

# Living wage is a mixed bag in fight against poverty

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## Living wage is a mixed bag in fight against poverty

By DANIEL STURM

In the recent film "K-Pax," Kevin Spacey plays an alien tourist critical of the earthly contradiction. He observes: "And you call that 'human'?" On occasion, even at the municipal level, politicians take the time to confront some of humanity's larger moral dilemmas, social inequality being one of these. In Lansing, Mayor David Hollister is concerned about employees of companies he does business with whose wages are close to the poverty line.

Hollister has announced plans to try to improve their lot by making city contractors pay their employees a "living wage" sufficient to meet basic subsistence needs. (Hollister was unavailable for comment. The mayor has invoked a policy of not permitting city employees to speak to City Pulse.) If the proposal passes in June, seven businesses servicing the city with janitorial, temporary and security staff will be required to pay employees at least \$11.31 an hour. These businesses all have city service contracts for more than \$50,000, and the new hourly wage would include the employers' contributions to healthcare.

The living wage campaign is active in 125 cities and communities throughout the country, with ordinances enacted in 77 of these, so far. Chicago, Denver, Boston, Los Angeles, Minneapolis and New York are among major cities with ordinances. In Michigan, the list includes Ann Arbor, East Point, Ferndale, Pittsfield Township, Warren, Ypsilanti and Ypsilanti Township. Ingham County is very close to finishing a policy and submitting it to the county commission. "To some degree we'll be making an example," Commissioner Chris Swope. He believes the government should use public money to leverage the low-income population and encourage an influx of jobs that pay above poverty level wages. The exact rate of the living wage is calculated by taking 125 percent of the federal poverty level for a family of four - about \$18,000 a year. Introducing the policy would cost the county "approximately \$200,000 a year," estimates Swope.

Living wage policies supported by Lansing and other city governments respond to the fact that Congress last raised the federal minimum wage of \$5.15 in 1997.

"I am personally very concerned about the issue," asserts MSU economist John Melcher, associate director of the school's Center for Urban Affairs. Melcher thinks it's good to "send out a message," as Hollister intends. "But it needs to have some scientific underpinning." Other factors like the cost of living or the number of full-time jobs in the region should be also taken into account. With regard to that, little research has been done.

The first person to analyze the effects of cities that introduced living wage policies is Harvard graduate David Neumark, who joined the MSU economics faculty in 1994. In March 2002, the Public Policy Institute of California published his report, "How Living Wage Laws Affect Low-Wage Workers and Low-Income Families." Neumark looked at 36 cities with living wages across the nation. He found that if a city passes a living wage 50 percent higher than the state's minimum wage, it raises the wage of low-income workers on average by 3.5 percent.

The study estimates that this increase would be substantially larger in cities - such as Cambridge, Mass., St. Paul, Minn., and Berkeley, Calif. - where living wage laws extend beyond city contractors to include businesses that receive some form of assistance from the city.

If Lansing applied the living wage concept just to city contractors, believes Neumark, "It will have a pretty minimal effect." However, Swope thinks Hollister is sending out positive signals to private businesses. Moreover, many regional employers "already pay more than the living wage." Melcher hopes this policy could at least "open up the discussion about living conditions among low-income people," if not increase the wage structure at the low end.

According to the Michigan Department of Career Development's 2000 statistics (the most recently available), 59,580 Greater Lansing residents make less than \$11.31 an hour. That's 27.2 percent of all wage and salary employees in the area. Within this, a large group of employees make less than \$8 an hour - including 24,820 residents who work as manicurists (\$6.37 an hour), bartenders (\$6.69), waiters (\$7.04) and other low-paid jobs. Officially this group represents 11.3 percent of the overall working population. But the real figure is presumably much higher, as this statistic does not include workers employed fewer than 2,080 hours per year (roughly 20,000 residents).

"Employment figures don't tell the entire truth," asserts Melcher, who knows people with jobs that pay less than the minimum wage. While Lansing's unemployment rate, at 3.7 percent in April, (Michigan and the United States are 6.0 percent) is amazingly low, "there is lot of people down there who are not in the statistics" because they're not registered at the unemployment office.

People who "never have enough to pay the bills" belong to the target group of Marcus Jefferson, director of the non-profit Lansing organization Closing the Gap, which teaches low-income groups to build computers. "No doubt, raising the wages sounds like a good idea, and some might even benefit. But in general it's not that simple. Getting a well-paid job depends on education. I have people here who are illiterate." Jefferson suggests the city should implement training for "soft skills."

John Palmer, deputy director for workforce programs at the Michigan Department of Career Development, confirms: "Our data shows that the more education and training an individual receives, the more earning."

Some critics point out that higher wages encourage the hiring of better-skilled employees, leading employers to take fewer low-skilled workers. "Living wage increases are not an efficient way to help the poor. By requiring employers to pay a higher wage for positions once considered entry-level, they inadvertently attract higher skilled employees to the job," says Richard Toikka, chief economist for the Employment Policies Institute, a non-profit research organization in Washington. To improve low-wage worker's situation, Toikka suggests drawing people's attention more to the federal program Earned Income Tax Credit. "A family of four earning \$12,000 a year would receive over \$4,000 in refunds. That would be a \$2 an hour increase in pay.

A 50 percent subsistence wage increase, as introduced by the living wage program in some of the 35 cities in professor Neumark's sample, typically reduced employment among low-wage workers by seven percent. "What probably happens is that low-skilled workers lose their jobs and then compete for low-paid jobs." Service jobs now count for over 50 percent of employment in the tri-county area, says Paul McConaughy, senior vice president of Capital Area United Way. "They're paying low income. It's exactly this low wage sector that keeps employment low."

"We pay everybody \$6.50," says Salim Furrha, manager of the Club Cappuccino at East Lansing's Crossroads Food Court. "Nobody would work for the minimum wage." Accordingly, \$11 seems like a dream to Furrha. "That's way too much. If we could raise our prices more then we could probably get away with it." In non-service sector jobs, entry-level employees demand an even higher starting wage. Jim Sleight, who manages hiring at H-Net, Humanities and Social Sciences On-Line, comments: "With the economy doing so well in the last few years, we can't get good entry-level student staff under \$7-8 per hour. More qualified employees are paid more."

Republican state Reps. Andrew Richner and Rick Johnson are trying hard to stop Lansing City and other local governments from enacting living wage legislation. Richner sponsored House Bill 4328 in February 2001, which he wants lawmakers to vote on before they break for summer in early June. The bill would support a statewide minimum wage and prohibit living wage policies in Michigan - including all existing ordinances.

"This is an issue that should be decided on the local level, because it's their tax money," asserts AFL-CIO lobbyist Ken Fletcher. The trade union points out that the Michigan Economic Growth Authority Act requires employers receiving state tax breaks to pay an average of 150 percent of the federal minimum wage to workers. Indeed, it would be ironic if the state were to prohibit the city government from doing something required under state law.

Still, the Lansing Regional Chamber of Commerce sees only negative effects. It's published a sample protest letter on its Web site to send to county commissioners. The chamber is campaigning against living wages because it believes Ingham County would "no longer [be] a pro-business environment."

Swope, doubts any negative side effects for the economy. Just recently, he met with colleagues from Washtenaw and Monroe - counties with living wage ordinances since 2001 - to talk about their experiences. "They couldn't report any bad impacts on the economy." Improving the overall standard of living would support the entire community. To deny the living wage, says Swope, would be like "keeping GM from giving their employees more raises.

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