



## MULTNOMAH COUNTY, OREGON

### BOARD OF COMMISSIONERS

#### Beverly Stein, Chair

1120 SW Fifth Avenue, Suite 1515  
Portland, Or 97204-1914

Phone: (503) 248-3308 FAX (503) 248-3093

Email: mult.chair@co.multnomah.or.us

#### Diane Linn, Commission Dist. 1

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#### Gary Hansen, Commission Dist. 2

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#### Lisa Naito, Commission Dist. 3

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#### Sharron Kelley, Commission Dist. 4

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**ANY QUESTIONS? CALL BOARD  
CLERK DEB BOGSTAD @ 248-3277**

Email: deborah.l.bogstad@co.multnomah.or.us

**INDIVIDUALS WITH DISABILITIES  
MAY CALL THE BOARD CLERK AT  
248-3277, OR MULTNOMAH COUNTY  
TDD PHONE 248-5040, FOR  
INFORMATION ON AVAILABLE  
SERVICES AND ACCESSIBILITY.**

**JULY 8-9, 1998**

### BOARD MEETINGS

#### FASTLOOK AGENDA ITEMS OF INTEREST

2	Wednesday, July 8, 1998 6:00 PM Public Hearing on Living Wage Issue
2	Aging & Disability Services RESULTS Presentation
3	2 <sup>nd</sup> Reading/Hearing CFU Ordinance
3	1 <sup>st</sup> Reading/Hearing Supervisory Authority Ordinance & Outside Legal Counsel Ordinances
4	Briefing on Public Safety Administrative Office Options
*	<b>PLEASE NOTE: the July 23, 1998 Meeting Will be a Board Work Session on Jail Siting Only. There Will be No Voting or Citizen Comment. The Session is Open to the Public.</b>

Thursday meetings of the Multnomah County Board of Commissioners are cable-cast live and taped and may be seen by Cable subscribers in Multnomah County at the following times:

Thursday, 9:30 AM, (LIVE) Channel 30

Friday, 10:00 PM, Channel 30

Sunday, 1:00 PM, Channel 30

Produced through Multnomah Community  
Television

Wednesday, July 8, 1998 - 6:00 PM  
Multnomah County Courthouse, Boardroom 602  
1021 SW Fourth Avenue, Portland

## **PUBLIC HEARING**

PH-1 Public Hearing on Living Wage Issues. Presentations by Bob Kieta, Members of Living Wage Coalition and Invited Industry Representatives. Interested Citizens Invited to Participate. Testimony Limited to Three Minutes Per Person.

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Thursday, July 9, 1998 - 9:30 AM  
Multnomah County Courthouse, Boardroom 602  
1021 SW Fourth Avenue, Portland

## **REGULAR MEETING**

### **CONSENT CALENDAR**

### **DEPARTMENT OF COMMUNITY AND FAMILY SERVICES**

C-1 Intergovernmental Agreement 9910231 Between Oregon Health Sciences University, Purchasing Chemical Dependency Services for Youth and Adults, Gambling Addiction Treatment Services, Drug Residential Services and Special State Projects for Hearing Impaired and Alcohol/Drug Voucher Services

### **REGULAR AGENDA**

### **PUBLIC COMMENT**

R-1 Opportunity for Public Comment on Non-Agenda Matters. Testimony Limited to Three Minutes Per Person.

### **AGING AND DISABILITY SERVICES DEPARTMENT**

R-2 Results from RESULTS: A Process Improvement Team Success Story. Presented by Bruce Lloyd. 15 MINUTES REQUESTED.

## **DEPARTMENT OF COMMUNITY AND FAMILY SERVICES**

- R-3 NOTICE OF INTENT to Submit a Grant Proposal to United Way's Community Investment Fund for \$25,000 to Add an Additional Component to the Division of Community Programs and Partnerships' Welfare-to-Work Pre-Apprenticeship Training Program
- R-4 Intergovernmental Agreement 9910251 with Multnomah Education Service District and Chamber Charitable Institute/Leaders Roundtable, Providing Coordination of Eight Caring Community Projects with MESD Acting as Fiscal Agent and Chamber Charitable Institute Acting as Program Administrator

## **DEPARTMENT OF SUPPORT SERVICES**

- R-5 RESOLUTION Relating to Pay Ranges, Pay Increases, and PERS Pick-Up for Exempt Employees

## **DEPARTMENT OF ENVIRONMENTAL SERVICES**

- R-6 RESOLUTION Approving the Multnomah County 1998-2002 Transportation Capital Improvement Plan and Program
- R-7 Second Reading of an ORDINANCE Amending MCC 11.15 by Incorporating Standards Implementing the Commercial Forest Use Policies of the West Hills and East of Sandy River Rural Area Plans and Providing Equivalency Standards to Fire Safety Zones as Allowed by Oregon Administrative Rule 660-06-035

## **DEPARTMENT OF JUVENILE AND ADULT COMMUNITY JUSTICE**

- R-8 First Reading of an ORDINANCE Designating the County Supervisory Authority, Defining County Secure Residential Treatment Facilities, and Amending MCC 2.30.800 and Creating MCC 2.30.310

## **NON-DEPARTMENTAL**

- R-9 First Reading of an ORDINANCE Amending MCC 7.201 Relating to the Office of County Counsel [Stein Proposal]

## **SHERIFF'S OFFICE**

R-10 First Reading of an ORDINANCE Amending MCC 7.201 Relating to the  
Office of County Counsel [Noelle Proposal]

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Thursday, July 8, 1998 - 11:00 AM  
**(OR IMMEDIATELY FOLLOWING REGULAR MEETING)**

Multnomah County Courthouse, Boardroom 602  
1021 SW Fourth Avenue, Portland

## **BOARD BRIEFING**

B-1 Public Safety Administrative Office Options. Presented by Larry Nicholas  
and Wayne George. 45 MINUTES REQUESTED.

#4

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Greg Byl

ADDRESS

2255 W. Burnside  
97210

PHONE

464-4029

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC

GIVE TO BOARD CLERK

**LOCAL 503**



**Leading the Way**

**OREGON PUBLIC  
EMPLOYEES UNION**

**SEIU Local 503, AFL-CIO, CLC**

10401 NE Halsey St.

Portland, OR 97220-3956

1-800-527-9374 or (503) 408-4090 ext. 123

Fax: (503) 408-4099

email: [walls@opeuseiu.org](mailto:walls@opeuseiu.org)

#3



**Suzanne Lee Wall**

Organizing Director

# 7

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME Maceo Pettis

ADDRESS \_\_\_\_\_  
\_\_\_\_\_

PHONE \_\_\_\_\_

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

#8

## SPEAKER SIGN UP CARDS

DATE 7/08/98

NAME Lori Bliss

ADDRESS 3243 NE 156 T WIGHTY  
P+1d OR 972 94 CLEAN

PHONE 503-257-2991

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage & Benefits Program  
GIVE TO BOARD CLERK



#9

## SPEAKER SIGN UP CARDS

DATE 7-8-98 "MOGUS  
MEBRA TOO"

NAME MOGES MEBRAHTU

ADDRESS 519 NE SACRAMENTO ST  
#9 PORTLAND OR

PHONE 97212 493-2813

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC

GIVE TO BOARD CLERK

#10

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME ANNIE CHOI

ADDRESS 1125 NW 16th AVE.

EVERCLEAN

PHONE 228-2606

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC REP.

GIVE TO BOARD CLERK

#11

## SPEAKER SIGN UP CARDS

DATE 7/8/98

NAME JOSEPH M. MAHONEY

ADDRESS 7194 S.W. IVY LANE  
PORTLAND, OR

PHONE 977-9968 (503)

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC LIVING WAGE

GIVE TO BOARD CLERK

#12

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Debbie Peerenboom "PEAREN BOOM"

ADDRESS

2485 SW Augusta Dr  
aloha, Or 97006

PHONE

642-4634

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC

Living Wage Campaign

GIVE TO BOARD CLERK

#13

## SPEAKER SIGN UP CARDS

DATE 7/8/94

NAME Mike O'Leary

ADDRESS 3743 SE Clare St.

Portland, OR 97202

PHONE 725-8356

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

#14

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Joe Devlin

ADDRESS

4945 NE 37

Portland OR 97211

PHONE

284-0382

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

#15

## SPEAKER SIGN UP CARDS

DATE 7/8/98

NAME

Barbara Wilber

ADDRESS

39 NE 59

Portland

PHONE

238-6609

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC

PH-1

GIVE TO BOARD CLERK

#16

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Joe Rastaler

ADDRESS

\_\_\_\_\_  
\_\_\_\_\_

PHONE

\_\_\_\_\_

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK



#17

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Terry Moe

ADDRESS

PHONE

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

#18

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME Mary Jo Tully

ADDRESS \_\_\_\_\_  
\_\_\_\_\_

PHONE \_\_\_\_\_

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living wage

GIVE TO BOARD CLERK

#19

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Diane Rosenbaum

ADDRESS

2327 SE 41st

Portland 97214

PHONE

238-6298

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage Ordinance

GIVE TO BOARD CLERK

#20

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Serena Cruz

ADDRESS

3956 N. Missouri Ave

PORTLAND 97227

PHONE

284.3708

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

#21

## SPEAKER SIGN UP CARDS

DATE 07/08/98

NAME

Gloria Gonzalez

ADDRESS

5726 N. MISSOURI  
Portland OR 97217

PHONE

230-2304

SPEAKING  
TOPIC

ON AGENDA ITEM NUMBER OR  
Living Wages  
GIVE TO BOARD CLERK

#22

## SPEAKER SIGN UP CARDS

DATE July 8, 1998

NAME

Bobbi L. Gary GARY

ADDRESS

2142 S.E. Tibbetts

PTLD, OR 97202

PHONE

231-7509

SPEAKING  
TOPIC

ON AGENDA ITEM NUMBER OR

Gay Panthers for justice

GIVE TO BOARD CLERK

#23

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME \_\_\_\_\_

ADDRESS Milee Houck

PHONE \_\_\_\_\_

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

#24

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Peter Parler

ADDRESS

5728 N. Willam

Portland 97217

PHONE

735-3802

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK



#25

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Gers Washington

ADDRESS

PHONE

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

#26

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Shirley Williams

ADDRESS

2710 NE 14<sup>th</sup> AVE

Portland, OR 97212

PHONE

~~2~~ 460-9702

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC PHI

GIVE TO BOARD CLERK

#27

## SPEAKER SIGN UP CARDS

DATE 7-8-58

NAME

John Murphy

ADDRESS

35 SE 60th

PHONE

261-1266

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC

GIVE TO BOARD CLERK

#28

## SPEAKER SIGN UP CARDS

DATE 7/8/98

NAME

Deborah Hargin

ADDRESS

5527 NE 50th

PHONE

282 9074

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC

GIVE TO BOARD CLERK

#29

## SPEAKER SIGN UP CARDS

DATE 7/8/98

NAME

Ted Pyle

ADDRESS

13020 SE Sherman

Atlanta Ga

PHONE

665 0779

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC

GIVE TO BOARD CLERK

#30

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME Jan Mihara

ADDRESS \_\_\_\_\_  
\_\_\_\_\_

PHONE \_\_\_\_\_

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

Jeri Sundvall

ADDRESS

\_\_\_\_\_  
\_\_\_\_\_

PHONE

\_\_\_\_\_

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

# SPEAKER SIGN UP CARDS

DATE 7/8/98

NAME

Bill Bradley

ADDRESS

2218 SE Clinton St  
97202

PHONE

236 - 6948

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living wage Ordinance

GIVE TO BOARD CLERK



## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

April Berg

ADDRESS

PHONE

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living Wage

GIVE TO BOARD CLERK

## SPEAKER SIGN UP CARDS

DATE 7-8-98

NAME

John Sutter

ADDRESS

PHONE

SPEAKING ON AGENDA ITEM NUMBER OR  
TOPIC Living wage

GIVE TO BOARD CLERK

MEETING DATE: July 8, 1998  
AGENDA #: PH-1  
ESTIMATED START TIME: 6:00 PM

(Above Space for Board Clerk's use only)

### AGENDA PLACEMENT FORM

SUBJECT: Public Hearing on Living Wage Issues

BOARD BRIEFING: DATE REQUESTED: Wednesday, July 8, 1998  
REQUESTED BY: Chair Beverly Stein  
AMOUNT OF TIME NEEDED: 1-2 hours

REGULAR MEETING: DATE REQUESTED: \_\_\_\_\_  
AMOUNT OF TIME NEEDED: \_\_\_\_\_

DEPARTMENT: Non-Departmental DIVISION: Chair Beverly Stein

CONTACT: Rhys Scholes TELEPHONE #: 248-3928  
BLDG/ROOM #: 106/1515

PERSON(S) MAKING PRESENTATION: Bob Kieta, Members of the Living Wage Coalition, Invited Industry Representatives, Public Testimony

#### ACTION REQUESTED:

☒ INFORMATIONAL ONLY ☐ POLICY DIRECTION ☐ APPROVAL ☐ OTHER

#### SUGGESTED AGENDA TITLE:

Public Hearing on Living Wage Issues. Presentations by Bob Kieta,  
Members of Living Wage Coalition and Invited Industry Representatives.  
Interested Citizens Invited to Participate. Testimony Limited to 3 Minutes Per Person.

#### SIGNATURES REQUIRED:

ELECTED OFFICIAL: \_\_\_\_\_

*Beverly Stein*

(OR)

DEPARTMENT

MANAGER: \_\_\_\_\_

ALL ACCOMPANYING DOCUMENTS MUST HAVE REQUIRED SIGNATURES

Any Questions? Call the Board Clerk @ 248-3277

98 JUL - 1 PM 5:45  
MULTNOMAH COUNTY  
OREGON  
CLERK OF COUNTY COMMISSIONERS

To: Interested People  
Fm: Rhys Scholes  
Re: Agenda for July 8 public hearing

Here's how we expect the hearing to go:

6:00 to 6:15 Bob Kieta from facilities management will report on Multnomah County's Living Wage and Benefit program and will discuss proposed improvements to the program.

6:15 to 6:30 Members of the Living Wage Coalition will present their proposals.

6:30 to 6:45 Industry representatives will present their comments.

6:45 to 8:00 Public testimony, three minutes per person

Bob Kieta has prepared a document that summarizes proposed program improvements. That document is attached to this memo.

The Living Wage Coalition has prepared a summary of their proposal. That document is also attached.

One or both of these documents could become the basis for a Board Resolution. Our expectation is that the Board will provide guidance after the public hearing regarding the most appropriate way to proceed on these issues.

## **Multnomah County Living Wage Program**

Multnomah County Facilities and Property Management uses a Request for Proposal process to award Custodial and Security Service contracts. Included in the criteria for evaluation and points award is the Employee Wage and Benefit Package criteria which can be awarded up to 20 points as determined by a formula based on the average wage and benefit paid to employees (Total Compensation). This program has been in place for over three years with very positive results. While we feel the program has met its goals of providing a method to award contracts to contractors who treat their employees well, we realize that there is always room for improvement. Over the past few months the local service union and the Jobs with Justice Coalition, have made numerous recommendations to the County and the City regarding the establishment of "wage floors" to guarantee all contracted employees receive what is considered a living wage. Recommendations also included guaranteed health benefits, union friendly language, paid sick leave and employee protection language against employer retaliation. After reviewing the latest results of our current program and meeting with the Jobs With Justice coalition to better understand their recommendations, we recommend making the following improvements to this program.

### **May Results:**

**Average Janitorial type Classification**

**Wage per hour \$7.52**

**Average wage plus benefit per hour \$8.81**

**Average Supervisor, Lead, Floor/Supervisor**

**Wage per hour \$10.00**

**Wage plus benefit per hour \$11.40**

- To more accurately reflect the current market, we recommend the Total Compensation points award scale be increased to range from a \$7 Minimum to a \$11. Maximum.
- We do recommend that the points award for Employee Wage and Benefit, be raised to 25 points. The additional 5 points should be awarded based on the quality of the benefits package the contractor provides their employees. Proposed language is attached # 1.
- We recommend that language be added to the specification encouraging the use of full-time employees and clarifying how part-time hours should be calculated in the Proposal. See attached language #2.
- We recommend additional language in the specification and contract to require a notification and interview process for employees displaced by a contractor change. See attached language #3.
- We recommend that language be added to the specification and the contract, which requires the Contractor to post contract classification wages and benefit package description at each work-site at the start of the contract. See attached language # 4.
- We recommend contract language that notifies contractor of the County's right to access their work-site and records pertaining to our contracts. Proposed language attached #5.

## PROPOSED NEW LANGUAGE

#1

### **D. Employee Wage and Benefit Package – 25 points**

#### **1. Method Compensation**

Last sentence changed to read "Points shall be awarded based on a Total compensation range of \$7.00 to 11. per hour."

#### **2. Benefit Package**

Proposers shall include a complete description of their employee benefit package. Description shall include; type of coverage(s), deductibles, co-pay description, number of sick or vacation days, when and who is eligible, retirement plan, etc.

### **#2 USE OF PART-TIME EMPLOYEES**

Multnomah County packages multiple buildings into single packages to enable Contractors the ability to hire and schedule Full-time permanent employees to service these accounts. Hours estimated on the Employee Wage and Benefit Package" Attachment No.8, shall include the maximum use of full-time employees. Any hours estimated less than full-time which are not eligible for health benefits under the contractors proposal shall be listed separately and noted as such.

### **#3 EMPLOYEE RETENTION**

Exiting Contractors shall provide the County with a list of employees names, classifications, work location and phone numbers, for all current employees who will be laid off as part of this contract termination/expiration. The incoming Contractor shall interview and consider for employment, interested employees prior to recruiting from the general public to fill any vacancies related to meeting the service requirements of this contract.

### **#4 EMPLOYEE WAGE POSTING**

Upon start of contract, Contractor shall post at each work location a copy of Attachment No. 8, listing classifications, hourly wage and benefit package description. In addition contractor shall post information regarding employees who earn less than \$12 per hour, possible right to the federal Earned Income Credit (EIC). Contractor shall make available these forms required to secure advance EIC payments from employer pursuant to Section 5.

### **#5 COUNTY ACCESS TO CONTRACTORS RECORDS**

Contractor is to permit access to work sites for authorized County Employee to review the operation, payroll and related documents, and provide certified copies of the relevant records upon request by the County.

The County reserves the right to audit contractors payroll records to determine compliance with contractor supplied Wage and Benefit statements.

# **Proposed Improvements in Multnomah County's Living Wage and Benefit Project**

(by the Living Wage Campaign c/o JOBS with JUSTICE, 236-5573)

## **Purpose:**

Project seeks to establish a living wage for employees of all contractors with the County

## **Findings (from Contractor Living Wage and Benefit Project Report):**

The County desires to have contract employees earn a wage above the poverty level

The County desires to have contract employees have access to basic medical benefits

The County wants to encourage the growth of businesses that provide living wage jobs in the service sector

The County desires to have productive citizens who can work, be self-sufficient and provide for their families

## **Definitions:**

Service contracts covered are those provided on a frequent basis, including food preparation, security services, custodial and clerical

Service contractors organized as private charities are exempt from the wage/benefit provisions if the chief executive earns less than five times the lowest paid worker or if the charity only provides summer youth or job training employment

Participants in JOBS or JOBS PLUS (welfare-to-work) are covered under the ordinance

## **Living Wages and Benefits:**

All covered contractors shall pay a wage of no less than \$8 per hour

All employees covered shall receive at least \$1.25 per hour toward health benefits

Wages & health benefits shall be increased annually based on the Consumer

**Price Index**

All employees covered shall be entitled to a minimum of 12 paid sick, vacation or personal leave days and 10 uncompensated days

**Request for Proposal Selection Process:**

Covered contracts shall continue to be awarded based on an RFP selection process where points are given for various service and cost factors

Points shall also be awarded for additional benefits such as pensions, training, child care and transportation allowance

**Supersession by Collective Bargaining Agreement:**

Contractors with a labor union agreement shall be exempt from wage & benefit provisions

**Succession of Employment and Collective Bargaining Agreement:**

In the case of a new service contractor, the non-supervisory employees of the previous contractor must be employed for at least 90 days

Any collective bargaining agreement must remain in force

**Responsible Labor Relations:**

Service contractors must agree to abide by federal, state and local labor laws

Union organizers must be allowed reasonable access to employees in non-work areas

Contractors will inform workers of possible Earned Income Tax Credits

Community Hiring Preference : "First Source" or neighborhood preference hiring shall apply



**Enforcement:**

Living wage and benefit mandates and worker complaint hot-line number shall be posted at work sites and/or included along with pay stubs

All covered contractors report wages and benefits monthly

Violators have 7 day compliance period

Violators must back-pay any under compensation

Employee who claims a violation is protected from retaliation

Fines: \$100 per day out of compliance

**Termination of contracts:**

For violation of living wage and benefit, supercession, succession of employment, responsible labor relations, or community hiring preference sections of ordinance

- for retaliation against employee
- for failure to correct violations
- for failure to make full restitution to wronged employee
- for failure to pay all of fine levied
- for failure to report wage/benefit levels
- for three successive months of violations
- prohibited from receiving contracts for three years

**Further study:**

Over the following year, County shall study the impact of extending Living Wage and Benefits Project to businesses receiving economic assistance including tax abatements, investment assistance, loans, bonds, grants, etc. in excess of \$10,000 in one year

# Proposed Improvements to Multnomah County Living Wage and Benefit Program

## Background

Three years ago Multnomah County created a program that changed the process for awarding janitorial contracts. Price is still important but so are quality and wages. The program is based on the recognition that wages and quality are closely related and on a desire to support living wages and benefits.

Multnomah County Facilities and Property Management uses a Request for Proposal (RFP) process to award Custodial and Security Service contracts. Included in the criteria for evaluation and points award is the Employee Wage and Benefit Package criteria which can be awarded up to 20 points as determined by a formula based on the average wage and benefit paid to employees (Total Compensation).

## Results

The program is working. Quality is improved, and so are wages and benefits. For May, 1998 the results are:

Classification	Average wage	Average wage plus benefits
Janitor	\$7.52 per hour	\$8.81 per hour
Supervisor/Lead	\$10.00 per hour	\$11.40 per hour

## The Campaign

The Living Wage Campaign has petitioned and lobbied the City of Portland and Multnomah County for wage and benefit improvements as well as worker and union protection provisions for janitors, security guards and other employees of contractors.

## Proposals

After reviewing proposals and meeting with representatives of the Campaign, Multnomah County Facilities and Property Management makes the following recommendations for changes to the program:

- **Raise the points award for "Employee Wage and Benefit Package" from 20 to 25.** The additional 5 points would be awarded based on the quality of the benefits package the contractor provides their employees. The RFP would ask for "a complete description of employee benefit package including: type of coverage(s), deductibles, co-pay description, number of sick and/or vacation days, when and who is eligible, retirement plan, etc."

- **Raise the Total Compensation points award scale. (This includes salary as well as employer paid benefit cost)**

This will more accurately reflect the current market and will increase the point differential between comparable low wage and high wage contractors.

The old and new point award scales are compared in these tables:

Points	0	1 - 5	6	7	8	9	10	11
Total compensation (current)	\$0 – \$5.99	\$6. – \$6.25	\$6.54	\$6.83	\$7.12	\$7.41	\$7.70	\$7.70
Total compensation (proposed)	\$0 – \$6.99	\$7. – \$7.25	\$7.50	\$7.75	\$8.00	\$8.25	\$8.50	\$8.75

Points	12	13	14	15	16	17	18	19	20
Total compensation (current)	\$8.28	\$8.57	\$8.86	\$9.15	\$9.44	\$9.73	\$10.02	\$10.31	\$10.60
Total compensation (proposed)	\$9.00	\$9.25	\$9.50	\$9.75	\$10.00	\$10.25	\$10.50	\$10.75	\$11.00

- **Encourage the use of full-time employees and clarify how part-time hours should be calculated**

The RFP would state " Multnomah County packages multiple buildings into single packages to enable Contractors the ability to hire and schedule full-time permanent employees to service these accounts." The proposal for wages and benefits "shall include the maximum use of full-time employees. Any hours estimated less than full-time which are not eligible for health benefits under the contractors proposal shall be listed separately and noted as such."

- **Require a notification and interview process for employees displaced by a contract change.**

The RPP and the contract would say "Existing Contractors shall provide the County with a list of employees' names, classifications, work location and phone numbers for all current employees who will be laid off as part of a contract termination/expiration. The incoming contractor will interview and consider for employment interested employees prior to recruiting from the general public to fill any vacancies related to meeting the service requirements of the contract."

- **Require contractors to post contract classification wages and benefit package description at each work-site at the start of the contract.**

The contract would require posting wage and benefit information as well as information about the state and federal Earned Income Credits (EIC). Contractors would also be required to make available forms to secure advance EIC payments from employers.

- **Clarify the County's right to access contractor's work site and records pertaining to contracts.**

The contract would state "Contractor is to permit access to work sites for authorized County Employees to review the operation, payroll and related documents, and provide certified copies of the relevant records upon request by the County. The County reserves the right to audit contractors payroll records to determine compliance with contractor supplied Wage and Benefit statements."

# Proposed Improvements in Multnomah County's Living Wage and Benefit Project

(by the Living Wage Campaign c/o JOBS with JUSTICE, 236-5573)

## Purpose:

Project seeks to establish a living wage for employees of all contractors with the County

## Findings (from Contractor Living Wage and Benefit Project Report):

The County desires to have contract employees earn a wage above the poverty level.

The County desires to have contract employees have access to basic medical benefits.

The County wants to encourage the growth of businesses that provide living wage jobs in the service sector

The County desires to have productive citizens who can work, be self-sufficient and provide for their families

## Definitions:

Service contracts covered are those provided on a frequent basis, including food preparation, security services, custodial and clerical

Service contractors organized as private charities are exempt from the wage/ benefit provisions if the chief executive earns less than five times the lowest paid worker or if the charity only provides summer youth or job training employment

Participants in JOBS or JOBS PLUS (welfare-to-work) are covered under the ordinance

## Living Wages and Benefits:

All covered contractors shall pay a wage of no less than \$8 per hour

All employees covered shall receive at least \$1.25 per hour toward health benefits

Wages & health benefits shall be increased annually based on the Consumer Price Index

All employees covered shall be entitled to a minimum of 12 paid sick, vacation or personal leave days and 10 uncompensated days

## Request for Proposal Selection Process

Covered contracts shall continue to be awarded based on an RFP selection process where points are given for various service and cost factors

Points shall also be awarded for additional benefits such as pensions, training, child care, and transportation allowance

## Succession of Employment and Collective Bargaining Agreement:

In the case of a new service contractor, the non-supervisory employees of the previous contractor must be employed for at least 90 days

Any collective bargaining agreement must remain in force

Responsible Labor Relations:

Contractors will be awarded extra points in the RFP process if they have an employee grievance procedure which provides for "just cause" dismissal and binding arbitration by a neutral third party

Service contractors must agree to abide by federal, state and local labor laws

Union organizers must be allowed reasonable access to employees in non-work areas

Contractors will inform workers of possible Earned Income Tax Credits

Community Hiring Preference : "First Source" or neighborhood preference hiring shall apply

Enforcement:

Living wage and benefit mandates and worker complaint hot-line number

shall be posted in several languages at work sites and/or included with pay stubs

All covered contractors report wages and benefits monthly

Violators have 7 day compliance period

Violators must back-pay any undercompensation

Employee who claims a violation is protected from retaliation

Fines: \$100 per day out of compliance

Termination of contracts:

for violation of living wage and benefit, supersession, succession of employment,

responsible labor relations, or community hiring preference sections of ordinance

for retaliation against employee

for failure to correct violations

for failure to make full restitution to wronged employee

for failure to pay all of fine levied

for failure to report wage/benefit levels

for three successive months of violations

prohibited from receiving contracts for three years

Further study: Over the following year, County shall study the impact of extending Living Wage and Benefits Project to businesses receiving economic assistance including tax abatements, investment assistance, loans, bonds, grants, etc. in excess of \$10,000 in one year

## Brief Comments on Wage Floors and Wage Compression

### Bad News, Good News and Great News

There is bad news, good news and great news concerning the relationship between wage floors and wage compression. The bad news is that the raising of a wage floor does indeed contribute to wage compression. (The issue is not the establishment of a wage floor, as the county already faces one: the Oregon State minimum wage.) The good news is that the effects are usually temporary; wage "hierarchies" are usually re-established (around the new floor) quickly. Finally, the great news is that this so-called wage "compression" is upward compression. That is, the wages of those who were earning below the new wage floor are raised.

### The Spillover Effect

The realistic impact of raising a wage floor actually extends beyond those who had previously been earning beneath the old wage floor. Those earning slightly above the new wage floor tend to receive wages even though it is not required in the new legislation. This casually observed and empirically documented phenomenon (See Card and Krueger, Myth and Measurement: The New Economics of the Minimum Wage) is nothing more than the wage hierarchy (or ladder) responding to the increased wage floor. Managers implement and maintain wage hierarchies for a variety of reasons, including motivation, advancement, reward, etc. These reasons don't disappear when a wage floor is increased, and neither do wage hierarchies. The wages of those earning just above the new wage floor tend to be increased so as to maintain some spread between themselves and the bottom rung.

A recent study by the Center on Budget and Policy Priorities notes that this "spillover" effect of Oregon's increased minimum wage has aided many former welfare recipients who have been pushed into the job market through welfare reform.

### Why one would oppose wage floors

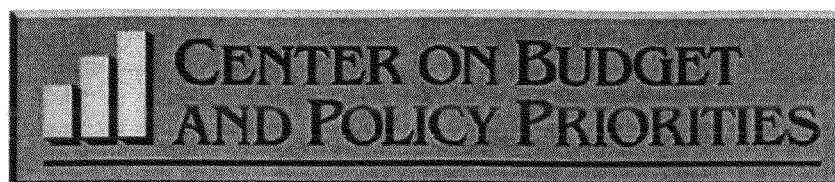
That simple reason for opposing a wage floor is if (for whatever reason) you want employers to be able to pay a wage that is beneath the wage floor. In the context of the living wage (which is geared toward the Federal Poverty level) this means that you would want employers to be able to pay wages beneath the poverty level, basically poverty wages. The entire point of the living wage campaign is that no one should be paid poverty wages. How you ensure that people are not paid poverty wages is to establish a floor. Tracking and rewarding contractors based upon their average wage rates does not accomplish this task. This approach is one that could positively complement a wage floor, but it by no means does the job of a wage floor. Having an average wage above the poverty level means that probably some, and at least one, workers have

wages above the poverty level. (the average of \$10.00, \$6.00 and \$6.00 is \$7.30.) With a wage floor you know that all workers (barring violations and poor enforcement) are earning at least the floor.

Raising a wage floor is obviously a more conflictual route than rewarding contractors for having relatively higher average wages. The source of conflict, however, is telling. Some people want employers to have the ability to pay workers wage below poverty. Raising the wage floor to the poverty level removes that right. It may cost contractors money. The source of opposition is clear and conflict is obvious. Raising the wage floor, however, remains the right thing to do. Working people should not earn poverty wages. It is that simple, and a wage floor is what will do the job.

### **Lower the Minimum Wage and "Enhance" the Career Ladder!!!**

Supporting "career ladders" is surely a good thing. However, to maintain a "career ladder" by holding down the wages of those at the bottom is cynical and quite disturbing. The maintenance of wage "ladders" by holding down the bottom is not any great feat, and is probably a favor only to employers. Not that you should act on it, but you should realize that you can even lengthen the career ladder and enhance the "mobility" of workers by starting with a lower floor! This example should be enough to demonstrate the perverse logic embedded in the argument of fighting a wage floor to support wage/career ladders. The two can go hand in hand, and indeed already do go hand in hand. Raising the wage floor to the poverty level will not damage career ladders and will benefit many workers tremendously. The real stand against poverty wages is to support the wage floor.



May 29, 1998

## **New Findings from Oregon Suggest Minimum Wage Increases Can Boost Wages for Welfare Recipients Moving to Work**

by Ed Lazere

### **Introduction and Summary**

Debates over raising the minimum wage often focus on the issue of who will benefit from lifting the wage floor. Some claim that increasing the minimum wage does little for low-income families, because minimum wage earners frequently are teenagers or secondary workers in middle-class families. While the benefits of minimum wage increases are not targeted solely on low-income families, many of the workers whose earnings rise as a result of such increases are in low-income families. In addition, the large majority of minimum wage workers are adults, and many are the primary breadwinner in their family.

#### **Table of Contents**

- The Wages of Oregon Families Who Found Work Before and After the State's Minimum Wage Increase
- Assessing the Employment Effects
- Implications for a Federal Minimum Wage

New evidence from Oregon suggests that minimum wage increases can have a significant effect on parents who leave welfare for work. As a result of a successful state ballot initiative, the Oregon minimum wage rose from \$4.75 an hour to \$5.50 an hour in January 1997 and then to \$6.00 an hour in January 1998.<sup>(1)</sup> Data from Oregon's welfare agency show that the earnings of parents who moved from welfare to work were boosted as a result of these increases.

- The average starting wage of Oregon parents leaving welfare fell five percent, adjusting for inflation, during the three years *prior* to the January 1997 increase in the state minimum wage.
- This trend reversed itself immediately after the increase. The average starting wage jumped from \$6.15 an hour in the last quarter before the 1997 minimum wage increase took effect to \$6.43 an hour in the first quarter following the increase. By the fourth quarter of 1997, the average starting wage had reached \$6.65 an hour, an increase of more than five percent, adjusting for inflation, over the same quarter of the prior year.

These wage increases are unlikely to have occurred simply as a result of the state's strong economy. Economic growth in Oregon was solid prior to the state's minimum wage increase in 1997, but real wages for welfare recipients still declined during that period.

- The average starting wage for welfare recipients rose again following the second increase in the minimum wage. In the first quarter of 1998, welfare recipients who found work earned an average of \$6.91 an hour, up substantially from the end of 1997. Overall, the average wage for these workers is now 76 cents an hour higher than before the state minimum wage increase took effect.



The minimum wage increase in Oregon boosted the earnings both of welfare recipients who found jobs at the minimum wage and of many who found jobs paying slightly above the minimum wage. For example, among welfare recipients who found full-time jobs, the proportion earning more than \$6 an hour rose from roughly half in 1996 to two-thirds in 1997.

This analysis also examines whether the increase in Oregon's minimum wage had a negative overall effect on employment opportunities of welfare recipients. While no systematic study of this issue has been conducted, the available evidence does not suggest a negative change in employment opportunities. The share of welfare recipients finding work rose modestly in 1997 following the increase in the minimum wage. In addition, employment growth in retail trade, the industry most likely to be affected by a minimum wage increase, was positive in 1997 and followed the same pattern as overall employment growth in Oregon. Both overall employment and retail employment rose in 1997, although at a somewhat slower rate than in 1996. The change in employment growth between 1996 and 1997 reflects a modest general slowdown in the state's rate of economic growth, not the increase in the minimum wage. If the minimum wage increase had reduced job growth significantly, it is likely that the trend in retail trade employment would have been significantly worse than the trend in overall employment.

The Oregon findings have implications for the debate over raising the federal minimum wage. The Oregon minimum wage hikes have raised the state's minimum wage from a level equal to the federal minimum wage to a level somewhat above the current federal minimum wage. (In late 1996, the federal minimum wage rose to \$4.75 an hour, which made it equal to the 1996 Oregon minimum wage. The federal minimum wage then rose to \$5.15 an hour in September 1997, below the 1997 Oregon minimum wage of \$5.50 an hour at that time.)

In addition, academic studies and recent findings from state welfare-to-work efforts indicate that adults who leave welfare for work typically have very low earnings, often at the minimum wage or just slightly above it. As a result of these low earnings, many families in which parents leave welfare for work continue to live in poverty. Thus, the Oregon experience suggests that an increase in the national minimum wage to a level modestly above \$5.15 an hour would be likely to have positive effects nationwide on the wages of adults leaving welfare for work. For the same reasons, the Oregon findings also suggest that increases in state minimum wages could boost the earnings of welfare recipients when they find work.

### **The Wages of Oregon Welfare Recipients Who Found Work Before and After the State's Minimum Wage Increase**

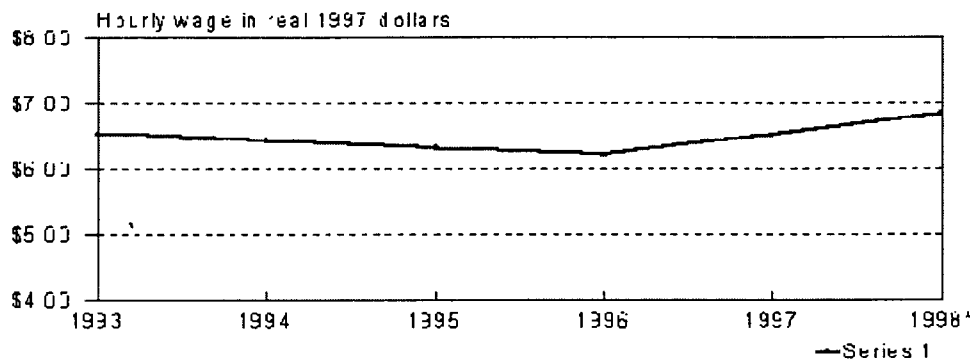
The Adult and Family Services Division of the Oregon Department of Human Resources is the agency responsible for the state's welfare to work programs. The agency regularly collects information on the earnings of welfare recipients who move into the labor force.<sup>(2)</sup> The Oregon data show a distinct change in the wage trend among welfare recipients who found work in 1997, following the increase in the state's minimum wage. Between 1993 and 1996 the state's minimum wage remained at \$4.75 an hour. During that period:

- The average hourly starting wage of welfare recipients who found jobs — including both part-time and full-time jobs — went from just under six dollars an hour in 1993 to just above that level in 1996.

- When adjusted for inflation, the average starting wage of welfare recipients who found work was five percent *lower* in 1996 than the average in 1993. (See figure and table.)

These trends changed markedly immediately following the increase in Oregon's minimum wage on January 1, 1997. The average wage of Oregon's welfare recipients moving to work began to rise noticeably after the first boost in the state's minimum wage, and again after the second boost.

### Average Starting Wages for Oregon Welfare Recipients Who Found Work, 1993 to Early 1998



Center on Budget and Policy Priorities  
Source: Oregon Adult and Family Services Division  
\* 1st Quarter only

- Between the last quarter of 1996 and the first quarter of 1997, the average wage for this group rose 28 cents an hour. This was the largest quarter-to-quarter change in the entire period from 1993 through 1997.
- By the last quarter of 1997, the average wage stood at \$6.65 an hour, or 50 cents higher than in the similar period of 1996. Adjusting for inflation, this represented a one-year wage increase of 5.4 percent.
- The Oregon minimum wage rose to \$6.00 an hour in January 1, 1998. Early data following this increase suggest that it also has had a significant positive impact on the wages of welfare recipients who find work. The average wage for newly employed welfare recipients reached \$6.91 in the first quarter of 1998.

The minimum wage increase appears to have affected a substantial proportion of Oregon's welfare recipients who found work in 1997. In the last quarter of 1997, for example, nearly one-third of the welfare recipients who found work — including half of those who found part-time work — earned the state's new minimum wage of \$5.50 an hour. This substantial clustering of wages at the new minimum wage level strongly suggests that many of these workers would have earned less than \$5.50 without the increase in the state's wage floor.<sup>(3)</sup>

In addition to raising the earnings of minimum wage workers directly, the Oregon minimum wage increase also appears to have raised the wages of workers with earnings modestly above the new minimum wage level. During Oregon's 1996 fiscal year (from July 1995 to June 1996), roughly half — 48 percent — of the welfare recipients who found full-time work earned more than six dollars an hour. By the last quarter of calendar year 1997, more than two-thirds — 68 percent — of welfare recipients who found full-time work had earnings this high. Most of this increase occurred in the share of workers earning between six dollars and eight dollars an hour, or somewhat above the new minimum wage level of \$5.50 an hour. Minimum wage increases typically have such a "ripple effect," which may reflect attempts by employers to maintain pay differences between minimum wage workers and those with slightly higher earnings when minimum wages rise.

The Oregon minimum wage increase thus affected both welfare recipients who found work at the minimum wage and those who found jobs paying slightly above the minimum wage, which together represent a sizable share of Oregon welfare recipients who move into jobs. As a result of the broad effect, the average increase in the wages of all welfare recipients who moved into the workforce — 50 cents an hour from the end of 1996 to the end of 1997 — equaled a substantial fraction of the 75 cent increase in the state's hourly minimum wage.

It should be noted that the wage increases revealed by the Oregon data could reflect in part the state's growing economy and its impact on wages. For three reasons, however, the economy appears unlikely to be the primary cause. First, Oregon experienced solid economic growth prior to the 1997 minimum wage hike. Per capita income of Oregon residents rose seven percent between 1993 and 1996, adjusting for inflation. This was greater than the five percent growth in inflation-adjusted per capita income for the nation as a whole during this period. Yet despite this strong growth, the starting wages of Oregon welfare recipients who found work fell in inflation-adjusted terms during this period.

Second, while the state's continued economic expansion could have resulted in a growing shortage of available workers, which would have placed upward pressure on wages, this does not appear to be the case. The state's unemployment rate fell from

**Table I:  
Average Starting Wages for Oregon Welfare  
Recipients who Found Work 1993 to Early  
1998**

Before Minimum Wage Hike*	Average Starting Wage	
	In Nominal Dollars	In 1997 Dollars
1993	\$5.89	\$6.54
1994	5.95	6.44
1995	6.01	6.33
1996	6.08	6.22
4th Quarter, 1996	6.15	6.27
<b>After 1997 Minimum Wage Hike</b>		
Average	6.52	6.52
1st Quarter	6.43	6.47
2nd Quarter	6.47	6.48
3rd Quarter	6.55	6.54
4th Quarter	6.65	6.61
<b>After 1998 Minimum Wage Hike</b>		
1st Quarter	6.91	6.85
* Annual figures reflect averages of quarterly figures for the relevant year. Source: Oregon Adult and Family Services Division, Department of Human Resources		

7.3 percent in 1993 to 4.8 percent in 1995, but then rose to 5.9 percent in 1996. The rate then remained steady at 5.8 percent in 1997. If the state were experiencing a significant shortage of workers, it would be reflected in a declining unemployment rate in recent years.

Third, the 1997 wage increases among Oregon welfare recipients stand out when compared with wage data for the nation as a whole. While national-level data on the wages of adults who move from welfare to work are not available, the Oregon findings can be compared with the wage trend nationally for a similar group of low-wage working women.<sup>(4)</sup> The comparison shows that prior to the Oregon minimum wage increase, the wage trend was worse among Oregon welfare recipients who found work than among low-wage working women nationally. Following the 1997 state minimum wage increase, however, wage growth for Oregon welfare recipients was greater than among low-wage women nationwide.

- Between 1993 and 1996, the average wage among welfare recipients in Oregon fell nearly five percent, adjusting for inflation, compared with a one percent decline in the real wages of the typical low-wage female worker nationally.
- In 1997, the average hourly wage for Oregon welfare recipients moving into jobs rose 5.4 percent, also adjusting for inflation, while the typical low-wage female worker experienced a one percent increase in real wages.<sup>(5)</sup>

### **Assessing the Employment Effects**

One of the major concerns raised about raising the minimum wage is that it can reduce employment prospects for low-skilled workers, under the assumption that some employers reduce the number of employees or the hours they work to offset the increase in wage costs per employee. In recent years, some have argued that the employment prospects of welfare recipients in particular would be adversely affected by an increase in the minimum wage. At the state level, some also argue that an increase in the state minimum wage would result in the migration of jobs to neighboring states.

While these concerns are important and must be considered, the weight of recent research findings on the minimum wage suggests that moderate increases from current minimum wage levels would not have adverse employment effects. No systematic studies of the employment impact of the Oregon minimum wage increase have been conducted to date. Two available measures, however — the proportion of welfare recipients moving to work and employment growth in retail trade, the industry most affected by the minimum wage — do not suggest that the state's minimum wage increase had a significant adverse effect on employment opportunities.

### **Employment Trends Among Welfare Recipients**

The Oregon Adult and Family Services Division reports that the share of welfare recipients who found work in 1997 — 7.3 percent in an average quarter — was slightly higher than in 1996 before the state's minimum wage was increased. In 1996, an average of 6.4 percent of welfare recipients found work in an average quarter. At the same time, the number of welfare recipients who found jobs declined during this period, from an average of 5,850 a quarter in 1996 to an average of 4,875 per quarter in 1997. Because the state's total welfare caseload fell by a greater magnitude during this period, the percentage of all recipients who found work rose modestly.

These findings support an interpretation that job opportunities for Oregon welfare recipients did not worsen in 1997. It is reasonable to expect that as the total number of welfare recipients declines, the number finding jobs would also decline, simply because the number of welfare recipients who potentially could find work would be smaller. If job opportunities for welfare recipients had worsened significantly, both the number and proportion of welfare recipients finding work would likely drop, as more welfare recipients stayed on the rolls without a job.

At the same time, welfare caseloads may fall for a variety of reasons, including welfare policy changes. If caseloads decline significantly among groups of families that would not have been likely to find work had they remained on welfare, the number of welfare recipients finding jobs would not necessarily drop significantly. This could occur, for example, if changes in welfare programs made assistance less attractive or more difficult to obtain or if some families chose to leave welfare or not to begin receiving welfare to avoid using up time-limited assistance. (Such families may be able to get support from friends or relatives.) It is important to note that welfare caseloads have declined faster in Oregon in recent years than in almost every other state. While the state's caseload decline is partly the result of a strong economy, it clearly reflects policy changes as well.

Because welfare caseloads in Oregon have declined dramatically, and because the characteristics of the state's welfare recipients may have changed significantly, it is difficult to use the data on the proportion of welfare recipients finding work to assess with certainty whether job opportunities for welfare recipients have changed significantly. Nevertheless, the data do not indicate that finding a job became harder for welfare recipients in 1997.

### Retail Trade Employment

Retail trade is the industry with the largest proportion of employees earning at or near the minimum wage. It is likely that employment growth in retail trade would be weaker than employment trends in other industries if an increase in the minimum wage had led businesses to reduce the number of employees. This did not happen in Oregon in 1997 following the increase in the state's minimum wage.

Table II shows the growth rate in retail trade employment and in all other industries in Oregon since 1995. There are two things to note about this table. First, each year during this period, retail trade employment rose at a slower pace than the rest of the labor force. Because employment in retail trade was growing more slowly than employment in other industries before the state's minimum wage was raised, the lower growth rate of retail employment in 1997 reflects a continuation of a trend and does not appear, at first blush, to be related to the minimum wage increase.

Second, the table shows that the overall growth rate in Oregon employment was lower in 1997 than in 1996, a reflection that the state's strong economic growth had slowed somewhat. The data also show that the slowdown in

	1995	1996	1997
<b>Total non-farm trade</b>	4.1%	4.0%	3.4%
<b>Retail trade</b>	3.4%	3.1%	2.8%
<b>Total less retail trade</b>	4.2%	4.2%	3.5%

Source: U.S. Bureau of Labor Statistics

the rate of retail trade employment growth — from 3.1 percent in 1996 to 2.8 percent in 1997 — was actually smaller than the decline in the growth rate for employment in all other industries — from 4.2 percent to 3.5 percent.<sup>(6)</sup> If the minimum wage increase had adversely affected employment opportunities for low-wage workers, it is likely that the growth rate in retail trade employment would have fallen by a greater

margin than the fall in the overall employment growth rate. Because the slowdown in job growth was more modest in retail trade than in other industries these data also suggest that the minimum wage increase was not a leading factor behind the modest slowdown in the state's economic growth rate in 1997.

The Oregon Employment Department did expect some reduced growth in retail trade employment as a result of the minimum wage increase. After factoring in the impact of the state's 1997 minimum wage increase, the department estimated that there would be 282,200 retail jobs in Oregon in 1997. That is one percent lower than the department's estimate of 285,100 retail trade jobs in the absence of the minimum wage increase.<sup>(7)</sup> Actual figures for 1997 — which show that Oregon had 284,400 retail jobs, or slightly more than the number projected for the year — support the Employment Department's forecast of modest job losses following the minimum wage increase.<sup>(8)</sup>

### **Research on the Minimum Wage's Effect on Employment**

These indicators from Oregon are consistent with recent academic research showing that at the current level, moderate increases in the minimum wage would not have adverse employment effects. This includes studies of increases in the federal minimum wage in the early 1990s and in 1996, as well as increases at the state level.

Among the research on state minimum wages are studies of an increase in the California minimum wage in 1988 and in the New Jersey minimum wage in 1992. The New Jersey minimum wage was raised to \$5.05 an hour in 1992. Adjusting for inflation, that equals \$5.90 in 1998 dollars, or roughly the same as the 1998 Oregon minimum wage level. The study of the New Jersey minimum wage increase compared employment growth in fast-food restaurants in the state with employment growth in nearby eastern Pennsylvania, where the minimum wage was not raised. The study found that employment trends were as favorable in New Jersey as in Pennsylvania.<sup>(9)</sup> In response to questions about this study's methods, the authors prepared a 1998 re-analysis using new data from the Bureau of Labor Statistics. The new research confirms the initial findings.

Studies of recent increases in the federal minimum wage also have found no adverse effect on employment nationally. A May 1998 study by the Economic Policy Institute used four different tests to measure the employment effects of the 1996-97 increase in the federal minimum wage to \$5.15 an hour. The tests typically showed small changes in employment for most groups — in some cases positive and in other cases negative — with virtually all of the changes being statistically insignificant. The one test that showed fairly substantial and statistically significant employment effects found that the minimum wage increase boosted the employment of low-wage workers. The authors concluded that the tests "fail to find any systematic, significant job loss associated with the 1996-97 increases."<sup>(10)</sup>

### **Implications for a Federal Minimum Wage**

The Oregon findings have significant implications for the federal minimum wage debate. Just as in Oregon, parents who leave welfare for work throughout the nation tend to earn at or near the minimum wage. Nationwide, half of the single mothers who received welfare assistance for at least part of the year but also worked at least part of the year earned less than \$5.15 an hour in 1996 — the most recent year for which data are available — while 63 percent earned less than \$6.15 an hour. (The federal minimum wage, which stood at \$4.25 an hour at the beginning of 1996 was

raised to \$4.75 an hour in October 1996 and to \$5.15 an hour in September 1997. The leading proposal to raise the federal minimum wage would lift the wage floor to \$6.15 an hour by 2000.)

In addition, the Oregon data are consistent with research showing that the recent increase in the federal minimum wage boosted the earnings of low-income families generally. A study by the Economic Policy Institute on the two-step increase in the minimum wage from \$4.25 an hour in 1996 to \$5.15 an hour in 1997 found that minimum-wage workers frequently reside in low-income working families and that low-income families benefited the most from the increase. The EPI study found that among working families with a working adult, those in the bottom fifth of the income distribution received five percent of total family income nationally, but they received 35 percent of the benefit from the minimum wage increase. The study also found that 58 percent of the earnings gains from the minimum wage increase went to the bottom two-fifths of families in terms of income. The EPI study also looked at the impact on wages for adults with less than a high school education and for teenagers; it found that there were substantial wage increases among these groups, particularly among minorities.<sup>(11)</sup>

Together, these findings suggest that the recent increases in the federal minimum wage are likely to have raised the incomes of a substantial share of the parents who left welfare for work. It further suggests that additional increases in the federal minimum wage would lift the earnings of these families even more, helping families make a successful transition to work and remain off welfare.

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#### End Notes

1. The ballot initiative called for a three-step increase in the state's minimum wage. The third step will be an increase to \$6.50 an hour in January 1999.
2. The wage data reflect hourly wage information provided by welfare recipients to the welfare department. The large majority of recipients reporting wage information are participants in the state's welfare-to-work program. The remainder are recipients who find work outside of the state's JOBS program and report their wage information to caseworkers for benefit re-determination purposes. It is likely that the state data do not include all recipients who find work; for example, some recipients may choose to leave the welfare program when they find a job and thus would not need to report other wage information. Nevertheless, these data were collected in a consistent manner throughout the period covered in this report and thus are likely to accurately reflect changes over time. In addition, these data are used by the state as a performance measure for its welfare reform efforts.
3. Data from Oregon's Adult and Family Services division on the distribution of wages prior to the minimum wage increase are limited. They reflect only those welfare recipients who found full-time work, and the only figures on welfare recipients with earnings below the new minimum are for those earning less than \$5.00 an hour. The available figures show that 17 percent of welfare recipients who found full-time work in the 1996 fiscal year earned less than \$5.00 an hour. Since the vast majority of workers are covered by minimum wage laws, most of the workers earning less than five dollars an hour would have benefited from the state's minimum wage increase.
4. The national comparison group was selected to match as closely as possible the profile of Oregon welfare recipients who moved into work. The comparison group was limited to working women because most adult welfare recipients are women. The *low-wage* level is the 20th percentile wage level among all female workers, as calculated by the Economic Policy Institute. Some 80 percent of women earned more than this level and 20 percent earned less. Between 1993 and 1996, the 20th percentile wage level among women was slightly more than \$6 an hour, or roughly equal to the average wage of Oregon welfare recipients who moved into jobs in that period.
5. The hourly wage for the typical low-wage female nationwide — i.e., the 20th percentile wage among women — equaled \$6.13 an hour in 1993, \$6.08 an hour in 1996, and \$6.15 an hour in 1997, with all figures measured in 1997 dollars. It is worth noting that the increase between 1996 and 1997 may in part reflect the increase in the federal minimum wage from \$4.75 an hour to \$5.15 an hour in September 1997. In other words, the wage growth at this level may have been less than one percent if

the federal minimum wage had not been increased.

6. When the change is measured in percentage terms, the 1997 growth rate in retail trade employment was 10 percent lower than the 1996 growth rate. The 1997 employment growth rate for all other industries was 15 percent lower than the 1996 growth rate.

7. Oregon Employment Department, unpublished data, March 1997. The simulation also estimated that when the minimum wage increase enacted in 1996 was fully implemented, i.e., when the state's minimum wage reaches \$6.50 an hour in 1999, retail employment will be about three percent lower than it would have been if the minimum wage had not been increased. The simulation also estimated that the number of non-health service jobs will be about one percent lower in 1999 than it otherwise would have been as a result of the minimum wage increases. Overall, the department estimated that there would be 12,600 fewer jobs in the state in 1999 as a result of the minimum wage increase, a reduction of less than one percent.

8. As part of its standard measurement of employment, the Oregon Employment Department will revise all 1997 employment figures early in 1999. The revised figure for the number of retail trade jobs thus may differ slightly from the figure noted in this report.

9. David Card and Alan Krueger, "Minimum Wages and Employment: a Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economics Review*, September 1984, and "A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data," Princeton University, January 1998.

10. Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, Economic Policy Institute, Washington, D.C., May 1998, page 1.

11. Bernstein and Schmitt, *op cit*. The study shows, for example, that 30 percent of working women aged 20 to 54 with less than a high school degree earned \$5.15 an hour or less in the six months prior to the first step of the recent federal minimum wage increase in October 1996. During the six months following the second step of the increase, to \$5.15 an hour, the share of teens with earnings below this level dropped to 13 percent. (According to EPI, some workers continued to earn below \$5.15 despite the increase in the federal minimum wage because not all workers are covered by the minimum wage law, because some employers may not have been complying with the law, and because some workers may have inaccurately reported their earnings in the Census Bureau survey from which these data were drawn.)

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Myth and Measurement

THE NEW ECONOMICS OF THE  
MINIMUM WAGE

*David Card and Alan B. Krueger*

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*Dedicated to Richard Allen Lester—our colleague  
and friend*

wage that we have published during the past five years and presents our own interpretations of the evidence on the effects of minimum-wage legislation. In writing the book, we have had the opportunity to revise and update our earlier research, and to expand the evidence on the effects of the minimum wage in many new directions. We also have broadened our lines of inquiry to include a reexamination of the previous literature on the minimum wage, an analysis of the distributional effects of the minimum wage, a study of the effects of minimum wages on shareholder wealth, and a discussion of the theoretical implications of our findings.

In conducting our research and writing the book, we have benefited from the assistance of many colleagues, friends, and students. Lawrence Katz coauthored two of the original articles that preceded this book and provided detailed comments on the manuscript. Orley Ashenfelter, Danny Blanchflower, Charles Brown, David Cutler, Ronald Ehrenberg, Henry Farber, Randy Filer, George Johnson, Mark Killingsworth, and Christina Paxson generously participated in a conference presentation of an early draft and gave us many suggestions that improved the content and exposition of the book. We are especially grateful to Orley Ashenfelter for arranging this forum. Anne Case, Daniel Hamermesh, Richard Lester, and Isaac Shapiro also commented in detail on various chapters. Earlier versions of many chapters were presented at workshops and conferences across the country, and we thank seminar participants at the National Bureau of Economic Research, Cornell University, and the Universities of Chicago, Michigan, and Pennsylvania for their comments and suggestions. During the past year, we received dedicated research assistance from Lisa Barrow, Gordon Dahl, Sam Liu, Jon Orszag, Norman Thurston, Tammy Vu, and Xu Zhang. We also gratefully acknowledge research support from the Industrial Relations Section of Princeton University, the Sloan Foundation, and the University of Wisconsin Institute for Research on Poverty.

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## CHAPTER 1

### Introduction and Overview

There are two excesses to avoid in regard to *hypotheses*: the one of valuing them too much, the other of forbidding them entirely.

—The *Encyclopédie* of Diderot and D'Alembert

NEARLY 50 YEARS AGO, George Stigler implored economists to be "outspoken, and singularly agreed" that increases in the minimum wage reduce employment. The reasoning behind this prediction is simple and compelling. According to the model presented in nearly every introductory economics textbook, an increase in the minimum wage lowers the employment of minimum-wage workers. This logic has convinced most economists: polls show that more than 90 percent of professional economists agree with the prediction that a higher minimum wage reduces employment.<sup>1</sup> Such a high degree of consensus is remarkable in a profession renowned for its bitter disagreements. But there is one problem: *the evidence is not singularly agreed that increases in the minimum wage reduce employment.* This book presents a new body of evidence showing that recent minimum-wage increases have not had the negative employment effects predicted by the textbook model. Some of the new evidence points toward a *positive effect of the minimum wage on employment*; most shows no effect at all. Moreover, a reanalysis of previous minimum-wage studies finds little support for the prediction that minimum wages reduce employment. If accepted, our findings call into question the standard model of the labor market that has dominated economists' thinking for the past half century.

Our main empirical findings can be summarized as follows. First, a study of employment in the fast-food industry after the recent 1992 increase in the New Jersey minimum wage shows that employment was *not* affected adversely by the law. Our results are derived from a specially designed survey of more than 400 restaurants throughout New Jersey and eastern Pennsylvania, conducted before and after the increase in the New Jersey minimum wage. Relative to restaurants in Pennsylvania, where the minimum wage remained unchanged, we find that employment in New Jersey actually expanded with the increase in the minimum wage. Furthermore, when we ex-

amine restaurants within New Jersey, we find that employment growth was higher at restaurants that were forced to increase their wages to comply with the law than at those stores that already were paying more than the new minimum. We find similar results in studies of fast-food restaurants in Texas after the 1991 increase in the federal minimum wage, and of teenage workers after the 1988 increase in California's minimum wage.

(Second) a cross-state analysis finds that the 1990 and 1991 increases in the federal minimum wage did not affect teenage employment adversely. The federal minimum increased from \$3.35 per hour to \$3.80 on April 1, 1990, and to \$4.25 per hour on April 1, 1991. We categorized states into groups on the basis of the fraction of teenage workers who were earning between \$3.35 and \$3.80 per hour just before the first minimum-wage increase took effect. In high-wage states, such as California and Massachusetts, relatively few teenagers were in the range in which the minimum-wage increase would affect pay rates, whereas in low-wage states, such as Mississippi and Alabama, as many as 50 percent of teenagers were in the affected wage range. On the basis of the textbook model of the minimum wage, one would expect teenage employment to decrease in the low-wage states, where the federal minimum wage raised pay rates, relative to high-wage states, where the minimum had far less effect. Contrary to this expectation, our results show no meaningful difference in employment-growth between high-wage and low-wage states. If anything, the states with the largest fraction of workers affected by the minimum wage had the largest gains in teenage employment. This conclusion continues to hold when we adjust for differences in regional economic growth that occurred during the early 1990s, and conduct the analysis with state-level data, rather than regional data. A similar analysis of employment trends for a broader sample of low-wage workers, and for employees in the retail trade and restaurant industries, likewise fails to uncover a negative employment effect of the federal minimum wage.

(Third) we update and reevaluate the time-series analysis of teenage employment that is the most widely cited evidence for the prediction that a higher minimum wage reduces employment. When the same econometric specifications that were used during the 1970s are re-estimated with data from more recent years, the historical relationship between minimum wages and teenage employment is weaker and no longer statistically significant. We also discuss and reanalyze several previous minimum-wage studies that used cross-sectional or panel data. We find that the evidence showing the mini-

um wage has no effect or a positive effect on employment is at least as compelling as the evidence showing it has an adverse effect.

(Fourth) we document a series of anomalies associated with the low-wage labor market and the minimum wage. An increase in the minimum wage leads to a situation in which workers who previously were paid different wages all receive the new minimum wage. This finding is difficult to reconcile with the view that each worker originally was paid exactly what he or she was worth. Increases in the minimum wage also generate a "ripple effect," leading to pay raises for workers who previously earned wages above the new minimum. More surprisingly, increases in the minimum wage do not appear to be offset by reductions in fringe benefits. Furthermore, employers have been reluctant to use the subminimum-wage provisions of recent legislation. Each of these findings casts further doubt on the validity of the textbook model of the minimum wage.

(Fifth) we find that recent increases in the minimum wage have reduced wage dispersion, partially reversing the trend toward rising wage inequality that has dominated the labor market since the early 1980s. Contrary to popular stereotypes, minimum-wage increases accrue disproportionately to individuals in low-income families. Indeed, two-thirds of minimum-wage earners are adults, and the earnings of a typical minimum-wage worker account for about one-half of his or her family's total earnings. In states in which the recent increases in the federal minimum wage had the greatest impact on wages, we find that earnings increased for families at the bottom of the earnings distribution. The minimum wage is a blunt instrument for reducing overall poverty, however, because many minimum-wage earners are not in poverty, and because many of those in poverty are not connected to the labor market. We calculate that the 90-cent increase in the minimum wage between 1989 and 1991 transferred roughly \$5.5 billion to low-wage workers (or 0.2 percent of economy-wide earnings)—an amount that is smaller than most other federal antipoverty programs, and that can have only limited effects on the overall income distribution.

(Sixth) we examine the impact of news about minimum-wage legislation on the value of firms that employ minimum-wage workers. Stock market event studies suggest that most of the news about the impending minimum-wage increases during the late 1980s led to little or no change in the market value of low-wage employers, such as restaurants, hotels, and dry cleaners. In contrast, more recent news of possible increases in the minimum wage may have led to small declines in shareholder wealth—1 or 2 percent, at most.

If a single study found anomalous evidence on the employment effect of the minimum wage, it could be easily dismissed. But the broad array of evidence presented in this book is more difficult to dismiss. Taken as a whole, our findings pose a serious challenge to the simple textbook theory that economists have used to describe the effect of the minimum wage. They also provide an opportunity to develop and test alternative theories about the operation of the labor market. As a step in this direction, we present and evaluate several models that depart only slightly from the textbook model, and yet are capable of explaining a broader range of reactions to the minimum wage.

### WHY STUDY THE MINIMUM WAGE?

Economists in the United States have been fascinated with minimum wages at least since 1912, when Massachusetts passed the first state minimum-wage law. During the next decade, 16 states and the District of Columbia adopted legislation establishing minimum pay standards for women and minors in a variety of industries and occupations.<sup>2</sup> The constitutionality of minimum-wage legislation was challenged almost immediately, and in 1923, the U.S. Supreme Court declared the District of Columbia's minimum-wage law unconstitutional. The effects of this ruling were far-reaching and essentially struck down or curtailed most of the state laws (Davis [1936]). The Court reconsidered the issue several times before finally reversing itself in 1937, upholding a Washington state law and setting the stage for the national minimum-wage regulations that were enacted as part of the Fair Labor Standards Act of 1938. This law, as amended, forms the basis for federal minimum-wage legislation today.

At the heart of economists' interest in the minimum wage is the prediction that an increase in the minimum wage will destroy jobs. Indeed, this hypothesis is one of the clearest and most widely appreciated in the field of economics. Figure 1.1 illustrates the impact of the minimum wage on covered employment in a stylized market, using the conventional supply and demand apparatus. In the absence of a minimum wage, wages and employment are determined by the intersection of the supply and demand curves. Introducing a minimum wage forces employers to move up the demand curve, reducing employment and increasing unemployment. Note that this prediction holds *regardless* of the precise magnitude of the parameters that determine the shape of the supply and demand curves. If a minimum-wage increase does not reduce employment, the relevance

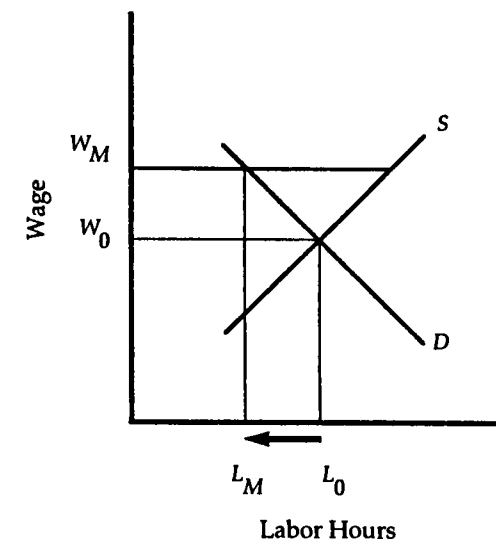


Figure 1.1 The impact of a binding minimum wage on employment in a market for homogeneous workers. The curve marked *S* is the supply curve, and the curve marked *D* is the demand curve.  $W_0$  and  $L_0$  represent the wage and amount of employment in the absence of a minimum, and  $W_M$  and  $L_M$  represent the minimum wage and amount of employment with a legal minimum.

of the textbook supply-and-demand apparatus seemingly is called into question.

The minimum wage is also of obvious importance to policymakers. Countries around the world, including the United States and most other member nations of the Organization for Economic Cooperation and Development, maintain minimum-wage laws. Figure 1.2 shows the quarterly value of the U.S. minimum wage in constant 1993 dollars, from the first quarter of 1950 to the last quarter of 1993. The minimum wage currently is at a relatively low level, and federal and state legislators recently have debated increases in the minimum. Each time an increase is discussed, there is renewed debate about whether minimum wages help or hurt the disadvantaged, and whether the labor market functions as smoothly as economics textbook writers assume.

Another reason for the prominence of the minimum wage in economics and policy discussions is the fact that, at some time during their lives, most individuals are paid the minimum wage. Indeed, we estimate that more than 60 percent of all workers have worked for the minimum wage at some time during their careers.<sup>3</sup> On any given

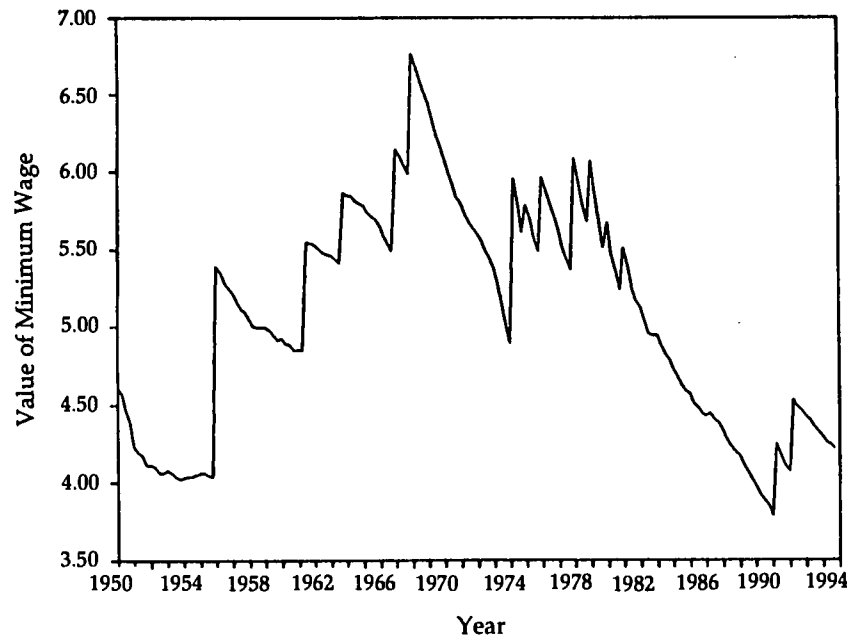


Figure 1.2 Quarterly value of the minimum wage from 1950 to 1993 in constant 1993 dollars, using the CPI as price deflator.

day, however, only about 5 percent of U.S. workers earn the minimum wage. Because those who earn the minimum wage tend to be disproportionately from low-income and minority families, the minimum wage has attracted the attention of social activists, as well.

#### WHAT DOES THE MINIMUM WAGE DO? ECONOMISTS' PERSPECTIVES

If we imagine the total output of the economy as a pie, then the minimum wage can accomplish two things. First, it can alter the size of the overall pie. Second, it can change the size of the slice that different groups—low-wage workers, high-wage workers, and business owners—receive. Conservative economists generally argue that the minimum wage helps no one. They argue that it substantially shrinks the size of the overall pie and reduces the size of the slice that low-income people receive. For this reason, George Stigler called Michael Dukakis's support for a minimum-wage increase during the 1988 presidential campaign "despicable." Finis Welch (1993) went even further, calling the minimum wage, "one of the cruellest constructs of an often cruel society."

Many liberal economists also find fault with the minimum wage.

They argue that, even though the minimum wage might give a slightly larger slice of the pie to some low-wage workers, other, equally deserving workers are shut out of the labor market by the minimum. In the 1979 edition of their introductory textbook, William Baumol and Alan Blinder explained, "The primary consequence of the minimum wage law is *not* an increase in the incomes of the least skilled workers but a restriction of their employment opportunities." Similarly, Robert Heilbroner and Lester Thurow (1987) wrote, "Minimum wages have two impacts. They raise earnings for those who are employed, but may cause other people to lose their jobs."

On the other side of the debate, social activists, policymakers, and other noneconomists often argue for an increase in the minimum wage. Advocates of the minimum wage have included Franklin D. Roosevelt, Martin Luther King, A. Philip Randolph, Walter Reuther, Edward Filene, and Beatrice and Sydney Webb. Within academia, social scientists from outside the field of economics often support minimum-wage legislation. Many noneconomists are skeptical of economic theory and downplay the predicted employment losses associated with a higher minimum wage, while emphasizing the potential pay increases for low-wage workers.

Most significantly, the general public does not widely share the negative opinion of the minimum wage that most economists hold. Surveys find that a majority of the public often supports increasing the minimum wage. A 1987 poll (Gallup [1987]), for example, found that three-fourths of the U.S. population favored an increase. Polls find even stronger support for the minimum wage among the low-income population, the group that many economists argue is hurt by the minimum. The general public is more evenly divided over the question of whether a minimum-wage increase reduces employment. A 1987 poll found that 24 percent of the public "agree a lot" with the statement that "raising the minimum wage might result in some job loss," whereas 22 percent "disagree a lot" with the statement.<sup>5</sup>

#### WHERE DO ECONOMISTS' VIEWS OF THE MINIMUM WAGE COME FROM?

How can the general public, most governments, and many other social scientists disagree with the negative view of the minimum wage that is so widely held by economists? First, one should recognize that economists' views of the minimum wage are based largely on abstract theoretical reasoning, rather than on systematic empirical study. Indeed, introductory economics textbooks rarely cite any evidence for the hypothesized negative impact of the minimum

wage. As we shall see throughout this book, close examination of the evidence reveals considerable uncertainty over the employment effect of the minimum wage.

Second, psychologists have found that people have a tendency to see patterns that support simple theories and preconceived notions, even where they do not exist. For example, the belief that basketball players shoot in streaks is widespread, even though empirical research has found no evidence of the so-called "hot hand" (Tversky and Gilovich, 1989). As another example, some investors continue to follow strategies that are based on recent trends in the stock market, even though economists have found that short-run stock market returns are essentially unpredictable. The weakness of this tendency is that researchers might discover patterns that support their theories, even if the theories are inaccurate. One way to overcome this shortcoming is to focus on empirical methods that all sides agree can provide a test of a particular theory before collecting and analyzing the data. In our view, this is an attractive aspect of the methodology used in our research, which relies on relatively simple comparisons among workers, firms, and states that were affected to varying degrees by a particular increase in the minimum wage.

Third, one should recognize that many models of the labor market have been developed, yet much of what occurs in that market remains a mystery to economists. Furthermore, many features of the labor market are at odds with the simple models that are presented in the introductory textbooks, and that most policymakers have in mind when considering a minimum-wage hike. The following passage, from the distinguished economist Paul A. Samuelson (1951, p. 312), suggests that the labor market has long posed a special challenge to economic theorizing:

\* But I fear that when the economic theorist turns to the general problem of wage determination and labor economics, his voice becomes muted and his speech halting. If he is honest with himself, he must confess to a tremendous amount of uncertainty and self-doubt concerning even the most basic and elementary parts of the subject.

### *Social Economics Revisionists*

The view that a higher minimum wage necessarily reduces employment was not always so strongly held by economists. Economists who led the field of labor economics during the middle half of the twentieth century—including Lloyd Reynolds, Clark Kerr, John Dunlop, and, especially, Richard A. Lester—believed that the mini-

um wage could increase employment in some instances, and reduce it in others. These so-called "social economics revisionists" believed that a number of noneconomic considerations, such as fairness and ability to pay, influence wage setting and employment.<sup>6</sup> These factors were believed to generate what Lester (1964) called "a range of indeterminacy," within which wages could vary with little effect on employment. Higher wages, for example, could reduce worker turnover and, therefore, improve productivity. Alternatively, increases in the minimum wage could "shock" some firms into adopting better management practices, leading to gains in output and employment.<sup>7</sup> According to the revisionist school, an increase in the minimum wage could cause some firms to increase employment, and others to reduce it. In general, however, the revisionists expected a modest increase in the minimum wage to have little effect on employment.

This view of the labor market and the minimum wage developed from empirical studies of individual firms and markets. Richard Lester, for example, analyzed the impact of the minimum wage on low-wage textile producers in the South, supplementing employment and wage data with survey information on firms' management practices. Judged against the empirical research on the minimum wage that was conducted during the 1970s and 1980s, the revisionists' style of research is surprisingly sophisticated, although their statistical methods are relatively simple. Nevertheless, the subsequent wave of neoclassical researchers has largely ignored the social economics revisionists' empirical research.<sup>8</sup>

### *The Neoclassical Model*

As the influence of the revisionists waned during the 1960s, an alternative "neoclassical" view of the labor market rose to prominence. With this shift, the consensus view of the minimum wage changed radically. In contrast to the inductive reasoning of the institutionalist school, the neoclassical view of the labor market is based primarily on deductive reasoning. To understand the neoclassical view of the minimum wage, one must understand the theoretical logic that contemporary economists apply to the minimum wage. According to the standard model of the labor market, each employee is paid his or her "marginal product"—the contribution that he or she makes to the firm's revenue. If a worker is earning \$3.50 per hour and contributing the same amount to the firm's revenue, and the government imposes a minimum wage of \$4.25, then it is no longer profitable to employ that worker. In response to an increase in the minimum

wage, employers attempt to adjust their operations so that workers are worth at least as much as the new minimum wage. They make this adjustment by cutting back on the employment of low-wage workers, and by substituting machinery and more highly skilled workers, whose wages are unaffected by the minimum wage.

The standard model makes a number of simplifying assumptions about the operation of the labor market that are important to this story. Firms have no discretion in choosing the wages that are paid to their workers. Workers are perfectly informed about wages at other firms and will readily move to a new job, if it pays more. In the standard model, workers are treated no differently than are other inputs that employers purchase, such as computers or electricity. The labor market is assumed to operate as smoothly and impersonally as the markets for these other inputs.

The assumptions of the standard neoclassical model lead to what is often called the law of one price. It is easiest to understand this "law" in the context of a simple auction market, such as the commodities market or the stock exchange. In a frictionless auction market, each buyer pays the same price, and buyers can purchase all they want at the going price. When an investor goes to the stock market, she expects to be able to buy as many shares of AT&T as she wants at the "market price." If she isn't willing to pay the market price, she won't get any shares. And, she has no reason to pay more than the market price.

In the labor market, the law of one price translates into the assumption that employers can hire as many workers as they need at the market wage rate. Furthermore, workers of a given skill level receive the same wage rate at all firms. For example, janitors with the same training and skills earn the same pay at IBM as at McDonald's. The law of one price is in direct conflict with the revisionist economists' notion of a range of indeterminacy of wages. Indeed, the failure of the law of one price is what led many revisionists to abandon the simple neoclassical model, and to search for richer models, which could more readily explain the observed features of the labor market.

The standard model rules out a variety of other behaviors that might be important in understanding the workings of the labor market and the effect of the minimum wage. For example, the assumptions of the standard model imply that:

- Higher wages have no effect on worker productivity, or on the likelihood that employees shirk on the job
- Employees' productivity and turnover behavior are unaffected by inter-

personal wage comparisons. Employers need not worry about the perceived "fairness" of their wage structures.

- Employers always operate at peak efficiency and exploit every opportunity for profit. For example, they cannot negotiate lower prices from their suppliers if profits are squeezed by an increase in wages.
- Highly profitable firms do not share some of their profits with workers by offering higher wages or bonuses.

In the standard model, the role of a company's personnel department is exceedingly simple. A personnel manager need only observe the market wage and set pay rates accordingly. He or she need not worry about choosing wages to reduce turnover or motivate employees to work harder. Simply paying the going wage is the right strategy. This is clearly an abstraction of the personnel function. The key questions is: "Does this simplification matter?"

To be useful, a theoretical model can never capture all the nuances of the real world. Therefore, economic theory must abstract from many aspects of reality. A widely held view in economics is that theoretical models should be judged by the accuracy with which they can predict observed phenomena, and not necessarily by the realism of their underlying assumptions. Unfortunately, the standard model of the labor market does not always yield clear and unambiguous predictions, making it extremely difficult to test the model. The minimum wage is an exception, however, because the standard model makes strong and unambiguous predictions about the impact of a minimum wage on employment, wages, profit, and prices. Economists' fascination with the minimum wage arises in large part because it provides such a clear test of the standard neoclassical model.

### *What If Employers Set Their Own Wages?*

The assumption that firms can hire all the workers they want at the going wage rate is widely adopted in modern discussions of the labor market. In fact, this assumption is the linchpin of the standard model of the labor market and underlies the reasoning that each worker is paid his or her "marginal product." Nevertheless, the standard model can be modified easily to include situations in which firms cannot recruit all the workers they desire at the wage they are paying their current work force. This modification allows firms some discretion in choosing the wages that they pay. A firm that wants to recruit more workers, or to recruit workers more quickly, will have to pay a higher wage.



This generalization of the standard model gives rise to what is known as a "monopsony" model. The term *monopsony*, which means a "sole buyer," was coined during the late 1920s by Joan Robinson, a British economist who first used the tools of neoclassical economic theory to analyze situations in which firms have some wage-setting power in the labor market.<sup>9</sup> Why might the buyers of labor, unlike the buyers of shares in large companies, have some monopsony power? In the simplest example of monopsony, there is only one employer in an area, and, in order to coax additional employees to work at the firm, the employer must offer a higher wage than he or she is currently paying. Some degree of monopsony power also arises in modern theories of the labor market that are based on "search theory"—formal models that take into account workers' and firms' lack of information about employment opportunities elsewhere in the market and the costs of moving between jobs and recruiting new workers.<sup>10</sup> As long as a higher wage helps firms to recruit workers, the firm has some monopsony power.

Monopsony power puts firms in an interesting position. On the one hand, if they offer a higher wage, they can recruit more workers, which, in turn, leads to higher output and profits. On the other hand, if they pay a higher wage to new recruits, then they must increase the wages of all their current employees.<sup>11</sup> A profit-maximizing firm will make a rational calculation and will raise wages to the point at which the wage paid to an additional worker is just equal to the worker's marginal product, *minus* the additional wages that must be given to all the current workers when this worker is added to the payroll. Each worker no longer is paid what he or she contributes to output, but something less.

In a monopsony situation, firms operate with ongoing vacancies. Although each employer would like to hire more workers at the current wage, it is not worthwhile to offer a higher wage, as the firm would have to pay the higher wage to all its current employees. Furthermore, different firms might choose to pay different wage rates, depending on the sensitivity of their recruiting efforts to the level of wages. Some firms might choose to offer a lower wage, and to operate with higher vacancies and higher turnover. Others might choose a higher wage, and to operate with lower vacancies and lower turnover. The result of these actions is a persistent range of indeterminacy for wages.

From our point of view, the most interesting aspect of the monopsony model is that it can reverse the predicted adverse employment effect of an increase in the minimum wage. In fact, in a monopsony situation, a small increase in the minimum wage will lead employers

to increase their employment, because a higher minimum wage enables formerly low-wage firms to fill their vacancies quickly. The minimum wage forces these firms to behave more like the high-wage firms, which experienced lower vacancies and lower turnover rates. Of course, if the minimum wage is increased too much, firms will choose to cut employment, just as in the conventional model.

Economists typically take a dim view of the monopsony model. For example, Baumol and Blinder (1979) wrote, "Certainly the types of service establishments that tend to hire the lowest-paid workers . . . have no monopsony power whatever. While minimum wage laws can conceivably raise employment, few if any economists believe that they actually do have this pleasant effect." This view is based mainly on deductive reasoning. Most economists will ask the introspective question: How can a fast-food restaurant have any discretion in the wage that it pays for cashiers? In our view, the question is an empirical one. Do higher wages lead to more rapid recruiting rates and lower quit rates? Do different fast-food restaurants pay different wages? Does an increase in the minimum wage always lead to employment losses, as most economists believe, or can it lead to employment gains, as the monopsony model predicts?

#### PLAN OF THE BOOK

This book investigates the effect of the minimum wage on employment, prices, and the distribution of income. In chapters 2, 3, and 4, we summarize our research on the employment effects of recent increases in the U.S. minimum wage. This new research is based on comparisons across firms or across regions of the country that were affected by increases in the minimum wage to varying degrees. As noted, we believe that this research provides fairly compelling evidence that minimum-wage increases have no systematic effect on employment. Indeed, some of the research, based on employment changes at individual fast-food restaurants affected by an increase in the minimum wage, and on comparisons of employment trends in eating and drinking establishments across different states, suggests that a rise in the minimum wage may actually increase employment.

This is not to say that we believe that an increase in the minimum wage always leads to no change in employment at all firms. As our detailed microdata samples show, employment growth varies greatly across firms. In any given year, some firms grow, some shrink, some die, and some are born. A hike in the minimum wage could lead to an increase in employment at some firms, and to a

decrease at others. As a result, it is always possible to find examples of employers who claim that they will go out of business if the minimum wage increases, or who state that they closed because of a minimum-wage increase. On average, however, our findings suggest that employment remains unchanged, or sometimes rises slightly, as a result of increases in the minimum wage. This conclusion poses a stark challenge to the standard textbook model of the minimum wage.

\* In chapter 5, we investigate other employment-related outcomes that are affected by the minimum wage. We find that the minimum wage has a "ripple effect" in many firms, leading to pay increases for workers who initially were earning slightly more than the new minimum wage. Although this effect is inconsistent with simple versions of the standard model, its existence is readily acknowledged by many low-wage employers. We also point out many other anomalies associated with the minimum wage. For example, we show that a large spike in the wage distribution occurs exactly at the minimum wage. The spike moves in response to minimum wage changes and becomes more prominent after a minimum-wage increase, as workers who formerly were paid less than the new minimum are "swept up" to the minimum wage. This pattern implies that workers who were paid different wages before the increase are paid the same wage afterward—seemingly at variance with the claim that all workers are paid in accordance with their true productivity. Even more puzzling, we cite research showing that firms that are exempt from the minimum wage often pay the minimum wage anyway. Finally, we find that minimum-wage employers are extremely reluctant to take advantage of subminimum-wage provisions. All these results complement our conclusion that recent increases in the minimum wage have not harmed employment. A variety of evidence suggests that the minimum wage does not have the effect on the labor market that would be predicted from the competitive neoclassical model.

What about the body of previous research that generally concluded that minimum-wage increases are associated with employment losses? For example, the 1981 Minimum Wage Study Commission concluded that a 10 percent increase in the minimum wage reduces teenage employment by 1 to 3 percent. Most of the research was based on aggregate time-series analyses of teenage employment. In this research, teenage employment rates in periods in which the minimum wage is relatively high are compared with rates in periods in which it is relatively low. In the past, this work generally found that the teenage employment-to-population rate was

lower in periods of relatively high minimum wages. No systematic relationship was found for adults, perhaps because their wages were too high to be affected by the minimum.

In chapters 6 and 7, we reinvestigate previous empirical research on the minimum wage. We reach two surprising conclusions. First, the historical time-series relationship between minimum wages and teenage employment has become much weaker. If we use more recent data to estimate the same models that found negative effects of the minimum wage in the past, we no longer find statistically reliable evidence that the minimum wage reduces employment. To the extent that one found the past evidence convincing, the new evidence suggests a different conclusion. Second, some of the previous cross-sectional and panel-data studies rely on questionable assumptions and research methods. We have obtained and reanalyzed the data sets that were used in a number of these studies. Our reanalysis provides results that are generally consistent with the findings of our own studies.

One explanation for the small effect of the minimum wage in the U.S. labor market is that the minimum wage is set at a low level relative to average wages. Typically, only about 5 percent of workers are paid the minimum wage in the United States, compared with approximately 25 percent in Puerto Rico. In chapter 8, we investigate recent evidence of the impact of the minimum wage in other countries. We focus on Puerto Rico, which, because it is bound by U.S. minimum wage laws, has an extremely high minimum wage relative to average wages. We also review evidence with respect to the United Kingdom and Canada. The evidence for Canada is surprisingly similar to the aggregate time-series evidence for the United States: the same models that previously showed large negative effects of the minimum wage on teenage employment now show much smaller and statistically insignificant effects.

Of course, even if one believes that minimum-wage increases sometimes lead to employment increases, one need not support a minimum-wage increase. Likewise, some people may support a minimum-wage hike even if it is demonstrated to have a negative effect on employment. Given that our own and previous research find the magnitude of the employment effects of the minimum wage to be relatively small, opinions about the desirability of a minimum wage are based largely on distributional issues.

In chapter 9, we examine the effects of the minimum wage on the distributions of wages, earnings, and incomes. We use data from 1989–1992 to examine the family-income characteristics of minimum-wage earners and compare changes in the distributions of wages

and earnings across different states after the 1990 and 1991 increases in the federal minimum wage. We also compare the family-income circumstances of workers whose wages were affected by the most recent increases in the minimum wage with those of workers who were affected by the 1974 increases. We find that, relative to the situation in 1974, workers affected by the recent minimum-wage increases are more highly concentrated in poorer families. We find strong evidence that an increase in the minimum wage raises pay rates for workers in the bottom 10 percent of the wage distribution. As a result, we conclude that recent increases in the minimum wage have contributed to a partial reversal of the rising wage inequality that emerged during the 1980s. The minimum wage has a similar effect on family earnings for families in the bottom 10 percent of the earnings distribution. Finally, we find some evidence that minimum wages reduce the poverty rates of families having at least one wage earner.

In chapter 10, we examine a different aspect of the distributional consequences of the minimum wage. We use a standard event-study methodology to evaluate the impact of news about minimum-wage legislation on the stock market values of a sample of firms in low-wage industries. We track news about the federal minimum wage, beginning in early 1987, when proposals to amend the Fair Labor Standards Act first appeared in Congress during the Reagan administration, and ending in 1993, with the most recent round of speculation about additional increases in the federal minimum. The standard model of the minimum wage predicts that the market values of firms employing low-wage workers should be very sensitive to changes in the relative likelihood of a minimum-wage change. On balance, we find only weak evidence of such an effect. One interpretation of our results is that the standard model overstates the profitability effects of a higher minimum wage. Another is that "news" about the minimum wage is released so slowly that it is difficult to capture discrete changes in investors' attitudes toward the probability of a change in the law.

In light of our new research, and our reanalysis of previous studies, we believe that the standard model of the labor market is incomplete. Chapter 11 presents a detailed discussion of alternative theoretical models of the labor market, and the implications of our empirical findings for the validity of these alternatives. We describe several versions of "the" standard model of the minimum wage, including a version that allows for covered and uncovered sectors of the labor market, and versions that explicitly take into account differences in skills across workers. We then present an alternative set

of models, which share the common feature that employers have some discretion over the wages that they pay. We focus on a simple dynamic monopsony model, and on generalizations of this model that describe an equilibrium distribution of wages across firms. We highlight two important contrasts between the standard model and alternative models in which employers have some wage-setting power. First, all versions of the standard model lead to the prediction that an increase in the minimum wage will reduce employment of workers whose pay is increased by the minimum wage, whereas the alternative models suggest that employment can rise with modest increases in the minimum wage. Second, the alternative models provide a more natural interpretation of many other labor-market phenomena, including wage dispersion across seemingly identical workers, the existence of vacancies, and low-wage employers' use of a wide variety of recruiting tools. A rigorous evaluation of these alternative models will have to await subsequent research. Nevertheless, we hope that a careful consideration of the alternatives ultimately will lead to a better understanding of the labor market, and to better formulation of public policy.

In chapter 12, the concluding chapter, we summarize our research findings and consider the implications of our work for future policy discussions on the minimum wage. Finally, we evaluate the implications of our findings for the narrower debate within economics on the appropriate model of the labor market. We also outline some important areas for additional research on the effects of the minimum wage and the operation of the labor market.

## CONCLUSION

Many of the findings in this book challenge the prevailing economic wisdom about the labor market and the effect of the minimum wage. Some of the research has provoked a great deal of critical comment and reaction. As a result, it is important to understand the strengths and weaknesses of the evidence on which we base our conclusions. For this reason, we describe our empirical findings in what many readers might consider excruciating detail. An important feature of the book is that our conclusions are based largely on the quantitative analysis of several data sources, in several settings. Our approach is to identify a series of "natural experiments" that would provide convincing evidence, even to a skeptic. We then analyze existing data sets and, in some cases, collect new data sets, in order to examine the impact of the minimum wage. The study of the impact of the New Jersey minimum wage is a good example of this

approach. The fact that we designed the analysis in advance of collecting the data gives an added measure of credibility to the results, because the empirical findings could have supported one conclusion as easily as the other.

Judged against the standard of previous empirical research on the minimum wage, we believe that the new research that we present in this book is convincing. Nevertheless, all quantitative analyses have limitations. A major concern is that the minimum wage is never increased randomly for one group of employers. Consequently, we can analyze only "quasi-experiments," rather than classical randomized experiments, which routinely are used in the "hard" sciences. We try to probe the limitations of our analyses by using alternative "control groups" to compare the results. More importantly, we try to assemble a variety of evidence on different minimum-wage increases, which affect different groups of workers in different regions of the country at different times.

Some readers may be interested in exploring our analysis further, or in using our data sets for course work or problem sets. We will make the new data sets available via anonymous FTP until the end of the century. Specifically, the key data sets used in chapters 2, 4, and 6, are available in the MINIMUM directory of IRS.PRINCETON.EDU. The READ.ME file in that directory describes the data sets.

#### NOTES

1. See Kearn et al. (1979) and Colander and Klammer (1987).
2. Only the state of Wisconsin adopted a minimum wage covering adult male workers. For a detailed account of the state legislation, see U.S. Department of Labor, Women's Bureau (1928).
3. This estimate is based on data from the National Longitudinal Survey of Youth. Specifically, we tracked the 1964 birth cohort between 1979 and 1991 to estimate the percentage of workers who were ever paid within 5 cents of the minimum wage.
4. Transcript, "McNeil/Lehrer News Hour," September 28, 1988.
5. This poll was conducted for the Service Employees International Union in May 1987. See *Public Opinion Online*, accession number 0023319, question number 50.
6. The term *social economics revisionist* is used by Kerr (1994).
7. The "shock" theory of firm behavior recently has been endorsed by Alan Greenspan, chairman of the Federal Reserve Board. In describing the positive productivity effects of low inflation, Greenspan argued that low inflation causes businesses to become more efficient because they cannot raise their prices (see *New York Times*, June 9, 1994, p. D1).

8. The influential review article by Brown, Gilroy, and Kohen (1982), for example, does not mention Lester's work.

9. Robinson (1933, page 215, footnote 1) credits Mr. B. L. Hallward, of Cambridge, England, for the word.

10. One of the ironies of this line of research is that it was begun by George Stigler, who remained a staunch opponent of the minimum wage.

11. Of course, some employers actually try to pay higher wages for the new recruits than for their existing labor force. This practice often generates considerable turmoil in the work place, however.

## Additional Employment Outcomes

Everything should be made as simple as possible, but not simpler.

—Albert Einstein

IN ADDITION TO its implications for employment, the standard economic model of the labor market makes a number of predictions about the impact of a binding minimum wage on other outcomes. For example, firms that are compelled by the minimum to increase wages are expected to respond by reducing fringe benefits, charging uniform fees, and using other means to evade the law's effect. When permitted, any firm that previously hired eligible workers at a wage that was less than the minimum wage is expected to use a subminimum wage. In addition, a binding minimum wage should lead firms to reduce investments in worker training. Finally, some firms are expected to respond to the minimum wage by moving to the "underground" sector and not complying with the law. The research discussed in this chapter investigates the effect of the minimum on several employment-related outcomes. We begin by examining the impact of the minimum wage on the distribution of wages, and then discuss the subminimum wage. Next, we examine whether firms cut fringe benefits and training in response to a minimum wage. Finally, we examine whether the minimum wage influences the rate of applications for jobs and turnover.

To preview the chapter's main conclusions, we document several anomalous findings from the standpoint of the standard model of the low-wage labor market. First, substantial wage dispersion for seemingly identical workers and jobs exists that cannot be explained easily in the context of the conventional model. Second, a sizable spike in the wage distribution occurs at the minimum wage. Brown (1988) noted that this spike is an indication that people with presumably different ability levels earn the same wage—a phenomenon that is at variance with the assumptions of the standard model. Perhaps even more puzzling, a spike in the wage distribution occurs at the minimum wage even for firms that are exempt from the minimum wage. Third, an increase in the minimum wage has a spillover effect in some firms, causing workers earning above the minimum to

receive raises. The spillover effect probably does not extend very far up the wage distribution, however. Fourth, several studies have found that youth subminimum wages are hardly ever used by employers in the United States. For example, only a small percentage of fast-food restaurants took advantage of the youth subminimum wage when it was available during 1990–1993, even though they paid teenagers less than the subminimum before the minimum wage was increased. Finally, firms do not appear to offset increases in the minimum wage with reductions in fringe benefits or in employer-provided on-the-job training.

Each of these findings is puzzling from the standpoint of the simplest version of the conventional model, and, taken together, they further lead one to question the applicability of that model to the low-wage segment of the labor market. The alternative models discussed in chapter 11 are capable of explaining some of these anomalous findings, although some of the findings are anomalies in the context of the alternative models as well.

### EFFECTS ON THE DISTRIBUTION OF WAGES

#### *The Law of One Price and the Minimum-Wage Spike*

The "law of one price" asserts that identical commodities should trade for the same price. In the labor market, it implies that workers with equal skills should be paid the same compensation (where compensation is broadly construed to reflect pay, fringe benefits, and working conditions). The law of one price has a strong intuitive appeal in the impersonal commodity and financial markets, in which identical bundles of goods are traded continuously to agents whose sole interest is private financial gain. Under these conditions, any difference in prices between identical goods would quickly be arbitrated away. In the labor market, however, a variety of factors might prevent the law of one price from operating. For example, if workers' motivation and work effort depend on whether they believe that they are paid adequately or treated fairly, then it may be in a firm's interest to set wages with an eye toward motivating workers, rather than simply paying the minimum salary necessary.

Economists have long debated whether equally skilled workers receive equal compensation in different sectors of the labor market. Beginning with Slichter (1950), economists have documented large and persistent wage differentials for workers in different industries. For example, auto companies consistently pay a higher wage for janitors than do service companies. Moreover, larger firms tend to pay

TABLE 5.1

Responses of Texas Fast-Food Restaurants to Change in Minimum Wage, by Starting Wage Before April 1, 1991

	Starting Wage = \$3.80 (1)	Starting Wage \$3.80–4.25 (2)	Starting Wage ≥\$4.25 (3)
1. Average Starting Wage Before April 1, 1991 (\$)	3.80	3.93	4.28
2. Increase in Starting Wage from April 1 to December 1991 (\$)	0.46	0.37	0.20
3. Proportion Maintaining Wage Hierarchy <sup>a</sup>	0.16	0.33	—
4. Proportion with Spillovers to Workers Earning \$4.50 per Hour <sup>b</sup>	0.09	0.29	0.60
5. Proportion Decreasing Amount of First Pay Raise	0.05	0.03	0.00
6. Proportion Increasing Time to First Pay Raise	0.03	0.05	0.00
7. Proportion Using the Youth Subminimum	0.06	0.03	0.06
8. Proportion that Cut Fringe Benefits	0.04	0.04	0.06
9. Sample Size	174	122	17

Source: Based on Katz and Krueger (1992), Table 3.

<sup>a</sup>The "proportion maintaining wage hierarchy" is the fraction of restaurants that, after April 1, 1991, paid a wage above the restaurant's new starting wage to workers who had been earning between the restaurant's starting wage and \$4.25 per hour before April 1, 1991.

<sup>b</sup>The "proportion with spillovers to workers earning \$4.50 per hour" is the fraction of restaurants that, after the minimum-wage increase took effect, increased the pay of workers who had been earning \$4.50 per hour.

creases to workers earning \$4.50 per hour when the minimum rose to \$4.25. Among restaurants with higher starting wages rates (column 2 and 3), the corresponding fractions are higher. Thus, there is some evidence of wage spillovers for workers who were earning more than the new minimum wage, but mainly at firms where the starting wage was already relatively high.

We also examined whether, in response to an increase in the minimum wage, firms delayed the time until workers received their first

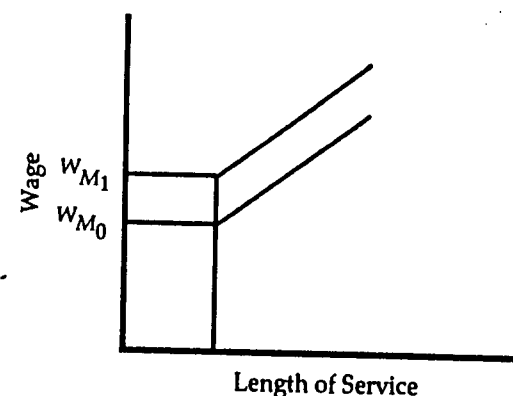


Figure 5.2 The tenure-earnings profile before and after an increase in the minimum wage, assuming no change in the amount or timing of seniority raises.  $W_{M_0}$  represents the minimum wage before the increase,  $W_{M_1}$  represents the wage after the increase.

pay raise, or reduced the amount of the first raise. Rows 5 and 6 of Table 5.1 provide some information on this issue. Although restaurants that were forced by the minimum-wage increase to raise their starting wage are more likely to delay the first raise they give to workers, and to reduce the amount of the first raise, only a small proportion of firms took these actions. For the majority of firms that did not delay pay raises or reduce the amount of raises, the tenure-earnings profiles before and after the minimum-wage increase correspond to those presented in Figure 5.2. In the long run, a lack of adjustment of pay raises will lead to a spillover effect, because the entire wage structure will ratchet up. For firms that did alter the timing or amount of raises, the tenure-earnings profiles correspond to those presented in Figure 5.3.A or 5.3.B.

Figures 5.4.A and 5.4.B shed some light on the importance of spillover effects more generally. These figures present the fraction of teenage workers earning less than \$4.50 per hour and less than \$5.00 per hour during each quarter from 1989 to 1992.<sup>13</sup> Following the approach used in chapter 4, we classified the states into three groups depending on whether the fraction of teenagers directly affected by the minimum-wage increase was high, medium, or low. In chapter 4, we found that, if anything, total teenage employment increased more in the states with a higher fraction of teenagers affected by the minimum-wage hikes. Given this finding, if there were no spillover effects beyond \$4.50 per hour, then we would expect the fractions of

If low-wage employers are able to discriminate against some employees on the basis of personal characteristics that are unrelated to productivity, then it seems that the low-wage labor market is not as competitive as is assumed in the textbook model, and that the sharp predictions of the textbook model on the effect of a minimum wage may not apply. Lester (1994), for example, noted that in the 1940s and 1950s many southern textile employers paid higher wages to white workers than black workers performing the same jobs. Starting from this situation, it is possible that employers would not lay off black workers if their wages were raised by the minimum wage, contrary to the predictions of the standard model.

### *Wage Spillover Effects*

Casual observation suggests that the minimum wage sometimes has a spillover, or ripple, effect, meaning that when the minimum increases the wages of some workers may rise *above* the new minimum, and the wages of workers who already were earning slightly more than the minimum may increase as well. The existence of a spillover effect poses a problem with respect to some versions of the standard model, because any worker who previously earned a wage that was less than the minimum wage should not be paid more than the minimum as a result of an increase.

Industry experts frequently allude to a ripple effect of minimum wages. For example, Jeffrey Stoller, of the New Jersey Business & Industry Association, has said, "It's not just what happens to minimum-wage earners; it's the ripple effect. . . . People earning above minimum expect more once the [wage] goes up because they are upset if someone just starting earns more or as much as they do."<sup>11</sup> Similarly, in its 1992 annual report, SG&A Company reported:

The only groups of employees directly affected by these increases [in the federal minimum wage] were the Company's part-time sales associates and, beginning with the fiscal 1991 increase, certain employees at the Company's Distribution Center. The direct impact of the increases in the hourly minimum wage rate on the Company in fiscal 1991 and 1990 was to increase SG&A expenses by less than one percent. *The increases in the minimum wage also had a slight ripple effect on the salaries of other groups of store and distribution employees.* (Italics added.)

The first empirical study on whether minimum-wage increases have a spillover effect was conducted by Grossman (1983). For each of seven occupations, Grossman related the change in the average wage to contemporaneous and lagged changes in the minimum

wage across 16 SMSAs for the years 1960–1975. Her results indicated that wages became more compressed immediately following a minimum-wage increase, but that the wage structure gradually returned to its original state. Grossman argued that the eventual fanning out of the wage structure after the rise in the minimum is consistent with a spillover effect. One difficulty in interpreting the results, however, is that wages could eventually become less compressed after a minimum-wage increase because inflation has eroded the value of the minimum wage.

The second wave of the survey of Texas fast-food restaurants described in chapter 2 collected direct information on how *within-firm* wage policies responded to the April 1991 increase in the federal minimum wage.<sup>12</sup> In particular, suppose that, before April 1991, a firm paid \$3.80 per hour to newly hired workers, and that, after April 1991, it increased its starting hourly wage to \$4.25. What did this firm do to the pay of more senior workers who were already earning, say, \$4.00 per hour? The survey results presented in row 3 of Table 5.1 indicate that 16 percent of firms in this situation increased the wages of workers earning \$4.00 per hour to an amount above the new starting wage, thereby maintaining their wage hierarchies. After the minimum-wage increase took effect, one-third of the restaurants that started workers between \$3.80 and 4.25 per hour increased the pay of incumbent workers who were earning more than the entry salary but less than the new minimum to *above* \$4.25.

A similar question was asked in the earlier wave of the Texas survey: specifically, what happened to the wages of workers who were earning more than \$3.35 per hour, but less than \$3.80 per hour, when the federal minimum wage rose from \$3.35 to \$3.80? The results indicated that 41 percent of restaurants in this situation maintained their relative wage structures. Thus, firms were more likely to preserve wage differentials between new workers and long-service workers after the 1990 increase in the minimum wage than after the 1991 increase. A possible explanation for the apparently lower level of concern for internal equity after the 1991 increase is that, relative to the 1990 minimum wage, the 1991 minimum was farther above the equilibrium wage level.

A related question is whether firms increase the pay of workers who are already earning more than the new minimum wage when the minimum goes up. As shown in row 4 of Table 5.1, restaurants with higher starting wages prior to the April 1991 minimum wage increase were more likely to grant raises to workers who were already earning \$4.50 per hour. Among restaurants with the lowest initial starting wages (column 1) only 9 percent granted wage in-



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9. Sample Size	174	122	17

Source: Based on Katz and Krueger (1992), Table 3.

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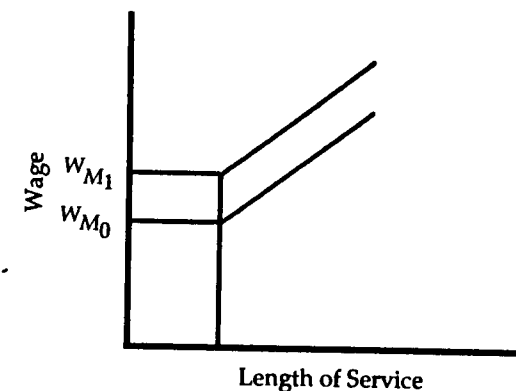
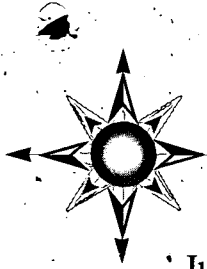


Figure 5.2 The tenure-earnings profile before and after an increase in the minimum wage, assuming no change in the amount or timing of seniority raises.  $W_{M_0}$  represents the minimum wage before the increase,  $W_{M_1}$  represents the wage after the increase.

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# COALITION FOR A LIVABLE FUTURE

534 SW THIRD AVENUE, SUITE 300 • PORTLAND, OR, 97204

July 8, 1998

Board of Commissioners  
Multnomah County  
1120 SW 5th, Rm. 1515  
Portland, OR 97204

Dear Commissioners:

I am writing on behalf of the Coalition for a Livable Future, an affiliation of 44 nonprofit organizations based in the Portland area working to promote an equitable and sustainable future for our metropolitan region. **The Coalition for a Livable Future (CLF) respectfully urges the Board of Commissioners to adopt the Living Wage Coalition's proposed improvements to Multnomah County's Living Wage and Benefit Project.**

Our support for the Living Wage Coalition's proposal is based on the principles of economic justice and equity contained in CLF's Objectives (a set of basic values that has been signed-on-to by all 44 CLF member groups). Specifically, the language reads:

- "1. Protecting, maintaining and restoring the social and economic health of our urban, suburban, and rural communities, especially the distressed parts of the urban region;
  - (a) Preventing displacement of low and moderate income residents and people of color as neighborhoods improve;
  - ...
  - (d) Protecting, maintaining and encouraging the development of living wage jobs, small businesses, and community-based and sustainable economic development, throughout the region;
  - (e) Reversing the polarization of income, and raising income and opportunities for the region's low income residents."

As you know, our region faces tremendous growth pressures. These pressures particularly impact low and moderate income families through rising home prices and rents, shifting job markets, and increasing polarization of income in gentrifying neighborhoods.

## COALITION MEMBERS

AMERICAN INSTITUTE OF ARCHITECTS, PORTLAND CHAPTER • AMERICAN SOCIETY OF LANDSCAPE ARCHITECTS • ASSOCIATION OF OREGON RAIL AND TRANSIT ADVOCATES • AUDUBON SOCIETY OF PORTLAND • BICYCLE TRANSPORTATION ALLIANCE  
CITIZENS FOR SENSIBLE TRANSPORTATION • COLUMBIA RIVER INTER-TRIBAL FISH COMMISSION • COMMUNITY ACTION ORGANIZATION • COMMUNITY ALLIANCE OF TENANTS • COMMUNITY DEVELOPMENT NETWORK • ECUMENICAL MINISTRIES OF OREGON  
ENVIRONMENTAL COMMISSION OF THE EPISCOPAL DIOCESE OF OREGON • FANS OF FANNO CREEK • FRIENDS OF ARNOLD CREEK • FRIENDS OF GOAL FIVE • FRIENDS OF ROCK, BRONSON AND WILLOW CREEKS • FRIENDS OF SWITH & BYRDE LAKES • FRIENDS OF TRYON CREEK STATE PARK  
HILLSDALE-NEIGHBORHOOD ASSOCIATION • HOUSING PARTNERS, INC. • JOBS WITH JUSTICE • LEAGUE OF WOMEN VOTERS OF THE COLUMBIA RIVER REGION • LIVABLE OREGON • METRO COMMUNITY DEVELOPMENT CORP. • MULTNOMAH COUNTY COMMUNITY ACTION COMMISSION  
NETWORK BEHAVIORAL HEALTH CARE, INC. • NORTHWEST HOUSING ALTERNATIVES • 1000 FRIENDS OF OREGON • OREGON ENVIRONMENTAL COUNCIL • OREGON FOOD BANK • OREGON HOUSING NOW COALITION • PORTLAND CITIZENS FOR OREGON SCHOOLS  
PORTLAND COMMUNITY DESIGN • PORTLAND HOUSING CENTER • PORTLAND IMPACT • REACH COMMUNITY DEVELOPMENT CORP. • ROSE COMMUNITY DEVELOPMENT CORPORATION • SUNNYSIDE METHODIST CHURCH • TUALATIN RIVERKEEPERS • URBAN LEAGUE OF PORTLAND  
THE WETLANDS CONSERVANCY • WILLAMETTE PEDESTRIAN COALITION • WOODLAWN NEIGHBORHOOD ASSOCIATION • XPAC

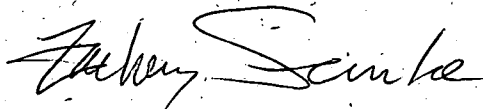
PHONE: 503.294.2889 • FAX: 503.223.0073 • EMAIL: CLF@FRIENDS.ORG

The Living Wage Coalition's proposed improvements to the Living Wage and Benefit Project together represent an important tool for maintaining and restoring the social and economic health of communities in Multnomah County. First, by raising wages, the proposal will help prevent the displacement of low and moderate income residents from the County as housing prices continue to rise. Second, by providing decent jobs in Multnomah County, the proposal would help provide more stable employment in the County, preventing expensive commutes by Multnomah County residents to outside jobs. Finally, the proposal would help reverse the polarization of income that is so detrimental to low income people and to all communities attempting to carry-out sustainable economic development.

Fundamentally, the Living Wage Coalition's proposal will help the County and the region take one step closer to a sustainable economy. Only when we can provide jobs that keep people out of poverty will we have a truly healthy regional economy that is good for people and can ensure the protection of our region's environment.

Please adopt the Living Wage Coalition's proposal. Thank you for your time and consideration.

Sincerely,

A handwritten signature in cursive script, appearing to read "Zachary Semke".

Zachary Semke  
Program Coordinator

"Any official who thinks people should have to get by on \$6 an hour should be forced to explain his or her position in the Spring election."

-Sheila Crowley, PD/NP Co-Chair

in February, and build strong grassroots networks in targeted districts to pressure reluctant city councilors. A draft ordinance would require companies receiving public funds or city contracts to pay their employees 100% of the federal poverty level for a family of four. The standard would increase to 105% in the second year and 110% after three years. The measure will also likely require a higher wage for employees not receiving health benefits.

"It's not news to anyone in Dane County that you can't get by on six bucks an hour," says PD/NP Co-chair Sheila Crowley. "Any officeholder who thinks that people should have to try should be forced to explain his or her position in the spring elections."

The living wage promises to be a major issue in upcoming county elections. PD/NP expects to back up to eight candidates for the county board, and may also endorse two school board candidates.

#### *DWB: driving while black*

In response to citizen complaints that African-American drivers have been regularly pulled over for no reason, PD/NP Alderwoman Barbara Vedder and PD steering committee member Bert Zipperer have led an effort to require data to be collected each time a police officer pulls over a vehicle—including those where no ticket was issued. Another issue of concern to the black community in Madison: bars frequent-

ed by African-Americans are being shut down at a much higher rate than other bars.

The report's solution: rather than relying solely on complaints, return to a method of frequent inspection of all liquor serving establishments, using a point system to determine where problems are developing.

"Despite the overreaction from various quarters regarding these solutions," said Zipperer, "we are advocating a simple, pro-active approach that allows us to be informed about how fairly our city's police powers are being used."

#### *Milwaukee*

##### *Schools campaign underway*

Progressive Milwaukee is working closely with the Urban League, NAACP, Rethinking Schools, and Concerned Milwaukee Educators to organize a series of community forums around public education issues, including vouchers, funding equity, standards, tracking, and desegregation. The forums will help build public support for progressive school reforms in preparation for 1999 school board races.

"We hope to pull together a broad array of forces to push to improve public education in Milwaukee," said fifth grade teacher and PM/NP member Bob Peterson. "There are too many people in this city with the agenda of destroying public education."

#### *Jobs With Justice*

Along with the Milwaukee County Labor Council and the

Campaign for a Sustainable Milwaukee, PM/NP sponsored a Jobs with Justice Workers' Rights Board on December 10, the national JWJ day of action on welfare reform. More than 400 community residents came out to hear testimony about the

exploitation of workfare participants and corporate welfare. The coalition is planning to follow up the effort with a state legislative campaign in Spring 1998 around fair hearings, child care and full enforcement of workers rights. Δ

## **BUILDING THE NEW MAJORITY**

### **...One Person**

**Name:** Carol Weidel, Madison, Wisconsin

**Occupation:** Research analyst for the State of Wisconsin on leave for two-year term as president of the Wisconsin Federation of Teachers/AFT. In her state job, Carol documented the successes and failures of welfare reform.

**Proudest accomplishment:** "As president of my state employee union I led my bargaining unit into a new union affiliated with the AFT and the Wisconsin Federation of Teachers. The success of WFT in organizing beyond its traditional base of education workers resulted in my being the first non-education president of the WFT. Now more than ever, all public employees are united in our demand for respect and recognition for the work we do.

**Favorite food:** "Aged limburger cheese and white wine... hey this is Wisconsin!"

**Why she's involved in the NP:** "I attended the 1992 Democratic National Convention as a Jerry Brown delegate. It was like an epic movie: there was a cast of thousands, the script was written, we knew how it would end, and I was just one of the extras. I want to be part of a political party where I can help write the platform, and hold elected officials accountable. I want to be part of a party where the tobacco company is not hosting the delegates' breakfast."





**Portland Community College  
Federation of Classified Employees**

P.O. Box 19526 Portland, Oregon 97280-0526

244-6111 x4180

July 8, 1998

To: Multnomah County Commissioners

Re: Proposed Improvements in Multnomah County's Living Wage and Benefit Project

We would like to encourage you to pass the improved living wage and benefit project for subcontracted work by Multnomah County. While we realize the need of contracting out to get the work done in the most efficient manner, we also know the importance of providing Oregonians with a wage by which they can support themselves and their families. Additionally, it is important to provide workers access to medical benefits. The less workers rely on the Oregon Health Plan, the better off government.

The current living wage plan only covers custodial workers. This has proven to be beneficial to the County as the quality of work has improved markedly with the increase in wages. It's time to expand the plan to cover food workers, public safety, plus.

When we show that employees are valued with a living wage and benefit package that provides for their physical and mental well being, we find that we have a better work force. The extra effort made by you in providing good pay and minimal benefits will be realized by all of the residents of Multnomah County in better services and a more affluent work force.

Thank you for your consideration.

Sincerely,

Martha Wolf

President, Portland Community College Federation of Classified Employees