost/operating budget ratio, starting with industries with the highest ratios. In columns 3 and 4, the table then presents information on the size of the industry within the New Orleans economy.

As the table shows, only the eating and drinking industry--i.e. restaurants, cafes and bars--would experience a cost increase greater than two percent of their operating budget, and even here, the cost increase is just above two percent. The hotel industry would be the next most heavily affected, with cost increases at 1.7 percent of their operating budgets. These two

Table S-2.
Direct Wage Increases and Costs to Firms
After Raise to $6.15

Number of firms covered	
Total	12,682
Number of workers covered	
Full-time	25,477
Part-time	20,341
Tipped workers	1,232
Total	47,050
Wage-only workers	
Average hourly wage before ordinance	$5.50
Average hourly wage increase	$0.65
Average number of hours worked per week	32.7
Average yearly wage increase	$1,063
Tipped workers	
Average hourly wage before ordinance	$2.39
Average hourly wage increase	$0.69
Average number of hours worked per week	23.3
Average yearly wage increase	$804
Wage increase for year, all workers	$49.7 million
Payroll tax increase for year, all workers	$3.8 million
Total direct cost increases	**$53.5 million**

Source: PERI New Orleans Employment and Wages Survey, 1999; Current Population Survey Outgoing Rotation Group files, 1997; Bureau of Economic Analysis, 1995.

Table S-3.
Total Costs of Living Wage Ordinance
(in millions)

Direct Costs:	
Total wage increase	$49.7
Percentage of total increase	*69.6%*
Payroll taxes	$3.8
Percentage of total increase	*5.3%*
Total direct costs	$53.5
Percentage of total increase	*74.9%*
Indirect costs:	
Total ripple effect increase	$16.6
Percentage of total increase	*23.2%*
Payroll taxes on ripple effect	$1.3
Percentage of total increase	*1.8%*
Total indirect costs	$17.9
Percentage of total increase	*25.1%*
Total costs:	**$71.4**

Source: PERI New Orleans Employment and Wages Survey, 1999.

Table S-4.
Living Wage Costs Relative to Operating Costs

Total costs of ordinance (in millions)	$71.4
Total number of firms	12,682
Total costs per firm	$5,630
Mandated costs as a percentage of operating costs	0.7%
Total living wage costs as a proportion of total operating budget	0.9%

Source: PERI New Orleans Employment and Wages Survey, 1999.

Table S-5.
Impact of Living Wage Ordinance by Industry

(1) **Industry category**	(2) **Total living wage costs relative to total operating costs**	(3) **Share of total New Orleans production**	(4) **Share of total New Orleans employment**
Eating and drinking	2.2%	2.8	6.0
Hotels and other lodging	1.7%	2.9	3.9
Business services	1.5%	2.6	5.3
Food stores	1.5%	0.9	2.5
Wholesale trade	1.5%	4.7	3.6
Personal services	0.9%	0.5	1.4
Other retail trade	0.8%	6.4	14.4
Educational services	0.8%	3.0	5.6
Transportation	0.7%	14.9	7.4
Manufacturing	0.5%	8.7	3.8
Health services	0.5%	6.2	7.5
Finance, Insurance and Real Estate	0.5%	12.3	5.5
Other services	0.4%	7.3	11.0
Construction	0.2%	4.4	4.2
Legal services	0.1%	3.7	3.2
Mining	0.0%	11.0	2.8

Source: PERI New Orleans Employment and Wage Survey, 1999; IMPLAN Pro Software package, 1996; ES-202 data for Orleans County, 1996.

industries are responsible for about 6 percent of all production in New Orleans and almost 10 percent of all employment. Beyond these, three additional industries--business services, food stores and wholesale trade--would face a cost increase greater than one percent of operating budget. Together, these three industries account for another 8.2 percent of production and 11.4 percent of employment in New Orleans. Taking account of all the rest of businesses in New Orleans, our results show that *industries accounting for 86 percent of production and 79 percent of employment in New Orleans would face cost increases of less than one percent due to the living wage ordinance.*

With these specific figures on cost increases relative to operating budgets as our foundation, we can then systematically explore how the living wage law would likely affect businesses in New Orleans. As mentioned above, two types of adjustment processes are most frequently the focus of discussions in considering the impact of raising minimum wages at the national, statewide or municipal levels, these being *unemployment and business relocation.*

However, laying off workers or relocating are not the only ways that businesses might adjust to a city-wide minimum wage increase. In fact, there are three other ways that firms might respond to a New Orleans living wage ordinance. They are that, in relatively small amounts commensurate with their costs increases, businesses could raise prices, operate more productively, or given low-wage employees a larger share of the firm's total income. These three other adjustment paths are likely to be the primary channels through which New Orleans firms adjust to the ordinance, since they can be accomplished more readily and at lower costs than either laying off workers or relocating. Thus, once we assess how significant these adjustment processes are likely to be in absorbing the costs of the New Orleans living wage, we will then be in a better position to evaluate concerns about unemployment or business relocations stemming from the ordinance.

Price Effects

The adjustment process that would be least costly and disruptive for firms would be to simply raise prices to reflect their increased costs. But firms face competition. How much could we expect firms to be able to mark-up their prices without losing customers to their competitors?

Of course, all firms operating in New Orleans will face the same new minimum wage laws. But firms which compete with other firms in New Orleans will likely be more able to raise their prices, since their competitors will have experienced similar cost increases. Businesses that compete in markets that extend beyond New Orleans will have more difficulty marking up their prices, since their competitors will not have experienced a comparable cost increase. We therefore divide up industries in New Orleans according to whether they compete primarily either with firms outside or inside New Orleans, or whether they face some combination of competitors both inside and outside the city.

We show that industries that are most exposed to competition outside of New Orleans--i.e. in mining and manufacturing--will also experience virtually no cost increases due to the minimum wage raise. Correspondingly, the industries with the highest cost increases relative to operating budgets--i.e. the restaurant industry with a 2.2 percent increase and the hotel industry with a 1.7 percent increase--also compete almost entirely within the local New Orleans market. Overall, we conclude that price increases may well occur after the $6.15 minimum wage is implemented. But these increases are likely to be small and will not significantly disturb the competitive posture in any industries in New Orleans.

To provide further perspective on how minimum wage increases may affect prices, we consider the experience in California after the statewide minimum wage increase was implemented in March of 1997 and 1998. Our overall conclusion was that the minimum wage increase in California had no discernable impact on subsequent price changes in the state. This finding supports our conclusion that price adjustments in New Orleans following the minimum wage increase are likely to be small, if they occur at all.

Productivity and Redistribution

Even if firms don't raise prices, they could still readily absorb the costs of the New Orleans living wage ordinance through increases in productivity or a re-slicing of the firms' total income pie. We cannot know with certainty how large the productivity and redistribution effects will be. But the fact that the overall cost increases relative to firms' operating budgets is small means that the firms could cover their increased costs through productivity gains or redistribution without having to make significant adjustments in their overall operations.

How might firms in New Orleans raise productivity as a result of paying a higher mandated minimum wage? Considerable research in recent years has shown that a higher minimum wage can improve firm performance through several channels. These include lower costs for recruiting low-wage workers as well as lower turnover and less absenteeism among the low-wage workers on the job. Less turnover and absenteeism in turn mean that the firms' training and supervisory costs should fall. Combining all of these factors may then yield a workplace with better morale, less unneeded hierarchy and greater cooperation.

Of course there are limits as to how high the minimum wage can be raised before the benefits can no longer compensate for the cost increases. But the existing body of research cannot as yet tell us what that limit is. In the case of New Orleans, the fact that, on average, the living wage ordinance would represent a cost increase of less than one percent relative to firms operating budgets means that benefits are likely to be proportionately high. But even more to the point, given that the average firm will need to cover only this one percent cost increase, it also means that even relatively small productivity gains can go far toward absorbing a good share, if not all, of these costs.

If we assume no productivity or price increase, and thus that the total income to be distributed within firms is constant, then still one more simple way for lower-paid workers to receive a bigger slice of the total income pie is for high paid workers to take a small wage cut or for owners profits to decline by a small amount. If this were to happen, it would entail only a

modest movement away from the upward redistribution toward the wealthy that has occurred over the past 20 years. The fact that, on average, the increase in operating costs due to the New Orleans living wage ordinance would be less than one percent, it is not hard to envision scenarios in which a redistribution of the firm's income could realistically cover a significant share, if not all, of their higher wage payments to low-wage workers. This is especially true if the redistribution occurs while a firm's productivity is growing, recognizing, as well, that the minimum wage increase is itself likely to encourage productivity improvements.

As with our analysis of price effects, we consider the experience in another state which implemented a minimum wage above the national level to better understand the likely patterns of productivity and redistribution effects. Here, we look at the experience in New Jersey, which its minimum wage in 1992 to $5.05. At the time, this represented an 18.8 percent increase above the national minimum of $4.25.

We focus on two types of data in New Jersey. The first are figures on total production of goods and services in the state--i.e. Gross State Product (GSP). We want to see whether Gross State Product was affected in any way by the April 1992 minimum wage increase. Within this framework, we will also consider specific industries that, following our New Orleans survey results, would likely be most heavily affected by the minimum wage hike. The second type of figures we consider are changes in the "profit share" of total Gross State Product. Here we have a direct measure of how income is distributed in New Jersey between wages and profits. We therefore are able to observe whether a change in the minimum wage law did, in fact, generate redistribution of income between wages and profit earners, both for New Jersey as a whole, and within any of the industries most likely to be sensitive to the minimum wage increase.

Our examination of these figures for New Jersey produce only one strong conclusion: that nothing of significance changed as a result of the April 1992 minimum wage increase. The most plausible explanation would follow from the assumption that the minimum wage increase as

a proportion of firms' total operating budgets was low, roughly at the levels we have observed for New Orleans.

Employment and Regional Labor Markets

If New Orleans operated with a higher municipal minimum wage, would this encourage low-wage workers in other areas to migrate to New Orleans? Poor working people are active migrants. But the recent academic literature has found that the two primary factors attracting the working-age poor to a new community are a large number of entry-level jobs and low housing costs. The higher minimum wage law in New Orleans should not have any significant affect on job growth, nor will it have any effect on housing costs. As such, it should have no impact on migration patterns.

This general view is consistent with evidence on actual migration patterns in New Orleans and Louisiana generally. Specifically, New Orleans has long had a higher per capita income than other parishes in Louisiana. Despite this, census data for 1990-97 show that Orleans parish experienced a net out-migration of U.S. residents of 55,078.

Once again, we can gain some additional perspective on this by considering the experience of New Jersey, before and after the minimum wage was raised there in 1992. In fact, New Jersey experienced net domestic *out migration* every year since 1991. In proportion to its population, it is true that the out migration rate did decline in 1992-94 relative to 1991, i.e., in the first three years that New Jersey had a higher minimum wage. However, these changes were fairly small and, in any case, the rate of out-migration started rising again in 1995 and 1996, even though New Jersey still had a higher minimum wage then.

Business Relocations

With the average living wage cost/operating budget ratio being 0.9 percent, the incentive to relocate will be minimal for at least those firms whose costs increase are around the average or below. But even for many firms whose operating budget increases are somewhat larger, it would

still not follow that relocation is a viable option. For example, most firms in the restaurant and hotel industry, which would have the highest proportional cost increases, are also tied to their specific locations. They also would primarily be competing against other firms in New Orleans, all of which would have experienced comparable cost increases. As such, with cost increases in the range of two percent, some combination of price mark-ups, productivity increases, or income share redistribution are far more efficient adjustment strategies than relocating their business.

Some firms may well be motivated to relocate, but these firms would likely experience cost increases relative to operating budgets well above two percent. We find that about 200 firms in New Orleans, or 1.7 percent of the total, would face cost increases above five percent, with these firms' increases actually averaging 6.6 percent. A good share of these firms may move, but for many of them as well, ties to specific business locations are strong. As an exercise, we assume that roughly half of these firms did relocate just outside of the city. Were this to happen, the primary cost of such a relocation would be the city's lost sales and use tax revenues of about $2 million. This is a large sum of money, but it is still only 0.5 percent of the actual budget of 1997 for the City of New Orleans.

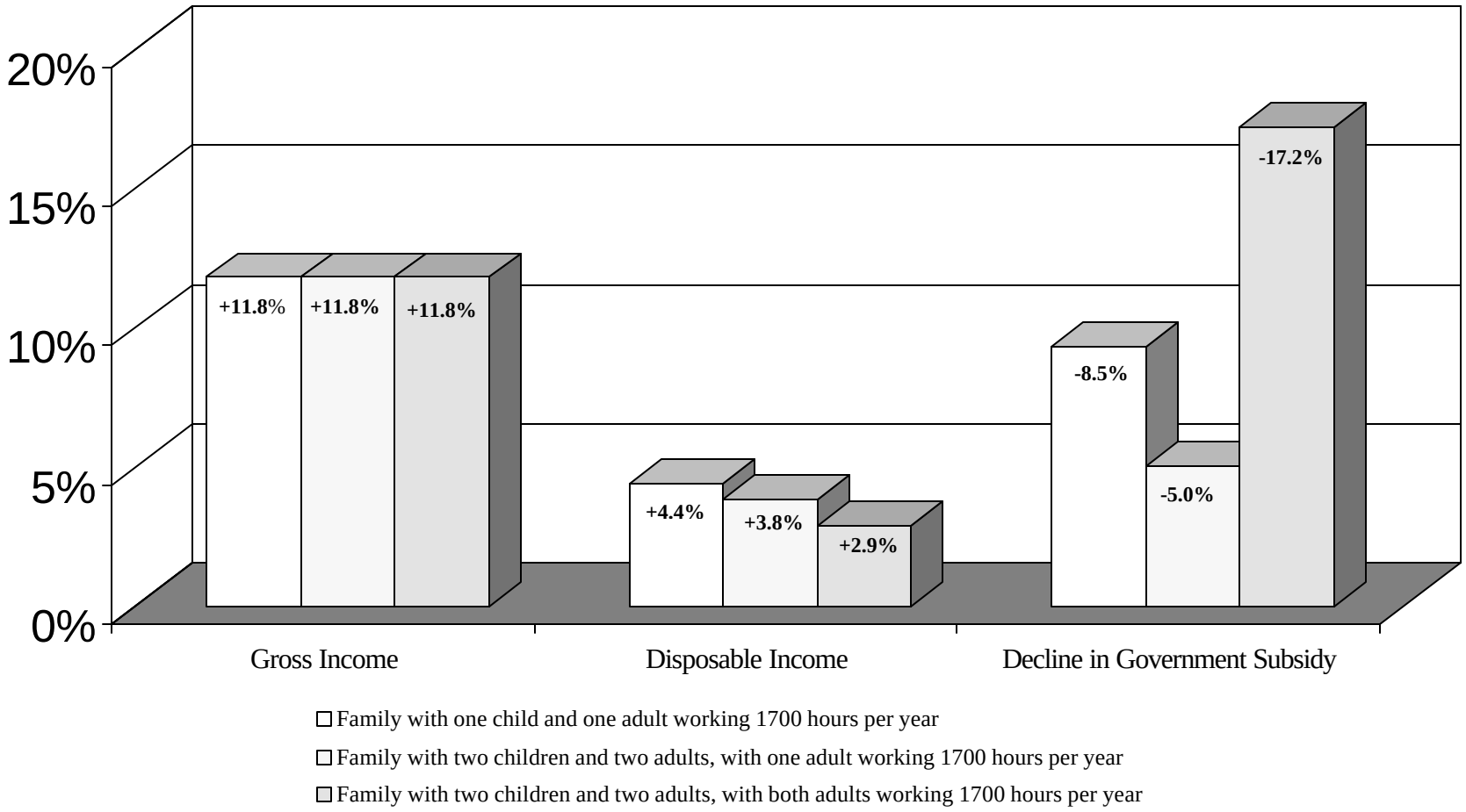
BENEFITS OF THE NEW ORLEANS MINIMUM WAGE INCREASE

Benefits to Low-Wage Working Families

We consider three separate family situations to measure the net benefits of the minimum wage raise, after also taking account of changes in taxes and subsidies for the family. These include a family with one working adult and one child; a family with two adults and two children, including one adult with a paying job; and a family with two adults and two children, but with both adults holding paying jobs. The basic changes in the financial situations of these three families are summarized in Figure S-4.

As we see there, all three families enjoy an increase of gross income of 11.8 percent, corresponding to the average wage increase from $5.50 to $6.15. However, disposable income

Figure S-4.
Changes in Income and Subsidies for Low-Income Families after New Orleans Living Wage Raise



Source: See Tables 17A, 17B and 17C.

increases by substantially less in all three cases, ranging between 2.9 and 4.4 percent. This is because each of these families receive substantial support from the federal Food Stamp and Earned Income Tax Credit programs. As such, the income benefits to these families of a $6.15 minimum wage will be welcome, but not dramatic.

But two other considerations should be recognized in evaluating the overall impact the living wage ordinance on poor families. The first is especially relevant for the family with two wage workers, and is therefore not as poor as the others. They should have greater access to bank loans and other forms of credit, which can be used to purchase a home or automobile or to finance higher education.

The other consideration, applying to all three families, is the issue of dignity. This should be seen in the context of the debate about welfare policy, which culminated in the passage of the 1996 law requiring welfare recipients to work. Regardless of the merits of this particular law, what came through clearly in the protracted debate was that, given the choice, the vast majority of people in this country would much prefer to work for a decent wage than to receive government transfer payments. Earning a dollar of income, in other words, has dramatically different effects on a person's self-image and attitude toward life and work than being given a dollar of government subsidies. In all three cases, the percentage of disposable income from wages rises through the living wage increase, while overall disposable income is also rising. As such, the living wage ordinance would clearly be pointing anti-poverty policy in a direction favored both by the poor and non-poor alike.

Benefits to Government

When families with low-wage workers come to rely less on Food Stamps and the Earned Income Tax Credit, the obvious corollary is that the government's burden to support the poor correspondingly falls. We see the decline in the three families' government subsidies--ranging between 5.0 and 17.2 percent--in Figure S-4. In Table S-6, we summarize the overall saving to

Table S-6.
Savings to Government from Higher Minimum Wage

	(1)	(2)	(3)	(4)	(5)	(6)
	Family of 1adult, 1 child, 1 wage-earner		**Family of 2 adults, 2 children, 1 wage-earner**		**Family of 2 adults, 2 children, 2 wage-earners**	
	Savings per family	***Savings for all families (column 1 x 47,050)***	***Savings per family***	***Savings for all families (column 3 x 47,050)***	***Savings per family***	***Savings for all families (column 5 x 47,050/2)***
Federal Government saving						
Higher Income Taxes	$0	$0	$0	$0	$332	$7.8 million
Change in EITC payments	$0	$0	$0	$0	$463	$10.9 million
Lower Food Stamp payments	$408	$19.2 million	$396	$18.6 million	$528	$12.4 million
State Government saving						
Higher income taxes	$27	$1.3 million	$0	$0	$60	$1.4 million
Total	**$435**	**$20.5 million**	**$396**	**$18.6 million**	**$1,383**	**$32.5 million**

Source: Figures derived from three family types shown in Tables 17A-17C. See Appendix 5 for details.

government if we assumed each of our three family types were representative of the households in which all 47,050 wages-only workers getting the mandated wage increase lived. As we see, the total saving to government ranges from $396 per family for our four person/one earner family to $1,383 for our four person/two earner family. In total, these savings are quite significant, ranging between $18.6 and $32.5 million, depending on our family types.

Since we don't have a full picture of the types of families in which low-wage workers live in New Orleans, it is difficult to provide an accurate estimate of what the actual saving to government will be. But just to establish a rough order of magnitude, we assume the average figure of the three estimates, i.e. 23.9 million. Even if the actual figure is significantly below that, in the range of $15-20 million, it is still a substantial figure, roughly the same size as the total federal budget in New Orleans on its Head Start programs. Moreover, these savings were generated by only one policy change in one city, and the government saving on anti-poverty spending would be accompanied by a *reduction*, not an increase, in poverty.

Benefits to Retail Businesses in Poor Neighborhoods

When 47,000 workers in New Orleans get mandated raises amounting to $50 million, and another 27,000 get ripple effect raises amounting to $17 million, it is important to recognize that most of this money will be spent by the low-wage workers and their families.

How significant will be the spending increase in the lower-income neighborhoods? We have estimated that about 40 percent of the workers getting raises live in the lower income neighborhoods in New Orleans, such as the Central City area, and the St. Thomas, Iberville and Fischer projects. They would bring about $20 million in extra disposable income into their neighborhoods. The amount they would actually spend in the neighborhood would bring about an additional 2.7 percent in sales, on average, to the retail businesses in these neighborhoods. Such a boost in sales for neighborhood retail businesses is a small but still significant benefit. It is, for example, an amount larger than the average growth rate of national Gross Domestic

Product or Louisiana's Gross State Product over the past decade. That means that, with a 2.7 percent increase in sales, the retail businesses in low income neighborhoods would effectively jump more than one year ahead of a normal pace of sales growth.

ECONOMIC ANALYSIS OF NEW ORLEANS MINIMUM WAGE PROPOSAL

I. INTRODUCTION

Citizens of New Orleans, Louisiana have formally petitioned the city council to call an election that would consider a proposal to raise the minimum wage within the city by one dollar above the federal minimum wage. With the current federal minimum wage at $5.15, the New Orleans proposal would mean that all workers in New Orleans, with the exception of those in job categories that are explicitly exempted from the law, would have to be paid at least $6.15 an hour.[1] If, as widely anticipated, the Federal Government raises the federal minimum, to as high as $6.15 over the next three years, the New Orleans law would mean that workers within the city would get raises each time the federal minimum increased, in order for New Orleans workers to maintain its $1 differential above the federal minimum.

The petition to the city council states that the purpose of the measure is to "provide for a minimum wage to be paid to employees who work in the City of New Orleans that will make it reasonably possible for them to earn a sufficient income to afford the basic necessities of food and shelter." The petition states that the current federal minimum of $5.15 is "insufficient to provide a living wage under conditions existing in the City of New Orleans."

The New Orleans petitioners' view about the inadequacies of the current national minimum wage is certainly consistent with some basic facts. The first such fact is that workers who earn the national minimum wage, even if they are holding a full-time job, cannot support a family at a living standard above the official federal poverty line. Thus, even amid our current economic boom, the New York Times reported last February that there has been a dramatic rise throughout the country of families who rely on soup kitchens and food pantries to sustain

[1] The proposal does not exempt tipped workers. The current minimum for these workers is $2.13. Under the living wage proposal, that would rise to $3.08.

themselves.[2] Perhaps most disturbing in this report was that nearly 40 percent of the households using the country's largest private network of food charities included at least one person who was employed.

At the level of simple logic, a major factor that must be pushing these working families into soup kitchen lines is that national minimum wage of $5.15 an hour is too low to sustain them. As of 1998, the real value of the $5.15 minimum wage was more than 30 percent below its peak in 1968 of $7.49 (in 1998 dollars), even though the U.S. economy was 50 percent more productive in 1998 than 1968. More to the point, at the 1998 national minimum wage, someone who works full-time for 50 weeks would earn $10,300 over a year. This figure is below the 1998 national poverty threshold of $10,640 for a family of two. In other words, a single mother with one one child could not keep herself and her child out of poverty through living off of her minimum wage earnings. What about a "traditional family" with one minimum-wage worker, one homemaker and two children? With the family's one worker earning $10,300, the family would fall 48 percent below the national poverty threshold for 1998 of $16,594 for a family of four. Of course, the family would be eligible to receive an earned income tax credit, food stamps, and Medicaid. But the need for such programs to support a family which includes a full-time worker only underscores the fact that the national minimum wage is not adequate to support a family.

The fact that the national minimum wage is so low explains why proponents of the New Orleans proposal are suggesting an increase of one dollar over the national minimum. Obviously, no matter of principle is involved in the one dollar increment itself: there would be no basis for raising the local minimum above the national minimum by one dollar, or any other amount, if the national minimum was itself set at an adequate level. This study will make some brief observations as to what might constitute an adequate minimum, that would enable a working

[2] Andrew C. Revkin, "Welfare Policies Altering Face of Lines at Charities Offering Food," New York

family to live above the poverty line without relying on government subsidies. But the focus of our concern will be on the New Orleans' citizens proposal itself, for a city-wide minimum of $6.15, one dollar over the current national minimum.

Since 1994, the inadequacies of the national minimum wage have led to a movement throughout the country for legally mandated "living wage" floors, i.e. minimum wage rates high enough to keep workers and their families out of poverty. This movement has been focused primarily at the level of municipalities, but there have also been state-wide initiatives. The first victory of a municipal living wage campaign was in Baltimore in 1994. The ordinance there stipulated that firms that hold service contracts with the city pay a minimum wage that began at $6.10 an hour in 1996 and then rose to $7.70 an hour in 1999. Similar ordinances, applying to firms holding city service contracts and frequently also concessionaires and subsidy recipients, have passed in 38 other municipalities. Proposals are currently being considered in approximately 80 other municipalities. These are in addition to the state-wide minimum wage standards in California, Oregon, and Washington higher than the federal minimum that have passed and have been implemented since 1996.

These measures, moreover, are by no means unique to economic policy traditions in the United States. In 1912, the State of Massachusetts became the first government entity in the United States to pass a minimum wage law. This was 26 years before the first national minimum was implemented. Sixteen other states and the District of Columbia soon followed the Massachusetts example. Many state-wide measures, raising wage levels above the national minimum, have passed subsequently. Since 1918, the District of Columbia has set a municipal minimum wage through its DC Wage-Hour Board, and that minimum has frequently been above the national minimum. Indeed, at present, the minimum wage in the District of Columbia is the

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Times, February 26, 1999 (www.nytimes.com).

same as that being proposed for New Orleans: the standard is one dollar over the national minimum, so the present level is $6.15.

The proposal in New Orleans is an outgrowth of this broader living wage movement that is ongoing throughout the country. At the same time, in terms of its specifics, it is a hybrid between the municipal-type ordinances and the state-wide minimum wage laws that have passed since 1994. This is because it would be a municipal law, but, as with the laws in California, Oregon and Washington, it would cover all workers within the municipality, not only those employed by city contractors.

No research would be needed merely to conclude that the New Orleans proposal would provide raises for thousands of workers in New Orleans. However, recognizing this by no means establishes that the proposal is viable or even desirable. There are legitimate questions about such a proposal that need to be addressed in detail before one can conclude that the benefits of the idea outweigh its costs. Some of the most important such questions are as follows:

1. Impact on Business Location Decisions. If firms in New Orleans are required to pay higher minimum wages than in surrounding municipalities, to what extent might firms simply move outside the city's limits to avoid these higher labor costs? Similarly, would a higher minimum wage in New Orleans deter firms from locating there that might otherwise have come? If these relocation effects are significant, then the living wage ordinance would impose heavy costs on the economy of New Orleans and Louisiana more generally. As such, the living wage proposal could end up hurting the very low-wage workers it is intended to help.

2. Employment Effects. The most common argument made against minimum wages in general is that they cause unemployment, especially among the low-wage workers that such measures are designed to help. Critics claim this would occur because as the price of low-wage labor rises, the willingness of business to hire them could fall. If this were to occur, as critics claim, the rise in unemployment would create broader strains in the New Orleans and Louisiana economy--

including more demand for government services, a likely increase in the crime rate, and a generally less stable business environment.

3. Labor Migration Effects Even if the higher minimum wage did not cause higher unemployment, critics claim it could still disrupt employment conditions in New Orleans and throughout Louisiana, if workers migrated into New Orleans in search of higher wages. According to critics, this might create an oversupply of workers in New Orleans, with growing pockets of unemployment, while draining other areas of the state of a significant share of their labor pool.

The possibility that such negative consequences might result from the New Orleans proposal must be given the most careful consideration, most especially by the proposal's supporters. The cruelest pitfalls in economic policy-making result from the "law of unintended consequences," doing harm while seeking to do good. Hippocrates' famous dictum-- "first, do no harm,"--sets the standard for a reasoned approach to economic policy-making. Following Hippocrates, we have been especially concerned to evaluate the New Orleans proposal with as much objectivity and rigor as possible.

Thus, the aim of this study is provide a careful evaluation of what the overall impact would be if New Orleans were to increase its minimum wage to one dollar above the national minimum, i.e., to $6.15 an hour, given today's national minimum of $5.15. We estimate the impact of the law for the affected workers and their families, the affected local businesses, the city's consumers, as well as the overall functioning of the New Orleans and Louisiana economy. Virtually any economic policy measure will have both positive and negative effects, to some varying degree. Our aim, therefore, is to identify its costs and benefits and weigh the importance of costs versus benefits.

The report will proceed as follows:

In section II, we consider the issue of poverty and low-wage labor in New Orleans. This report utilizes the official federal government measures of poverty in attempting to consider the

need for a minimum wage increase. The problem with this, as we discuss, is that the preponderance of research finds that the government's poverty thresholds are too low. In attempting to quantify what constitutes a minimally adequate living standard, we will therefore report figures on poverty thresholds that are 150 percent of the official threshold, as well as for the official thresholds themselves. With this as background, we then show the extent of poverty in New Orleans. In particular, we try to measure the extent to which low wages is the cause of poverty in New Orleans and how much a minimum wage increase would help in alleviating poverty.

In Section III, we examine the national minimum wage. The only possible reason why the New Orleans proposal might make sense is that the national minimum wage is inadequate as a means of providing a minimally decent living standard for working people and their families. We therefore present evidence on who benefits from the minimum wage, the real value of the minimum wage over time, and the relationship between changes in the minimum wage and productivity growth in the United States. The basic point, noted above, is that, after adjusting for inflation, the current $5.15 national minimum wage has fallen 31 percent since its peak in 1968 while the economy's productive capacity has risen 50 percent. But again, the mere fact of a declining minimum wage does not in itself demonstrate that low-wage workers are necessarily worse off. Opponents of minimum wage laws, including some academic researchers, argue that such laws are actually harmful to workers, since they produce increasing unemployment. We therefore next review the evidence on the relationship between minimum wages and unemployment. We also focus on the attitudes of small business owners towards minimum wage increases, since opponents frequently claim that the minimum wage laws are most burdensome to small businesses.

In Section IV, we begin an examination of the likely impact of the New Orleans proposal itself. To provide a solid empirical foundation for this analysis, we conducted an extensive

survey of businesses in New Orleans. There our approximately 12,700 business firms in New Orleans, employing about 293,330 workers. In our survey, we received full responses from 444 firms, that, overall, employ 68,751 workers, amounting to 23.4 percent of the entire labor force in New Orleans. We utilize the results of our survey to analyze the likely costs and benefits of the proposal living wage law.

Focusing on costs, we found that approximately 47,000 workers would get mandated raises through a $6.15 minimum wage, with the average wages-only worker (as opposed to tipped workers) getting a 65 cent per hour raise. In total, the mandated raises would amount to about $50 million dollars, so that, spread out among the city's 12,700 businesses, the average mandated wage increase per firm would be about $3900. The firms will incur other costs, including payroll tax increases, and some likely "ripple effect" wage increases for workers who are earning above $6.15, but are in the same general pay range as the minimum wage workers.

We account for all of these costs, and then present cost figures for firms in several ways--for an average business, and for a range of businesses, breaking down firms by size and industry type. This is where we present some of our most important results. For the average firm in New Orleans, implementing a $6.15 minimum wage would mean a cost increase of only 0.9 percent relative to the firms' overall operating budget. Of course, firms that employ few low wage workers, such as those in mining, legal services or construction, will experience negligible cost increases. Other firms will face higher costs, notably in the restaurant and hotel industries. But even with the restaurant industry, where the cost increase will be heaviest, that increase will average 2.2 percent--an amount that will be noticeable but not unmanageable.

Based on these findings, we then consider how firms would adjust to such increases in their costs of doing business. As we have discussed, it is frequently argued that firms are likely to lay off workers or move out of New Orleans to avoid paying the higher costs. But firms could also react in three other ways: by raising their prices a small amount, by improving the firm's

productivity, or by giving low-wage workers a somewhat larger share of the company's overall income.

Because the cost increases will be small relative to their operating budgets for most firms, they are much more likely to adjust through small changes in prices, productivity or income distribution within the firm, since these are less costly and time-consuming, and thus more appropriate to the small changes in costs that most firms will face. But there are still many issues involved in understanding how these adjustment mechanisms might work, and what their impact would be on New Orleans and Louisiana. For example, all firms in New Orleans will face the same $6.15 minimum wage. But the ability of the average firm to pass on its additional 0.9 percent cost increase relative to their operating budget will depend on whether the firm competes with other businesses in the city--i.e. firms that face similar cost increases--or whether their competitors are outside the city, and therefore operate with a lower minimum wage. To further help understand how significant these various adjustment mechanisms might be in practice, we examine in this section the analogous experiences in California and New Jersey, after both of these states raised their own minimum wage above the national average.

Even if most firms will adjust via price, productivity or income distribution changes, it does not mean that there would be no employment effects of the higher minimum wage or that no firms would consider moving outside of New Orleans. We therefore next examine some specific questions relating to employment and relocation of firms. In terms of employment issues, we consider whether the higher minimum wage in New Orleans may produce changes in regional labor markets. Specifically, we ask whether low-wage workers would migrate into New Orleans because of the higher minimum wage, and if this were to happen, what would be its impact both in New Orleans and other areas of the Louisiana economy.

To address the issue of business relations seriously, we of course need to focus on those firms that would experience large cost increases through the living wage proposal. We estimate

that about 200 firms--1.7 percent of the 12,682 businesses in New Orleans--would experience cost increases greater than five percent of their operating budgets, the increases for these firms averaging 6.6 percent of their operating budgets. We explore the possibility that many of the firms may choose to relocate. However, even if we allow that as many as half of the firms did relocate, in our estimation the costs to the New Orleans economy would be relatively small.

Overall then, our assessment is that the costs of the minimum wage increase to $6.15 will be small, both for the private businesses in New Orleans and for the city's government. The adjustments required by these new costs will be barely noticeable for most firms. A relatively small proportion of firms will experience heavier cost increases, but in almost all cases, these costs can be borne through small changes in prices, productivity or the firm's distribution of income. Finally, because the costs for private businesses and government of New Orleans will be small, it follows that the costs for the economy of Louisiana more broadly will be virtually nonexistent.

In Section V, we turn our attention to the benefits of the proposal. Of course, the most immediate beneficiaries are the low-wage workers getting raises and their families. Before taxes, the average worker now earning below $6.15 (who also works an average of 32.7 hours per week) will get an 11.8 percent raise. How much will that mean in terms of the worker's well-being and that of his or her family? That depends on the type of family in which the worker lives. At such a low wage level, a worker will be eligible, both before and after getting the raise to $6.15, for the federal Food Stamp program and the Earned Income Tax Credit (EITC).

Because of this, the family's nearly 12 percent increase in pretax income will not bring as big an increase in their disposable income, which takes account of taxes as well as eligibility for food stamps and the EITC. We present estimates for disposable income changes for families of different types, showing that, after taking account of their increased taxes and decreased subsidies, their disposable income will increase by between 2.9 and 4.4 percent. To be sure, this is a

significant gain for families who live at roughly the poverty line. But by itself, it will not be enough to bring a dramatic change in these families' living standards.

We raise two additional considerations here. The first is that with higher pre-tax income, some low-wage working families should become more creditworthy, thus increasing their opportunities for purchasing an automobile, financing a college education, or perhaps starting a business. The second, and perhaps most important consideration is the issue of dignity. As became clear in the protracted debate in the U.S. over welfare reform, the vast majority of the people in this country would much prefer to work for decent wages than receive government transfer payments. Earning a dollar of income, in other words, has dramatically different effects on a person's self image and attitude toward work than being given a dollar of government subsidies. As such, a workable living wage ordinance for New Orleans would clearly be pointing anti-poverty policy in a direction favored both by the poor and non-poor alike.

When subsidy payments for low-income working families are reduced, it follows that the government providing these subsidies saves money. Thus, the federal government--which finances both Food Stamps and the EITC-- is a second significant beneficiary of a higher minimum wage in New Orleans, through the reductions in its subsidy obligations. We have not attempted a precise estimate of the amount the federal government will save. But it is reasonable to expect that it is on the order of $15 - $20 million, which is roughly the amount the federal government current spends in New Orleans on its Head Start programs. It is true that these cost savings would accrue entirely to the federal government rather than the municipal government of New Orleans or the State of Louisiana. But the city and state governments could credibly argue that they are deserving of at least a share of these living wage-generated benefits.

A final beneficiary of the increased minimum wage in New Orleans would be the retail businesses in the lower-income neighborhoods, such as in the Uptown, Midtown or eastern Downtown sections of the city. A high proportion of the low-wage workers getting raises live in

these sections of the city, and that means that the increased spending power they will enjoy will flow, to a significant degree, to the local business owners. Of course, not all of the workers getting raises will live in these parts of New Orleans, nor will those living in these neighborhoods spend all their increased income at neighborhood businesses. Recognizing these factors, we still estimate that retail sales in the lower-income neighborhoods would increase by about 2.7 percent. This would be a boost to the owners of these businesses, which in turn could encourage further business activity and improved public amenities for the neighborhood.

Having evaluated both costs and benefits, we are able to reach an overall conclusion as to the merits of the New Orleans proposal. Based on our findings, we conclude that the proposal will generate significant, though not dramatic, benefits to low-wage workers and their families in New Orleans. It will also benefit the federal government and business owners in the lower income neighborhoods of New Orleans. But do these benefits outweigh the proposals costs?

Our overall findings show that the costs will be relatively small both for the New Orleans and the broader Louisiana economies. There is, moreover, a simple logical reason as to why the benefits of the citywide minimum wage increase outweigh its costs. It is that the benefits of the program are concentrated, among low-wage workers, their families, and neighborhoods, while its costs, due to the very nature of the policy, can be readily and widely diffused. These costs will be borne by local businesses, to the extent they themselves absorb these costs, and the firms' customers, to the extent the firms can pass on the costs through price increases. For the most part, the amounts of these increases will be less than one percent, i.e. small enough so as not to induce any significant changes in business practices or consumer spending patterns. In short, the New Orleans living wage proposal is a relatively efficient policy mechanism to raise living standards for the city's working poor, while also encouraging more self-reliance, higher

productivity in businesses, and better neighborhood conditions in the city's lower-income neighborhoods.

II. POVERTY AND LOW-WAGE LABOR IN NEW ORLEANS

As we have said, the New Orleans living wage proposal is fundamentally a measure designed to alleviate poverty among low-wage workers and their families. It therefore is first necessary to present some basic evidence on the nature of poverty in New Orleans.

Who Is Poor?

Since 1961, the federal government has set detailed poverty thresholds for families of different sizes. For example, the poverty threshold in 1998 for a family of two with one child is $10,640, and for a family of four with two children is $16,594. The family living at this threshold would subsist on what the Department of Agriculture terms the “thrifty food plan”--which is the amount of food needed for each family member to receive the basic caloric minimum.

The government's methodology then assumes that poor families spend approximately one-third of their budget on food. Thus, to generate the dollar figures for the poverty threshold, the government simply multiples the dollar value of the “thrifty food plan” by three.

In recent years, many researchers and government officials have questioned the adequacy of this method for establishing poverty thresholds. The most extensive survey of these issues was that sponsored by the National Research Council (Citro and Michael 1995). The participants on its project included some of the most distinguished researchers in this field.[3]

According to the National Research Council report, establishing overall poverty thresholds on the basis of food costs alone presents many problems. For one thing, there are large variations in housing and medical care costs by region and population groups. More generally, food prices have fallen relative to those for housing. Child care costs have also not been

[3] The National Research Council, Panel on Poverty and Family Assistance: Concepts, Information Needs, and Measurement Methods includes Robert T. Michael, Anthony B. Atkinson, David M. Betson, Rebecca

adequately accounted for. This has become increasingly important over time, as labor force participation by mothers has risen.

The NRC panel concluded that improved methods of measuring poverty thresholds would yield higher thresholds. Thus, the authors compare 10 alternative methodologies relative to the current official approach. They found that *all* of the alternative methods generated higher thresholds, ranging between 21 to 53 percent above the official government thresholds (Citro and Michael 1995, p. 47).

Given these evident weaknesses in the official poverty thresholds, in this study we will incorporate into our discussions both the official poverty figures and figures at 150 percent of the official poverty line. This will allow us to convey a more realistic picture of the needs of the working poor in New Orleans and thereby, of the effectiveness of the living wage ordinance as a tool for alleviating poverty.

Poverty in New Orleans

How extensive is poverty in New Orleans, and how many poor households include members who hold paying jobs? The data in Table 1 give some evidence on these issues, where we report figures on people and households below the official poverty line and below 150 percent of the poverty line.

The upper panel of Table 1 gives figures for people and households in poverty. As we see, as of 1998, 129,771 people, or 26.6 percent of the population of New Orleans, lived below the federal government's official poverty line, and 195,798, or 40.1 percent of the population at less than 150 percent of the poverty threshold.[4] The figures for *households* in poverty are basically the same--28.8 are below the official poverty line and 42.2 percent are below the 150

M. Blank, Lawrence D. Bobo, Jeanne Brooks-Gunn, John F. Cogan, Sheldon H. Danzinger, Angus S. Deaton, David T. Ellwood, Judith M. Gueron, Robert T. Hauser, and Franklin D. Wilson.

[4] Appendix 1 presents our methodology for estimating all of the figures reported here for poverty in New Orleans as of 1998.

Table 1.
Poverty in New Orleans
(figures are for 1998)

	Population below Poverty line	**Population below 150% of poverty line**
People	129,771 *26.6% of population*	195,798 *40.1% of population*
Households	53,935 *28.8% of total*	78,971 *42.2% of total*
	Work Status of Poor Household Members	
	Households below Poverty line	**Households below 150% of poverty line**
Percent of households with no wage earners	59.0	52.5
Poor households with wage earners: percentage with at least one wage-earner below $6.15	40.7	40.2

Source: See Appendix 1.

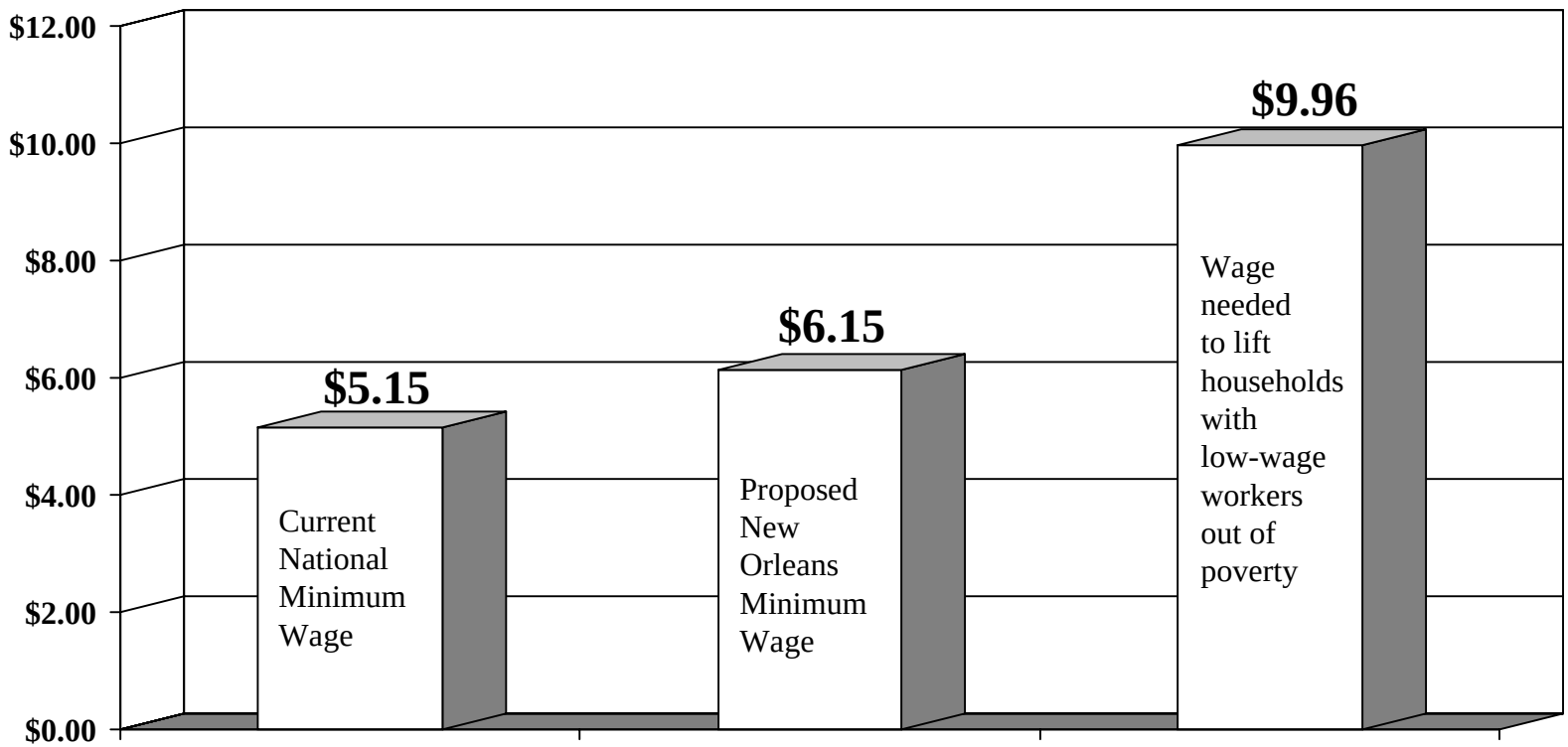
percent of poverty threshold. In short, no matter how one looks at it, New Orleans faces a severe problem of poverty.

The lower panel of Table 1 provides some perspective on the causes of poverty in New Orleans, and on the extent to which a minimum wage increase would alleviate poverty in the city. We see that 59 percent of the households below the poverty line and 52.5 percent below the 150 percent of poverty threshold include no members with paying jobs. We therefore cannot expect the living wage ordinance alone to eradicate poverty in New Orleans. Policies to expand job opportunities for less experienced, less well-connected, and less-skilled workers are also needed.

But observing these same figures from the reverse angle, they also show that between 40 and 50 percent of all poor households *do* include workers with jobs. Raising the wages earned by these workers will therefore help reduce poverty for these households. But how much would a city-wide minimum wage increase to $6.15 alleviate poverty for these households?

In the second row of lower panel of Table 1, we present figures showing that, of the poor households which do include working members, about 40 percent of those hold jobs that earn below $6.15. However, raising these workers up to $6.15 will not, in itself, be close to sufficient to eliminate poverty in the households with working members. Among other things, these workers, on average, do not hold full-time jobs. Rather, these low-wage workers living in poverty average only 34 hours of work per week, and 38 weeks of work in a year. Thus, as we see in Figure 1, if nothing else were to change in the New Orleans economy, including the number of hours these low-wage workers are employed, *these workers would need an average raise increase of $4.46--to an average wage level of $9.96*-- to get all of the poor households with job-holding members out of poverty. This figure is especially significant for keeping the New Orleans minimum wage proposal in perspective. If the aim of any minimum wage law is to enable working families to avoid living in poverty, establishing a minimum wage in New Orleans

Figure 1.
The Minimum Wage and Poverty Alleviation



Source: See Appendix 1.

at one dollar above the national minimum will remain worthy of consideration even after the national minimum is raised well beyond its current $5.15 level.

Of course, these working households could be lifted out of poverty at existing wage levels if more household members had paying jobs or if a higher proportion of those with jobs moved from part-time to full-time status. But, with a minimum wage set at a sub-poverty level, falling back on employment expansion alone to alleviate poverty has serious pitfalls. First, increasing employment in households where there is already at least one wage earner will mean placing more stress on these households. For example, these households would most likely then have to increase their spending on child-care.

But even more fundamentally, it is unrealistic to expect employment expansion alone to alleviate poverty. We have seen that half of poor households in New Orleans already include no members with jobs. It will therefore be a major task just to create enough additional employment opportunities for that segment of the New Orleans poor. This is especially true since, in 1998, the year from which are figures are taken, unemployment in the United States was at a 30-year low. To be sure, even in 1998, job expansion could have been increased beyond the level it achieved. But in all likelihood, such an additional expansion could not have been sufficient to raise the living standards of both the poor households with no employed members and those which include low-wage workers. Therefore, if poverty in New Orleans is going to be seriously attacked, what our figures make clear is precisely the need for job expansion to be combined with higher wages--these two strategies being mutually supportive instruments of a broad strategy for alleviating poverty.

III. MINIMUM AND LIVING WAGE LAWS IN THE UNITED STATES

The primary reason living wage movements have spread in municipalities throughout the United States in recent years is straightforward: the national minimum wage has become badly deficient as a tool for enabling working families to live a decent life. We can see this through

considering some basic data about the national minimum wage: first, what type of workers benefit from the minimum wage; and second, whether the national minimum wage is set high enough to keep a family out of poverty.

Who Benefits from a Minimum Wage Increase?

The positive feature of the national minimum wage law is that its benefits have been enjoyed primarily by their intended recipients, the working poor. This can be seen, for example, in examining who received raises from the 1996-97 two-stage increase in the minimum wage from $4.25 to $5.15. In studying this recent experience, Jared Bernstein and John Schmitt (1998) of the Economic Policy Institute in Washington, DC, found the following:

1. Almost 10 million workers--8.9 percent of all people with jobs--benefited from the full increase to $5.15.

2. Most of these workers were adults (71 percent) and females (58 percent).

3. Close to half (46 percent) of the beneficiaries worked full time and another third worked 20-34 hours per week.

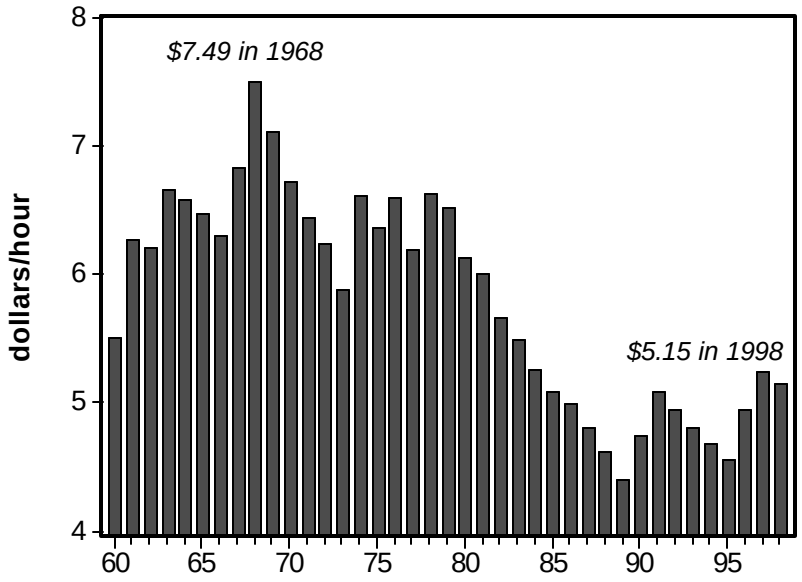
4. The average minimum wage worker brings home more than half (54 percent) of his or her family's weekly earnings.

5. The increase primarily benefits the working poor--35 percent goes to the poorest 20 percent of working households and 58 percent goes to the lower 40 percent of working households.

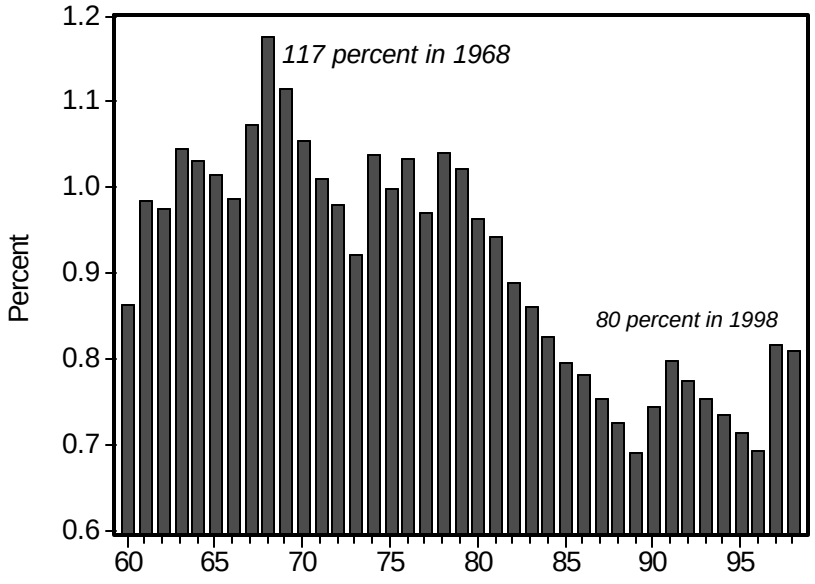
The Real Value of the Minimum Wage

Despite the success of the minimum wage at getting benefits to its intended recipients, it has had only limited, and diminishing, impact in addressing the problem of low-wage poverty. The reason is simple: the real buying power of the minimum wage (after adjusting for inflation) has fallen substantially since its peak 31 years ago in 1968.

Figure 2.
Real Value of United States Minimum Wage, 1960-98
(in 1998 dollars)



One Full-Time Minimum Wage Income as Percentage of Three-Person Family Poverty Threshold



Source: U.S. Department of Labor Statistics
and Bureau of Census

Even after the October 1997 increase to $5.15, the minimum wage still provides a full-time worker with 20 percent less income than that needed just to maintain a family of three at the official poverty line, and 48 percent less income than necessary to support a family of four at the poverty line. Relative to a 150 percent of poverty threshold, the family of three with one minimum-wage worker would be 48 percent and the family of four 58 percent below this standard.[5] We can see this more clearly through considering Figure 2.

The upper panel of Figure 2 shows the real value for the minimum wage, expressed in constant 1998 dollars. We see that the minimum wage rose through the early 1960s and peaked in 1968 at $7.49. Since then, the minimum wage has been falling. It declines most sharply through the 1980s. Even with the September 1997 increase to $5.15, the value of the minimum wage, after adjusting for inflation, still 31 percent below the 1968 peak.

This steep decline in the real value of the minimum wage has meant that the minimum wage has been less and less effective as a tool for preventing poverty among even the low-wage workers with full-time jobs. We see this in the lower panel of Figure 2, which plots values for the minimum wage as a percentage of the official poverty threshold for a three-person family. As the table shows, in 1960, a full-time worker earning the minimum wage would earn about 86 percent of the poverty-threshold income for a family of three. The ratio then peaks in 1968 at 117 percent. By 1998, with the current $5.15 minimum, a full-time worker at that pay rate would earn only 80 percent of the poverty-threshold living standard for a family of three.

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[5] These figures are based on the Consumer Price Index for 1998. We should note here that the official national poverty thresholds established by the U.S. Census Bureau are adjusted annually according to changes in the Consumer Price Index for Urban Consumers, the CPI-U. As of this writing, the Census Bureau has provided the official poverty threshold figures only through 1997, but we have adjusted the figures by using the Consumer Price Index figures for 1998. The reliability of this price index has long been a subject of contention, especially so in recent years (see, for example, Dean Baker (1998) and Robert Pollin, Michael Stone and Jocelyn Hammaker, (1991)). The levels of poverty (though not changes in poverty rate), as well as the real value of the minimum wage, would change somewhat if an alternative price index were used for calculating inflation. However, this is not the place to examine the reliability of the CPI-U. In any case, for what we are trying to measure here—the real level of the minimum wage and poverty thresholds—our view is that the CPI-U is as reliable an index as any possible available alternative.

The Minimum Wage and Productivity Growth

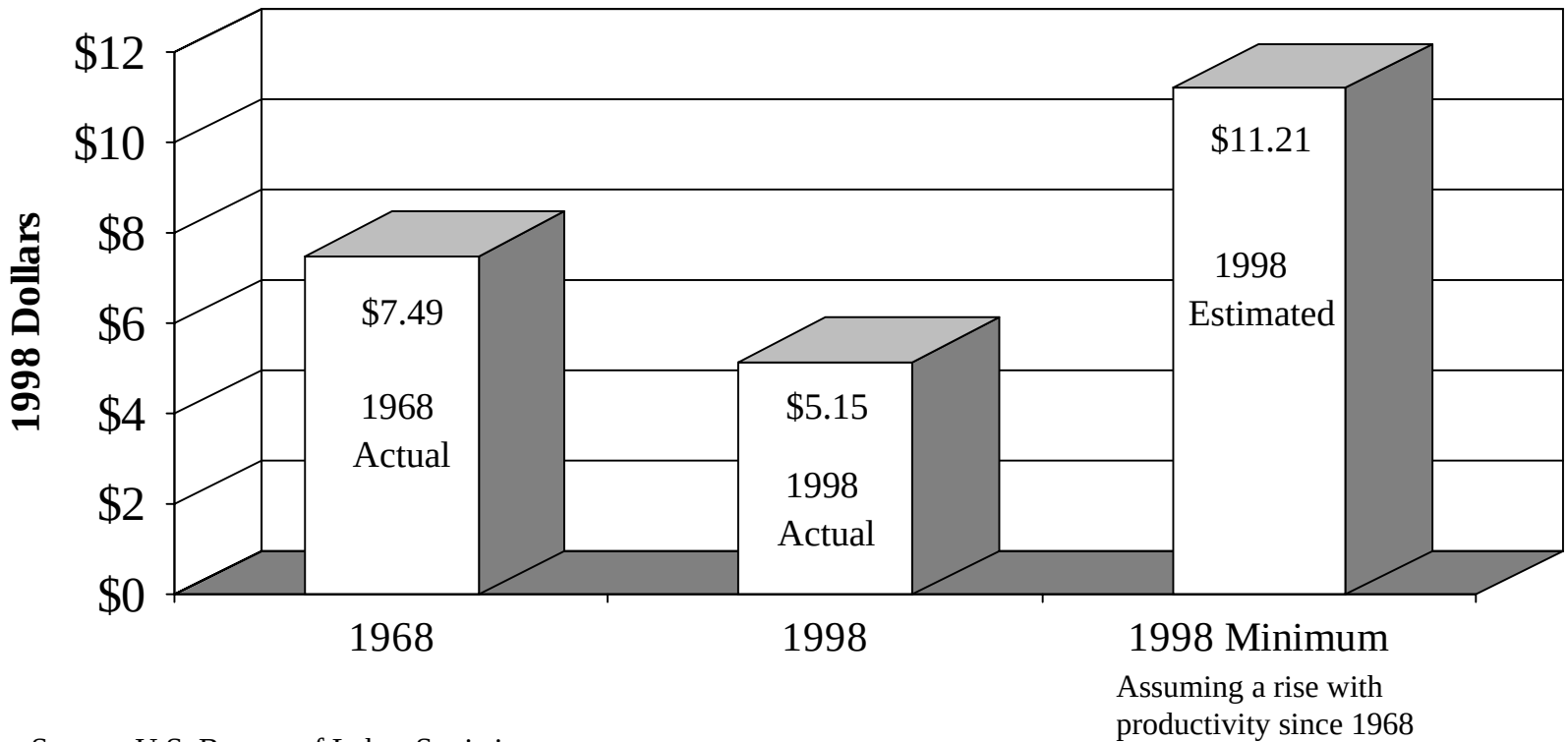
The fall in the real value of the minimum wage since 1968 is all the more remarkable considering that, as of 1998, the productivity of the U.S. economy—our ability to produce goods and services with a given number of people employed and given dollar value of machines—is 50 percent higher than it was in 1968. Consider a simple exercise, the results of which are reported in Figure 3. Suppose that the minimum wage had not been dropping all these years since 1968, but rather had been rising at a rate exactly equal to the economy's rate of productivity increase. This would mean that the minimum wage would go up only when the economy could produce more goods and services in an hour's time than it could the previous year. In Figure 3, we see that if this were the case, the minimum wage in 1998 would have been $11.21, more than double the actual $5.15 rate in 1998. This is a remarkable result. The fact that the minimum wage would be $11.21 in 1998 if low wage workers had received only an equal share of the economy's productivity gains since 1968--no more and no less—makes certain that the productive potential exists in today's economy of to sustain a significantly higher minimum wage.

The Minimum Wage and Employment

Despite the inadequacy of the national minimum wage rate as an anti-poverty tool, the most severe critics of minimum wages actually contend that its effects are too strong, not too weak. The critics believe that *any* government-mandated minimum higher than the market-established wage will reduce employment opportunities for workers. In particular, those most likely to suffer employment losses through the minimum wage laws will be the less-skilled, low-wage job seekers. As such, minimum wage laws only serve to harm the very people it intends to help.

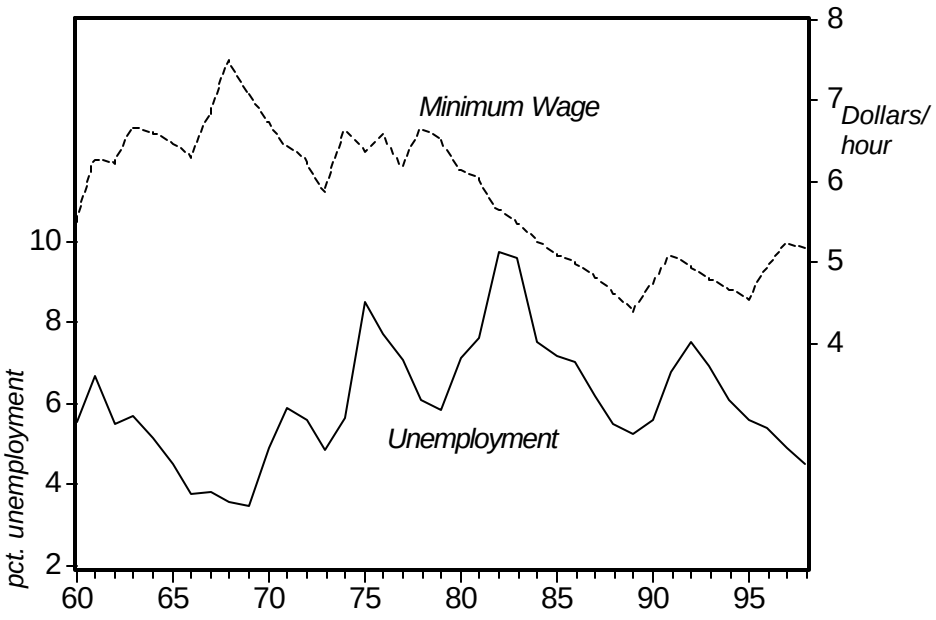
It is important to distinguish here between *employment loss* and changes in the *unemployment rate*. Employment losses due to the minimum wage would mean that a worker

Figure 3:
The Minimum Wage and Productivity

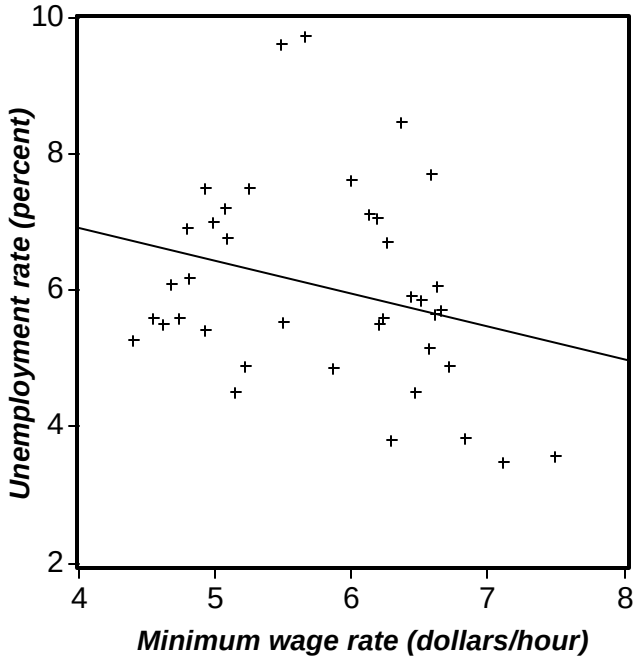


Source: U.S. Bureau of Labor Statistics

Figure 4. Minimum Wage and Unemployment (1960-98)



Minimum wage and unemployment trend



Source: U.S. Bureau of Labor Statistics

gets laid off because her employer is unwilling to pay her the mandated minimum and the worker does not get hired elsewhere. This will also bring an increase in *the unemployment rate*, which measures the proportion of workers actively seeking jobs who are unable to obtain them. However, the unemployment rate can also rise because low-income people who are out of the labor market might begin seeking jobs after the minimum wage has risen. Increases in the unemployment rate that occur for this reason should not, however, be regarded as a negative consequence of the minimum wage.

Keeping this in mind, it is nevertheless useful to examine the relationship between the minimum wage and *the unemployment rate*, since the unemployment rate is the standard, if rough, indicator of overall labor market conditions.

Does the minimum wage lead to employment losses and/or higher unemployment? We consider two kinds of evidence: first, the experience in the United States since 1960 for the economy as a whole in the minimum wage/unemployment relationship; and second, more micro-focused analyses employment patterns after minimum wage changes at both the state and national level.

The U.S. Economy since 1960

Figure 4 examines the relationship between the declining minimum wage over time and the unemployment rate. Considering first the upper panel of the figure, we see both the unemployment rate and the minimum wage rate plotted over the time period 1960-98. It is clear that the unemployment rate does not fluctuate in the same way as the minimum wage. Indeed, if anything, the unemployment rate seems to be rising over the 1970s and 1980s as the minimum wage is falling.

This relationship becomes more clear in the lower panel of Figure 4, in which the minimum wage and unemployment are plotted against each other. As we see from the very wide dispersion of the scatter points, there does not seem to be any close relationship between the

minimum wage and unemployment. This observation is confirmed in examining the trend line which shows the average movement in the unemployment/minimum wage relationship over our time period. We see that the trend line is actually sloping downward. This means that, if anything, the unemployment rate *goes up* when the minimum wage *goes down*--a result opposite to the view that a rising minimum wage will bring more unemployment. However, this observed downward trend is actually not a reliable observation, because the scatter points in the figure are so widely dispersed. When this happens, we cannot trust an average figure. In similar fashion, we cannot average the 1998 home run totals for Mark McGwire (70 home runs) and his St. Louis Cardinals teammate Willie McGee (3 home runs) and use that average to accurately describe the contributions for either McGwire or McGee. The most reliable thing we can say from such a wide array of scatter points is that there appears to be *no relationship* between unemployment and the minimum wage in this time period.

Moreover, observing this pattern over time between the movements of the minimum wage and the unemployment rate does not tell us anything about whether the unemployment rate is falling *as a result of* minimum wage increases, or whether there is any causal relationship at all between the two trends. But we do see that a higher minimum wage is at least *consistent with* less unemployment rather than necessarily more unemployment.

In terms of causality, one plausible explanation for what we observe in Figure 4 is that even if a higher minimum wage did produce some unemployment if everything else in the economy were held constant, in fact, in the real world, everything else is not held constant. Other influences, such as investors, consumers and the government demanding more goods and services, could lead firms to hire more workers even if their wages are higher. Correspondingly, when demand is lower, firms would want to hire fewer workers, even if the wage at which they could hire is also lower. Such situations would therefore entail a higher minimum wage *along with* falling unemployment, and a lower minimum wage along with higher unemployment.

Moreover, it is also true that Congress is more willing to raise the minimum wage when unemployment is low and wages may be rising in any case because of the tight labor market conditions. Overall then, when demand for goods and services is high, the corresponding increase in demand for workers will dominate over increases in the minimum wage in determining overall employment opportunities.

This explanation for the trend we observe is certainly consistent with the experience following the September 1997 increase in the minimum wage to $5.15 an hour amid an overall unemployment rate below 5 percent. For example, a front-page story in the October 27th 1997 Wall Street Journal describes the impact of the minimum wage increases on fast-food restaurants, where resistance to the raise had been intense. Titled "Chicken Feed: Minimum Wage is Up, But a Fast-Food Chain Notices Little Impact," the story reports that "the minimum wage increase has turned into one of the nonevents of 1997, thanks mostly to the economy's continuing strength. Low-wage Americans—nearly 10 million of them by some estimates—got a raise. But amid the current prosperity, hardly anybody noticed." One fast-food employer, David Rosenstein who runs 13 Popeyes Chicken & Biscuits restaurants in the Washington D.C. area, had been a staunch opponent of the raise but more recently decided that "The economy is good. Business is good.…I think we saw it in more dire terms than it worked out."

Are the Unemployment Increases Concentrated Among Low-Wage Workers?

The evidence we have considered on the minimum wage and unemployment considers unemployment for the labor market as a whole. In fact, as noted above, only 8.9 percent of the workforce actually earns the minimum wage. So perhaps we can observe the positive relationship—unemployment going up when the minimum wage goes up, and vice versa—for the segment of the labor market that actually gets minimum wage jobs. To consider this possibility, Figure 5 looks again at the relationship between the minimum wage rate and unemployment,

except that instead of showing overall unemployment data, it reports the unemployment rate for teenagers only.

It is important to emphasize in considering the teenage unemployment/minimum wage relationship that we are by no means suggesting that only teenagers, or even mainly teenagers, get paid minimum wages. Quite the contrary: as we reported above, 71 percent of the people receiving raises through the 1996/97 minimum wage increase were not teenagers. Nevertheless, 50 percent of all teenagers who work earn the minimum wage, while only 6.8 percent of working adults have minimum wage jobs. Therefore, by considering the relationship between teenage unemployment and the minimum wage, we get a closer look at how changes in the minimum wage affect employment opportunities.

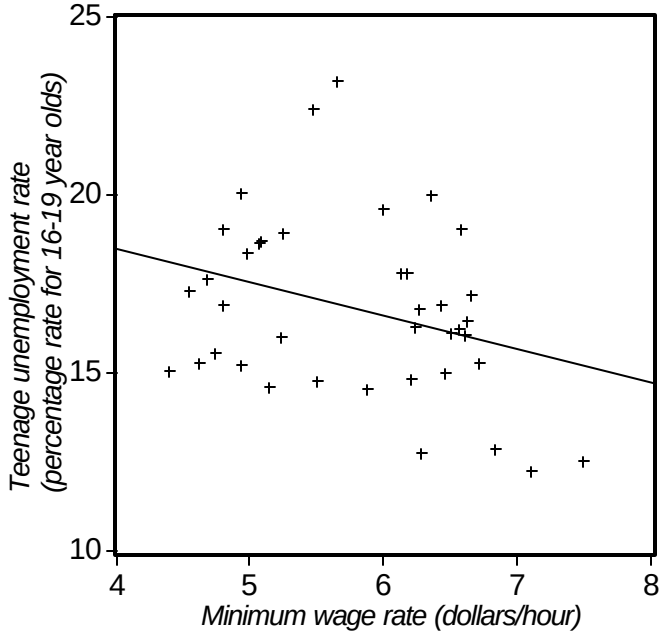
In fact, as Figure 5 shows, the relationship between the minimum wage and teenage unemployment closely follows that for the overall unemployment rate. That is, if anything, we again see an inverse relationship—teenage unemployment going up while the minimum wage goes down. But once again, the scatter of points around the trend line in the lower panel is widely dispersed. This means that there is no predictable relationship between teenage unemployment and the minimum wage over our time period, once everything else in the economy is also allowed to affect the teenage unemployment rate.

Case Studies on Minimum Wage Laws

The best-known recent analysis of this type was done by the labor economists David Card of the University of California-Berkeley and Alan Krueger of Princeton University, especially in their highly influential 1995 book Myth and Measurement: The New Economics of the Minimum Wage. Among their many innovative investigations, they studied the substantial 18.8 percent increase—from $4.25 to $5.05—in the minimum wage in 1992 for New Jersey, comparing employment after the increase with that in neighboring Pennsylvania, where the minimum wage did not change. As such, the fast-food restaurants along the Pennsylvania side of

Figure 5. Minimum Wage Rate and Teenage Unemployment (1960-98; unemployment rate for 16-19 year olds)

Minimum wage and teenage unemployment trend



Source: U.S. Bureau of Labor Statistics

the border served as a control group with which to measure relative changes in employment with the New Jersey restaurants. Moreover, looking at the restaurants along the New Jersey/Pennsylvania border at a *given point in time* means that these tests control for changes in total demand in the economy, since total demand cannot change at a given point in time in the same location. By controlling for changes in total demand, these tests are able to focus more sharply on the importance of employment as an adjustment mechanism for individual firms, relative to price change, productivity and redistribution.

Card and Krueger found that employment increased slightly more, on average, in New Jersey than in the Pennsylvania control group. This again contradicted the idea that a rise in the minimum wage rate will create employment losses, even when the rate increase is as high as they New Jersey 18.8 percent rise. At the same time, because the employment increase in New Jersey was only slightly larger, they could not conclude with confidence that the rise in the minimum wage was positively associated with increases in employment.[6]

Numerous other studies, examining the detailed changes in specific labor markets throughout the country due to an increase in the minimum wage, have produced results similar to those in Card and Krueger's analysis of New Jersey and Pennsylvania. Some of the places examined in these other studies include California before and after the 1988 increase in the state

[6] The Card and Kreuger findings have been highly controversial, and as such have been closely scrutnized by other economists. In particular, David Neumark and William Wascher have criticized the Card and Krueger findings and have produced results of their own which seemed to contradict those of Card and Krueger. However, upon reexamination, the overall thrust of even the Neumark and Wascher results turns out to be supportive of Card and Krueger's findings. This became apparent even though, unlike Card and Krueger, Neumark and Wascher's relied to a substantial degree on data provided for them by the Employment Policies Institute, the leading employers group opposing the minimum wage. See John Schmitt's 1996 article "Behind the Numbers: Cooked to Order," for a discussion of the controversy surrounding these different studies. In response to the controversy, in 1999 Card and Krueger reanalyzed the experience in 1992 in the fast-food industry along the New Jersey/Pennsylvania border, this time relying on a comprehensive new data set taken from the U.S. Bureau of Labor Statistics. The results of this reexamination only strengthened their earlier conclusion that there were no employment losses in New Jersey relative to Pennsylvania due to the 1992 statewide minimum wage increase in New Jersey.

minimum wage; and the fast food industries in Texas, Jackson, Mississippi and Greensboro, North Carolina before and after the 1992 increase in the federal minimum wage.[7]

Most recently, Jared Bernstein and John Schmitt (1998) have examined the impact on employment of the 1996-97 two-stage increase in the minimum wage. The minimum wage rose a total of 21 percent, from $4.25 to $5.15 over that two-year period. Bernstein and Schmitt examined how this increase affected teenagers and adults between 20-54 with less than a high-school education. According to minimum wage opponents, these are the two groups whose employment prospects are most hurt by minimum wage increases, since a higher proportion of workers in these groups receive the minimum wage. The weight of the evidence from their careful study found, once again, that the minimum wage increase did not create employment losses for these groups.

Minimum Wages and Small Business

Another of the arguments frequently made against minimum wage laws is that the additional labor costs are especially burdensome for small businesses. But little evidence has been brought to bear in support of this contention.

To consider such claims systematically, in 1998, researchers at the Jerome Levy Economics Institute conducted a scientific survey of 560 small businesses throughout the country.[8] Among the questions posed to the small business owners and managers were two focused on the employment effects of minimum wage increases. The first was whether these firms had changed their employment or hiring practices in response to the 1997 minimum wage increase. The second was whether they would change their practices if the minimum wage were to rise to $6.00 an hour.

[7] These experiences are succinctly reviewed in William Spriggs and John Schmitt (1996).

[8] Consistent with the definition used by the federal Small Business Administration, the Levy Institute survey defined a small business as one having no more than 500 employees.

As reported by Oren Levin-Waldman (1999), the project's lead researcher, the survey found that a large majority of small businesses did not make significant adjustments due to the 1997 national minimum wage increase, and would not anticipate doing so if the national minimum wage went to $6.00 an hour. More specifically, only 6.6 percent of all small businesses changed their hiring or employment practices at all after the 1997 increase. Of these, only 10.8 percent indicated that they had laid off workers.[9] In other words, a total of only 0.7 percent of small businesses in the sample laid off workers due to the 1997 minimum wage increase, which is to say that 99.3 percent of the small firms did not lay off workers. If the minimum wage were increased to $6.00 an hour, 20 percent of small businesses said they would change their hiring or employment practices. But here again, only 10.3 percent of these--or 2.1 percent of the total sample--said they would lay off workers. So even if the minimum wage were increased to $6.00 an hour, 97.9 percent of small businesses anticipate that they would not lay off workers as a result.

Overall then, this survey of small business responses to minimum wage increases are consistent with the evidence showing that, in fact, the negative employment effects of minimum wage increases have been either non-existent or negligible.

Living Wage Ordinances Throughout the Country

Since the passage of Baltimore's living wage ordinance in 1994, similar measures, applying to city service contractors and frequently also concessionaires and subsidy recipients, have passed in 38 other municipalities. These are in addition to the state-wide minimum wage standards in California, Oregon, and Washington higher than the federal minimum that have passed and have been implemented since 1996. Appendix 2 presents a full listing of the status to date of living wage ordinances and activities throughout the country.

[9] The rest of the 6.6 percent who changed their practices would hire fewer workers in the future or reduce benefits.

It is still too soon to fully assess what the impact of the municipal contractors-only ordinances has been, and is going to be. However, some initial research has been done on the Baltimore and Los Angeles Ordinances.[10] Their basic findings are as follows:

Impact on Workers

Thus far, the number of workers who have received raises resulting from the living wage ordinances has been small. In Baltimore, where the law was implemented in 1995, the most careful estimate is that around 1,500 full-time equivalent workers have received mandated raises. In Los Angeles, where the law went into effect in April 1997, about 675 workers have received mandated raises and another 750 have gotten raises from firms voluntarily complying with the ordinance before their old contracts, not covered by the law, had expired.

The proportion of part-time workers getting raises is high. In Los Angeles, part-timers amount to about 20 percent of the 675 who received mandated raises. The authors of the Baltimore study did not provide a definitive total for part-time workers. But their overall evidence makes clear that the figure is well over 50 percent of the total. For part-time workers, receiving the living wage increase is a significant benefit, but, for most, getting the raise without an increase in hours means that their yearly incomes still won't be above the poverty line. Thus the authors of the Baltimore study stress the need to focus on working hours as well as wage-rates, i.e. on living *incomes*, not only living *wages*.

A significant part of the reason that a relatively small number of workers have gotten raises is that the compliance rate by affected firms and the enforcement procedures by the cities

[10] Two studies have been done on Baltimore, one by Weisbrot and Sforza-Roderick of the Preamble Center in Washington D.C. (October 1996), and a second one by Niedt, Ruiters,Wise and Schoenberger of Johns Hopkins University (February 1999). Sander and Lokey of UCLA have analyzed the Los Angeles experience in two reports, dated August and November 1998. The Preamble Center study of Baltimore was heavily criticized in a report by the Employment Policy Institute (October 1998). However, these attacks were without substance, as was documented in the response by the Preamble Staff (1999). Moreover, the main findings of the Preamble Study were consistent with the more recent study by the Johns Hopkins researchers.

have both been poor. These will have to improve, in Baltimore, Los Angeles and elsewhere, before these contractors-only type ordinances achieve their intended effect.

Impact on Businesses and Municipal Governments

The experiences in Baltimore and Los Angeles have been different because the types of contracts that have come up for bid in the two cities have varied significantly.

In Baltimore, 26 contracts could be directly compared before and after the living wage law went into effect. The aggregate cost increase of the winning contract bids was 1.2 percent, which is lower than the rate of inflation. Bidding patterns did vary between the various contracts. Thus, a contract for janitorial services increased in nominal terms by 16.6 percent, while that for summer food services declined in nominal terms by 8.2 percent. The contract for bus services, by far the largest that had been renegotiated since implementation of the living wage law, rose by only 2.1 percent in nominal terms.

The authors of the Los Angeles study also found wide variation in terms of post-ordinance bidding patterns. In particular, they found that results varied sharply according to whether contracts were awarded through competitive bidding. Where competitive bidding was practiced, which was about in half the cases, costs did not increase, nor were workers laid off. However, when contracts were awarded without competitive bidding, either the businesses were able to pass along to the city nearly the full amount of the wage increase, or the firms reduced the scope of the contracted services. In cases where services were reduced, workers were correspondingly laid off or reassigned, bringing a fall of about three percent in the total number of workers employed on city service contracts.

Assuming the results from Los Angeles are accurate, [11] it makes clear how important it is that city contracts be awarded only through competitive bidding practices. In part, living wage

[11] There are intrinsic difficulties in measuring the number of workers laid off or reassigned specifically due to the living wage increase. But in addition, we have found that the empirical research on the LA living

ordinances are a response to municipal governments contracting out government services to private firms to a increasing extend, a practice commonly called "outsourcing." But without both living wage standards and competitive bidding, outsourcing government contracts can easily revert to mere giveaways to well-connected businesses. According to the Sander study, this appears to be happening with a substantial share of the post living wage contracts awarded by the City of Los Angeles.

But even with competitive bidding and full compliance, the living wage ordinances that have passed in most municipalities will affect only a small fraction of the total number of low-wage workers. For Los Angeles, we have estimated that perhaps as many as 7,600 workers would get raises to $7.50 when all firms holding city government contracts complied with the ordinance. This is in contrast with the 2.4 million workers in LA County who now earn less than $7.50. The New Orleans proposal, covering all private sector workers in the area, would obviously have a far wider impact in alleviating poverty among low-wage workers.

IV. COSTS OF NEW ORLEANS MINIMUM WAGE INCREASE

This section of our study estimates what the impact will be of the proposed New Orleans ordinance on local businesses, the city's consumers, as well as the overall New Orleans and Louisiana economy.

To provide a solid empirical foundation for our analysis, we have conducted an extensive survey of businesses in New Orleans. We received responses from 444 firms. They answered 12 detailed questions about the nature of their organization, the number of workers they employ and how much they pay in wages, and the amount of taxes they pay to and possible subsidies they receive from city, state and federal governments. The firms that responded to our survey employ 68,751 workers, which amounts to 23.4 percent of the entire labor force in New Orleans. Using

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wage ordinance by Prof. Sander, the principal author of this LA study, has not consistently withstood scrutiny. See Pollin and Luce (1998), pp. 145-46.

standard statistical techniques, we are able to utilize these sampling results to present a reliable picture of the types of businesses and the labor force in New Orleans. Appendix 3 provides details on our sampling and estimating techniques with this survey.

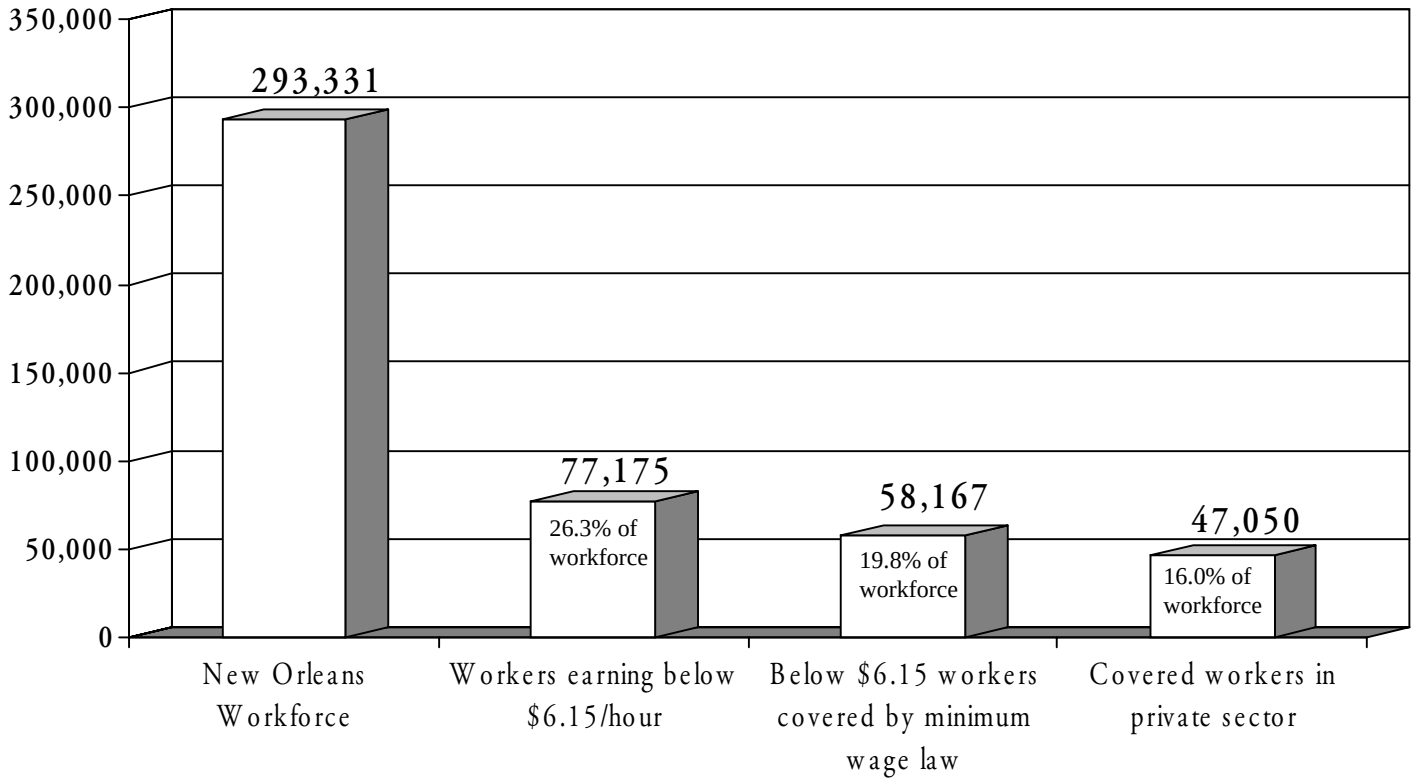
In addition to the figures generated by our sample, we also present here data from other states that have experienced higher minimum wages than the national average. Finally, as appropriate, we incorporate results from related academic research.

We will proceed as follows in presenting our results. We first present figures on the number of firms and workers in the city, and the number of workers and firms that would be affected by such a law. From this, we then estimate the total costs to businesses of raising the pay level for low-wage workers.

Once we have a clear picture of these costs, we are then in a position to consider how these costs may produce changes in how firms and workers conduct their business in the city. Two changes are most frequently the focus of discussions in considering the viability of minimum wage and living wage proposals. The first is *unemployment*, or more specifically, that businesses will lay off workers and will be more reluctant to hire new employees. The second is *business relocation*, that is, firms move out of the city to avoid paying the higher minimum wage and firms considering moving into the city decide not to do so. But we also consider three other possible responses to a city-wide minimum wage increase: that businesses raise prices; that firms would operate more productively; and that low-wage workers would receive a larger share of the firms' total income. Once we have examined price, productivity, and redistribution effects, we will be able to examine the employment and relocation issues in a fuller perspective. This will also be the context in which we can most effectively evaluate whether the living wage ordinance is likely to cause changes in labor migration patterns, and if so, what the impact of these might be.

Size of Program and Estimated Costs

Figure 6.
Low-wage Workers in New Orleans Workforce



Source: See Appendix 3.

Estimate of Affected Number of Workers and Firms

Figure 6 shows the number of workers affected and the direct wage costs of increasing the minimum wage in New Orleans to one dollar an hour over the national minimum of $5.15. As the figure shows, there are currently 293,331 workers employed in New Orleans. Of these, 77,175 people, amounting to 26.3 percent of the total work force, earn below $6.15 an hour. However, 19,008 are apparently exempt from the national minimum wage law, as their current wage is below the national legal minimum of $5.15.[12] That leaves 58,167, 19.8 percent of the city's workforce, as the group that would be affected by establishing the one dollar minimum wage increment for New Orleans workers.

However, we estimate that there are 11,117 public sector workers in New Orleans presently earning between $5.15 and $6.14, amounting to nearly 20 percent of the city's workforce within that pay scale. These workers would not be covered by the living wage proposal in its present form, which would obviously limit the scope of the law considerably.

The New Orleans proposal would, however, provide coverage for workers who receive part of their income in tips. The current federal minimum wage sets a minimum of $2.13 for people earning at least $30 a month in tips; the New Orleans proposal would raise the minimum for tipped workers to $3.08. As we see in Table 2, we estimate that there are, at present, 1,232 tipped workers earning between $2.13 and $3.08. These would all receive wages to the new $3.08 minimum.[13]

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[12] There are several categories of workers who are not covered by the $5.15 federal minimum wage laws. These include: tipped workers; salaried workers who happen to make less than the minimum per hour when their salary is divided by their total hours; professional, technical or managerial workers (including teachers and academic personnel in elementary and secondary school); workers employed by the categories of businesses that are exempt if they earn less than $500,000 in revenue; agricultural workers on small farms; domestic service workers, such as day workers, housekeepers, chauffeurs, cooks, or full-time babysitters who did not receive at least $1,000 in cash wages from one employer in a calendar year; newspaper delivery workers; workers engaged in fishing operations; a few additional miscellaneous occupations or special exemptions.

[13] In Appendix 3, we explain how we calculated the number of tipped workers.

Table 2.
Direct Wage Increases and Costs to Firms
After Raise to $6.15

Number of firms covered	
Total	12,682
Number of workers covered	
Full-time	25,477
Part-time	20,341
Tipped workers	1,232
Total	47,050
Wage-only workers	
Average hourly wage before ordinance	$5.50
Average hourly wage increase	$0.65
Average number of hours worked per week	32.7
Average yearly wage increase	$1,063
Tipped workers	
Average hourly wage before ordinance	$2.39
Average hourly wage increase	$0.69
Average number of hours worked per week	23.3
Average yearly wage increase	$804
Wage increase for year, all workers	$49.7 million
Payroll tax increase for year, all workers	$3.8 million
Total direct cost increases	**$53.5 million**

Source: PERI New Orleans Employment and Wages Survey, 1999; Current Population Survey Outgoing Rotation Group files, 1997; Bureau of Economic Analysis, 1995.

More generally in Table 2, we focus on the segment of the New Orleans workforce that would be covered by the living wage proposal. We estimate that a total of 47,050 workers would be covered by the law. Of these, 25,477 (54.1 percent) are full-time workers, 20,341 (43.2 percent) are part-timers, and 1,232 (2.6 percent) are tipped workers earning between $2.13 and $3.08.

The average wage at present for the workers between $5.15 and $6.14 is $5.50, so the average hourly increase would be 65 cents. On average, these workers are not full time; they work 32.7 hours per week. Assuming these workers are employed 50 weeks a year, that would mean that they will get an annual raise of $1,063 through the minimum wage increase.[14] For tipped workers, the average hourly wage is presently $2.39, so the average wage increase would be 69 cents. These workers are employed an average of 23.3 hours per week. If we again assume they are working 50 weeks per year, that would bring their annual wage increase to $804. Adding these figures together, we see that the total wage increase due to the living wage ordinance would be 49.7 million. This is the basic figure we work with in evaluating the overall impact of the proposal.

Direct Costs

The direct costs to businesses consist of the total amount of wage increases plus the increased payroll taxes firms will have to pay. As we see in Table 2, the total wage amounts to $49.7 million. The payroll tax that these businesses will have to pay is 7.65 percent of this wage increase, or $4.4 million. This brings the total direct wage costs to $53.5 million. Given that there are 12,682 private sector firms in New Orleans, the average cost increase per firm comes to $4,218.

[14] We do not actually have accurate figures for weeks worked by low-wage workers in New Orleans in 1998. In 1990, low-wage workers who live in poverty averaged only 38 weeks of work over the year. However, at least in part, this figure may be low since 1990 was a recession year. The overall unemployment rate in 1990 was 5.6 percent, as opposed to the 1998 figure of 4.5 percent. In any case, our assumption of a 50-week working year for low-wage workers is almost definitely high. This means that

Indirect Costs: The "Ripple" Effect

The only indirect cost of implementing a living wage policy is the "ripple effect" that occurs when some significant group of workers—but not all workers—in an affected firm get the mandated raise. While workers who are in roughly the same pay range don't necessarily make the same wage or receive increases at the same rate, their pay tends to move together over time, generally in response to firms' wage-setting policies and to local labor market conditions.[15]

With respect to the New Orleans living wage ordinance, the ripple effect refers to those wage increases that employers give to employees *beyond* what is legally mandated. There are four categories of likely recipients of such wage increases:

1) Employees who, prior to passage of the New Orleans law, were earning more than the Federal minimum wage ($5.15 at present) but less than the New Orleans living wage ($6.15). Some of these employees will receive wage increases that put them above the New Orleans living wage.

2) Employees who are now earning more than the New Orleans living wage of $6.15 and who nevertheless receive a raise when the living wage policy becomes law.

3) Tipped workers earning above $3.08 but below $5.15.

4) Tipped workers earning above $2.13 but below $3.08 who receive a raise that will put them above $3.08.

The key question in determining the size of the ripple effect in affected firms is how much of an increase in wage equality will occur in the firm after the lowest-paid workers receive their mandated raises. Recent research on the ripple effects arising due to increases in the federal minimum wage has found that the increases tend to diminish fairly rapidly at higher wage rates,

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our figures on the benefits of a minimum wage increase are overstated, unless workers obtain more hours of work along with the high minimum wage.

[15] This effect was first described by the Harvard University labor economist and former Labor Secretary John Dunlop, for example in his book *Wage Determination Under Trade Unions* (1950); his term for the phenomenon was the "wage contour" effect. David Card and Alan Krueger have more recently described this effect in *Myth and Measurement* (1995). They refer to it as the "ripple effect".

Table 3.
Measuring Ripple Effect:
Indirect Wage Costs to Firms Under Mandated Raise to $6.15

(1) Pre-ordinance wage range	(2) Mean wage before raise	(3) Total workers in category	(4) Average hours	(5) New mean wage	(6) Total wage increase (in millions)	(7) Number of workers getting ripple effect raises
Wage-only workers						
(1) $5.14 - $5.64	$5.33	31,653	31.5	$6.15 *+16%*	$40.9	--
(2) $5.65 - $6.14	$5.94	14,165	37.3	$6.42 *+8%*	$12.7	--
(3) $6.15 - $6.64	$6.42	10,519	39.8	$6.68 *+4%*	$5.4	10,519
(4) $6.65 - $7.14	$6.95	12,348	37.2	$7.09 *+2%*	$3.2	12,348
Tipped workers						
(5) $2.13 - $2.60	$2.23	952	23.4	$3.08 *+38%*	$0.9	--
(6) $2.61 - $3.08	$2.95	280	22.9	$3.54 *+20%*	$0.2	--
(7) $3.09 - $5.14	$4.75	4,447	28.6	$5.23 *+10%*	$3.0	4,447
Total wage increase					$66.3	
Wage ripple effect *(=Wage increase – mandated wage increase of $49.7 million)*					**$16.6**	
Total workers receiving ripple effect wage increases						27,314

Source: PERI New Orleans Employment and Wages Survey, 1999; Current Population Survey Outgoing Rotation Group file, 1997.

which means that wages will become more equal within the affected firms.[16] For example, in studying the impact in Texas of the 1991 federal minimum wage increase from $3.80 to $4.25, the labor economists Lawrence Katz of Harvard and Alan Krueger of Princeton found that the ripple effects of the minimum wage rise in fast-food restaurants was relatively weak, in part because the mandated increase itself was small.[17] They argued that the size of the ripple-effect raises should vary directly with the extent of the mandated increases. Thus, the larger increases associated with the living wage proposals should yield a proportionally greater ripple effect.

Starting from this premise, we have constructed a sliding scale of wage increases for workers currently earning up to $7.14 an hour, i.e. one dollar over the New Orleans mandated increase. This sliding scale and the total wage increase resulting from it are presented in Table 3. Thus, in Row 1 of the table we see the average wage increase for those now earning between $5.15 and $5.64. The current average wage for these workers is $5.33, so that, raising them all to the $6.15 living wage minimum will mean, as we see in Column 5 of the table, an average raise of 16 percent.

Based on this 16 percent raise for the lowest-paid wages-only workers, we then assumed a sliding scale of wage increases for workers in three other wage categories. We assume wage increases are 8 percent for workers currently earning between $5.65-$6.14; 4 percent for those earning between $6.15 and $6.64; and finally, 2 percent for those earning between $6.65 and $7.14.

Working from this sliding-scale structure, column 6 of the table then shows the total wage increase for each wage category, including both wages-only and tipped workers. Given these totals, we can then calculate that the total set of ripple effect wage increases will be $16.6

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[16] This recent research is summarized well in William Spriggs and John Schmitt, "The Minimum Wage," (1996) pp. 167-68.

[17] Lawrence Katz and Alan B. Krueger, "The Effect of the Minimum Wage on the Fast Food Industry," (1992), pp. 6-21.

million, as is shown at the bottom of the table. In column 7, we then see the number of workers that we would estimate as receiving ripple-effect raises. The total comes to 27,314, in other words, a full 58 percent of the 47,050 who receive mandated raises.

Total Costs Relative to Firms' Operating Budgets

Table 4 simply adds up all direct and indirect costs--the mandated wage increase to raise all affected New Orleans workers to at least $6.15, the estimated ripple effect wage increases, plus business payroll taxes on both the mandated and ripple effect increases. As we see, these bring total costs of the New Orleans ordinance to $71.4 million.

By itself, the total cost figure of $71.4 million provides little information as to how the living wage ordinance will affect the New Orleans economy. To begin to understand what that impact might be, we now consider the total cost increase per firm, and how large each firms' costs will be, on average, relative to their total operating budgets. These figures are presented in Table 5.

All 12,682 firms in New Orleans would be mandated to provide wage increases through the ordinance. This then gives us an average cost increase per firm of $5,630. Even more pertinent are the total new cost figures relative to the firms' operating budget.

As we see, as an average, the direct mandated costs of the living wage ordinance will amount to 0.7 percent of firms' total operating costs. If we add our estimated ripple effect wage increases, this brings the average total costs of the living wage ordinance to 0.9 percent of firms total operating costs.[18]

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[18] In our questionnaire, we did not specify a definition of "operating costs" for the responding firms. We rather allowed each firm to report a figure based on their own accounting procedures. Our general understanding of the term is that it would include all "current account" costs of production--i.e. labor, materials, business taxes, and the costs of operating a workplace, including rent, utilities and telephone bills. But it would not include any new capital expenditures or depreciation of capital goods, which would fall into the firms "capital account." In the national income accounts and in the IMPLAN input/output model for the New Orleans economy, current account expenditures constitute about 82 percent of total costs, with capital account expenditures adding the additional 18 percent

Distinctions between Industries and Firm Types

Presenting living wage costs relative to operating budgets for the average firm provides an initial first glimpse as to how the ordinance might actually affect the New Orleans economy. However, to accurately assess the impact of the proposal, we also need to consider how the proposal will affect different types of firms. In Tables 6 and 7, we therefore present total living wage costs/operating budget ratios broken down, first according to the size of firms, then by type of industries.

Firm Size

Table 6 shows our living wage cost/operating budget ratios by firm size. The clear pattern here is that the largest impact will be on medium-sized firms, i.e. firms with between 50-499 employees. For these firms, the living wage costs will entail a roughly one percent increase in their operating budgets. Smaller firms will be affected to a much lesser extent. For firms employing between 1-24 workers, the living wage bill will amount to 0.5 percent of their operating budget. The ratios are only slightly higher for firms that employ up to 49 workers. With the largest firms, employing more than 500 workers, the ratio falls back to 0.5 percent. A widespread perception exists that changes in minimum wage laws have the greatest impact on the costs of small businesses. Our results in Table 6 show that, at least in New Orleans, this is not the case.

These results for small businesses help explain the findings of the recent nationwide survey, discussed in section 3 above, on the attitudes of small business owners to increases in the minimum wage. As we saw, the survey found that small business owners do not consider such

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We have no means of knowing whether our respondent firms also defined their operating costs through excluding capital account costs. To the extent they did, it would mean that the operating cost calculations we are reporting are an upper limit for firms' total costs, and that these costs probably are about 80 percent of the average firm's total costs. The key point is this: If we then calculated the costs of the living wage ordinance relative to *total costs* rather than operating costs, our ratios would then be correspondingly lower. The mandated living wage increases would represent about 0.56 percent of total costs, and the total wage increases, including ripple effect raises, would be about 0.64 percent of total costs.

Table 4.
Total Costs of Living Wage Ordinance
(in millions)

Direct Costs:	
Total wage increase	$49.7
Percentage of total increase	*69.6%*
Payroll taxes	$3.8
Percentage of total increase	*5.3%*
Total direct costs	$53.5
Percentage of total increase	*74.9%*
Indirect costs:	
Total ripple effect increase	$16.6
Percentage of total increase	*23.2%*
Payroll taxes on ripple effect	$1.3
Percentage of total increase	*1.8%*
Total indirect costs	$17.9
Percentage of total increase	*25.1%*
Total costs:	**$71.4**

Source: PERI New Orleans Employment and Wages Survey, 1999.

Table 5.
Living Wage Costs Relative to Operating Costs

Total costs of ordinance (in millions)	$71.4
Total number of firms	12,682
Total costs per firm	$5,630
Mandated costs as a percentage of operating costs	0.7%
Total living wage costs as a proportion of total operating budget	0.9%

Source: PERI New Orleans Employment and Wages Survey, 1999.

Table 6.
Impact of Living Wage Ordinance by Firm Size

Firm size	Total Living Wage Costs Relative to Total Operating Costs
1 to 9 employees	0.5%
10 to 24 employees	0.5%
25 to 49 employees	0.6%
50 to 149 employees	1.0%
150 to 499 employees	0.9%
500+ employees	0.5%

Source: PERI New Orleans Employment and Wages Survey, 1999.

laws to be especially burdensome. The basic point from our figures is that minimum wage laws do not seriously affect the overall operating budgets of small firms.

Industry Groupings

Table 7 presents data on living wage costs/operating budgets, following the industrial groupings established by the Department of Commerce's Standard Industrial Classification (SIC) coding system. The table lists the industrial groups according to the living wage cost/operating budget ratio, starting with the industries with the highest ratios. In columns 3 and 4, the table then presents information on the size of the industry within the New Orleans economy. We measure industry size according to two dimensions, its share of the total production of goods and services in New Orleans; and its share of the city's total employment. The table reports data only on industries where either total production or total employment is greater than one percent of the New Orleans total.

As the table shows, only the eating and drinking industry--i.e. restaurants, cafes and bars--would experience a cost increase greater than two percent of their operating budget, and even here, the cost increase is just above two percent. The hotel industry would be the next most heavily affected, with cost increases at 1.7 percent of their operating budgets. These two industries are responsible for about 6 percent of all production in New Orleans and almost 10 percent of all employment. Beyond these, three additional industries--business services, food stores and wholesale trade--would face a cost increase greater than one percent of operating budget. Together, these three industries account for another 8.2 percent of production and 11.4 percent of employment in New Orleans. Taking account of all the rest of businesses in New Orleans, our results show that *industries accounting for 86 percent of production and 79 percent of employment in New Orleans would face cost increases of less than one percent due to the living wage ordinance.*

Table 7.
Impact of Living Wage Ordinance by Industry

(1) **Industry category**	(2) **Total living wage costs relative to total operating costs**	(3) **Share of total New Orleans production**	(4) **Share of total New Orleans employment**
Eating and drinking	2.2%	2.8	6.0
Hotels and other lodging	1.7%	2.9	3.9
Business services	1.5%	2.6	5.3
Food stores	1.5%	0.9	2.5
Wholesale trade	1.5%	4.7	3.6
Personal services	0.9%	0.5	1.4
Other retail trade	0.8%	6.4	14.4
Educational services	0.8%	3.0	5.6
Transportation	0.7%	14.9	7.4
Manufacturing	0.5%	8.7	3.8
Health services	0.5%	6.2	7.5
Finance, Insurance and Real Estate	0.5%	12.3	5.5
Other services	0.4%	7.3	11.0
Construction	0.2%	4.4	4.2
Legal services	0.1%	3.7	3.2
Mining	0.0%	11.0	2.8

Source: PERI New Orleans Employment and Wage Survey, 1999; IMPLAN Pro Software package, 1996; ES-202 data for Orleans County, 1996.

With these specific size and industry figures as our foundation, we can now explore in a systematic way how the living wage law would likely affect New Orleans businesses.

Impact of Living Wage Increase on New Orleans Firms

A nearly 12 percent average pay increase for 47,000 low-wage workers in New Orleans, as well as additional raises for those workers receiving "ripple effect" raises, will obviously bring about adjustments throughout the city's economy. What are these adjustments likely to be?

Two types of adjustment processes are most frequently the focus of discussions in considering the impact of raising minimum wages at the national, statewide or municipal levels. The first is *unemployment*, or, more specifically, that businesses will lay off workers and will become more reluctant to hire new employees, thus creating job losses and fewer opportunities for the working poor. The second is *business relocation*, that is, to avoid paying the higher minimum wage, firms located in the city will move out and firms considering moving into the city will be discouraged from doing so. Such moves would also then create job losses and fewer opportunities for the working poor. Since the purpose of raising minimum wage laws is to improve living standards and create better employment opportunities for the working poor, a rise in unemployment or business flight from the city would obviously be unintended and undesirable consequences of passing such a measure into law.

However, laying off workers or relocating are not the only ways that businesses might adjust to a city-wide minimum wage increase. In fact, there are three other ways that firms might respond to a New Orleans living wage ordinance. They are that 1) businesses would raise prices; 2) firms would operate more productively; and 3) low-wage employees would receive a relatively greater share of firms' total wage, salary and profit payments. At least initially, these three other adjustment paths are likely to be the primary channels through which New Orleans firms adjust to the ordinance, since they can be accomplished more readily and at lower costs than either laying off workers or relocating. Thus, once we assess how significant these adjustment processes are

likely to be in absorbing the costs of the New Orleans living wage, we will then be in a better position to evaluate concerns about unemployment or business relocations stemming from the ordinance.

Price Effects

The adjustment process that would be least costly and disruptive for firms would be to simply raise prices to reflect their increased costs. But firms face competition. How much could we expect firms to be able to mark-up their prices without losing customers to their competitors?

As discussed earlier, in 1995 David Card and Alan Krueuger published pathbreaking research on the effects in the fast-food industry in New Jersey when the state raised its minimum wage by 18.8 percent above the national minimum wage. Card and Krueger were particularly interested in how fast-food outlets on the New Jersey side of the New Jersey-Pennsylvania border would respond to their statewide minimum wage requirement, since these businesses faced nearby competitors who were required to pay only the lower national minimum wage. They found that the New Jersey fast-food outlets were able to raise their prices by about the same amount as their total costs were increased, which amounted to about 3.4 percent. They summarized their results by writing, "A comparison of price changes at fast-food restaurants in New Jersey and Pennsylvania after the increase in the New Jersey minimum wage suggests that average prices in New Jersey rose by about enough to cover the cost of the higher minimum wage," (1995, p. 390).

Card and Kreuger, along with other researchers, also compared this finding with experiences in the fast food industries in other states after the national minimum wage increased. Again, they found that, for the most part, prices at these restaurants were marked up roughly in correspondence with the increased total costs associated with the minimum wage increase.

Thus, these researchers provide strong evidence for the importance of the price mark-up as an adjustment mechanism in the fast-food industry. But how well can their findings be

generalized beyond this particular line of business? As Card and Krueger themselves note, the ability of businesses to mark up prices to reflect their higher costs depends on conditions in the markets in which they are selling their products. What can we say about businesses operating in New Orleans?

Of course, all firms operating in New Orleans will face the same new minimum wage laws. But firms which compete with other firms in New Orleans will likely be more able to raise their prices, since their competitors will have experienced similar cost increases. Businesses that compete in markets that extend beyond New Orleans will have more difficulty marking up their prices, since their competitors will not have experienced a comparable cost increase.

In Table 8, we divide up industries in New Orleans according to whether they compete primarily either with firms outside or inside New Orleans, or whether they face some combination of competitors both inside and outside the city. The data presented for each industry are simply the same living wage/operating budget ratios reported in Table 7.

Industries Competing Outside of New Orleans

These firms are going to be placed at a disadvantage relative to their competitors outside New Orleans, since they alone will face an increase in their labor costs. Thus, if everything else remained equal in their industry, New Orleans firms would not be able to pass along their cost increases through raising their prices, without risking a loss of their customer base to their out-of-town competitors. However, the cost increases faced by these industries are negligible, as we see in Table 8--0.5 percent for manufacturing, 0.1 percent for legal services, and effectively no cost increase in mining. As such, we can assume that these firms will not have to make essentially any adjustments in their prices, and should therefore face no competitive disadvantage due to a New Orleans living wage ordinance.

Industries Competing Within New Orleans

Table 8.
Competitive Environment for New Orleans Industries

Industry and Market Environment	Living Wage Cost/ Operating Budget
Competing outside city	
Manufacturing	0.5%
Legal services	0.1%
Mining	0.0%
Competing within city	
Eating and drinking	2.2%
Hotel and other lodging	1.7%
Personal services	0.9%
Transportation	0.7%
Construction	0.2%
Competing inside and outside city	
Business services	1.5%
Food stores	1.5%
Wholesale trade	1.5%
Other retail trade	0.8%
Educational services	0.8%
Finance, insurance and real estate	0.5%
Health services	0.5%
Other services	0.4%

Source: PERI New Orleans Employment and Wages Survey, 1999.

For firms competing mainly within New Orleans, it is fair to assume that the situation will approximate that analyzed by Card and Kreuger for the fast-food industry in New Jersey and elsewhere. That is, these firms should be able to raise their prices to reflect their higher costs, since all the firms in the market will face similar cost increases. As shown in Table 8, we have assigned five industries to this category--the eating and drinking industry, facing a 2.2 percent cost increase; hotels, with a 1.7 percent cost increase; and the personal services, transportation, and construction industries, all of which would experience cost increases below one percent. These figures indicate that the hotel and restaurant industries would likely try to mark up their prices by about 2 percent and that personal service and perhaps transportation firms would seek price increases in the range of one percent. Given that the size of all these price mark-ups are still small, they are not likely to have a substantial impact on the demand for their products, through, for example, New Orleans residents eating in restaurants less frequently or visitors to the city staying with friends in private homes rather than hotels.

Of course, none of these industries are completely insulated from competition outside of New Orleans. For example, individual hotel clients could seek out less expensive lodgings outside the city limit, and conventions could shop for cheaper rates in other cities. These considerations could well play a role in overall demand for New Orleans hotels if the New Orleans hotels attempted to mark-up their prices by a large amount, say, 7 percent. But hotel customers who need or want to be in New Orleans would expend time and transportation costs if they rented a room outside the city, then commuted in. As such, with living wage costs/operating budget ratios in the 1 - 2 percent range for these industries, we would reasonably expect that no significant adjustments will follow from implementing the living wage ordinance.

Industries Competing Both Inside and Outside New Orleans

Industries in this broad category are very heterogeneous, as, indeed, are many of the firm-types within each industry category. For example, business services includes both advertising

and building maintenance firms. Wholesale trade includes both durable and non-durable goods. For some of these businesses, such as janitorial firms or fresh-food wholesalers, proximity to their customers is important. As such, the main competitors for these firms are likely to be within New Orleans. By contrast, neither advertising firms nor wholesalers selling durable goods would likely face only local competitors. Given these differences, it is difficult to present general guidelines as to how industries and firms in this category would react to a city-wide minimum wage increase. Still, we can make one general statement: as long as the living wage cost/operating budget ratios are low, the adjustments that firms make will not be substantial, no matter what specific form they take.

Of the eight industries listed in this category in Table 8, only three have living wage cost/operating budget ratios greater than 1 percent. Let us therefore concentrate on these three industries--business services, food stores, and wholesale trade, all both with 1.5 percent ratios.

Business Services and Wholesale Trade. The firms in both of these categories, such as non-durable goods or building maintenance, that compete in local markets should be able mark up their prices without significantly affecting their customer base, as with the other industries operating in the local market. The more difficult problems emerge with the businesses facing competitors outside New Orleans, such as advertising firms or durable goods distributors. For these firms, much, if not all of the 1.5 percent cost increase may well be difficult to pass along to customers. For these firms, therefore, the other adjustment mechanisms--raising productivity in the firm, redistributing the firms' income, or possibly even laying off workers or relocating--will need to be considered.

Food Stores Food stores in New Orleans, as in other large cities, operate in very different markets, depending on whether they are located in poor or non-poor neighborhoods. In non-poor neighborhoods, the customers of these stores typically have cars, and thus the ability to

drive outside the city to avoid paying higher food prices. For stores operating in these markets in New Orleans, these stores may have some difficulty in maintaining their marked-up prices.

However, counteracting this factor is that in most middle-class neighborhoods, price is rarely the determining factor around which food shopping decisions are made. Convenience and quality are at least equally important factors in attracting middle-class food shoppers. Heavily discounted food stores already exist on the outskirts of all major metropolitan areas. These discount stores have not driven customers away from the higher quality but more expensive stores. Overall then, for stores in these neighborhoods, they probably will be able to pass on to customers some share of their higher costs. They will then absorb the rest of their higher costs through some combination of the other adjustment mechanisms.

The situation will be different for food stores in poor neighborhoods. This is because customers in poor neighborhoods are not generally able to travel significant distances to find cheaper food prices. We therefore expect that, everything else equal, food stores in poor neighborhoods will be able to mark up their prices by an amount roughly comparable to the 1.5 percent increase in costs.

How much would a 1.5 percent increase in food prices affect customers in poor neighborhoods? To begin with, this will depend on what percentage of a family's food budget is covered by food stamps. If we were to assume that food stamps completely covered a family's food budget, then the increase in food prices would have no effect on the family's standard of living.

But, in fact, food stamps will not cover a family's entire food budget. Rather, coverage will vary according to a family's needs, as we consider in more detail in the next section of the study, on benefits. But from figures reported in that section, we can assume that food stamps will cover, on average, roughly 50 percent of a poor family's food budget. For now, we can also accept the official government estimate that spending on food constitutes about one-third of a

poor family's overall budget (though, as discussed in section 2, that figure is likely to be high).[19] Given this, a 1.5 percent increase in food prices would mean about a 0.25 percent increase in the cost of living for poor people.[20]

How serious this problem would be would, in turn, depend on whether the poor family includes a working member. For the roughly 50 percent of poor families in New Orleans that does include a working member, a 0.25 percent increase in living costs would be counterbalanced by the roughly 10 percent increase in pretax income due to the minimum wage increase. Thus, even after allowing for a full mark-up of food prices commensurate with the minimum wage increases, and with no additional food cost support through food stamps, the net effect of the minimum wage raise would be a pretax income increase of more than 9 percent.

That will not be the case for most of the poor families in which no member is employed; that is, depending on the threshold one chooses, between about 50-60 percent of the poor households in New Orleans. They will face a 0.25 percent increase in their living costs that will not be counterbalanced by an increase in family income. Such families could be hurt by the minimum wage increase, though only by a very small amount, if nothing else were to change in their lives (such as a family member getting a job).

Reaching that conclusion does not mean that the New Orleans living wage ordinance would be a bad policy for alleviating poverty. It simply means that, by itself, it is not a sufficient policy tool. Three other types of policies would be needed in this context.

The first, and simplest, would be to ensure that the food stamp program does an adequate job of preventing food costs from taking up an increasing share of the budget of poor families with no employed members.

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[19] Drawing from the figures in Tables 17A-C in section five, we see that food stamp support ranges between $2,100 and $3,792, depending on family size. If, with each of these families, we also assume that spending on food consumes one-third of the family budget, it then follows that food stamps cover between 41 and 73 percent of each family's food budget.

[20] The calculation is as follows: (1.5 percent food price increase) x (0.33, food as a percentage of total family budget) x (.50, food budget not covered by food stamps).

A second would be to promote more food stores and thus greater competition among the food stores in poor neighborhoods. One factor that may provide support for this is the increased spending power for poor neighborhoods that will result from the minimum wage increase. As we will discuss in more detail in section 4, this increased money may encourage new stores to open in poor neighborhoods. It may also give neighborhood residents the higher income and access to credit that will enable them to open stores themselves. Along these lines, making use of the existing provisions of the Community Reinvestment Act could serve to promote the end of greater competition and lower prices in food stores.

Finally, and most broadly, policies to promote full employment will clearly go far to alleviate the problem. Even if one works at a minimum wage job, simply having the job will be decisive in providing that the benefits of an increased minimum wage far outweigh the increased food costs that may correspondingly ensue.

Price Changes in California after Minimum Wage Increase

To provide further perspective on how minimum wage increases may affect prices, we consider the experience in California after the statewide minimum wage increase was implemented in March of 1997 and 1998. California voters approved a two-step raise, to $5.00 in March 1997 and $5.75 in March 1998 by a 58 - 42 percent margin in a November 1996 state-wide referendum. At the time the California law was implemented, the national minimum wage was $4.75, but then rose to $5.15 on November 1997. Thus, between March and October 1997, the California minimum was 5.3 percent (25 cents) above the national minimum, and from March 1998 to the present, it has been 11.7 percent (60 cents) above the national minimum.[21]

[21] We note here that we would have preferred to examine the experience with price changes in New Jersey after their minimum wage increase in 1992, since that would have provided us with more years in which to observe price effects after the state's minimum wage increase. Using New Jersey as our case study would also have provided a tighter link with the Card/Krueger results cited above, on the state's fast-food firms along the Pennsylvania border. Unfortunately, to our knowledge, no adequate data exist on price changes for the State of New Jersey alone, or even for metropolitan areas in New Jersey alone. However, we will be able to return to the New Jersey experience to provide perspective on productivity and redistribution effects. Still, our overall analysis does benefit through examining a broad range of relevant experiences.

Using the federal government's Consumer Price Index figures, we are able to specifically consider how that minimum wage increase affected prices in the Los Angeles, San Diego, and San Francisco metropolitan areas, by examining inflation rates in 1996, before the higher state-wide minimum wage was implemented, with 1997 and 1998, the period in which the higher minimum was in place for most of each year.[22] We look at overall inflation rates in the state, then at the prices for two items--food at home and food away from home--which, in relative terms, are likely to be heavily affected by the minimum wage increase. We also compare the patterns for the Los Angeles, San Diego and San Francisco metropolitan areas with those for Miami and Tampa Florida, and Dallas and Houston Texas. Neither Florida nor Texas have raised their minimum wage above the national level over these years.

Overall Inflation Patterns

Table 9 presents inflation rates for all items, in the California, Florida and Texas metropolitan areas between 1996-98. Considering California initially, it is notable, to begin with, that inflation rates are quite different in the LA, San Diego and San Francisco areas. The LA area experienced inflation rates consistently lower than those in San Diego, and far below those in San Francisco. From this alone, we can see that, however much the increase in the state-wide minimum wage has affected California's economy, its overall impact is smaller than the other factors influencing prices in the three metropolitan areas.

Secondly, we observe than in Los Angeles and San Diego, the inflation rate actually *fell* in 1997 relative to 1996, from 1.9 to 1.6 percent in LA and from 2.6 to 1.7 percent in San Diego. Inflation did rise in the San Francisco area between 1996 and 1997, from 2.3 to 3.4 percent. But

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Neither the cases of New Jersey or California are exactly parallel to what would be the case for New Orleans or Louisiana. Incorporating different types of evidence can only strengthen our understanding of the issues at hand for New Orleans and Louisiana.

[22] We refer to changes in "inflation rates" throughout this section, rather than changing rates of price increases or decreases. We do this for convenience, even though, properly speaking, inflation refers to economy-wide price changes, not changes in relative prices. In fact, when we examine price changes in single metropolitan areas or for single food groups, we are unable to differentiate between relative price

Table 9.
Inflation and Minimum Wage in California I:
All Items
(rate of annual price increases)

	1996	1997	1998
US Economy	3.0	2.3	1.6
California Metro Areas			
Los Angeles	1.9	1.6	1.4
San Diego	2.6	1.7	2.0
San Francisco	2.3	3.4	3.2
Florida Metro Areas			
Miami	3.2	3.1	1.3
Tampa	1.5	1.8	2.6
Texas Metro Areas			
Dallas	2.7	1.7	1.5
Houston	2.1	1.9	1.0

Source: US Department of Labor, Bureau of Labor Statistics, Consumer Price Index, Detailed Report, US Government Printing Office, various years.

we certainly cannot assume that this increase was due to the minimum wage boost, since the same minimum wage increase did not cause prices to rise in either Los Angeles or San Diego. Finally, we see that prices do not move in any clear pattern between 1997 and 1998 in these three areas--they fall by a small amount in both LA and San Francisco, while rising, though again only slightly, in San Diego. Overall, we can observe no consistent pattern of accelerated inflation in the California metropolitan areas resulting from the 1997 minimum wage increases.

Considering that no clear inflationary pattern occurred in California resulting from its minimum wage increase, we should not be surprised that there are also no discernible inflationary patterns in either the Miami, Tampa, Dallas or Houston metro areas. Between 1996-98, inflation is generally falling in these areas, as it is nationally. But the rate of inflation decline changes between the various metropolitan areas.

But even if raising the California minimum wage by 5.3 and then 11.7 percent above the national minimum did not systematically affect the overall price level in the LA, San Diego and San Francisco, it may still have had a significant impact on prices in particular sectors of the economy which employ a high proportion of low-wage workers. In Table 10, we thus focus on prices for "food at home" which we will simply term "food prices," and in Table 11, we consider "food away from home", which we call "restaurant prices."

Food Prices

Considering food prices, we again see that nationally, inflation decelerated, from 3.7 to 2.5 and then 1.9 percent between 1996-98. But this was not the experience in LA, San Diego and San Francisco. However, again, there is no consistent pattern in these three cities that can be clearly linked to the 1997 California minimum wage increase. In Los Angeles, food price inflation accelerated between 1996-97, from 3.4 to 3.9 percent. Food inflation also accelerated slightly in San Francisco. In comparison with the national downward inflationary trend for food

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changes and price increases for the entire economy, and therefore the term "inflation" should not properly

Table 10.
Inflation and Minimum Wage in California II:
Food Prices
(rate of annual price increases)

	1996	1997	1998
US Economy	3.7	2.5	1.9
California Metro Areas			
Los Angeles	3.4	3.9	2.7
San Diego	3.6	2.5	0.8
San Francisco	2.8	3.0	4.0
Florida Metro Areas			
Miami	3.5	2.8	1.8
Tampa	3.1	1.7	2.3
Texas Metro Areas			
Dallas	5.5	2.4	0.4
Houston	1.6	3.3	1.2

Source: US Department of Labor, Bureau of Labor Statistics, Consumer Price Index, Detailed Report, US Government Printing Office, various years.

prices, one might conclude that the LA and San Francisco patterns are due to the minimum wage increase. However, if this is the case, its effect still must be weak, since it does not appear at all in San Diego. Food price inflation there actually fell from 3.8 to 2.5 percent between 1996-97, that is, at a rate nearly identical to the national trend. In 1998, there is again no clear pattern in food prices among the California metropolitan areas. Inflation fell significantly in LA and San Diego, but rose in San Francisco.

Given this, we can once again conclude that the impact of the minimum wage increase is clearly not dominant in determining price changes in California subsequent to the minimum wage increase. Moreover, this point is again supported by considering the experiences in Miami, Tampa, Dallas and Houston. For example, food price inflation did decelerate in both Florida cities and in Dallas between 1996-97. But inflation accelerated in Houston, by more than the increase in any of the California metro areas.

Restaurant Prices

In Table 11, we once again observe no clear pattern in considering restaurant prices. Nationally, restaurant price inflation rose slightly between 1996-97, from 2.5 to 2.8 percent. Inflation was stronger in all three California metro areas. However, the same was also true in both Miami and Houston. Indeed, the acceleration in restaurant price inflation in Houston was greater than in any of the California cities.

For 1998, restaurant price inflation fell in LA, but continued to rise in San Diego and San Francisco. These patterns are different than those in the Florida and Texas metro areas, where inflation either fell or at least did not accelerate. So in these patterns, we may be observing some indication of accelerating inflation in California relative to the other cities. However, once again, this effect, if it is discernable at all, is weak.

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be used.

Table 11.
Inflation and Minimum Wage in California III:
Restaurant Prices
(rate of annual price increases)

	1996	1997	1998
US Economy	2.5	2.8	2.6
California Metro Areas			
Los Angeles	1.8	2.9	2.3
San Diego	1.7	2.8	3.3
San Francisco	2.0	3.3	4.4
Florida Metro Areas			
Miami	2.1	2.8	2.6
Tampa	2.7	2.7	1.2
Texas Metro Areas			
Dallas	3.8	4.2	4.1
Houston	2.1	3.6	3.7

Source: US Department of Labor, Bureau of Labor Statistics, Consumer Price Index, Detailed Report, US Government Printing Office, various years.

How does this evidence on the California experience help us to understand the likely effects of an increased minimum wage for New Orleans? Of course, the California economy is very different from that of both New Orleans and Louisiana. Moreover, the minimum wage increase in California was smaller than that proposed for New Orleans. But even allowing for these differences, the findings are nevertheless instructive. First, we can surmise that the price adjustments following the minimum wage increase are likely to be small, if they occur at all. These price adjustments will certainly have no significant impact on overall price behavior in Louisiana, since even the state-wide minimum wage in California had no discernible effect on overall price behavior in the state's largest metropolitan areas. The evidence from these metropolitan areas also suggests that the New Orleans minimum wage increase will have little impact on prices in New Orleans itself. The reason is that the cost increases due to the minimum wage increase are small relative to the overall operating budgets of businesses in cities, even for the most heavily effected industries. Many other factors will influence price setting, and these are likely to dominate the impact of a minimum wage increase, just as they did in California.

Productivity and Redistribution Effects

We have seen that, for a significant share of firms, small price increases could readily cover the better part of the increased costs due to a raise in the city-wide minimum wage. But that may not be true for some firms, especially those whose competitors include firms operating outside New Orleans. More generally, however, even for firms competing strictly within New Orleans, they may not necessarily try to cover their increased costs through higher prices, especially if they are seeking an edge against their competitors.

Even if firms don't raise prices, they could still readily absorb the costs of the New Orleans living wage ordinance through increases in productivity or a re-slicing of the firms' total income pie. We cannot know with certainty how large the productivity and redistribution effects will be. But the fact that the overall cost increases relative to firms' operating budgets is small

means that the firms could cover their increased costs through productivity gains or redistribution without having to make significant adjustments in their overall operations.

To get a grasp of the size of the productivity and redistribution effects, we first review some relevant background and general analytic points as they relate to New Orleans. Then, as with our analysis of price effects, we consider the experience in another state which implemented a minimum wage above the national level. Here, we look at the experience in New Jersey, which, as discussed above, raised its minimum wage in 1992 to $5.05. At the time, this represented an 18.8 percent increase above the national minimum of $4.25.

This is the same experience that Card and Krueger, and by now many others, have examined to understand primarily employment, but also price, effects of a higher minimum wage. But, as in our consideration of price effects, we will broader the scope of discussion beyond the fast-food industry that has been the focus of the Card/Krueger and related studies. At the same time, like the Card/Krueger literature, we will use data from the state of Pennsylvania as the control group against which to compare the data for New Jersey.

Productivity

How might firms in New Orleans raise productivity as a result of paying a higher mandated minimum wage? Considerable research in recent years has shown that a higher minimum wage can improve firm performance through several channels. These include lower costs for recruiting low-wage workers as well as lower turnover and less absenteeism among the low-wage workers on the job. Less turnover and absenteeism in turn mean that the firms' training and supervisory costs should fall. Combining all of these factors may then yield a workplace with better morale, less unneeded hierarchy and greater cooperation.[23]

[23] The recent literature on these effects and their empirical importance is presented in Bernstein and Schmitt (1998). Akerlof and Yellen (1986) provides an earlier, more academic treatment of the broader set of concerns around wages, work effort, productivity and employment.

Actually, the recent perspective on wages and firm productivity has actually only rediscovered some old ideas that most economists had neglected for a generation. Probably the most famous historical case illustrating this approach was that of Ford Motor Company in the early part of this century. In 1913, the turnover rate at Ford Motors was roughly 400 percent. That means that Henry Ford found himself hiring four times the average number of workers he actually needed to staff production over the course of a year. Rates of absenteeism were similarly high. Recognizing this problem, Ford instituted the $5.00 a day wage rate for production workers, which amounted to a *near doubling* of wages at that time. It is now well documented in the professional literature that Ford's bold move led to significant decreases in both absenteeism and turnover. Other firms in this period, including Goodyear, General Electric, and Bethlehem Steel took slightly different, but equally dramatic, approaches in the attempt to reduce turnover and raise morale. These included profit-sharing arrangements, pension plans, health insurance and educational subsidies for employees and their children.[24]

In the contemporary economy, we see these same considerations showing up at all sorts of firms, and not only ones where the pay increases are as dramatic as in the Ford case. Indeed, the basic point is that firms operating in the same industry often have significantly different pay scales, and it does not necessarily follow that the firms paying higher wages charge higher prices or lose out in market competition. The successful firms paying higher wages do have higher *direct labor cost*--i.e. wage payments--but they also tend to have lower *indirect labor costs*, including here recruitment, turnover, absenteeism, and supervision.[25]

For the situation in New Orleans, it is important to emphasize that there would be two factors pushing down indirect labor costs. The first is that the low-wage workers in New Orleans

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[24] William Lazonick's book Competitive Advantage on the Shop Floor (1990) provides an extensive discussion of the Ford Motor Experience. See also Daniel Raff and Lawrence Summers, "Did Henry Ford Pay Efficiency Wages?" (1987). Laura Owen (1995) presents the most comprehensive analysis of the broader experience of high wage/benefit firms in the early twentieth century.

[25] See Pollin and Luce (1998), pp. 151-57 for a profile of three firms which compete successfully in Los Angeles through paying higher than market wages and benefits.

would simply be earning better pay, and will therefore exert more effort to keep their job. The second is that the low-wage workers in New Orleans are earning better pay *relative* to workers in surrounding communities. This creates an even stronger incentive for workers in New Orleans to want to keep their jobs, which will then improve workplace morale and efficiency.

But the view that firms gain in efficiency through paying a higher minimum wage raises some vexing questions. First, if there are benefits for firms to grab through paying a higher minimum wage, why don't they just pay the higher wage voluntarily? The answer to this question is that, as noted above, many firms, from the Ford Motors example onward, have understood that they can benefit through paying low-wage workers above the legal minimum wage. This is often termed the "high road" path to competitive success. But it is true that some firms also succeed through what is termed a "low road" strategy--minimizing wage costs at the expense of higher costs of recruitment, turnover, absenteeism and supervision. Raising the mandated minimum wage therefore is a public policy tool for encouraging firms away from the "low road" and onto the "high road."

But this then raises a second question: allowing that lower recruitment, turnover, absenteeism and supervisory costs are available through paying a higher minimum wage, when do these gains start becoming smaller than the raise in direct labor costs due to the higher minimum wage? Of course there are limits as to how high the minimum wage can be raised before the benefits can no longer compensate for the cost increases. But the existing body of research cannot as yet tell us what that limit is. In the case of New Orleans, the fact that, on average, the living wage ordinance would represent a cost increase of less than one percent relative to firms operating budgets means that benefits are likely to be proportionately high. But even more to the point, given that the average firm will need to cover only this one percent cost increase, it also means that even relatively small productivity gains can go far toward absorbing a good share, if not all, of these costs.

Redistribution

If we assume that the total income to be distributed within firms is constant, then one simple way for lower-paid workers to receive a bigger slice of the total income pie is for high paid workers to take a small wage cut or for owners profits to decline by a small amount. If this were to happen, it would entail only a modest movement away from the upward redistribution toward the wealthy that has occurred over the past 20 years. For example, between 1968 and 1994 (1968 being the year when the real value of the minimum wage peaked at $7.49 in 1998 dollars) the real incomes of the wealthiest 5 percent of households rose by more than 60 percent--from $121,096 to $185,792--while the minimum wage was falling by more than 30 percent.

But it is actually unrealistic to consider an income redistribution within the firm without allowing that other things in the firm might also change that could facilitate such a redistribution. Consider a situation for the average firm in New Orleans, in which the living wage cost/operating budget ratio is one percent. This average firm is also likely to improve its productivity each year by at least one percent, without even taking into account possible productivity boosts from the minimum wage rise.[26] The one percent gain in productivity means that the firm can provide the same dollar value of products while reducing their operating budget by one percent. Total firm income thus remains constant while operating costs have fallen by one percent. In this situation, the one percent productivity gain would mean that low-wage workers could get their raise, and all other operating costs could be covered equally, without anyone else at the firm taking a wage or profit cut.

It is true that in this situation, the benefits from one year's worth of productivity would accrue entirely to the low-wage workers. In fact, some variation on this scenario does appear to actually happen, as research shows that the wage differences between the lowest and higher paid workers decline initially after a higher minimum wage is implemented. However, the research

[26] The average annual rate of productivity growth for nonfarm businesses in the United States was 1.26 percent between 1990-97. This figure is significantly below the average figure for 1950-89 of 2.1 percent.

also shows that after the initial adjustment period, wage gaps do tend to return to their previous levels.[27] This means that in subsequent years, the higher paid workers receive a disproportionate share of the firms' productivity gains. Following this pattern then, only a temporary redistribution of income favoring the low-wage workers is needed to cover the minimum wage increase.

Still assuming the firm's productivity is rising, this also means that the firm would not necessarily have to replace workers who had retired or quit, since again, the productivity increase enables the firm to produce the same dollar value of products with fewer total hours of labor. In this case, the savings from not replacing the worker who had left could be used to cover the increased labor costs for minimum wage workers, without any higher paid workers or owners having to take an income cut.

Overall then, the fact that, on average, the increase in operating costs due to the New Orleans living wage ordinance would be only one percent, it is not hard to envision scenarios in which a redistribution of the firm's income could realistically cover a significant share, if not all, of their higher wage payments to low-wage workers. This is especially true if the redistribution occurs while a firm's productivity is growing, recognizing, as well, that the minimum wage increase is itself likely to encourage productivity improvements.

Production and Distribution Patterns in New Jersey after Minimum Wage Increase

In turning to the experience in New Jersey, we will focus on two types of data. We first consider figures on total production of goods and services in the state--i.e. Gross State Product (GSP). We want to see whether Gross State Product was affected in any way by the April 1992 minimum wage increase. Within this framework, we will also consider specific industries that, following our New Orleans survey results, would likely be most heavily affected by the minimum

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Thus, it is surely reasonable, for the purposes of our example here, to assume that productivity growth in New Orleans would average one percent per year.

[27] This research is summarized in William E. Spriggs and Bruce W. Klein (1994) Raising the Floor: The Effects of the Minimum Wage on Low-Wage Workers, Washington, DC: Economic Policy Institute.

wage hike. These industries include wholesale trade, hotels, business services, restaurants, and food stores.[28]

We should be clear that these figures on *total production*--i.e. total amount of goods and services produced--are not the same as data on *worker productivity*, which measures total production per worker. The effect we are anticipating is that worker productivity will rise with the minimum wage increase, due to the decline of absenteeism, turnover, and training and supervisory costs. But we do not have adequate measures of productivity at the level of detail we would need to test these effects directly. However, the figures on production will give us a comparable perspective on how business operations may have responded to an increase in the minimum wage.

The figures on production are also useful in a separate, though related, way. In studying the overall level of economic activity, we can help address the concern about relocation effects following a minimum wage increase. If a high proportion of in-state firms are leaving and/or out-of-state firms are deciding not to locate in the state, these patterns should be observable through the production figures--with production falling as firms leave or chose not to locate in the state.

The second type of figures we consider are the shares of "property-type income" relative to the total income generated in New Jersey. Property-type income includes profits, interest, dividends and rent, but we will refer to this whole category as "profit" and to the ratio of these income categories relative to the state's total income as the "profit share." Here we have a direct measure of how income is distributed in New Jersey between wages and profits. We therefore are able to observe whether a change in the minimum wage law did, in fact, generate

[28] In considering these specific industries, we examine their overall production relative to that of GSP. We do this, rather than looking at the real (i.e. inflation adjusted) production figures alone for each industry, because of the difficulty of obtaining reliable figures on inflation at this level of industry-level detail for a single state. Nevertheless, the ratios we report on relative production will provide a good picture of the inflation-adjusted level of activity in each industry.

redistribution of income between wages and profit earners, both for New Jersey as a whole, and within any of the five industries most likely to be sensitive to the minimum wage increase.

With both the production and profit share figures, we report data for Pennsylvania as well as New Jersey. Pennsylvania, again, is our "control group." We are not interested in the Pennsylvania data as such, but rather because of the perspective it provides as a border state to New Jersey that did not increase its minimum wage above the national level.

We report figures for the years 1989-96. This places the April 1992 minimum wage increase roughly in the middle of our time period. It also enables us to compare the effects of the recession years of 1990-91 relative to the effects of the minimum wage increase. It finally allows us observe the New Jersey experience right up the time the national minimum wage began to rise, since the first phase of the most recent national minimum wage increase was in October 1996.

Figures on Production

In Table 12, we first consider the figures for GSP. We see, first, that the truly significant change in New Jersey's GSP occurs before, not after, 1992. In the recession years of 1990-91, New Jersey's GSP actually turns negative. From 1992 onward, GSP remains positive. The first point to extract from these figures, therefore, is that the effects of a minimum wage change on GSP will be swamped by the effects of recession.

Now considering the economy from 1992-96, the period after the minimum wage hike, GSP rises first to 2.7 percent, then fluctuates between increases and decreases between 1993-96. No clear pattern emerges, and in particular, none that we could clearly attribute to the 1992 minimum wage hike.

The absence of any clear pattern here becomes even more evident when we compare the New Jersey figures with those in Pennsylvania. Pennsylvania does not suffer as severe a decline in GSP during the 1990-91 recesssion. Thereafter, its GSP continues to grow at a somewhat more steady pace that that of New Jersey. The fluctuations in the Pennsylvania GSP also differ from

Table 12.
The Impact of Minimum Wage Change on
New Jersey Economy I:
Production Patterns

	1989	1990	1991	1992	1993	1994	1995	1996
Total State Product *(real annual growth rate)*								
New Jersey	1.7	-0.7	-0.4	2.7	1.9	2.6	1.6	3.0
Pennsylvania	2.0	0.3	0.2	2.9	2.1	2.6	2.7	1.8
Industry Product *(industry product as percentage of GSP)*								
Wholesale trade								
New Jersey	8.3	8.1	9.2	9.1	8.9	9.2	7.4	7.3
Pennsylvania	6.3	7.1	7.6	6.0	5.9	6.2	6.1	6.0
Hotels								
New Jersey	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.7
Pennsylvania	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Business services								
New Jersey	4.3	4.7	4.5	4.6	4.4	4.6	4.9	5.2
Pennsylvania	3.1	3.1	2.9	3.1	3.1	3.1	3.2	3.5
Restaurants								
New Jersey	2.7	2.6	2.6	2.7	2.4	2.7	2.4	2.2
Pennsylvania	3.9	3.7	3.2	2.8	2.5	2.3	2.2	2.2
Food Stores								
New Jersey	11.7	9.8	9.4	10.0	9.7	9.6	9.1	9.2
Pennsylvania	14.1	14.2	14.4	13.5	13.2	12.6	12.2	12.6

Source: US Department of Commerce, Bureau of Economic Analysis.

that in New Jersey in 1993-96. However, averaging the years 1993-96 in both New Jersey and Pennsylvania, we find that both states grow at an identical 2.3 percent. So here again, nothing in the GSP figures point to the minimum wage increase in New Jersey exerting a significant influence on overall economic activity in New Jersey after 1992.

We now consider the figures on production in the five sensitive industries, reported in Table 12. Again, we have calculated these figures relative to GSP, so that, for example, we see that wholesale trade accounted for 8.3 percent of GSP in New Jersey in 1989, 8.1 percent of GSP in 1990 and so forth.

Examining these ratios, we again see little that suggests any significant change in production in these industries after the 1992 minimum wage rise. For the hotel, business services, and restaurant industries, no patterns at all emerge, either for New Jersey or Pennsylvania. Wholesale trade does decline in New Jersey in 1995 and 1996, to 7.4 and then 7.3 percent, a pattern that is not mirrored in Pennsylvania. However, this New Jersey pattern occurs after the industry remained at a high level, of 9.1, 8.9 and 9.2 percent during the first 2 1/2 years in which New Jersey had operated under its higher minimum wage. If the minimum wage increase itself were responsible for the 1995-96 decline in the ratio, this same factor should have also produced at least broadly similar patterns for 1992-94.

Food stores in New Jersey do decline as a percentage of GSP from 1992-95. However, this decline is fairly mild, from 10.0 to 9.1 percent, before rising again to 9.2 percent in 1996. In this case, Pennsylvania experiences an almost identical pattern, with the food store/GSP ratio falling from 13.5 - 12.2 percent between 1992-95, then rising again to 12.6 percent in 1996. Since this pattern occurs in both states, the implication is that it is not likely to be caused by the minimum wage increase, which occurred only in New Jersey. The more likely explanation follows from the fact that food store purchases are a necessity. When the economy recovers from a recession and then sustains an expansion, spending on necessities will fall in proportion to

spending on discretionary products, such as vacations or visits to restaurants. This effect, of course, would apply equally for consumers in both New Jersey and Pennsylvania, thus explaining why the food store/GSP patterns for the two states are so similar.

Figures on Profit Shares

In Table 13, we present figures on profit shares, both for the overall economy, and for the industries sensitive to a minimum wage increase. However, separate figures for "property-type income" do not exist at the state level for the restaurant and food store industries. As an imperfect but unavoidable substitute, we therefore report figures here for "retail trade" which incorporates both food stores and restaurants, as well as a wide array of other retailers.

The figures on profit shares can be summarized fairly quickly. First, for the whole economy, no pattern at all emerges in either New Jersey or Pennsylvania over the whole period 1989-96, or any sub-period of that. In terms of specific industries, there is also no clear pattern in either retail or wholesale trade.

In the hotel industry, the profit share rises sharply over the full period in New Jersey, from 30.6 to 44.0 percent. No break in this trend occurs after the 1992 minimum wage increase. Pennsylvania experiences a comparable, though more mild upward trend in its hotel industry profit share. In short, the New Jersey minimum wage increase appears not to have contributed to a redistribution of income toward wages in the hotel industry, but rather to have had little impact on a redistribution toward profit income that occurred for other reasons.

Business services is the only industry in New Jersey in which the profit share experiences a clear decline after the passage of the state's minimum wage law, from 33.5 percent in 1992 to 27.3 percent in 1993. The profit share in business services then remains at this lower level through 1996. This is the only evidence at all in our data of a shift in distribution toward wage income after the minimum wage increase. However, we need to be cautious in attributing even this pattern entirely to the minimum wage increase. This is first of all because the business

Table 13.
The Impact of Minimum Wage Change on
New Jersey Economy II:
Profit Share Patterns
(in percentages)

	1989	1990	1991	1992	1993	1994	1995	1996
Overall State Figures								
New Jersey	33.0	32.3	32.0	31.6	32.0	32.2	32.8	33.3
Pennsylvania	32.1	31.2	31.8	31.6	32.3	32.4	33.6	33.5
Industry Profit Share Figures								
Hotels								
New Jersey	30.6	31.8	34.9	36.7	37.3	39.6	42.6	44.0
Pennsylvania	25.7	24.4	25.5	25.0	25.0	26.4	28.6	29.8
Business Services								
New Jersey	36.9	35.5	33.2	33.5	27.3	29.1	27.4	27.3
Pennsylvania	37.8	37.4	35.2	35.6	34.0	33.2	30.3	29.7
Wholesale Trade								
New Jersey	19.7	17.5	17.2	17.0	17.7	20.5	20.2	21.3
Pennsylvania	19.0	17.8	19.9	19.6	19.3	21.5	21.1	21.9
Retail Trade								
New Jersey	21.6	20.3	19.8	19.2	20.3	20.8	20.2	20.6
Pennsylvania	29.2	26.0	26.0	24.9	27.3	26.2	25.8	26.2

Source: US Department of Commerce, Bureau of Economic Analysis.

services profit share in New Jersey actually is falling throughout the 1989-96 period, not only after 1992, though the downward trend is stronger after 1992. Also, the business services profit share is also falling in Pennsylvania from 1992 onward, though more mildly than in New Jersey.

Overall then, our findings with the profit share figures leads us to the conclusion that the minimum wage increase, on its own, did not produce any significant change in prevailing patterns. The most significant distributional change that we have observed was in the hotel industry, and this was a redistribution upward, toward a higher share for profit income over this period.

More generally, taking into consideration all of our figures on production and distribution from New Jersey, *the only strong conclusion that emerges is that nothing of significance changed as a result of the April 1992 minimum wage increase*. How could this have occurred, considering that the minimum wage increase in New Jersey was nearly 20 percent over the national figure? The most plausible explanation would follow from the assumption that the minimum wage increase as a proportion of firms' total operating budgets was low, roughly at the levels we have observed for New Orleans. If this assumption is broadly correct, it means, in turn, that businesses' operating costs rose by roughly one percent after the minimum wage was increased in 1992. As we anticipate with New Orleans, the adjustment processes that New Jersey firms would have undertaken to absorb these costs were small in absolute terms, and also thereby overshadowed by other factors occurring within a given industry and in the overall economy. As one important example of this, we saw that that the effects of the 1990-91 recession were far more powerful in shaping production patterns than anything else that happened in either New Jersey or Pennsylvania over the years covered.

Employment and Relocation Effects

Employment and Regional Labor Migration Patterns

In section 3, we have already considered in some detail the relationship between minimum wage increases and employment patterns in the United States and in various states which had set higher minimum wage levels than the national rate. In summarizing the academic research to date, as well as presenting some additional evidence of our own, the overall conclusion was clear: no stable statistical correlation could be observed between minimum wage changes and employment.[29] However, in considering the New Orleans living wage proposal, another set of questions arises concerned with labor migration and employment patterns in New Orleans and Louisiana more generally. Specifically, if New Orleans operated with a higher municipal minimum wage, would this encourage low-wage workers in other areas to migrate to New Orleans? And if workers did migrate to New Orleans, would this create an oversupply of workers in New Orleans, with growing pockets of unemployment, while draining other areas of Louisiana of a significant share of their labor pool?

Let us first consider the incentives to migrate themselves. According to the recent academic literature on migration patterns within the United States, poor working people are active migrants. Indeed, Mark Nord (1998) of the University of Wisconsin-Madison and the U.S. Department of Agriculture found that, over the five year period 1985-90, 17 percent of working-age poor people move across county lines. This figure is basically equal to the migration rate among non-poor. Both Nord's study and that of Brian Cushing (1993) of West Virginia University found that there are two primary factors attracting the working-age poor to a new community. These are a large number of entry-level jobs and low housing costs.

The higher minimum wage law in New Orleans would, of course, raise wages in the city, but it should not have any significant affect on job growth. Nor will it have any effect on housing costs. Following these general academic findings then, the higher New Orleans minimum wage should have no impact on migration patterns.

[29] Formally, we mean that no statistically significant relationship was either demonstrated in the literature

This general finding is consistent with evidence on actual migration patterns in New Orleans and Louisiana generally. As we see in Table 14, between 1985-93, Orleans parish has had a higher per capita income than the average for the state of Louisiana. Moreover, the Orleans average income increment rises over our period, from 14 percent above the state average in 1985 to 19 percent higher in 1992 and 1993. Despite this, census data for 1990-97 show that Orleans parish experienced a net out-migration of U.S. residents of 55,078 people.[30]

What makes this pattern even more notable is that the American Chamber of Commerce Research Association (ACCRA) Cost-of-Living Index finds that the cost of living in New Orleans is actually lower than average for the state. In particular, housing costs are consistently lower than the state average. Clearly, what would be crucial for attracting an increasing migrant population are not lower costs per se, but *declining costs*, of housing in particular, along with an *increase* in entry-level job opportunities. The existing lower-cost environment would have already been taken into account by low-wage workers seeking better opportunities, which is why it did not encourage more migrants in the 1990s. Again, because the New Orleans living wage ordinance would not itself promote either job growth or falling housing costs, the impact of the ordinance on migration should be negligible.

Evidence from New Jersey Again

We can gain some additional perspective by returning to our case study of New Jersey, before and after the minimum wage was raised there in 1992. Table 15 presents figures for New Jersey's net domestic migration from 1990-98. For comparison, we also again present the same figures for Pennsylvania.

As the table shows, New Jersey has experienced net domestic *out-migration* every year since 1991: it could hardly be considered a magnet for migrants over the 1990s. In proportion to

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we surveyed or in the evidence we presented.

[30] This figure comes from "Estimates of the Population of Counties and Demographic Components of Population Change," Population Estimates Program, Population Division, U.S. Bureau of the Census.

Table 14.
Total per capita Personal Income
Louisiana and Selected Metropolitan Statistical Areas, 1985-1995

	Louisiana	New Orleans	Alexandria	Baton Rouge	Houma	Lafayette	Lake Charles	Monroe	Shreveport-Bossier City
1985	$11,634	$13,327	$10,610	$12,500	$10,886	$11,685	$11,267	$10,973	$12,634
1986	11,603	13,534	10,987	12,359	10,220	11,052	11,392	11,304	12,650
1987	11,742	13,752	11,325	12,619	10,016	10,653	11,823	11,433	12,815
1988	12,568	14,606	12,119	13,617	10,741	11,723	12,588	12,119	13,562
1989	13,254	15,302	13,055	14,756	11,399	12,378	13,172	12,874	14,014
1990	14,279	16,382	13,969	15,938	12,445	13,630	14,322	13,655	14,975
1991	15,079	17,222	14,379	16,745	13,104	14,268	15,408	14,281	15,941
1992	15,817	18,000	14,990	17,791	13,271	14,802	16,002	14,959	16,940
1993	17,183	19,497	17,399	18,962	14,808	15,999	17,188	16,395	18,495
1994	18,089	20,277	18,492	20,114	15,807	17,060	18,258	17,304	19,321
1995	18,993	21,374	19,352	21,159	16,585	17,867	19,262	18,444	20,228

Source: Center for Business and Economic Research, Northeast Louisiana University.

Table 15.
Net Domestic Migration, New Jersey and Pennsylvania,
1991-1998

	New Jersey		Pennsylvania	
	Number ***(in thousands)***	**Relative to population**	**Number** ***(in thousands)***	**Relative to population**
1991	-57.9	-0.75%	-6.3	-0.05%
1992	-46.5	-0.60%	-13.3	-0.11%
1993	-40.1	-0.51%	-6.2	-0.05%
1994	-33.2	-0.42%	-20.1	-0.17%
1995	-36.4	-0.46%	-36.0	-0.30%
1996	-43.1	-0.54%	-40.3	-0.33%
1997	-41.9	-0.52%	-52.8	-0.44%
1998	-37.6	-0.47%	-40.3	-0.34%

Source: US Bureau of the Census, Population Estimates for States.

its population, it is true that the out migration rate did decline in 1992-94 relative to 1991, i.e., in the first three years that New Jersey had a higher minimum wage. However, these changes were fairly small and, in any case, the rate of out-migration started rising again in 1995 and 1996, even though New Jersey still had a higher minimum wage then. Moreover, the out-migration falls back again in 1997 and 1998, even though from September 1997 onward, New Jersey's minimum wage was no longer above the national minimum.

By way of contrast, Pennsylvania also experienced a net out-migration each year between 1991-98. However, in proportion to its population, *Pennsylvania's out-migration in most years was substantially below that in New Jersey*, even though, of course, Pennsylvania never raised its minimum wage above the national average in these years.

In short, New Jersey's higher minimum wage between April 1992 - September 1997 did not generate a magnet of attraction for U.S. workers who might migrate in search of a better wage. More generally, these figures on migration patterns provide another piece of evidence suggesting that New Jersey's higher minimum wage did not significantly affect that state's patterns of economic activity.

Could Migration into New Orleans Affect Employment?

Overall then, there is nothing in the data to suggest that the New Orleans living wage ordinance would have any significant effect on migration patterns. Still, it is useful to consider a second question: if migrants did come into New Orleans what impact would this have on the city's and the region's employment patterns?

First, strictly as a statistical fact, such an increase in the New Orleans labor supply would increase the city's *unemployment rate*, unless, for some independent reasons, the demand for workers also increased. This is simply because more people would be looking for work in New Orleans, without more jobs having been created. But the migration would not cause any

employment loss: nobody in New Orleans would have to leave their jobs because more people from other areas have come to New Orleans seeking employment.

At the same time, it is possible that if the New Orleans living wage attracted more people into its labor market, these new job seekers may be better qualified than the city's existing low-wage workers. Many of the outsiders, in other words, could be more productive workers who are "worth" $6.15 an hour while the New Orleans workers who had been getting the national $5.15 minimum may not be worth the raise to $6.15. If this were true, would the new pool of workers take the jobs of the existing, presumably less productive New Orleans workers?

In fact, this is very unlikely to happen. To begin with, replacing workers is costly to firms—in recruiting and training new workers, as well as the separation costs, such as unemployment insurance, for the replaced workers. This will discourage firms from substituting a new set of workers for their existing employees. Moreover, it is unlikely that firms will reorganize their production processes—altering the technology and the skills and training required of workers—in reaction to the increased minimum wage. Hiring “better” workers is therefore most likely to mean simply hiring workers who work harder, and are more diligent and conscientious in their duties. As our discussion concerning productivity suggests, an increased minimum wage will, to a substantial degree, *create* this kind of behavior among the existing workforce, as morale increases. That is, the existing workforce will become “better” workers upon receiving a living wage.

Second, even assuming such replacement does take place in limited amounts, it is not immediately clear what impact this will have on productivity and the wage structure in any given region. It is possible, of course, that some of the existing low-wage workers will transfer to jobs outside of New Orleans, while other workers—with better work habits—will accept the newly-mandated higher wage jobs within the city. But the higher-wage workers are unlikely to quit their existing jobs unless the living wage minimum is higher than the wage they are currently

receiving. Meanwhile, the low-wage workers who would be displaced are unlikely to receive a *lower* wage in their new jobs outside the city limit than the one they were receiving before the living wage laws came into effect. As such, even if some displacement were to occur, the wages of low-paid workers in general should still rise through the living wage.

Empirical evidence from a related situation—when a firm first becomes a union shop from having been non-union—provides some useful guidance. After a union is organized and it bids up wages through collective bargaining, an employer has every incentive to replace its existing workers with new workers who possess greater skills and/or better work habits. If this were to happen, there then would be no wage improvement for union workers. Those earning union wages would be exactly the same more productive workers who would earn the higher wage even if they worked in non-union jobs. However, evidence shows that once differences in skills are accounted for, and after correcting for the possibility that there exists a tendency for workers to choose to work in a union firm precisely because they are more productive, we still find that workers in organized firms earn about 20 percent more than workers in non-union firms.[31] In this situation, in short, the higher wage earned by union workers results, to a significant degree, from the organizing efforts of union members, not just to the fact that more skilled workers have supplanted the less skilled in the union shop. The intervention of the union, in other words, does not lead to newly-organized workers getting displaced, but rather brings higher wages to those same workers. We anticipate that implementing a living wage ordinance would produce a similar pattern—the existing workers in New Orleans would not get displaced, but would rather themselves enjoy the benefits of the living wage standard.

But even if the New Orleans workers are not displaced, would the migration of low-wage workers out of other Louisiana parishes disrupt these local economies? This also is not likely to occur. As we have established, since those workers leaving other areas in the region to

find low-wage jobs in New Orleans are not likely to be successful in their search, the number of people trying to migrate is not likely to be large. Even if they do migrate, the fact that they are not likely to find a job means that they are also likely to return from where they came.

Given all this, to the extent any migration does still occur, it is then likely to force employers in the areas surrounding New Orleans to themselves to give raises to low-wage workers in order to retain them. This would create, in effect, another "ripple effect" to the labor markets outside the New Orleans city limits. Whether one regards such upward wage pressure outside New Orleans favorably or not depends on how one assesses the impact of the living wage ordinance itself. If one is convinced that low-wage workers can earn better than sub-poverty wages without inducing serious negative side effects, then the benefits of this regional ripple effect should also outweigh any of its costs.

Welfare Policies and Migration Incentives

There is one final question to raise here: whether there is a parallel between a municipal minimum wage increase and the issue of whether people migrate to areas of the U.S. which provide more generous welfare benefits. The recent literature on the effect of welfare on migration suggests that poor people do indeed tend to migrate to areas that offer better welfare benefits, though this does not appear to be a major factor explaining the migration patterns of the poor.[32]

In any case, our concern is whether these welfare-related migration patterns can help us to anticipate whether a higher minimum wage would influence migration patterns in ways similar to higher welfare benefits. In fact, the incentive effects of a higher minimum wage and welfare

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[31] Recent evidence on the union wage premium is presented in Lawrence Mishel, Jared Bernstein, and John Schmitt, (1997), pp. 199-200. An extensive, but earlier discussion is H. Gregg Lewis (1985).

[32] Moffitt's survey of the academic literature (1992) shows that most recent studies show a statistically significant welfare effect in the migration patterns of the poor. This general result is supported by Richardson's 1995 study of how two-tier benefit system in Wisconsin affected migration patterns. At the same time, Richardson found that only about 20 percents of the poor people in his sample cited the opportunity for better welfare benefits as being an important incentive in their migration decision.

benefits are quite distinct. The higher minimum wage benefits only those low-wage workers who are able to secure jobs within the jurisdiction that offers the better wage. Here again, the incentive for people to move is the prospect for a job; without that prospect, no migration incentive exists. In particular, merely being a resident in the area offers no benefit at all. By contrast, the welfare benefits offered in a jurisdiction are available to anyone, once they qualify as a resident of that jurisdiction. Therefore, in the case of welfare benefits, incentives do exist for poor people to migrate into a jurisdiction, independently of whether job prospects there are favorable.

Business Relocations

Will raising the minimum wage in New Orleans create an incentive for firms to move to neighboring municipalities, which have lower national wage requirements? This will depend, first, on how large are the firms' living wage costs relative to their operating budgets, which in turn will indicate how much firms would actually save relative to the costs they would incur by moving. We have seen that these ratios are low for most firms, with the average living wage cost/operating budget ratio being 0.9 percent. Thus, for at least those firms whose cost increases are around the average or lower, the incentive to relocate will be minimal.

But even for many firms whose operating budget increases are somewhat larger, it would still not follow that relocation is a viable option. For example, as we have seen, restaurants and hotels are the two business types that would face the highest proportional cost increases, at 2.2 and 1.7 percent respectively of their operating budgets. This is a significant, but far from onerous, cost increase; and, in any case, it will apply to all businesses competing in the New Orleans market. For such firms, some combination of price mark-ups, productivity increases, or income share redistributions are far more efficient adjustment mechanisms than relocation. The same could be said for other industries in which competition is primarily among firms in New

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Richardson's result is thus consistent with Nord's overall finding that job opportunities and low housing

Orleans, with the proviso that in these other industries, operating cost increases due to the living wage ordinance would be lower than for restaurants and hotels.

Many of the firms that compete both inside and outside the city, such as business service firms, are not tied to their existing locations. However, if their employees are working within the boundaries of New Orleans, they would still fall under the terms of the living wage ordinance. These firms as well would thus have little incentive to relocate.

Which firm types might have a stronger incentive to relocate? They would have two basic characteristics:

1) Their customer base is not specifically tied to New Orleans; and

2) They would face a significant increase in their operating costs through a rise in the city's minimum wage.

It will be helpful here to again consult Table 8 to identify which firms these might be. As the table shows, the firms whose customer base is not closely tied to the city would be those which we have classified as competing outside the city--firms in manufacturing and legal services (mining firms are obviously immobile). But we also see in Table 8 that, on average, these firms employ a low proportion of low-wage workers, so that the increase in operating costs they would experience would be negligible.

Given this, we can conclude that there is very little likelihood that implementing a living wage ordinance in New Orleans would induce a significant number of firms from leaving the city. At the same time, we should consider the possibility that some firms might choose to relocate. To pursue this, we should focus more carefully on those firms that would experience large living wage cost increases relative to their operating budgets.

In Table 16, we provide a distribution of all 12,682 private sector firms according to their living wage cost/operating budget ratios. As we see, 26.5 percent of firms employ no low-wage

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costs are the two primary factors encouraging mobility among the poor.

workers. Another 71.8 percent, which do employ low-wage workers, average a cost increase of 0.7 percent of their operating budget. In other words, a full 98.3 percent of the firms will experience average cost increases due to the living wage of between 0 and 0.7 percent of their operating budgets.

That still leaves 208 firms, 1.7 percent of the total, which would have increased cost ratios of over five percent, the average cost increase ratio for these firms being 6.6 percent. Let us allow that all the firms with cost ratios of five percent or above would at least seriously consider relocating to avoid the increased living wage costs. But how viable would such a move be for any given firm would depend on the nature of its business. As we see in the lower panel of Table 16, these 209 firms are distributed fairly evenly across four industry categories, these being "other services," as well as wholesale trade, business services and retail trade other than restaurants and hotels.

Of these, it should be most feasible for the wholesale trading firms to relocate, since their business is not tied to a specific location. At the same time, if proximity to customers is important to these firms, moving could then threaten their customer base. Moving would also add to their transportation costs. Retail businesses could move, but may then risk losing customers whose purchasing habits are at least partially tied to convenience. Some business service firms, such as advertising agencies, could move without losing customers. But those with a high concentration of low-wage workers, such as security guard companies, would have to pay the living wage to workers whose jobs were located within New Orleans, regardless of where the firms's offices were located. In such cases, firms cannot avoid paying the higher New Orleans minimum wage by relocating. Finally, "other services" obviously encompasses a broad spectrum of firms, including those engaged in services like home health care, repair shops, and parking lots. Here as well, some firms may be mobile, while others are not.

Table 16.
New Orleans Firms Grouped by Living Wage Cost/
Operating Budget Increases

Wage increase/operating budget percentage	Number of firms	Percent of firms	Average increase in living wage cost/operating budget
0%	3,294	26.5	0.0%
+ 0 - 4.9%	8,936	71.8	0.7%
5 - 9.9%	209	1.7	6.6%
10 - 100%	0	0.0	--

Industry Profile of Firms with Cost Ratios Greater than Five Percent

Industry	Number of firms	Percent of firms	Average increase in living wage cost/operating budget
Other services	61	29.3	5.1%
Wholesale trade	55	26.4	8.8%
Other retail trade	47	22.5	5.2%
Business services	46	21.8	7.3%
Total	209	100.0	6.6%

Source: PERI New Orleans Employment and Wages Survey, 1999.

As an exercise, let us allow that roughly half--say 100--of the firms whose living wage cost/operating budget ratios are five percent or above did actually relocate out of New Orleans. What would be the impact on the city and state's economy if these firms did depart?

First, we are assuming that these firms would leave New Orleans strictly to avoid paying the higher minimum wage. As such, we would expect that these firms would move just outside the city limits, so as to retain, if from a different specific location within the metropolitan area, their New Orleans-based operations and customer base. This means that there would be no net employment losses due to these firms' relocation. Workers would be able to retain their jobs without moving, which, in turn would mean no change in the city's housing market.

The primary loss to the New Orleans economy would therefore be the loss of the city's authority to tax these firms. This authority basically amounts to a five percent sales and use tax. But because we are assuming that firms would move just outside the city limits, the State of Louisiana would not lose its four percent sales/use tax revenue. According to our rough estimates, the total loss of tax revenue to the City would be about $2 million if the 100 firms did relocate.[33]

To be sure, this $2 million in lost revenue would be a significant amount, larger, for example, than the $1.4 million needed this year to fund the increased cost of the city's garbage pick-up program.[34] Moreover, assuming 100 firms were to move outside the city limits, the $2 million figure may somewhat underestimate the total costs to the city of relocation, since we have not attempted to incorporate any calculation as to how the departure of 100 firms might also affect the business prospects of their neighboring firms.

At the same time, a revenue loss of this rough magnitude should be measured against other factors, including the following:

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[33] Appendix 4 explains our methodology for generating this $2 million figure in lost sales tax revenues.
[34] Information on this city budgetary matter was obtained from the New Orleans City Council website, "Editor's Page, Coverage Planner, July 1, 1999."

1. It is 0.5 percent of the $416.7 million actual budget of 1997 for the City of New Orleans, and 0.4 percent of the city's $499.1 million approved budget for 1999.

2. The lost revenues would not occur in one budgetary cycle, but rather over a period of years, as many firms would likely first pursue other, less costly adjustment strategies, such as price increases, productivity gains, or intra-firm income redistibutions. As such, over time, the full impact of any such 0.4 percent revenue reduction would be offset by a wide range of other factors that influence the city's total sales revenues.

The lost revenue should be balanced against other factors affecting government spending policies, which we discuss in the next section. As we will see, these factors include:

1. This estimated lost sales revenue would likely be counterbalanced by the increased tax revenues received by businesses in the city's low-income neighborhoods.

2. The benefits of the living wage increase to the city's low-income neighborhoods could also bring some reductions in the costs of maintaining and policing these areas.

3. The federal government should experience a spending reduction in its food stamps and EITC programs in New Orleans on the order of 7-10 times more than a $2 million sales tax loss.

V. BENEFITS

Benefits to Families

As we discussed, an increase in the minimum wage in New Orleans is not the only policy tool available for alleviating poverty among low-wage workers. One other important policy would be to increase employment opportunities. But municipal governments have limited capacity to expand the total number of jobs in their city--effective policy tools for increasing job opportunities remains almost entirely within the domain of the federal government.[35]

[35] It is true that, since the 1980s, large numbers of state and municipal governments have pursued expensive and widely publicized business subsidy programs as a means of expanding overall employment in their localities. These programs have almost all failed, due to the simple zero-sum logic that if all municipalities compete by offering similar subsidies, then there is no net advantage for a business to choose any given municipality over another. Moreover, for the municipalities that do succeed in attracting businesses through subsidies, the fact that they had to compete so heavily with other municipalities means that the

Another set of anti-poverty policies for working families are direct federal government subsidy programs, including the Earned Income Tax Credit (EITC) and Food Stamps. In order to gauge how significant the New Orleans living wage proposal would be to poor families with working members, we have to calculate their gains from the wage increases within a framework that also incorporates any changes in their tax obligations and eligibility for subsidies.

In Tables 17A-C, we calculate the net benefits for average workers now earning below $6.15. We then summarize the main results of the tables in Figure 7.[36] As we have seen, at present these workers earn $5.50 an hour and work 32.7 hours a week. If we assume that these workers are employed 50 weeks per year,[37] that brings their total yearly hours of paid working time to approximately 1700 hours.

We consider three separate family situations for such workers--a family with one working adult and one child; a family with two adults and two children, including one adult with a paying job; and a family with two adults and two children, but with both adults holding paying jobs.

We first consider the case of a family with one child and one working member. As we see from Table 17A, the family's income before taxes and subsidies rises by 11.8 percent, from $9,350 to $10,455. At current federal and Louisiana tax rates, the family will still have to pay 7.65 percent in payroll taxes, which will rise along with the wage increase from $715 to $800.

In terms of subsidies, the family's higher earned income will reduce its eligibility for food stamps by $408, from $2,508 to $2,100. However, the family's EITC subsidy does not change at $2,271. Up to a limit of $12,300 in pretax earned income, the EITC benefit threshold does not reduce subsidies as a family's earned income rises.

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subsidy cost per each new job created escalates. These issues are discussed at some length in Pollin and Luce (1998), Chapter 3.

[36] Appendix 5 presents details on how we generated the figures in these tables.

[37] This again is almost definitely an overstatement of actual average hours worked by low-wage workers. See footnote 13.

Table 17A.
Average Family Benefits from Living Wage Increase I:
Family of one adult and one child, with adult working 1700 hours per year

	$5.50 per hour	**$6.15 per hour**
(1) Gross annual income	$9,350	$10,455
Percentage change		*+11.8%*
(2) Federal income tax	$0	$0
(3) FICA tax	$715	$800
(4) Louisiana State income tax	$53	$80
(5) After-tax earned income *(= row 1 - (row 2+3+4))*	$8,582	$9,575
Percentage change		*+11.6%*
(6) Earned income tax credit	$2,271	$2,271
(7) Food stamps	$2,508	$2,100
(8) Disposable income *(=row 5+6+7)*	$13,361	$13,946
Percentage change		*+4.4%*
(9) Percentage of disposable income from wages *(= row5/row 8)*	64.2%	68.7%
(10) Total government subsidy *(= rows 6+7)*	$4,779	$4,371
Percentage change		*-8.5%*

Source: See Appendix 5.

Overall then, for this family, the New Orleans living wage ordinance would mean a 4.4 percent increase in their total disposable income, from $13,361 to $13,946. This is obviously less than their increase in pretax income, yet still a significant boost. But it is important to consider this gain in context. Before the living wage increase, this family's disposable income was 26 percent above the national poverty threshold of $10,640 for a two-person family. Due to the living wage increase, they would be 31 percent above the poverty line. At the same time, even after the wage increase, the family would remain 12 percent below the 150 percent of poverty threshold, which would be $15,960 here. Especially given that this family, with only one adult, would likely need to spend roughly $1,500 a year on child care alone,[38] the higher poverty threshold is a more appropriate measure of their well-being. As such, the wage increase to $6.15, while beneficial, would not bring a dramatic improvement in the family's living standard.

Still, this family's reliance on government subsidies does fall by 8.5 percent, with the reduction in their food stamp benefits. This reduction will not be felt by the family in terms of their buying power, since their overall disposable income has risen with the higher minimum wage. But, as we will show in more detail below, when such reductions in government benefits are multiplied by roughly 47,000 families, the overall outcome is a substantial saving for the federal government.

Let us consider now the four person family with two children and one adult with a paying job, the statistics for which are shown in Table 17-B. This family increases its after-tax-and-subsidy disposable income by 3.8 percent, from $16,579 to $17,203, after they also experienced the same 11.8 percent before-tax-and-subsidy raise. After food stamps and the EITC, this family is slightly below the poverty line of $16,594 for this family type before the living wage raise, and is 3.7 percent above it afterwards. But by the same token, of course, this family remains about 30

[38] This figure is taken from the calculations by the National Priorities Project (1998) for child-care costs for a "living wage" minimum household in Louisiana. Their figure is $1,505, which is 30 percent cheaper than the average expenditure in the state for child-care.

Table 17B.
Average Family Benefits from Living Wage Increase II:
Family of two adults and two children, with one adult working 1700 hours per year

	$5.50 per hour	**$6.15 per hour**
(1) Gross annual income	$9,350	$10,455
Percentage change		*+11.8%*
(2) Federal income tax	$0	$0
(3) FICA tax	$715	$800
(4) Louisiana State income tax	$0	$0
(5) After-tax earned income *(= row 1 - (row 2+3+4))*	$8,635	$9,655
Percentage change		*+11.8%*
(6) Earned income tax credit	$3,756	$3,756
(7) Food stamps	$4,188	$3,792
(8) Disposable income *(=row 5+6+7)*	$16,579	$17,203
Percentage change		*+3.8%*
(9) Percentage of disposable income from wages *(= row5/row 8)*	52.1%	56.1%
(10) Total government subsidy *(= rows 6+7)*	$7,944	$7,548
Percentage change		*-5.0%*

Source: See Appendix 5.

percent below the 150 percent of poverty threshold. However, with one adult family member not holding a paying job, they will not have to pay child care costs as would the other family types we are considering.

Our third family, shown in Table 17-C, with two working members as well as two children, is the only one to be living above both the official poverty line and a 150 percent of poverty threshold, before and after receiving the living wage increase. Nevertheless, with both adults working, they still will need to spend roughly $1,500 a year on childcare. This family is also still eligible for both food stamps and the EITC, though these benefits will fall in both cases after both working members get their raise. The family's net disposable income rises by 2.9 percent after the living wage increase. But here, their total government subsidy also falls by a substantial 17.2 percent, from $5,754 to $4,763. It is therefore with families such as these, living a bit above a poverty threshold, that the government saves significantly through the living wage increase. This becomes especially evident in Figure 7, which shows comparative figures on government subsidy declines for our three family types.

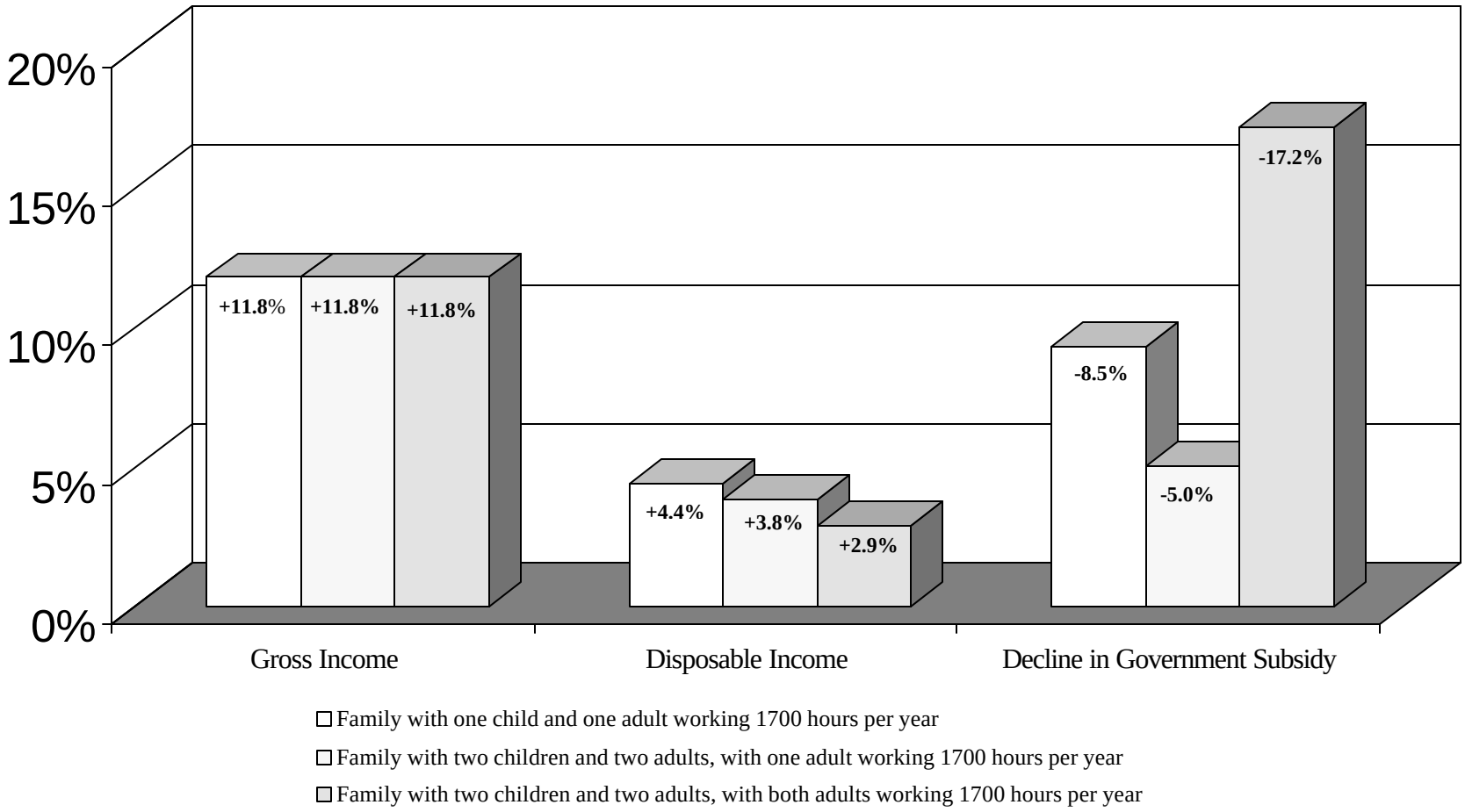
Two other considerations should be recognized in evaluating the overall impact the living wage ordinance on poor families. The first is especially relevant for this last family that is not as poor as the others. They should have greater access to bank loans and other forms of credit, which can be used to purchase a home or automobile or to finance higher education. This is because lending institutions measure a borrower's creditworthiness on the basis of their earning power. Lending institutions would tend to discount in-kind benefits from the government, such as food stamps or the EITC in measuring whether a loan applicant will be creditworthy. This benefit is likely to be less relevant to our other two families, since, even after receiving the living wage raise, so high a proportion of their disposable income still would be coming from government subsidies.

Table 17C.
Average Family Benefits from Living Wage Increase II:
Family of two adults and two children, with two adults working 1700 hours per year

	$5.50 per hour	**$6.15 per hour**
(1) Gross annual income	$18,700	$20,910
Percentage change		*+11.8%*
(2) Federal income tax	$122	$454
(3) FICA tax	$1,431	$1,600
(4) Louisiana State income tax	$105	$165
(5) After-tax earned income *(= row 1 - (row 2+3+4))*	$17,042	$18,691
Percentage change		*+9.7%*
(6) Earned income tax credit	$2,394	$1,931
(7) Food stamps	$3,360	$2,832
(8) Disposable income *(=row 5+6+7)*	$22,796	$23,454
Percentage change		*+2.9%*
(9) Percentage of disposable income from wages *(= row5/row 8)*	74.8%	79.7%
(10) Total government subsidy *(= rows 6+7)*	$5,754	$4,763
Percentage change		*-17.2%*

Source: See Appendix 5.

Figure 7.
Changes in Income and Subsidies for Low-Income Families after New Orleans Living Wage Raise



Source: See Tables 17A, 17B and 17C.

The other consideration, applying to all three families, is the issue of dignity. Each family will enjoy an increase in their pre-tax and subsidy income of nearly 12 percent. This should be seen in the context of the debate about welfare policy, which culminated in the passage of the 1996 law requiring welfare recipients to work. Regardless of the merits of this particular law, what came through clearly in the protracted debate was that, given the choice, the vast majority of people in this country would much prefer to work for a decent wage than to receive government transfer payments. Earning a dollar of income, in other words, has dramatically different effects on a person's self-image and attitude toward life and work than being given a dollar of government subsidies. In all three cases, the percentage of disposable income from wages rises through the living wage increase, while overall disposable income is also rising. As such, the living wage ordinance would clearly be pointing anti-poverty policy in a direction favored both by the poor and non-poor alike.

Benefits to Government

As shown above, when families with low-wage workers come to rely less on food stamps and the EITC, the obvious corollary is that the government's burden to support the poor correspondingly falls. In Table 18, we summarize the overall saving to government if we assumed each of our three family types in Tables 17A-C were representative of the households in which all 47,050 wages-only workers getting the mandated minimum wage increase lived.

As we see, the total saving to government ranges from $396 per family for our four person/one earner family to $1,383 for our four person/two earner family. In total, these savings are quite significant, ranging between $18.6 and $32.5 million, depending on our family types.

Since we don't have a full picture of the types of families in which low-wage workers live in New Orleans, it is difficult to provide an accurate estimate of what the actual saving to government will be. But because the working poor are more likely to be living in situations closer to the two-earner/four person rather than one-earner/four person family, that

Table 18.
Savings to Government from Higher Minimum Wage

	(1)	(2)	(3)	(4)	(5)	(6)
	Family of 1adult, 1 child, 1 wage-earner		**Family of 2 adults, 2 children, 1 wage-earner**		**Family of 2 adults, 2 children, 2 wage-earners**	
	Savings per family	***Savings for all families (column 1 x 47,050)***	***Savings per family***	***Savings for all families (column 3 x 47,050)***	***Savings per family***	***Savings for all families (column 5 x 47,050/2)***
Federal Government saving						
Higher Income Taxes	$0	$0	$0	$0	$332	$7.8 million
Change in EITC payments	$0	$0	$0	$0	$463	$10.9 million
Lower Food Stamp payments	$408	$19.2 million	$396	$18.6 million	$528	$12.4 million
State Government saving						
Higher income taxes	$27	$1.3 million	$0	$0	$60	$1.4 million
Total	**$435**	**$20.5 million**	**$396**	**$18.6 million**	**$1,383**	**$32.5 million**

Source: Figures derived from three family types shown in Tables 17A-17C. See Appendix 5 for details.

correspondingly suggests that the saving to government is going to be more in the range of $32.5 million than $18.6 million. But just to establish a rough order of magnitude for these saving, let us assume the average figure of the three estimates we have. That would mean a net saving of $23.9 million.

There are factors which could both increase and reduce this rough estimate. We have not calculated the proportion of the 47,050 workers who live in families that are not poor by any government standard, and therefore would not have been receiving any subsidy. For such families, the wage increase would not yield any saving to government. On the other side, we have not included in our calculation the families of the estimated 1,232 tipped workers who would get mandated raises, nor the families of the 27,314 workers who we roughly estimate would receive a "ripple effect" raise. Balancing these factors, a reasonable conservative estimate of the government's saving would still be around $20 million. This is a substantial figure, especially given that it was generated by only one policy change in one city, and that the government saving on anti-poverty spending would be accompanied by a *reduction*, not an increase, in poverty.

It is true that all of the benefits to government would flow to the federal government, the administrators of both the food stamp and EITC programs, rather than either the municipal government of New Orleans or the State of Louisiana. At the same time, both the state government and especially the City of New Orleans municipal governments could legitimately argue that they are deserving of at least a share of these living wage-generated benefits.

To provide some perspective, a saving to the federal government of $20 million is 23 percent more than the $16.2 million the federal government currently spends in New Orleans on its Head Start programs for poor children.[39] Thus, the $20 million saving to the federal government through the New Orleans living wage would itself be sufficient to more than double

the federal government's commitment in Orleans parish to creating opportunities for poor children through Head Start.

Benefits to Retail Businesses in Poor Neighborhoods

When 47,000 workers in New Orleans get mandated raises amounting to $50 million, and another 27,000 get ripple effect raises amounting to $17 million, it is important to recognize that most of this money will be spent by the low-wage workers and their families. What will be the impact of this new spending pattern on the New Orleans economy?

Of course, the $67 million neither falls from helicopters nor is it created through federal government fiscal and monetary policy interventions. Rather, it will come primarily from consumers, when they pay slightly higher prices for some of their purchases, or from business owners and highly-paid employees, who would receive a somewhat smaller share of a firm's income. As discussed earlier, such a redistribution of income will occur within the context of an economy that is growing and experiencing gains in productivity. Thus, even if growth and productivity increase are small, it still means that the redistribution that would be occurring in New Orleans would entail slicing up a growing pie in a somewhat more equal way, not reducing the slices of those that already have larger shares.

Nevertheless, a redistribution of income will occur among people working within New Orleans, and this, in turn will produce changes in spending patterns within the city, even while spending overall in the city will not significantly change. In particular, retail firms that operate in lower-income neighborhoods in New Orleans should enjoy an increase in their business. Correspondingly, retail firms in the more affluent neighborhoods might experience a slight

[39] We are grateful to George Campbell of the federal Department of Health and Human Services for providing us with these unpublished budget figures on Head Start spending in Orleans parish.

decrease in the *growth of spending*.[40] But precisely because so much more money is spent in the affluent neighborhoods, this slight decline in the growth of spending will not be noticed.

How significant will be the spending increase in the lower-income neighborhoods? Working from the overall figure for workers who would get either mandated or "ripple effect" raises through the proposed ordinance, we have estimated the number of these workers who live in the lower income neighborhoods in New Orleans.[41] These neighborhoods are in the Uptown, Midtown, and eastern Downtown sections of the city. They include, among others, the Central City/Magnolia area, and the St. Thomas, Iberville and Fischer projects. Overall, the population in these neighborhoods comprise 33.6 percent of the total population of New Orleans.

According to our estimates, about 40 percent of the workers getting living-wage increases live in these neighborhoods. Overall, they would bring about $20 million in extra disposable income into their neighborhoods.[42] Of course, they wouldn't spend all $20 million in the neighborhoods in which they live. According to our estimates, the amount they would spend would bring about an additional 2.7 percent in sales, on average, to the retail businesses in these neighborhoods.

Such a boost in sales for neighborhood retail businesses is a small but still significant benefit. It is an amount larger than the average growth rate of national Gross Domestic Product or Louisiana's Gross State Product over the past decade. That means that, with a 2.7 percent increase in sales, the retail businesses in low income neighborhoods would effectively jump more than one year ahead of a normal pace of sales growth.

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[40] Though not an absolute decline in spending, since, again, overall income is rising and productivity is improving.

[41] We defined "lower income" neighborhoods as those in which average household income was below $26,000 in 1998 dollars This figure is equal to $20,000 in 1990 dollars, 1990 being the census year from which our neighborhood income figures are derived.

[42] About 73 percent of those getting raises live in New Orleans, and of these, about 53 percent live in the lower-income neighborhoods. The $20 million net income increase takes account of changes in government subsidies after workers get their living wage increases. Appendix 6 presents details for our calculations of neighborhood effects.

There are some additional points to consider as well. First, the 2.7 percent retail sales growth figure is an average for all the poor neighborhoods in New Orleans. In some of these neighborhoods, in particular, in Central City, the St. Thomas Project and the Seventh Ward, the retail sales growth figures are going to be higher, in the range of 3.5 percent. But even for areas where sales growth will be less than the 2.5 percent average, it is still notable that the effect of the living wage ordinance will be to increase business activity. Thus, poor neighborhoods will benefit in two ways from the living wage ordinance--through their residents enjoying increased income, and through their retail businesses enjoying increased sales. This combination of effects should, in turn, promote a general uplift in the public life of these neighborhoods.

Finally, as with the income benefits to individuals and families, a 2.7 percent increase in sales for a business can be compounded to the degree that this additional income also increases the creditworthiness of a business, and of the community more generally. With increased access to credit, businesses are better able to expand, increase amenities to customers, or smooth over periods when sales revenue may fluctuate. This should mean further benefits to the life of these neighborhoods.

Appendix 1: Poverty Calculations

In this appendix we describe the method used for estimating the various poverty rates for the city of New Orleans, listed in Table 1. Our results are based on calculations made from the 1990 Public Use Microdata Series (PUMS) for the city of New Orleans, updated for 1998 using a method which we describe below. For readers unfamiliar with the data, the PUMS is a 5 percent sample drawn from the 1990 census for the country, which allows users to perform detailed analyses of many demographic, sociological and economic questions of interest, while adhering to certain reporting restrictions for sparsely populated areas, so as to preserve confidentiality. It must be noted that the 1990 PUMS, like the decennial census from which it was drawn uses 1989 as the reference year for all the economic variables treated here. In 1990, the PUMS sample for the city of New Orleans had a total of 20,680 individuals in 8,267 households reporting usable data. When weighted, this sample represents a city total of 491,925 persons in 188,475 households, as reported in Table 1.

Weighted estimates of the various poverty and labor force calculations appearing in Table 1 were made for 1990 directly from the PUMS sample described above, and estimated for 1998 using the following method. We took the March Current Population Survey (CPS) for 1989 and for 1998 for the West-South-Central Region (WSCR), which includes Louisiana, Arkansas, Texas and Oklahoma, and calculated the same poverty and labor force measures calculated for the PUMS, for both 1989 and 1998. We used the WSCR as that is the smallest unit of analysis which contained a sufficiently large sample size so as to be reliable in our poverty and labor force calculations. The total number of observations in the WSCR sample is 14,116 individuals in 5,171 households in 1989 and 13,027 individuals in 4,808 households in 1998. When weighted these represent 26,551,677 individuals in 9,633,504 households in 1989 and 29,960,159 individuals in 11,120,949 households in 1998. From these estimates we are able to calculate the percentage increase or decrease for the measures in question between the two years, as registered in the March CPS for the WSCR. To then arrive at the estimates for the city of New Orleans in 1998, we applied these percentage-changes to the 1990 PUMS estimates. In all cases we adjusted the totals to reflect current Census estimates of the 1998 New Orleans population.

Three issues bear particular note in our calculations. First, the labor force participation rate as calculated by the Census for New Orleans in 1990 and as found in their Summary Tape File 3A is significantly lower than that found in the CPS for either 1989 or 1998. While this is likely due to a different definition of labor force participation, we must admit the possibility that these lower participation rates might affect our calculations of percentage of low-wage workers and households with working members or low-wage working members (as they may likely entail different wage-earning distributions). However, as a measure of sensitivity, we performed calculations using a more comparable measure of labor force participation to that found in the March CPS. Our estimates suggest that, if anything, the more restrictive definition used by the Census actually understates the degree of low-wage work in the city, and the subsequent effects on poor and non-poor households.

Second, it must also be noted that our estimates are based on calculations fully 10 years in the past, so we must concern ourselves with the real value of the wage levels under consideration. Thus, when analyzing low-wage workers in 1989 for the CPS or 1990 for the PUMS, we restrict ourselves to those individuals earning less than the real value of the low-wage limit, in 1989 dollars. In all cases we deflate using the Consumer Price Index for Urban Wage Earners and Clerical Workers in the South, which is 1.30 for 1998 (1989=100).

Finally, as with all labor market analysis using either the PUMS or the March CPS, hourly wage data are not independently available, and are arrived at by dividing all wage and salary income by average weekly hours multiplied by weeks per year. This necessarily may introduce some bias into our estimates of hourly wages, and the subsequent distribution of low-wage workers, however it must be re-emphasized that these are the most precise data available to us, and serve as the basis for the majority of U.S. labor market analysis performed in the economics profession.

Appendix 2.
Status of Living Wage Campaigns and Ordinances

Table A2-1 provides a listing of Living Wage ordinances that and their status, as of June 30, 1999. Following this is Table A2-2, which lists campaigns currently underway. Because of the large volume of campaigns, these tables may omit some campaigns.

Table A2-1.
Living Wage Campaign Outcomes
as of June 30, 1999

Place	Outcome	Coverage	Wage rate
Baltimore, MD	Passed 1994	Service contracts over $5,000	$6.10/hr in FY 1996; $6.60/hr in FY 97; $7.10/hr in FY 98; $7.70/hr in FY 99, subject to Board of Estimates approval.
Boston, MA	Passed 1997, amended 1998	Service contracts worth at least $100,000 or subcontracts of at least $25,000	$8.23 an hour, equal to the poverty level for a family of 4 upon date of passage, indexed annually on July 1 to whichever is higher of the adjusted poverty guidelines or 110% of the state minimum wage.
Cambridge, MA	Passed 1999	City employees; Service contracts, subcontracts or subsidies more than $10,000	$10 per hour, indexed annually with CPI
Chicago, IL	First proposal failed 1997; Second passed in 1998	Contracts or subcontractors covering home and health care workers, security guards, parking attendants, day laborers, cashiers, elevator operators, custodial workers and clerical workers	$7.60 per hour
Cook County, IL	Passed 1998	Service contracts and subcontracts	$7.60 per hour
Dade County, FL	Passed 1999	County employees, contractors, subcontractors, airport employees	$8.56 with health benefits, $9.81 without
Dane County, WI	Passed 1999	County employees, service contracts	110% of poverty level for a family of three
Dayton, OH	Passed 1998	City employees	$7 per hour
Denver, CO	Failed 1996	All workers in city borders	$6.50 per hour
Des Moines, IA	Passed 1988, amended 1996	Subsidy recipients	$7 per hour minimum, goal of $9 per hour
Detroit, MI	Passed 1998	Service contracts, subcontracts and subsidies over $50,000 per year	Indexed to poverty rate for a family of 4 with health benefits, or 125% of poverty level without benefits
Duluth, MN	Passed 1997	Subsidies over $25,000	90% of employees must be paid $6.50 per hour with health benefits, or $7.25 without, indexed to inflation
Durham, NC	Passed 1998	City employees and service contracts	$7.55 per hour

Hayward, CA	Passed 1999	City employees and service contracts over $25,000	$8 with health benefits, $9.25 without, adjusted yearly with regional cost of living
Houston, TX	Failed 1997	All workers in city borders	$6.50 per hour
Hudson County, NJ	Passed 1999	Service contracts	150% of the federal minimum wage
Jersey City, NJ	Passed 1996	Selected service contracts	$7.50 per hour
Los Angeles City, CA	Passed 1997	Service contracts over $25,000, subcontracts, concessions, subsidies over $100,000 per year	$7.25 per hour with health benefits or $8.50 without.
Los Angeles County, CA	Passed 1999	County employees, service contracts	$8.32 per hour with health benefits or $9.46 without
Madison, WI	Passed 1999	Subsidies over $100,000, service contracts over $5,000	100% of poverty level for a family of in 1999, 105% in 2000, 110% in 2001
Maryland State	Passed 1996	Contract for cleaning state-owned Trade Center	$6.60 per hour in 1996; $7.10 in 1997; $7.70 in 1998
Memphis, TN	Passed 1999	Service contracts and subcontracts	Prevailing wage
Milwaukee City, WI	Passed 1995	Service contracts and subcontracts over $5,000	Poverty level for family of three
Milwaukee County, WI	Passed 1997	Select service contracts	$6.26 per hour, indexed to prevailing wage
Milwaukee School Board, WI	Passed 1996	Public School System employees, service contracts	$7.70 per hour

Minneapolis, MN	Passed 1996	Subsidies over $100,000 per year	100% of poverty level for a family of 4 with health benefits, or 110% without
Multnomah County, OR	Passed 1996, amended in 1998	Janitorial, security and foodservice contracts	$7.50 per hour in 1998, $8.00 in 1999
New Haven, CT	Passed 1997	Service contracts	Poverty level for a family of 4, revised every 5 years
New York, NY	Passed 1996	Security, temporary office, cleaning and food service contracts	Prevailing wage
Oakland, CA	Passed 1998	Service contracts over $25,000; subsidies over $100,000	$8 with benefits, $9.25 without
Orange County, NC	Passed 1998	County employees	$8 per hour
Pasadena, CA	Passed 1998	Service contracts over $25,000	$7.25 per hour, $8.50 without
Portland, OR	Passed 1996, amended 1998	Janitorial, security, parking and temporary clerical service contracts	$7.50 per hour in 1998, $8 in 1999
San Antonio, TX	Passed 1998	Tax abatement recipients	$9.27 to 70% of service employees in new jobs, $10.13 to 70% of durable goods employees
San Jose, CA	Passed 1991, amended 1997	Service contracts over $20,000, some city employees	$9.50 with benefits, $10.75 without
Santa Clara County, CA	Passed 1995	Subsidy recipients	$10 with health benefits

Somerville, MA	Passed 1999	City employees, service contracts and subcontracts	$8.35 per hour
St. Paul, MN	Defeated in 1995 then passed in 1997	Subsidies over $100,000 per year	100% of poverty level for family of 4 plus benefits, 110% without benefits
West Hollywood, CA	Passed 1997	Service contracts over $25,000	$7.25 per hour with health benefits or $8.50 without
Ypsilanti, MI	Passed 1999	Contracts over $5,000	$8.50 with benefits, $10 without

Sources: "Living Wage Successes," Association of Community Organizations for Reform Now, www.acorn.org; "Enacted Initiatives," Employment Policies Institute, www.epionline.org

Table A2-2.
Ongoing Living Wage Campaigns
as of June 30, 1999

Cities

Albany, NY
Albuquerque, NM
Alexandria, VA
Ann Arbor, MI
Annapolis, MD
Atlanta, GA
Atlantic City, NJ
Austin, TX
Berkeley, CA
Bloomington, IN
Buffalo, NY
Chapel Hill, NC
Cheyenne, WY
Cincinnati, OH
Cleveland, OH
Columbia, SC
Concord, NH
Covington, KY
Dallas, TX
Denver, CO
Erie, PA
Eugene, OR
Flint, MI
Fresno, CA
Gainesville, FL
Greensboro, NC
Harrisburg, PA
Hartford, CT
Helena, MT
Houston, TX
Indianapolis, IN
Kalamazoo, MI
Little Rock, AR
Louisville, KY
Manhattan, KS
McComb, MS
Missoula, MT
Mountain View, CA
Nashville, TN
Nassawadox, VA
New Orleans, LA
Omaha, NE
Palo Alto, CA
Philadelphia, PA
Pittsburgh, PA
Portland, ME
Providence, RI
Provo, UT
Racine, WI
Rapid City, IA
Reno, NV
Richmond, VA
Rochester, NY
Salem, OR
Salt Lake City, UT
San Antonio, TX
San Diego, CA
San Francisco, CA
Santa Monica, CA
Scranton, PA
Seattle, WA
South Bend, IN
Spokane, WA
St. Louis, MO

Counties

Duluth County, MN
Durham County, NC
Marin County, CA
Montgomery County, MD
Prince Georges County, MD
Santa Cruz County, CA
Sonoma County, CA

School districts and universities

Austin School District, TX
Harvard University, MA
Johns Hopkins University, MD
University of Virginia, VA

Knoxville, TN	Tucson, AZ
Lansing, MI	Utica, NY
Lexington, KY	Valdosta, GA
Lincoln City, OR	Washington, DC
Lincoln, NE	Williamsburg, VA

Sources: "Living Wage Successes," Association of Community Organizations for Reform Now, www.acorn.org; "Enacted Initiatives," Employment Policies Institute, www.epionline.org

Appendix 3.
Sampling Procedures and Cost Estimating Techniques

Description of sampling procedures

A sampling frame was constructed from the Yellow Pages USA Deluxe, 1999 Edition – a directory of businesses available on CD-ROM, available from InfoUSA. The frame was checked against a business directory from the New Orleans Chamber of Commerce. The final frame has 14,106 records.

In the first stage, 21 firms were selected for the pre-test. Firms were stratified by size, according to 5 employment categories available on the CD-ROM: 1 to 99 employees, 100 to 249 employees, 250 to 499 employees, 500 ore more employees, and employee size not available. For the pre-test, 5 firms were selected randomly from the 1 to 99 employees category, and 4 firms were selected randomly from each of the other categories.

For the phone survey, 1800 firms were selected according to the following method. Firms not selected for the pre-sample were stratified by industry and employment category. The number of firms in each category can be seen in Table 1. A sample was then selecting oversampling large firms and firms in industries with large numbers of low-wage workers (based on the Current Population Survey Outgoing Rotation Group file). Those industries which were oversampled are in the retail sector (SICs 52-59), and in services (especially SICs 70, 72, 84 and 88).

Small firms were undersampled, as well as firms with low numbers of low-wage workers: Mining and Extractive Industries, SICs 10-14; Finance, Insurance and Real Estate, SICs 60-69; and Government, SICs 90-98. The number of firms selected in each category can be seen in Table 2.

Table 1. Distribution of firms in sampling frame, by employment size and industry

	1 to 99	100 to 249	250 to 499	500 +	Unspecified	Total
Agriculture	69	0	1	0	0	70
Mining	81	3	3	5	2	94
Construction	286	4	2	0	0	292
Manufacturing	419	16	6	4	1	446
Transportation and communications	447	21	6	9	3	486
Wholesale trade	552	11	2	1	2	568
Retail trade	3,085	45	8	2	0	3,140
Finance, insurance and real estate	833	8	0	4	3	848
Services	7,435	64	23	27	5	7,554
Government	241	14	3	4	131	393

Unclassified	55	0	0	0	149	204
Total	13,503	186	54	56	296	14,095

Table 2. Distribution of firms in sample, by employment size and industry

	1 to 99	100 to 249	250 to 499	500 +	Unspecified	Total
Agriculture	9	0	1	0	0	10
Mining	3	1	2	3	1	10
Construction	25	3	2	0	0	30
Manufacturing	33	14	6	3	1	57
Transportation and communications	30	10	4	9	2	55
Wholesale trade	54	10	2	1	1	68
Retail trade	403	45	7	1	0	456
Finance, insurance and real estate	75	5	0	4	1	85
Services	870	63	23	25	5	986
Government	7	9	3	4	9	32
Unclassified	5	0	0	0	6	11
Total	1,514	160	50	50	26	1,800

First-stage pre-screening calls

We then screened all of the 1800 firms in December 1998 and January 1999. Each firm was contacted by phone to confirm that the phone number was correct and that the business was located in the city of New Orleans, and to obtain the name of a contact person to whom we could send the questionnaire. 679 firms were eliminated from the sample through the pre-screening process, leaving a total of 1123 "good numbers." The majority of numbers that were discarded were firms that could not be reached after five or more calls, at different days of the week and times of the day. The following table provides the other results of the pre-screening calls.

Table 3. Results of pre-screening calls

Good numbers	1,123
Refused to participate	111
Not in New Orleans	53
Wrong number/disconnected	224
Duplicate business	36
No employees	15
Could not reach after 5 or more calls	240

Mailing questionnaire

After firms were pre-screened, questionnaires were mailed to the firm contact person, along with a letter describing the project (a copy of the questionnaire is attached). Phone callers then called the contact person a few days after the letter was received, and

attempted to complete the survey with the respondent over the phone or set up an appointment for a time to call back. Respondents were reminded that the data provided would remain confidential, and that participation in the survey was voluntary.

Phone calls were made from January through the first week of March, 1999. At the end of the period, another 46 firms were discarded for reasons such as being duplicates that were not caught the first time, or the firm having gone out of business since the initial screening. 451 surveys were completed, with 444 of those providing complete employment data (Question 7). The following table provides the full results of the phone calling stage.

Table 4. Results of survey

Completed survey	451
Refused to participate	286
No employees	14
Wrong number/disconnected	10
Duplicate business	22
Other reasons for non-participation	15
Could not complete before end of survey	325

Thus, the completion rate is 40.1 percent. Table 5 provides these numbers.

Table 5. Response rates

Total in initial sample	1,802
Good names after pre-screening	1,123
Good names after second call	1,077
Completed surveys	451
Refused to participate	286
Completion rate (=451/1077)	40.1%
Response rate (=451/791)	61.2%

Weighting

Once the data were collected, firm weights were constructed in order to adjust the results for probability of selection and response rate. The final base weight used in most calculations was calculated:

$$WEIGHT = [\ 1 / (PS * PN)\ ] * RR$$

where:
PS = probability of being selected into the first sample (n = 1800)
PN = probability of being named a “good number” out of the pre-screening and phone calling (n = 1077)
RR = number of firms for which surveys were completed

Calculations for Cost Tables

Data sources used

Cost calculations were based on the 1999 PERI survey and the Current Population Survey Outgoing Rotation Group (CPS-ORG) files. Because the sample size of wage-earners in New Orleans is not large enough to provide reliable industry and occupation level data, we aggregated the CPS-ORG data for all southern metropolitan statistical areas that had average hourly wages within one dollar above or below the average hourly wage in New Orleans.

Calculations

1. Number of workers affected.

The number of full-time and part-time workers receiving between $5.15 and $6.14 per hour was taken from the PERI survey. The number of tipped workers covered by the ordinance was calculated from the CPS-ORG data for southern cities. We took the percentage of workers who earn between $2.13 per hour (the current minimum wage for tipped workers) and $3.08 per hour (the new minimum wage for tipped workers), who have occupational category codes between 433 and 444, to determine the number of workers in this wage category who would receive a wage increase. As the tables below show, almost 60 percent of workers in the $2.13-$3.08 category are in tipped occupational categories.

Occupational code and title	Percent of all workers between $2.13 and $3.08 per hour
435 Waiters and waitresses	40.0
436 Cooks	2.6
443 Waiters'/waitresses' assistants	17.0
Total	59.6

2. Cost of wage increase.

The cost of the wage increase was calculated using the PERI survey and the CPS ORG data. CPS ORG data was used to calculate the average hourly wage in each wage category, which was used to determine the average hourly raise each worker would receive. CPS-ORG data was also used to calculate the average hours worked per week for affected wage categories.

3. Ripple effects.

Ripple effects were calculated by dividing the affected workers into the wage categories listed in Table 2, using the CPS-ORG file to obtain the distribution of low-wage workers. Wage increases were assigned according to the general findings of ripple effect research, which assume that workers in successive wage categories receiving a declining percentage raise.

Ripple effects were calculated for tipped workers in the same way, using the same assumptions listed above: only those workers in tipped occupations were considered eligible for ripple effect increases. Only 16.3 percent of workers in the $3.09 to $5.14 category are in these occupations, as shown below.

	Percent of all workers between $3.09 and $5.14
434 Bartenders	.6
435 Waiters and waitresses	3.1
436 Cooks	4.6
438 Food counter, fountain and related occupations	2.0
439 Kitchen workers, food preparation	1.6
443 Waiters'/waitresses' assistants	1.8
444 Miscellaneous food preparation occupations	2.6
Total	16.3

Appendix 4.
Estimating Sales/Use Taxes

The value of total sales/use parish taxes paid by firms with high relative costs was estimated from the PERI New Orleans Employment and Wages Survey, Question 12. As Question 12 asked respondents to declare their total taxes paid in Louisiana, including state and parish taxes, we disaggregated the answers here to get the proportion of taxes only going to Orleans Parish. To do this, we multiplied the values by 5/9ths, to represent the proportion of sales tax paid to the parish. This gave us a total of $4.6 million in parish sales taxes paid by the 209 firms with disproportionately high costs resulting from the Living Wage Ordinance.

Since response rates for this question were low, we used two other methods to verify that our survey results were accurate. First, we used operating costs, as calculated from survey responses, as a proxy for total sales. We then multiplied this proxy by the parish sales tax rate of five percent, for all of the 209 firms. Using this technique resulted in total parish sales taxes paid by the 209 firms of $4.1 million, which is close to the value found by using questionnaire responses.

The third method we employed to check the reliability of our estimate was to compare the estimated amount of taxes to the actual amount of taxes paid in Orleans Parish.
The most recent data available from the Department of Revenue and Taxation shows that in 1993, Orleans Parish collected $207.7 million in sales taxes (see http://leap.nlu.edu). Adjusted for inflation, this figure amounts to $234 million in 1998.[43] The total value of sales taxes as reported in the survey, $4.6 million, represent approximately 2 percent of this total value of $234 million. This figure compares with the proportion of all firms the high-cost firms represent, as the 209 high-cost firms make up 1.6 percent of the 12,682 firms covered by the ordinance.

[43] Figures were adjusted for inflation using the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index-Urban Wage Earners and Clerical Workers, South Region, All Items.

Appendix 5.
Calculations for Benefit Tables

The following tables present the underlying calculations used to determine the benefits of the wage increase to families and to the government. Tables are presented for three family types: (1) a family of four, with two adults and two children, and with one adult working, (2) a family of two, with one adult and one child, with the adult working, and (3) a family of four, with two adults and two children, and both adults working. The tables present the calculations of federal income taxes, state income taxes and food stamp benefits. All calculations assume that workers work 1700 hours per year. This estimate assumes that the average worker earning less than $6.15 per hour works 34.2 hours per week, based on data from the Current Population Survey. While the average low-wage worker most likely works fewer than 50 weeks per year, we assume 50 weeks in these calculations.

Federal Income Taxes and FICA Taxes from 1998 Form 1040

Family 1: Two people – 1 adult, 1 child, 1 worker at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Total Wages	$9,350	$10,455
2	Taxable Interest Income	$0	$0
3	Unemployment Compensation	$0	$0
4	Lines 1 + Line 2 + Line 3	$9,350	$10,455
5	Deductions	$11,650	$11,650
6	Taxable Income (Subtract Line 5 from Line 4)	$0	$0
7	Tax Withheld	$0	$0
8	Earned Income Tax Credit	$2,271	$2,271
9	Line 7 + Line 8	$2,271	$2,271
10	Tax	$0	$0
11	Refund (Subtract Line 10 from Line 9)	$2,271	$2,271
12	FICA Taxes (7.65%)	$715	$800
13	Subtract FICA Taxes from Refund	$1,556	$1,471

Family 2: Four people – 2 adults, 2 children, 1 worker at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Total Wages	$9,350	$10,455
2	Taxable Interest Income	$0	$0
3	Unemployment Compensation	$0	$0
4	Lines 1 + Line 2 + Line 3	$9,350	$10,455
5	Deductions	$18,700	$18,700
6	Taxable Income (Subtract Line 5 from Line 4)	$0	$0

7	Tax Withheld	$0	$0
8	Earned Income Tax Credit	$3,756	$3,756
9	Line 7 + Line 8	$3,756	$3,756
10	Tax	$0	$0
11	Refund (Subtract Line 10 from Line 9)	$3,756	$3,756
12	FICA Taxes (7.65%)	$715	$800
13	Subtract FICA Taxes from Refund	$3,041	$2,956

Family 3: Four people – 2 adults, 2 children, 2 workers at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Total Wages	$18,700	$20,910
2	Taxable Interest Income	$0	$0
3	Unemployment Compensation	$0	$0
4	Lines 1 + Line 2 + Line 3	$18,700	$20,910
5	Deductions	$17,900	$17,900
6	Taxable Income (Subtract Line 5 from Line 4)	$800	$3,010
7	Tax Withheld	$0	$0
8	Earned Income Tax Credit	$2,394	$1,931
9	Line 7 + Line 8	$2,394	$1,931
10	Tax	$122	$454
11	Refund (Subtract Line 10 from Line 9)	$2,272	$1,477
12	FICA Taxes (7.65%)	$1,431	$1,600
13	Subtract FICA Taxes from Refund	$841	-$123

State Income Taxes 1998

Family 1: Two people – 1 adult, 1 child, 1 worker at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Total Wages	$9,350	$10,455
2	Tax to State	$78	$105
3	Education Credit for Children	$25	$25
4	Taxes Owed (Subtract Line 3 from Line 2)	$53	$80

Family 2: Four people – 2 adults, 2 children, 1 worker at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Total Wages	$9,350	$10,455
2	Tax to State	$0	$0

3	Education Credit for Children	$50	$50
4	Taxes Owed (Subtract Line 3 from Line 2)	$0	$0

Family 3: Four people – 2 adults, 2 children, 2 workers at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Total Wages	$18,700	$20,910
2	Tax to State	$155	$215
3	Education Credit for Children	$50	$50
4	Taxes Owed (Subtract Line 3 from Line 2)	$105	$165

Monthly Food Stamp Benefits 1998

Family 1: Two people – 1 adult, 1 child, 1 worker at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Gross Monthly Income	$779	$871
2	Subtract 20% of Gross Earned Income	$623	$697
3	Subtract $134	$489	$563
4	Subtract Dependent Care Deduction	$314	$388
5	Subtract Child Support Deduction	$314	$388
6	Subtract Medical Costs for the Disabled and Elderly	$314	$388
7	Calculate 1/2 of Adjusted Income	$157	$194
8	Subtract 7 from Total Shelter Costs	$243	$206
9	Subtract 8 from 6 if 8 is < $275. Otherwise, subtract $275	$71	$182
10	Multiply Net Income by 30% and round-up	$21	$55
11	Monthly food stamp benefits (subtract 10 from maximum allotment for household size)	$209	$175

Family 2: Four people – 2 adults, 2 children, 1 worker at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Gross Monthly Income	$779	$871
2	Subtract 20% of Gross Earned Income	$623	$697
3	Subtract $134	$489	$563
4	Subtract Dependent Care Deduction	$489	$563
5	Subtract Child Support Deduction	$489	$563
6	Subtract Medical Costs for the Disabled and Elderly	$489	$563
7	Calculate 1/2 of Adjusted Income	$245	$282
8	Subtract 7 from Total Shelter Costs	$255	$219
9	Subtract 8 from 6 if 8 is < $275. Otherwise, subtract $275	$234	$345

10	Multiply Net Income by 30% and round-up	$70	$103
11	Monthly food stamp benefits (subtract 10 from maximum allotment for household size)	$349	$316

Family 3: Four people – 2 adults, 2 children, 2 workers at 1700 hours per year

		$5.50 per hour	$6.15 per hour
1	Gross Monthly Income	$1,558	$1,743
2	Subtract 20% of Gross Earned Income	$1,247	$1,394
3	Subtract $134	$1,113	$1,260
4	Subtract Dependent Care Deduction	$738	$885
5	Subtract Child Support Deduction	$738	$885
6	Subtract Medical Costs for the Disabled and Elderly	$738	$885
7	Calculate 1/2 of Adjusted Income	$369	$443
8	Subtract 7 from Total Shelter Costs	$131	$58
9	Subtract 8 from 6 if 8 is < $275. Otherwise, subtract $275	$463	$610
10	Multiply Net Income by 30% and round-up	$139	$183
11	Monthly food stamp benefits (subtract 10 from maximum allotment for household size)	$280	$236

Appendix 6: Calculation of Neighborhood Effects

This appendix details the method used to estimate the effect of raising the city-wide minimum wage on low and moderate income neighborhoods. Our analysis is based on two data sources, the detailed census tract information available in the Summary Tape File 3A (STF3A) of the Census Bureau, and the 5 percent sample of the Public Use Microdata Series described further in Appendix 1, also available from the Census. Both datasets are based on information collected during the 1990 decennial census. While more recent economic and demographic information at the census tract level would be preferable, the STF3A data are the most recent available. Thus, these calculations will not reflect demographic shifts that have taken place within the city since 1990, and should be taken as only an approximation of the present day effects on neighborhoods within the city. This said, we feel confident that these estimates provide a reasonable approximation of the effects for New Orleans neighborhoods in general, and low and moderate income neighborhoods in particular, that could be expected under the proposed minimum wage increase.

Turning to the estimation of these effects, the calculation can usefully be divided into three parts: the determination of the number of affected workers in low and moderate income neighborhoods, the calculation of the total annual wage increase for each worker and the affected neighborhoods, and the calculation of this wage increase relative to total expenditures in neighborhood places of business. We will consider each element of the calculation in the sub-sections below.

Determining the Number of Affected Workers

The first step in determining the effect of a wage increase on low and moderate income neighborhoods is identifying the number of workers who would be covered by the mandated wage increase residing in those neighborhoods, as well as those who would likely receive raises due to ripple effects. For analysis purposes, we will consider any neighborhood with an average household income less than $20,000 in 1990 as low to moderate income. In 1990 69 census tracts fell into that category. The STF3A from the Census Bureau provides information on population, workforce and other economic and demographic information at the census tract level. This allows us to determine for each census tract first what the absolute number of workers living in that tract was in 1990, second the number of workers who actually worked in the city limits, and third the mean household income of the households comprising the census tract.

Taking this information, combined with the calculation of the percentage of directly and indirectly affected workers who live and work in the city, as well as those who live and work in the city and come from households with less than $20,000 in total income, we can effectively determine the total number of affected workers who reside in low or moderate income neighborhoods, as well as these workers as a proportion of all workers from low and moderate income neighborhoods. We use the PUMS to arrive at these proportions. As will be discussed further in the next section, we divided all affected workers into eight wage categories, and apportioned the total number of workers in each category to each of the 69 census tracts. To do this we first took the number of workers who work in New Orleans from each census tract as a proportion of the total number of workers working in New Orleans from the low and moderate income census tracts. We then took the number of affected workers in each wage category as proportion of all affected workers. Applying these proportions in tandem to the total number of affected workers, we then arrive at an estimate for the number of affected workers in each wage category from each census tract. It bears note that, as detailed in Appendix 1, when we identify affected workers, we are considering only those workers working below the real value of the wage cut-off values for each wage category.

Calculation of the Total Annual Wage Increase

Once we have estimated the number of affected workers in each census tract by wage category, we can then calculate the total direct and indirect wage increases for these workers, roughly following the method depicted in Table 3. To do this, we must first calculate the average wages and hours worked for all affected workers in the eight wage categories under consideration using the PUMS. In this analysis we

take the seven wage categories identified for ripple effects in Table 3, and add an eighth, those working below the real value of 2.13. We then calculate the dollar value of the percentage wage increases shown in Table 3 for each category, with the additional category of less than $2.13 receiving the same proportionate increase as the first category in Table 3. Because the real value of the 1999 federal minimum wage is higher than it was in 1989, and because its 1989 value falls in the middle of one of our eight wage categories, we simplify our analysis by considering those workers in all categories below category five from Table 3 as directly affected, and calculate their raise accordingly. Thus, only workers in wage categories 6 and 7 are considered as indirectly affected, despite the partial indirect affect represented in the wage increase for workers in category five. Another slight departure from the method used in Table 3 is the raise given to category 3. In the table, the raise received by workers in that category is 10 percent, but, for the reasons mentioned earlier concerning the different real values of the minimum wage between the two years, we applied a 15 percent wage increase to that category for analysis of the neighborhood effects. Thus, with the estimates of number of affected workers, average hours, average wages, proportionate raises and with the aforementioned modifications of the method used in Table 3, we are able to calculate the direct and indirect wage increase for each census tract under consideration.

Wage Increase Relative to Total Expenditures in Neighborhood Businesses

To complete our analysis, we want to compare the total amount of the wage increase with the level of economic activity observed by local businesses. While neither the PUMS nor the STF3A files contain any information on business activity in the low and moderate income communities of New Orleans, we feel that an appropriate sense of the impact can be gathered by comparing the total wage increase to the total household income in the low and moderate income communities. This assumes that the bulk of sales in neighborhood businesses come from local residents, and that the spatial expenditure patterns of households will be roughly the same for new income as it is for existing income. When making these comparisons, it is important to make two further refinements. First, as noted in Figure 7 and Tables 17A-C, increased wages for low-wage workers will alter their eligibility for various forms of public assistance. This will necessarily reduce the total increase in real household income experienced by low-wage workers, albeit in most cases by less than their wage increase. Thus, when comparing this total wage increase in low and moderate income communities to their total income, it is important to account for this reduction, which we do by assuming the real earning increase will be 7.6 percent lower than what would result from the percentage wage increases depicted in Table 3. Second, when trying to assess the expenditure effects of this wage increase, it is important to compare the net wage increase to the amount of money households had available for retail expenditure prior to the wage increase. This implies that essential household expenditures, most importantly housing costs (rent, mortgage, utilities, etc.), should not be considered in these calculations, as we would expect them to change little given the magnitude of the total wage increase. This is an important distinction to make, as these gross housing costs for low to moderate income households in New Orleans in 1990 equaled approximately 40 percent of total income. Thus, with these two refinements, the ratio of the net raise to the adjusted measure of total household income in the census tract gives us an estimate of the impact on sales in neighborhood businesses.

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