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## **Testimony on Proposed Santa Fe, New Mexico Living Wage Ordinance**

**Robert Pollin**

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**POLITICAL ECONOMY  
RESEARCH INSTITUTE**

10th floor Thompson Hall  
University of Massachusetts  
Amherst, MA, 01003-7510  
Telephone: (413) 545-6355  
Facsimile: (413) 545-2921  
Email: [peri@econs.umass.edu](mailto:peri@econs.umass.edu)  
Website:  
<http://www.umass.edu/peri/>



**RESEARCH REPORT**

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**Testimony on Proposed Santa Fe, New Mexico  
Living Wage Ordinance**

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**Dr. Robert Pollin  
Professor of Economics and  
Co-Director Political Economy Research Institute (PERI)  
University of Massachusetts-Amherst**

**INTRODUCTION**

*Personal Background*

My name is Robert Pollin. I am a Professor of Economics as well as Co-Director of the Political Economy Research Institute (PERI) at the University of Massachusetts-Amherst. My areas of research and teaching specialization include labor markets, the causes of unemployment, economic policy, and applied statistical methods. In particular, I have done extensive research on living wage ordinances since the summer of 1996. With a small group of co-workers over that six ½ year period, I have published a book on the subject, and have also written three full-scale impact studies of ordinances in Los Angeles, New Orleans, and Santa Monica, CA, and seven academic papers that have either been published, are forthcoming, or are working papers (I list the main references at the end of the paper). In 1999, I was hired by the City of Santa Monica as consultant on their living wage proposal, and gave expert testimony at a district court trial on the measure that passed in New Orleans in February 2002. I have also spoken on the subject throughout the country in a wide range of settings, including government hearings, university seminars, and public lectures. Presently my colleagues at PERI and I are completing an extensive post-implementation analysis of the living wage ordinances in Boston as well as Hartford and New Haven, Connecticut. This testimony draws primarily from this previous work. But I also focus my discussion to the particular now before you here in Santa Fe.

In addition to this work, I have done economic policy advising for Gov. Jerry Brown, the Joint Economic Committee of the U.S. Congress, the United Nations Development Program, and as a member of the Capital Formation Subcouncil of the U.S. Competitiveness Policy Council.

I have come here at the request of Councilor David Coss. My visit here has been financed by the Political Economy Research Institute. I have received no funds of any kind from any other organization or individual.

*Background on U.S. Living Wage Laws*

Living wage proposals have passed into law in about 90 municipalities in the United States since the Baltimore City Council approved the first ordinance in 1995. But this is not the first living wage movement in the U.S. Indeed the initial establishment of minimum wage laws in the U.S.—first at the state level beginning with Massachusetts in 1912 then moving to the Federal level through various measures between 1933-36—was itself the culmination of an explicit “living wage” movement. One of the most influential works supporting the movement was a 1906 book by Monsignor John A. Ryan titled *A Living Wage: Its Ethical and Economic Aspects*. By the mid-1930s, President Franklin D. Roosevelt made his position on the issue clear, stating

that “no business which depends for existence on paying less than living wages to its workers has any right to exist in this country.”

The contemporary living wage movement began in Baltimore not through the work of political activists, academics, or unions—but rather because religious workers running homeless shelters and soup kitchens observed that increasing numbers of people with families and jobs were relying on their charitable services. If a worker with a job still needs to bring her/his family to a soup kitchen to get through the week, the message is clear: the wages that the worker is earning are not sufficient to maintain herself and her family at a minimally decent and dignified living standard.

Though the religious workers in Baltimore did not consult statistics to reach the conclusion that a renewed living wage movement was needed in the U.S., their observations were consistent with clear evidence as to the declining fortunes of low-wage workers and, more generally, the sharply rising trend in wage and income inequality in the U.S. economy. Thus, as we can see in Figure 1, the real value of the national minimum wage as of 2001, at \$5.15 per hour, was 37 percent below its peak value in 1968 of \$8.14 (expressed in constant 2001 dollars; *please also note that Figure 1 and all Tables to which I refer are found at the end of this document*). This means that, outside of those exempt from minimum wage laws and after controlling for inflation, the lowest-paid legally employed workers in the United States in 1968 were earning \$8.14 an hour. In other words, even a teenager coming to work for his or her first day at McDonalds would legally earn no less than \$8.14 an hour in 1968. It is also important to recognize that average labor productivity rose in the U.S. by roughly 80 percent between 1968 – 2001. This means that if the real value of the national minimum wage had risen exactly in step with the rate of productivity growth—and no more than that—the minimum wage as of 2001 would be \$14.65. Even more to the point, someone who works full-time for 52 weeks at the \$5.15 national minimum would earn \$10,712 over a year. This figure is 12.2 percent below the 2001 national poverty threshold for a family of two (1 adult, 1 child) and a broad range of researchers consider such official poverty thresholds themselves to be between 25 and 50 percent too low (as I discuss more below).

Despite these trends, opponents of living wage ordinances argue that these measures will not benefit, but will actually hurt, the very low-wage workers and their families that the movement is trying to assist. In other words, according to opponents, the living wage movement is a classic case of the “law of unintended consequences” as it operates in economics—that is, well-meaning people ending up doing harm while seeking to do good, through their misapprehension as to how economic policy interventions play themselves out in actual market settings. Opponents point to two major unintended consequences of living wage ordinances that are relevant for the Santa Fe proposal:

- 1) They will cause a decline of job opportunities for low-wage workers and/or a displacement of currently employed workers by those possessing higher skills.
- 2) They will induce firms located in cities with living wage ordinances to relocate out of these areas, as a means of avoiding being covered by the mandates of the law; and

These concerns that critics raise are very serious; indeed, they need to be examined especially hard by anyone who is favorably disposed toward the living wage idea. No doubt the last thing that any living wage advocate would want as the outcome of their efforts is for a living wage ordinance to make low-wage workers worse off.

These are the issues on which I have focused my research since 1996. I would like to share some of my main findings as they apply to the situation in Santa Fe. I would first like to examine the question “who would benefit from the living wage ordinance?” I will then consider “who will bear the costs of the living wage ordinance?” In examining this second question, I will obviously need to focus on how businesses that presently employ low-wage workers are likely to adjust to the increased labor costs they will face.

## **WHO ARE THE LOW WAGE WORKERS IN SANTA FE?**

In Tables 1-3, I provide some basic evidence as to who are the low-wage workers in the Santa Fe metropolitan area. The source for data in these tables is the Current Population Survey put out by the U.S. Bureau of Labor Statistics and Census Department. This is the same basic data source as that used in the study by Prof. David Macpherson. As such, it should not be surprising that there is considerable overlap in our figures. I am simply presenting the picture in a somewhat different way than Prof. Macpherson.

### *Basic Demographics.*

To begin with, we see in Table 1 (again, found at the end of the document) that there are a total of nearly 20,000 workers in the Santa Fe area who, as of 2002, were earning between \$5.15 - \$10.50. These workers constitute 28 percent of the working population in Santa Fe. The basic demographic facts about these workers are as follows:

- The average age of these workers is 33.5, and their average estimated labor force tenure is 15.1 years. For the most part therefore, the jobs these workers hold now reflect their long-term occupational trajectory. They are not on a career ladder that will be moving them to a significantly better job situation.
- Nearly 11 percent of the workers in this wage range are teenagers. Another way to express this statistic is to say that 89 percent of those who would be covered by the living wage ordinance are adults<sup>1</sup>
- These workers are predominantly non-white and Hispanic, and that slightly more than half are female.

### *Family Structure and Income Levels*

What is the family status of workers who would be covered by the living wage ordinance? Table 2 (end of document) provides some evidence on this. The average low-wage worker is living in a family with two other people, and there is one other person in the family holding a job. However, we also see that the low-wage worker in the family is the primary bread-

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<sup>1</sup> There is another significant dimension to the incomes brought home by teenagers, which is, how much do the teenagers contribute to their family’s overall living standard? Are they mostly middle-class kids buying CDs, clothes and car accessories? Or are they contributing significantly to meeting their family’s basic needs? I have not had time to examine this with respect to Santa Fe. But my colleagues and I did study this question in some detail when we wrote our study on Santa Monica. We found that the family incomes of the teenager workers was about 38 percent above the average—in other words, that the families that included the teenage workers were better off than the average family but not dramatically so. Moreover, the contribution of the teenagers to the family’s overall income was playing an important role in bringing the overall income to the higher level.

winner, contributing more than 60 percent to the family's overall earnings. Low-wage families frequently do not live only off of their own earnings however. Families with working members can also get funds from alimony and child support payments, pensions and government programs such as unemployment insurance and workers' compensation. Thus, in the next row of the table, we also see how much of the total family income—including all sources in addition to wages—that the low-wage workers in our sample contribute through their wages. As we see, that figure is about 50 percent. That is, after taking account of all possible other sources of income, including the wages of other family members, pensions, and government supports, the workers earning below \$10.50 an hour in Santa Fe bring home about half of what their family has to spend in a year.

*Mean and median measures of family income.* What is the income level of these families? We face some statistical difficulties in sorting this out, because we get a different picture when we observe mean and median figures. To illustrate the statistical problem, consider the following example. Take four workers with the following amounts of income: \$2,000, \$2,000, \$2,000, \$10,000. We calculate the mean by adding up the total amount of income of the four workers, which is \$16,000, and dividing by the number of workers, which is four. The mean income of these four workers is therefore \$4,000. We calculate the median by determining the amount of income that is most common among the four workers. The median income of the four workers is therefore \$2,000.

Which is the most accurate indicator of the reality we are trying to describe? Both the mean and median tell us something useful about the world. But the difference is that, with the mean, the one worker earning \$10,000 brings up the average substantially, and the resulting \$4,000 figure does not adequately capture the fact that most workers are earning \$2,000 and that no workers are actually earning \$4,000.

We see from Table 2 that the mean family income figures are much higher than the medians. Indeed, for workers earning between \$5.15 - \$8.50, the mean income of \$41,096 is nearly twice as high as the median of \$22,625. Despite these disparities, these figures tell us a couple of basic things. The first is that the highest concentration of low wage workers in Santa Fe live in families whose income is in the range of \$20,000 - \$30,000. The second is that there are a small number of low-wage workers who live in much better off circumstances, with family incomes in the \$40,000 - \$50,000 range.

#### *Poverty and Basic Family Budget Living Standard Benchmarks*

In Table 3 (end of document), we obtain a further sense of the situation of the families in which low-wage workers live by comparing their incomes levels to some basic living standard benchmarks—specifically a poverty benchmark and a “basic family budget” benchmark. But for these benchmarks to be at all meaningful, we first need to briefly describe the ways in which they have been developed. Of course, the U.S. government has calculated for many decades its own measurements of a poverty benchmark for families of different types. But, as I have discussed in previous work, there are some serious problems with this standard. These problems have been widely recognized in the professional literature.

The basic concern with the official poverty line is that its methodology for measuring poverty has not been modified since the government first developed it in 1963, even though conditions facing the poor in the U.S. have changed substantially over the past 40 years.

When it was first developed, the government methodology began by determining the costs of families of various sizes subsisting on what the Department of Agriculture terms the

“Economy Food Plan,”—which was the lowest cost bundle of food items available that could ensure each family member received the basic caloric minimum. Based on survey evidence from the time, the government’s methodology then assumed that poor families spent approximately one-third of their budget on food. Thus, to generate the dollar figures for the poverty threshold, the government simply multiplied the dollar value of the “Economy Food Plan” by three. In subsequent years, upward adjustments to the poverty thresholds were made every year using the annual rate of inflation.

The fundamental problem with this methodology is its assumption that the costs for the poor of purchasing basic necessities are accurately reflected in this annual inflation adjustment. In fact, the costs of necessities for the poor—including medical treatment, childcare, transportation, and especially housing—have risen faster than the overall rate of inflation as measured by the Consumer Price Index that applies to all urban households. Indeed, a large research project sponsored by the National Research Council provided a range of alternative methodologies that take account of the rising relative costs to the poor of non-food necessities.<sup>2</sup> Of particular interest for our purposes, the NRC reported that in considering six alternative methodologies, the average value for the poverty threshold generated by these six alternative methodologies was 41.7 percent higher than the official poverty threshold. In addition, the official methodology for measuring poverty makes no adjustment for regional differences in the cost of living. But the cost of living in the Santa Fe area is roughly 12 percent higher than the national average.<sup>3</sup>

To obtain a better measure of poverty for Santa Fe, we can therefore simply sum the effects of these two weaknesses in the official poverty thresholds—that the studies reported by the NRC suggest an alternative poverty line in the range of 42 percent above the official line and that the cost of living in Santa Fe is 12 percent above the national average. Adding these two factors together would suggest that the appropriate poverty line for Santa Fe should be 54 percent above the official line. To be cautious, I round this 54 percent figure down, and assume that an appropriate poverty threshold for Santa Fe is about 50 percent above the official poverty line. I therefore report a 150 percent of official poverty as our basic Santa Fe poverty line. I then also report “175 percent of official poverty” as a “near poor” standard. I do also report the official poverty threshold figures in Table 3, but consider this as properly measuring a “severe poverty” standard.

Finally, I report a “basic family budget” line. This concept draws on the work of numerous recent researchers, and is defined by Boushey, Brocht, Gundersen and Bernstein as providing “a realistic picture of how much income it takes for a safe and decent standard of living.”<sup>4</sup> Boushey et. al. have developed specific estimates of this concept for communities throughout the United States. For Santa Fe, they estimate the following as constituting a basic family budget for a family with one parent and two children: \$740/month for housing; \$351/month for food; \$650/month for childcare; \$158/month for transportation; \$255/month for health care; \$338/month for other necessities; and \$347/month for other necessities. This amounts to a total of \$2,836/month, or roughly \$34,000/year. For the various family types that they consider for Santa Fe, they estimate basic family budgets as being between \$28,000 (one

<sup>2</sup> Constance F. Citro and Robert T. Michael, eds. 1995, Measuring Poverty: A New Approach, Washington, DC: National Academy Press.

<sup>3</sup> This is derived from the ACCRA Cost of Living Index for Santa Fe. I discuss the application of the ACCRA index to lower-income families in Pollin and Brenner (2000), pp. 138-140.

<sup>4</sup> Heather Boushey, Chauna Brocht, Bethney Gundersen, and Jared Bernstein, Hardship in America: The Real Story of Working Families, Washington, DC: Economic Policy Institute, 2001.

parent, one child) and \$49,000 (two parents, three children). Drawing from their methodology, I then also estimate the percentage of families with low-wage workers that fall below the basic family budget threshold.

In Table 3, we now are able to get a sense of what types of workers, along with their families, would be affected by the living wage ordinance. As we see, 12 percent of the families with low-wage workers in Santa Fe now live below the official government poverty line, what I conclude, following the work of the National Research Council project, should properly be termed a “severe poverty” threshold. Moreover, still referring to the studies cited by the NRC, 31 percent of low-wage workers and their families live below what is a more reasonable poverty line and 40 percent are near poor. Finally, we see in Table 3 that 60 percent live below the basic family budget line.

### **WHO WILL BEAR THE COSTS OF THE LIVING WAGE ORDINANCE?**

Regardless of the family status of the affected workers, a living wage ordinance would obviously not benefit any of the families if the unintended consequences of the law—workers getting laid off or businesses relocating out of the city—ended up being the primary result from its implementation.

Businesses will certainly make adjustments to their higher labor costs, but laying off workers or relocating are not the only adjustments they can make. In fact, there are five basic ways that firms can adjust to the higher costs associated with a living wage ordinance. Layoffs or relocation are only two of the five options. The other three are: 1) raising prices; 2) improving productivity; and 3) redistributing income within the firm through reducing profit margins or reducing the differences between the wages of the firms’ lowest and highest paid employees.

There is, moreover, an important difference for the firms between adjusting through price and productivity increases or income redistribution rather than through layoffs and relocations. It is that adjustments through price, productivity, and income redistribution—if they can be managed—are less costly to the firms than adjusting through layoffs or relocations. Layoffs mean reducing the scale of operation of a business. Relocations are simply not a feasible option for most service sector businesses, such as hotels, restaurants, hospitals, educational institutions, theatres, art museums, and the businesses that feed off of these institutions. Let me raise a few points about each of these various possibilities.

*Price.* If firms can pass along all of their increased labor costs to consumers in the form of price increases, they will be able to maintain their current profit margins without having to make any further adjustments in their operations. The relevant question, of course, is how high would prices have to go to cover the increased costs of Santa Fe’s ordinance? Along with colleagues, I have studied this question in some detail through conducting surveys of businesses in Santa Monica, CA and New Orleans. Based on those previous studies, and on examining the existing literature more generally, I would roughly estimate that hotels and restaurants, which have a very high concentration of low-wage workers, would have to raise their prices between 5 – 6 percent to cover their costs, and that other businesses would have to raise their prices around two percent or less.

A two percent price increase for, say, a hardware store is meaningful but hardly onerous. It would entail that instead of a hammer costing \$15 before the living wage law were implemented, its price would have to rise to \$15.30.

But what about the five to six percent price increase for restaurants and hotels? According to the research I have conducted and the literature I have examined, the customers of higher-end hotels and restaurants are not very sensitive to price increases of this amount. For example, in Santa Monica, in the five years prior to when we wrote our 2000 study, prices at the high-end hotels were rising by an average of about 10 percent per year. Meanwhile, occupancy rates were rising, not falling, so that hotel revenues increased. Of course, as with the tourist business everywhere in the U.S., the hotels in Santa Monica were badly hurt after September 11, 2001. But their fall in revenues obviously had nothing to do with a living wage ordinance. Moreover, the hotels also recovered quickly after September 11, even during the national recession.

The general issue with hotels and restaurants is clear: if you were willing to pay \$30 for a meal at a Santa Fe restaurant, would you stop going to the restaurant if the price of the meal rose to \$31.50? Keep in mind that, in general, this price increase would not apply to one restaurant only in Santa Fe, but to all its competitors as well. Or if a tourist was willing to pay \$200 for a Santa Fe hotel room, would they choose not to come to Santa Fe if the room cost \$210? The evidence I have examined tells me that price increases of this amount in response to raising the minimum wage floor are not going to do much damage to business. At the same time, these price increases would, in most cases, *fully* cover the increased costs of a living wage ordinance of the type being considered by Santa Fe.

*Productivity.* If affected businesses are able to cover most, if not all, of their increased costs through raising prices, there wouldn't need to be any improvements in productivity to prevent a reduction in business profits. However, it is almost certainly the case that businesses will see productivity improve through raising wages of the lowest-paid workers. As a result of the Santa Fe living wage ordinance, productivity should, first of all, improve through reductions in job turnover and absenteeism, which then allow firms to spend less money on replacing and supervising workers. Firms should also benefit through a general increase in morale that will come from the low-wage workers earning a living wage. Of course, the rise in productivity will fully compensate firms for the increase in their labor costs. If the rise in productivity did more than compensate businesses for the increased labor costs, then all of the businesses would voluntarily pay living wages without regard to whether a law mandated them to do so. The point is that, in most business settings, the rise in productivity can serve to at least partially offset the rise in costs, as a compliment and subsidiary to the rise in prices.

*Income redistribution within firm.* Of course, business owners don't want to cut into their profits. Higher-paid workers also don't want to see their own incomes cut so that the lowest-paid workers can get raises. Again, the main point here is that, if firms can absorb most, if not all, of their increased costs through raising prices and productivity, there would not have to be *any* redistribution within firms in order for the higher costs of a living wage ordinance to be fully absorbed. At the same time, it is worth remembering that income distribution in the U.S. has become increasingly skewed over the past generation. For example, according to *Business Week* magazine and the Bureau of Labor Statistics, the average CEO in the U.S. earned 54 times more than the average worker in 1987. But as of 2001, the average CEO earned 449 times more than the average worker.

Obviously, these comparisons between CEOs and average workers don't apply to every business in Santa Fe. Still, along with the sharp decline we discussed above for the minimum wage since 1968 and similar trends for average wages, this ratio between our economy's best compensated managers and the wages of the average worker at least indicate that room exists in



the economy for a more equitable income distribution. It is also the case that this shift in income distribution would not have to entail that higher compensated people would actually experience a pay cut to allow for the wage gains of low-wage workers. It would more likely entail that the wage increases of the highest paid workers would grow at a slightly lower pace for a year or two to allow for the lowest paid workers to obtain living wage increases.

*Employment losses.* Again, firms will not need to lay off any workers in the face of living wage cost increases if they are able to absorb their increased costs through price and productivity increases or small changes in the firms' distribution of income. This dynamic was crucial to the important results by Profs. David Card of UC Berkeley and Alan Krueger of Princeton in their path-breaking book examining the employment effects of raising the state-wide minimum wages in New Jersey, *Myth and Measurement: The New Economics of the Minimum Wage*. Card and Krueger found that the New Jersey fast-food outlets that they surveyed were able to raise their prices by about the same amount as their total costs were increased, which amounted to about 3.4 percent. It is therefore not surprising that the firms Card and Krueger studied did not lay off their workers to any statistically discernable extent. Note also that these fast food restaurants will experience far higher cost increases through a living wage ordinance than all other types of businesses. The cost increases experienced by firms other than restaurants and hotels in Santa Fe are likely to be about  $\frac{1}{4}$  that of fast food restaurants.

*Relocation.* Would firms move out of Santa Fe to escape the living wage mandate? As I discussed above, most service sector firms—such as the hotels and restaurants—cannot move. What about other types of service-sector firms, such as those providing janitorial services? In this case, the business address need not remain within Santa Fe proper. But if the employees of the firm were still working within Santa Fe, for example cleaning offices or museums within the city, the firms would still have to pay the living wage, and would still therefore have no incentive to relocate.

There are only a relatively small proportion of firms in Santa Fe or most other large U.S. cities for which the benefits of relocation are likely to exceed its costs. These would have to meet two criteria: 1) Their business is not tied to their location; and 2) They would be experiencing large cost increases as a result of the living wage ordinance. In our study of New Orleans businesses, we found that the number of firms that fit these criteria amounted to about one percent of the roughly 12,400 firms located within the city limits. There is no reason to expect the incentives to relocate would be stronger among Santa Fe businesses.

These considerations would also apply to firms considering relocating *into* Santa Fe. Virtually all the firms that might consider locating within Santa Fe would be one of two types: 1) a major part of their operations would need to take place within the city itself, or 2) the costs they would face by locating inside Santa Fe would be negligible. Again there will be a very small percentage of firms for which locating within the city proper isn't necessary to their operations, or that would face much higher overall costs by operating within the city. These firms are likely to be discouraged from locating within Santa Fe because of the living wage ordinance. But again, the number of such firms is likely to be very small. Indeed, their numbers are likely to be significantly less than the number of firms operating in lower-income neighborhoods—or contemplating opening in these neighborhoods—that will benefit from the fact that the working people living in the neighborhoods will have more money to spend.

*Labor Substitution.* Even if Santa Fe firms neither relocated nor reduced their number of employees at all in response to the living wage ordinance, a negative unintended consequence of the measure could still result through labor substitution—i.e. businesses replacing their existing

minimum wage employees with workers having better skills or credentials. Because the firms in Santa Fe would pay more than what workers could get for comparable positions outside the city limits, the job openings in Santa Fe would likely attract workers with somewhat better credentials, on average, than those in the region's general labor pool.

How significant would this effect likely be? We examined this question in both our New Orleans and Santa Monica studies. Our approach was to first examine differences in personal characteristics between those who fell within the wage range close to the pre-living wage minimum and those who would fall within the newly mandated living wage minimum. In the case of Santa Fe, for example, this would entail comparing the personal characteristics of workers close to the existing \$5.15 minimum relative to workers earning close to the proposed \$8.50 living wage minimum. In general, we did find that the pool of workers within the higher wage range had somewhat different characteristics. In particular, those in the higher wage category tended to be somewhat older; a higher proportion of them had high school degrees; and a somewhat lower proportion were ethnic minorities. If the living wage ordinance were to be implemented, the pool of workers seeking low-wage jobs within the city would tend to reflect differences in characteristics as well. In short, in short, some labor substitution is likely to occur.

But the most pertinent question is not whether *any* labor substitution will occur, but *how large* this effect is likely to be. From our analysis, we conclude that the effect will be modest. In fact, through comparing data on personal characteristics of workers within different wage ranges, we are actually establishing an *upper limit* as to the likely degree of labor substitution. This is because, by comparing figures on personal characteristics, we are effectively asking whether, if firms in Santa Fe covered by the living wage ordinance were newly hiring their entire low-wage work force, and if they were advertising their job openings at a wage rate in the range of \$8.50 rather than \$5.15, how would the profile change of the newly hired workers?

Having thus defined the upper limit of labor substitution effects through these figures, the next step is to recognize why any actual labor substitution effects are likely to be far more modest. This is first of all because, in reality, businesses are unlikely to newly hire their entire workforce after a living wage law was enacted, nor would they want to do so. Rather, workers earning the higher minimum will be less inclined to leave their jobs, and their work effort should correspondingly rise. By the same token, businesses are not likely to terminate their existing workers, even if they have relatively poor formal credentials, as long as their performance is satisfactory. For most of the jobs that would be covered by the Santa Fe ordinance—e.g. janitors, nurse's aids, gardeners, parking lot attendants, elevator operators, hotel maids, restaurant dishwashers, and retail cashiers—the qualities that would distinguish one worker from another will not likely be based primarily on formal qualifications such as years of schooling. Hiring “better workers” would rather most likely entail hiring people who work harder and are more conscientious in their duties.

As such, again, I would still expect some labor substitution to occur after the living wage ordinance was implemented. However, the size of this substitution is likely to be modest.

## CONCLUSION

My conclusions with respect to labor substitution effects are reflective of my overall evaluation of the evidence concerning negative unintended consequences, including layoffs and relocations. One certainly has to face head on these issues in any serious assessment of living wage ordinances. But when the impact of living wage ordinances on most affected businesses

firms is modest, such that they could fully absorb their higher costs through raising prices by 1 – 2 percent, the likely adjustments firms will make will be of a comparably modest magnitude. Moreover, as we discussed, even in cases where cost increases are relatively large, as would be true with the hotels and restaurants in Santa Fe, the price increases one would need to absorb the higher wage costs are in the range of 5 – 6 percent—that is, again, a dinner for \$31.50 instead of \$30. Such price increases are not likely to significantly discourage business at Santa Fe restaurants and hotels, especially, again, since all of the firms will face comparable cost increases and will likely try to raise prices to a similar extent.

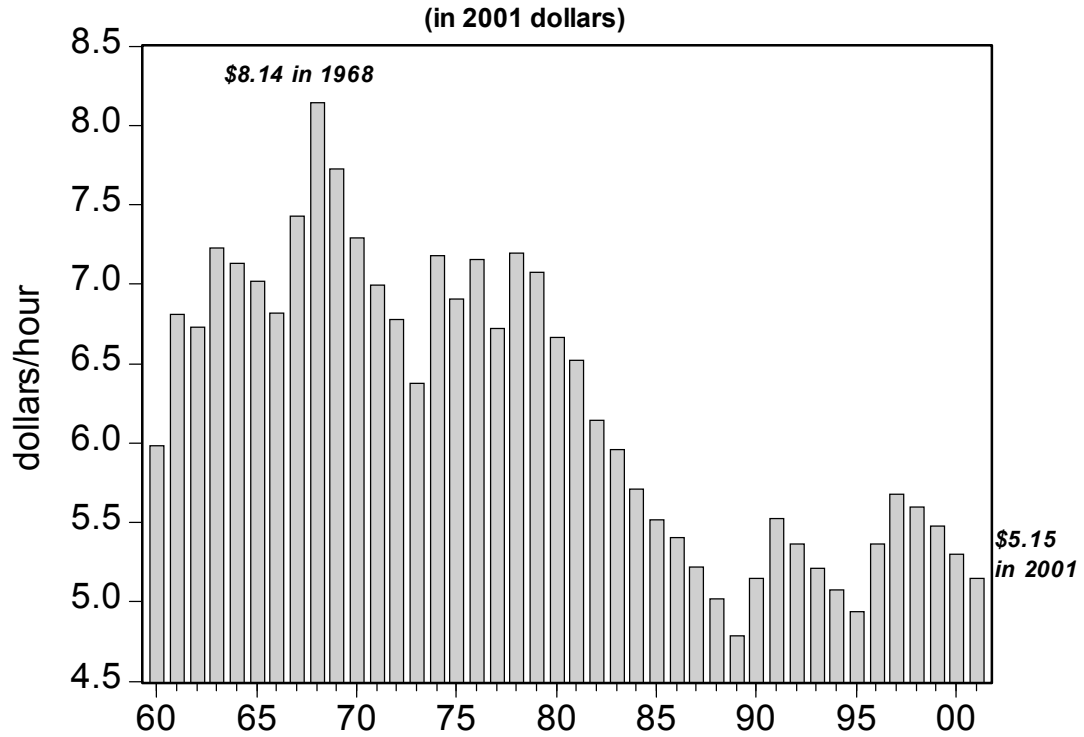
Overall then, raising prices and productivity by a relatively small amount are likely to be the predominant means through which most affected firms will absorb their increased costs. In such cases, the gains of living wage ordinances to low-wage workers and their families will be larger than the costs of the ordinance that would be borne by either businesses or the consumers facing small price increases. To put this another way: a well-designed living wage ordinance has the characteristic that its benefits will be concentrated among low-wage workers and their families while the costs can be broadly diffused among the affected firms and their consumers.

Of course, the benefits of a living wage standard in Santa Fe can't be fully captured by the types of statistical evidence that I have presented here. As Monsignor John Ryan recognized a century ago, paying workers a living wage is fundamentally a matter of human dignity and fairness. But for those of us that seek to increase fairness and raise the dignity of low-wage workers in our economy, it is our obligation to be as confident as possible that the means we employ will actually made a positive contribution toward the goal we desire.

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## Real Value of United States Minimum Wage, 1960 - 2001



Source: U.S. Department of Labor

**Table 1.**  
**Basic Demographics of Low-Wage Workers in Santa Fe, 2002**

	Totals	Hourly Wage Rate Categories	
	\$5.15-\$10.50	\$5.15-\$8.50	\$8.51-\$10.50
Number of Workers	19,591	11,446	8,145
Percentage of Workforce	28.1	16.4	11.7
Average Age	33.5	30.0	38.0
Labor Force Tenure (years)	15.1	12.2	19.3
Percentage Teenagers	10.8	11.1	10.5
Percentage Non-White (including Hispanic)	64.2	67.3	59.7
Percentage Hispanic	55.5	57.1	53.3
Percentage Female	52.7	50.0	56.5

Source: Current Population Survey (1999-2002)

**Table 2.**  
**Family Structures and Earnings of Santa Fe Low-Wage Workers, 2002**

	<b>Hourly Wage Categories</b>		
	<i>\$5.15 - \$10.50</i>	<i>\$5.15 - \$8.50</i>	<i>\$8.51-10.50</i>
<b>Average Family Size</b>	2.8	2.9	2.7
<b>Average Number of Wage Earners per Family</b>	1.9	1.9	1.8
<b>Average Percentage of Total Family Earnings Contributed by Worker</b>	62.3%	61.4%	63.6%
<b>Average Percentage of Total Family Income Contributed by Worker</b>	50.4%	51.6%	48.6%
<b>Total Family Income (2002 dollars)</b>			
<b>Mean Estimate</b>	\$41,549	\$38,861	\$45,326
<b>Median Estimate</b>	\$25,387	\$22,625	\$31,830

Source: Current Population Survey (1999-2000)

**Table 3.**  
**Poverty Status of Santa Fe Low-Wage Workers, 2002**  
**(Entries are percentages)**

	<u>Totals</u>
	<u>\$5.15-\$10.50</u>
Families in Severe Poverty (Below Official Poverty Line)	16.0
Families in Poverty (Below 150% of Official Poverty Line)	33.0
Near Poor Families (Below 175% of Official Poverty Line)	40.6
Below Basic Needs Threshold	59.7