Center for American Progress Action Fund

AMERICAN WORKER PROJECT

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Creating Good Jobs in Our Communities

How Higher Wage Standards Affect Economic Development and Employment

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Executive summary

From sports arenas to high-tech manufacturing zones and from commercial office buildings to big-box retail, local governments spend billions of dollars every year to entice private businesses to invest in their communities and create jobs. Yet these public funds often help create jobs that pay poverty-level wages with no basic benefits.

Cities across the country are working to gain greater control over these projects and help create quality jobs by attaching wage standards to their economic development subsidies. Communities are linking labor standards to public development projects in various ways, including community benefits agreements and prevailing wage laws. But the most common and comprehensive policies are business assistance living wage laws, which require businesses receiving public subsidies to pay workers wages above the poverty level.

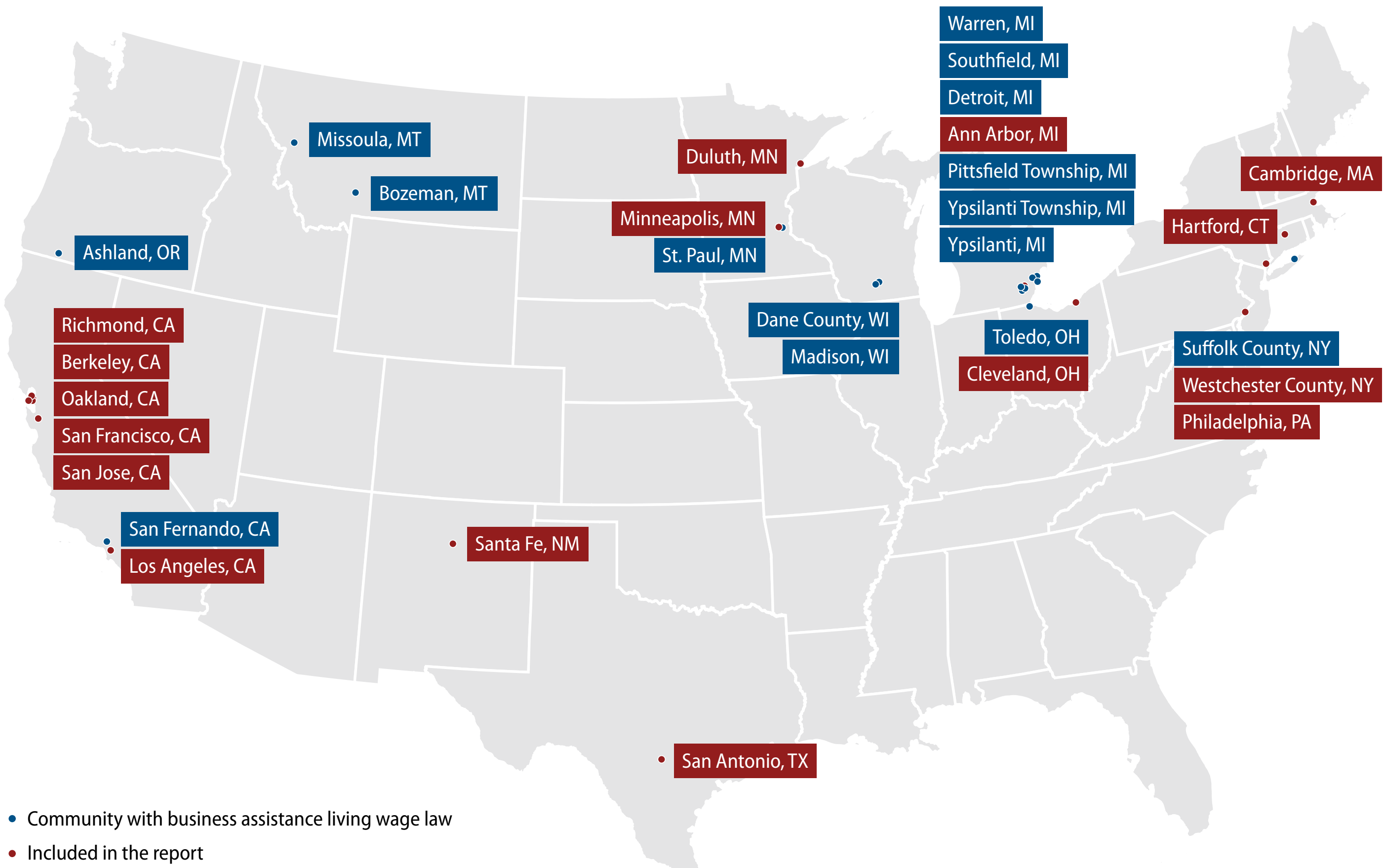
These economic development wage standards have successfully raised pay for covered workers. Yet opponents of these standards argue that such laws prevent businesses from creating jobs and thus help some workers at the expense of employing more workers. Some business leaders and developers also claim that adding labor standards to economic development projects will scare away potential investors by sending an "antibusiness" signal.

This report examines these claims and finds that economic development wage standards have no negative effect on citywide employment levels. This casts serious doubt on arguments that standards dampen municipalities' ability to use subsidies to attract new businesses or create negative business climates where all firms avoid investment.

The study finds that the 15 cities effectively implementing business assistance living wage laws—Ann Arbor, Berkeley, Cambridge, Cleveland, Duluth, Hartford, Los Angeles, Minneapolis, Oakland, Philadelphia, Richmond, San Antonio, San Francisco, San Jose, and Santa Fe—had the same levels of employment growth overall as a comparable group of control cities. The study also finds that these laws do not harm low-wage workers. Employment in the low-wage industries most likely affected by the living wage laws was unaffected by the change.

The study is the most methodologically sound, quantitative study conducted to date on business assistance wage standards. It uses the best available data that tracks employment by establishment and establishment movements over time in order to make accurate accounts of employment change at the city level. The study carefully selects cities that have effectively implemented business assistance living wage laws and ensures a controlled comparison that minimizes the effects of

Communities with business assistance living wage laws



unobservable variables by comparing 15 living wage cities to 16 cities with similar attributes where advocates lodged unsuccessful campaigns to pass such ordinances.

This study provides a strong test of the economic impact of wage standards because business assistance living wage laws are the type of economic development wage standard likely to have the most widespread effect on employment. Other types of economic development wage standards, such as community benefits agreements and prevailing wage laws, either affect far fewer projects or are more closely tied to market wages, and are thus are even less likely to have any effect on employment.

This report—like the groundbreaking studies that established that minimum wage laws do not kill jobs as opponents maintained—brings academically sound, empirical research to bear on a debate that for too long has been relatively uninformed by quality, comparative evidence on the laws' actual effects.

The evidence demonstrates that raising job standards does not reduce the number of jobs in a city. This means that job growth does not have to come at the expense of job quality. Local government leaders can therefore ensure that taxpayer dollars do not subsidize poverty wages by supporting economic development wage standards and feel confident that their local business climate will not be affected.

Introduction

State and local leaders enact a wide variety of economic development policies to encourage private businesses to locate, invest, and ultimately create jobs for local residents. This business attraction model is exemplified by policies—such as direct subsidies, tax exemptions, and targeted infrastructure improvements—that allocate public funds to private businesses or developers. Conservative estimates indicate that state and local governments spend more than $50 billion every year on this type of activity.[1] The logic behind such policies stems from the idea that businesses are relatively mobile and may choose to relocate or expand in low-cost areas. Yet these publicly funded projects have sometimes resulted in jobs that pay low wages and provide no benefits.

Stark increases in overall labor market inequality have led some policymakers and labor advocates to challenge the dominant business attraction strategy. Data from the past two decades suggests there is a fractured link between employment growth and raising local citizens' overall well-being. Many now view chasing jobs at all costs to be a questionable policy.

Even during the job-rich growth of the 1990s a significant portion of new jobs paid low wages and typically lacked benefits and career ladders. This trend continued in the 2000s and has led to falling real wages for most workers, increases in working poverty, and rising income inequality. Average wage growth for the bottom 80 percent of workers grew by only 0.6 percent between 2001 and 2007 while wages for those in the top quintile rose by 5.3 percent.[2]

Labor advocates, religious and community leaders, and elected officials have pushed for and passed local wage standard ordinances to address the problem of declining job quality. The push to link labor standards to public development projects has occurred through various forms, including community benefits agreements as well as prevailing wage and living wage laws.

A community benefits agreement is a project-based contract signed by community groups and a developer that requires the employers participating in the project to adhere to a negotiated set of wage standards and provide specific amenities on a particular project. CBAs are a growing phenomenon but so far have only affected a relatively small number of completed projects.

Prevailing wage laws require that covered businesses pay their employees wages at or above the typical wages in a certain industry, and thus not undercut the existing market wage structure. Prevailing wage laws have been used frequently on government contracts but only very recently have begun to be applied to a broad range of jobs created by government-supported economic development.

The most common and comprehensive economic development wage standards are business assistance living wage laws, which require businesses participating in projects receiving public subsidies to pay workers wages above the poverty level.

The living wage movement began in Baltimore in 1994 and more than 140 local jurisdictions now have some form of living wage law. The movement originally focused on ensuring that government contractors did not pay poverty wages but evolved into a broader set of urban policies that presented a clear alternative to the business attraction model of economic development. Living wage advocates in some cities have extended the basic form of living wage law to firms that receive public dollars through economic development subsidies.

These "business assistance" living wage laws directly challenge the logic of local economic development policies by placing additional requirements on firms that engage in development agreements with the public sector. Some business leaders and politicians have criticized wage standards for raising the cost of doing business. These opponents claim that raising wages would lead to job losses since employers would walk away from development deals. They also often identify economic development wage standards as an "antibusiness" signal to other firms who may not receive local subsidies but would nonetheless choose not to locate in the city.[3]

What is certain is that economic development wage standards in large U.S. cities continue to be highly controversial. The debate over Chicago's proposed "big-box" living wage law in 2006, for example, drew national media attention and resulted in Mayor Richard M. Daley's first-ever veto. New York City is currently debating whether to adopt a citywide economic development wage standard and Pittsburgh recently extended a prevailing wage law to cover workers at firms that receive financial assistance. The current debates are critical at this time, not only because several major cities are considering business assistance living wage laws but also because the current economic crisis—with its near double-digit unemployment—increases the pressure on elected officials to increase the number of jobs, regardless of their quality.[4]

Given the public's desire for both creating jobs and raising the quality of jobs, this report assesses the question of whether or not business assistance living wage laws reduce jobs and economic development activity in the cities that choose to pass them.

We examine business assistance living wage laws because they are the most widespread form of economic development wage standards, which means they provide a large enough sample of cities and affected employers to allow for rigorous quantitative analysis. They also allow for more consistent comparison across cities than community benefits agreements, which tend to be unique to each deal. And living wages have been subject to previous academic study, providing a useful basis of comparison.

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This study uses a unique, private-sector database that contains an extensive time series of observations from 1990 to 2008 to make detailed before and after calculations of how living wage laws change employment and total business establishments at the city level. We estimate these changes among a set of 31 large and economically diverse urban jurisdictions by comparing outcomes in cities that have passed (and enforce) business assistance provisions to those that attempted, but failed to pass such provisions. This research design—adopted by other living wage researchers and used widely in labor economics and policy analysis—has the benefit of controlling for underlying institutional and structural differences between cities with and without business assistance living wage laws that have the potential to confound results.

The study considers the broad set of industries and firm types most likely to be covered by business assistance living wage laws and finds no evidence that such laws reduce employment or business growth over the short or long term.

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