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# Living Wage Laws: Answers to Frequently Asked Questions

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# Living Wage Laws: Answers to Frequently Asked Questions

## **Abstract**

[Excerpt] Although most communities that have considered living wage proposals have adopted them, questions invariably arise about the desirability and effectiveness of these ordinances as public policy tools and the relation of such measures to local economic development. Here are some frequently asked questions and answers about living wage ordinances.

## **Keywords**

living wage, living wage laws, cost of living, income, economic growth, public policy

## **Comments**

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# **Living Wage Laws: Answers to Frequently Asked Questions**

**AFL-CIO Department of Public Policy  
October 2000**

## **Living Wage Laws: Answers to Frequently Asked Questions**

*In recent years, living wage laws have been adopted in a number of U.S. cities, including Baltimore and Los Angeles. These laws require a minimum level of pay for covered workers at a rate higher than the federal or state minimum wage. Enacted either through a local ballot referendum or through legislation adopted by governing bodies, living wage laws cover firms that receive local government contracts, subsidies or tax breaks. Such policies have been enacted in more than 40 jurisdictions around the country and have directly raised the wages of thousands of low-wage workers, such as security guards, home health care workers, janitors, waste management workers, parking attendants and food service workers.*

*Yet living wage campaigns are about more than fighting to increase wages; they are also about demanding accountability from companies profiting from taxpayer dollars. While the living wage movement is fairly young, corporate accountability is not a new phenomenon. Living wage policies build on a long and well-established tradition of governments attaching conditions pursuant to the exercise of their procurement authority. For example, Executive Order 11246 requires federal contractors to satisfy equal employment opportunity and affirmative action mandates, the Davis-Bacon Act requires federal construction contractors to pay prevailing wages and benefits and the Service Contract Act requires the same of federal service contractors. Local and state living wage requirements simply are the latest example of government requiring a certain standard of behavior from contracting and subsidized companies.*

*Living wage campaigns often are catalysts for debate in our communities about the type of economic development taxpayers want to support and promote. With the passage of each living wage ordinance, local communities are casting their votes—often resoundingly—for an economic high road, built on good, quality jobs that support working families.*

*Although most communities that have considered living wage proposals have adopted them, questions invariably arise about the desirability and effectiveness of these ordinances as public policy tools and the relation of such measures to local economic development. Here are some frequently asked questions and answers about living wage ordinances.*

**Q: What are these “living wage laws”? Don’t we already have “minimum wage” laws?**

A: “Living wage” laws are measures that set specific wage rates for discrete groups of workers. They differ from state and federal “minimum wage” laws both in the wage level they require and in coverage. Federal and state minimum wage laws prescribe lower wage levels than living wage laws but cover virtually all employers. Living wage laws set much higher wage rates but cover a much narrower and smaller group of employers; they generally apply to companies that have service contracts with the city or county government or those that receive certain forms of financial assistance from the government.

**Q: Isn’t the minimum wage enough?**

A: The minimum wage is no longer a family-supporting wage. In the past, the minimum wage provided enough income to lift a family of three out of poverty. During the 1960s and 1970s, the annual earnings of a full-time, year-round minimum wage worker roughly equaled the poverty level for a family of three. The minimum wage, however, remained unchanged at \$3.35 an hour from 1981 until April 1990, while the cost of living rose steadily; thus, minimum wage earnings slipped significantly below the poverty level. Recent increases have not restored all the lost value. Today, full-time, year-round minimum wage earnings are nearly 20 percent below the poverty level for a family of three<sup>1</sup>. Because the minimum wage no longer supports families, we need to rely on an arsenal of additional strategies—including policies using the government’s power of the purse—to raise wages for workers at the bottom.

**Q: What constitutes a “living wage”?**

A: Unlike the federal minimum wage, which produces earnings below the poverty level, a living wage is a pay rate designed to ensure that covered workers earn wages at or above the poverty line. Though living wage ordinances vary in their wage rates, the level they typically set is the hourly wage a full-time, year-round worker must earn to bring a family of four out of poverty. The U.S. Department of Health and Human Services 2000 poverty guideline for a family of four was \$17,050. To bring a family of four above this poverty line, a full-time, year-round worker would need to earn an hourly wage of \$8.20<sup>2</sup>.

Although a living wage is still a low wage, the extra disposable income available to a full-time living wage worker compared with a full-time minimum wage worker is substantial. According to calculations by the Center on Budget and Policy Priorities, a worker who has two children and who works full-time, year-round at the federal minimum wage of \$5.15 an hour has a total net income of \$13,781 (after taking into account payroll taxes and the Earned Income Tax Credit). At an hourly

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<sup>1</sup> U.S. Census Bureau, Preliminary Estimate of Weighted Average Poverty Thresholds for 1999, Jan. 19, 2000. <http://www.census.gov/hhes/poverty/threshld/99prelim..htm>

<sup>2</sup> U.S. Census Bureau, *The 2000 HHS Poverty Guidelines*, <http://aspe.hhs.gov/poverty/00poverty.htm> This hourly wage is calculated by dividing the poverty guideline for a family of four by 2,080, the number of hours a full-time, year-round worker works in one year. The poverty guidelines presented here are for the 48 contiguous states and Washington, D.C.; there are separate numbers for Alaska and Hawaii.

wage of \$8.20, that same worker with two children would have a total income of \$18,720. The full-time worker earning the “living wage” has nearly \$5,000 more than a minimum wage worker to spend on education, health care and other necessities of daily life.

<b>What Does It Mean to Earn a Living Wage vs. a Minimum Wage?</b>				
<b>Hourly Wage</b>	<b>Earnings (Year-Round, Full-Time)</b>	<b>Payroll Taxes</b>	<b>EITC</b>	<b>Annual Income</b>
\$5.15	\$10,712	\$819	\$3,888	\$13,781
\$8.20	\$17,056	\$1,305	\$2,969	\$18,720
<b>Difference</b>	<b>\$6,344</b>	<b>\$486</b>	<b>-\$919</b>	<b>\$4,939</b>

Source: Ed Lazere, Center on Budget and Policy Priorities, June 2000. Assumes worker has two children. Worker pays no federal income tax.

**Q: Why are living wage ordinances important?**

A: Living wage requirements serve several important societal goals. First, they are another step in the direction of making work pay, helping to ensure that those who work for a living will not live in poverty. Second, they are one mechanism for imposing accountability on companies that benefit from public (i.e., taxpayers’) dollars. Living wage requirements help ensure that taxpayers’ dollars actually are expended in a sound manner, paving an economic high road that improves living standards for workers and their communities, rather than subsidizing only low-wage employment which, although profitable for firms, seldom improves and sometimes degrades living standards. Third, because they boost wages for the lowest-paid workers, living wage requirements ensure that taxpayers’ dollars help stabilize the community wage floor rather than undercut wage rates in the community overall, keeping them lower than is good for the general welfare. Absent wage standards, contractors often compete for public contracts by cutting wages to the bare bones rather than by investing in worker training and other productivity enhancing measures (such as technological innovations) that also can lower their overall costs. Living wage laws help place all bidders on a level playing field, making it possible for those paying decent wages to compete with employers who would otherwise “low ball” wages in order to gain an advantage.

**Q: What’s wrong with employers competing on the basis of lower wages?**

A: Placing wages in competition promotes a race to the bottom, pulling down living standards not only for directly affected workers but potentially for the community as a whole. This race to the bottom adds strain to communities, requiring public resources (such as Temporary Assistance for Needy Families, food stamps and Medicaid) to offset costs of poverty wages, and imposing greater demands on private charities (funded in part by the taxpayers because of deductibility of contributions) as they scramble to meet the needs of the working poor. Competing by lowering wages also promotes greater turnover and discourages employer investment in training and other productivity-enhancing measures. Greater turnover and the discouragement of employer investment in training can inhibit improvements in overall service quality. Such wage policies as living wage

requirements can improve the living standards of workers and the communities in which they live, and may have a beneficial impact on affected businesses and the business climate overall.

***Q: Won't raising wages through a living wage ordinance have an adverse effect on the number of jobs in a community, ultimately hurting the people the policy is intended to help?***

A: Living wage and minimum wage opponents often voice this concern, and the answer is a resounding “**No!**” Studies by the Economic Policy Institute (EPI) and the Preamble Center for Public Policy on the impact of Baltimore’s living wage ordinance, which passed in 1994, found the ordinance did not result in job loss among employees of the contracting companies. These findings are consistent with a solid body of contemporary studies that have found no job loss resulting from modest increases in the minimum wage.<sup>3</sup>

In addition to the direct evidence from actual experience under Baltimore’s ordinance, the solid economic health of a number of living wage cities further indicates that living wage ordinances do not adversely affect communities’ employment levels or job growth. Consider Oakland, for example. The Oakland living wage-ordinance took effect on July 1, 1998. Employment in the Oakland area grew by 32,200 in the year ending December 1999, and the city’s jobless rate fell from 3.3 percent to 2.5 percent. In comparison, the U.S. jobless rate fell less than half as far (from 4.4 percent to 4.1 percent) during the same 12-month period.

***Q: Why don't living wage ordinances lead to job losses?***

A: A rise or fall in a city’s or a metro area’s overall employment depends on factors much more far-reaching than a living wage ordinance. Any potential employment effects of a living wage requirement would be overwhelmed by the broader issue of whether an area is fundamentally healthy. For example, over the 12 months ending in December 1999, U.S. employment measured by the government’s survey of establishments grew by 2.1 percent. In Milwaukee, employment rose by 1.2 percent (10,100 jobs), but it grew by 3.2 percent in Oakland (32,200 jobs). Both cities have living wage ordinances. That two cities with living wage requirements would experience such different employment growth during the same period underscores that a healthy, growing economy is far more important to job gain or loss overall than the presence or absence of living wage requirements.

***Q: If job gains or losses generally depend on other factors, why do businesses warn that living wage ordinances will cause job loss?***

A: The threat of job losses is a largely emotional argument often injected into public policy debates to sway the public and decision makers. The “job loss card” is played far too often by employers who simultaneously try to avoid imposition of any standards or regulations while also seeking some sort of government assistance to commence, continue or expand operations. The job loss threat, by the same logic, applies to any expense a firm might face. For example, one could argue that job losses might occur if energy costs go up, if taxes rise or if environmental laws are enacted or more strictly enforced. The job loss argument is an all-purpose threat. While it would not be sound policy to allow

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<sup>3</sup> For example: David Card and Alan B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton University Press, 1995; Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, Economic Policy Institute, 1998.

wage rates to follow the out-of-control upward path of executive pay in recent years, modest increases in low-wage pay are desirable and do not result in job losses.

***Q: Won't living wage requirements inevitably lead to higher taxes as employers pass along the cost of wage increases to the government, resulting in an increase in government contract costs?***

A: There is *no* evidence that living wage ordinances in any of the many cities adopting them have led to higher taxes. Nor do living wage requirements inevitably lead to an increase in contract costs. Studies by the Preamble Center and EPI found that Baltimore's living wage ordinance had not increased contract costs.

Because a living wage ordinance is designed to require contractors to pay employees more, it follows that an ordinance *would* result in higher *employment* costs for a contractor than would otherwise be the case. Would this necessarily translate into higher *contract* costs? That depends. Contractors might opt simply to absorb the higher employment costs, either because they were unable to pass them along because of competition or because the certainty and reliability of government contracts outweighed the added costs. Moreover, higher employment costs also may be offset by reductions in turnover, reduced training needs and productivity improvements. As a result, employers' overall costs may not rise.

Another reason living wage requirements do not lead inevitably to higher contract costs or tax increases is that the actual increase mandated by the living wage requirement is a tiny percentage of companies' total production costs. For example, according to economist Bob Pollin, the cost increase associated with raising wages to comply with the Los Angeles living wage ordinance amounts to less than 1 percent of total costs for many of the employers covered by the living wage ordinance.<sup>4</sup>

***Q: Is a higher contract cost because of a living wage requirement necessarily bad?***

A: No. Even if a living wage ordinance resulted in marginally higher contract costs, taxpayers may be willing to pay more, if necessary, to support higher pay. The public generally feels that work should pay. According to a recent Lake Snell Perry & Associates poll, Americans overwhelmingly support the idea that anyone who works full-time should not have to live in poverty. Four out of five of those polled (84 percent) agreed that "as a country, we should make sure that people who work full-time should be able to earn enough to keep their families out of poverty."<sup>5</sup>

Lake Snell Perry & Associates also found that Americans think it takes an income much greater than current poverty thresholds to provide for oneself and one's family. Nine out of 10 respondents (a total of 92 percent) felt that a family of four needs at least \$25,000 in annual income just to meet all expenses, and 69 percent thought an income of at least \$35,000 is necessary.

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<sup>4</sup> Robert Pollin and Stephanie Luce, *The Living Wage: Building a Fair Economy*, 1998.

<sup>5</sup> Lake Snell Perry & Associates, "A National Survey of American Attitudes Towards Low-Wage Workers and Welfare Reform," survey conducted April 27-30, 2000.

Poll after poll also shows strong public support for raising the minimum wage<sup>6</sup>. In addition, in a *Los Angeles Times* poll conducted shortly after passage of the L.A. living wage ordinance, 70 percent of registered voters said they supported the measure, a significant endorsement given the mayor's strong opposition to the living wage requirement. Finally, 76 percent of the respondents in a 1996 EDK study favored "Requiring any company that does business with a city or town government, or receives any special tax break, to pay employees a living wage of at least \$7/hour."<sup>7</sup> Given such broad support for making work pay and for raising wages at the bottom, it seems likely that the public would find modest cost increases unobjectionable if they were necessary to ensure that jobs created with taxpayer dollars are jobs that pay a decent wage.

In addition, any cost increases that might occur may be offset by benefits to the community and, hence, do not invariably lead to higher taxes. Low-wage workers who receive a raise from the ordinance will enjoy a higher standard of living, reducing their need to rely on public assistance or private charity. Their ability to meet their needs—and therefore to purchase goods and services—increases, potentially pumping more money back into their communities. Thus, at least a portion of the higher costs may be offset by positive benefits to the community.

The question of whether a contractor has a higher contract cost goes to the heart of the living wage issue. Was the contract's cost "too low" before the living wage ordinance was passed? A pre-ordinance contract cost is too little if it depends on maintaining poverty-wage employment.

**Q: Don't living wage requirements mark a city as "unfriendly" to business?**

A: No. A living wage requirement is a strong and positive statement of community values about how tax dollars should be spent and the types of jobs public monies should create. A living wage requirement says that if a company wants to benefit from taxpayers' dollars, through contracts or subsidies, it must meet the requirement of paying employees a decent wage. Public jurisdictions place any number of requirements upon the contracts they make or other benefits they confer—nondiscrimination, affirmative action, prevailing wages and so on. None of these requirements is intended to be unfriendly to business; they are simply designed to maintain standards or achieve socially important or worthwhile goals for affected workers and communities.

If living wage requirements were unfriendly to business, we would see evidence of this in the areas where living wage laws are in place. This is not the case, however. An October 1999 study by Good Jobs First reported, in fact, that in 46 areas with job quality requirements for employers receiving government subsidies, "There is no indication that the standards have adversely affected the 'business climate' of their respective jurisdictions. Indeed, the standards apparently mesh well with employers' needs for employee retention and skills enhancement."<sup>8</sup>

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<sup>6</sup> *Los Angeles Times* survey, January 1999; Hart and Teeter survey, March 1999; ABC News poll, Oct. 6, 1999.

<sup>7</sup> Ethel Klein (EDK Associates Inc.) and Guy Molyneux (Peter D. Hart Research), *Corporate Irresponsibility: There Ought to Be Some Laws*, July 29, 1996.

<sup>8</sup> Greg LeRoy, Katie Tallman, Fiona Hsu and Sara Hinkley, *The Policy Shift to Good Jobs: Cities, States and Counties Attaching Job Quality Standards to Development Subsidies*, Good Jobs First, October 1999.

And, in its Baltimore living wage study, the Preamble Center found that business property values actually increased dramatically after passage of a living wage law. While the living wage ordinance obviously did not cause this increase, Baltimore's experience nevertheless suggests there is no reason to believe that a living wage requirement acts as a negative signal to employers, marking the locality as unfriendly to business. Indeed, the Preamble Center study suggests that living wage requirements actually may have beneficial effects for business. Some of the Baltimore employers covered by the living wage ordinance reported that employee productivity had increased as a result of the living wage law, which was a boon to their businesses.

"No strings attached" contracts and subsidies send a perverse and pernicious message that local governments are willing to spend taxpayers' dollars without regard to the quality of jobs created, the working conditions and living standards of workers and the impact on communities. Taxpayers have a right to expect more of their elected officials.

***Q: Doesn't a living wage ordinance just shift costs to the public?***

A: No. In fact, it's the *absence* of living wage requirements that allows businesses to shift some of their employment costs to the public. A living wage law puts more of the responsibility for making work pay where it belongs—on the employer profiting from public monies and not on taxpayers. For example, a full-time worker paid \$6 per hour gets \$240 per week or \$12,480 per year. This is \$4,570 less than the 2000 poverty guidelines for a family of four (\$17,050), and considerably less than what most American families spend, even when they scrimp. As a benchmark, according to the latest figures from the U.S. Bureau of Labor Statistics, a "typical" husband and wife with two children had annual cash expenditures of more than \$47,700 in 1997.

A family with low-wage earners often must depend on public support and private charity to make ends meet. This might mean housing assistance, welfare, food stamps and other forms of aid that taxpayers underwrite. To supplement even these forms of assistance, a family also might depend on charities or go into debt. A living wage policy requires employers to pay a higher (though still low) wage so that families are able to meet more expenses on their own, covering basic needs and maintaining a greater degree of independence without undue reliance on public aid or private charity.

***Q: Isn't it true that businesses refuse to locate in places where ordinances mandate higher wages for workers?***

A: The business location decision is a complex one and varies from firm to firm and situation to situation. Wage rates are important to firm location decisions, but they are not the only or primary consideration. If wages were of overriding importance, states like New Jersey with high average wages would not be adding jobs. This is not the case.

Further, firms sometimes use the threat of not locating in such a community as a leverage point to negotiate a better deal. Under such circumstances, taxpayers and their representatives need to decide whether they will allow firms to bully them into awarding "no strings attached" public contracts and subsidies or if, instead, they will insist on using public monies to pave an economic high road of

good jobs and strong communities.

***Q: Why do businesses locate where they do if local wage rates aren't determinative?***

A: Tried and true factors that firms weigh in deciding to locate or to grow include wage rates. But they also include such fundamental considerations as the productivity of workers, proximity to markets, transportation and raw materials, school quality, public infrastructure, crime rates and other security considerations, and on and on.

Over the years, a number of researchers have studied the reasons firms locate where they do, why they relocate and why they expand. A Corporation for Enterprise Development survey of these studies finds that wage rates often rank well below other factors. For example, in the manufacturing sector, one study found that more than half of surveyed firms (55 percent) cited being "near market" as a "locational must," while only 30 percent said "low labor rates" were location "musts." Other factors cited more often than low labor rates as "musts" included favorable labor climate, attractive place for engineers/managers to live and proximity to supplies and resources. Another study, commissioned by the Virginia Division of Industrial Development, ranked "wage rates" behind the following factors in importance: proximity to services important to the business, overall cost of doing business, availability of skilled workers and personal preference of company executives.

A recent Grant-Thornton survey explains that the reasons manufacturers give for choosing a particular location vary: "Of those companies that have plans to build or move a facility, 62 percent cite the availability of skilled workers as a particularly important criterion for selecting a given area....Almost as many (61 percent) say being closer to major customers is an important factor in determining where they will locate. Often, the advantages of proximity to major customers can provide a competitive advantage. Similarly, proximity to key suppliers may also be a strategic consideration."<sup>9</sup>

The existence of a living wage ordinance in and of itself is highly unlikely to override these basic location considerations. The bottom line is that businesses locate in a particular place if there is money to be made when all the pluses and minuses are considered.

***Q: If we want to help the working poor, shouldn't we do it through more targeted means, such as local Earned Income Tax Credits, job training and child care assistance, for example?***

A: Earned Income Tax Credits, child care assistance, low-income housing assistance, job training and other programs all are very important components of the effort to improve the lives of the working poor and their families. A living wage requirement is another piece of this mosaic. Alone, none of these policies is sufficient to solve the problem.

Opponents of living wage and minimum wage measures often cite the Earned Income Tax Credit (EITC) as the preferred solution to the problems of the working poor. While important and

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<sup>9</sup> "Creating the Future." 9th Annual Grant Thornton Survey of American Manufacturers Report. <http://www.gt.com/resources/mandist/9gtsam/9gtsam4.html>

worthwhile, the EITC is not, however, a wholly satisfactory solution nor an appropriate substitute for higher wages. The EITC and similar tax credits allow businesses to continue paying substandard wages, thus shifting employment costs to taxpayers. On the other hand, a living wage requirement formalizes the basic notion that taxpayers should not foot the bill for employers who profit from paying poverty wages to their workers. Taxpayers' dollars should support an economic high road built on good jobs that pay well—jobs that pay a living wage.

***Q: Do living wage ordinances have different or greater consequences for the community than the Earned Income Tax Credit?***

A: Both living wage (and minimum wage) laws and the EITC put money into poor workers' pockets, but wage mandates play an additional role not shared by the EITC. Mandatory wage rates stabilize the wage floor for all workers at the bottom, and have a beneficial spillover effect for other low-wage workers. Living wage requirements also encourage employers to be more productive (for example, by investing in training, technology and other innovations). The EITC flows directly to families and some individuals, but because it has no wage impact on employers, it provides no incentives for employer-sponsored productivity improvements and has no effect on employer wage-setting.

***Q: Do living wage ordinances have other advantages over the Earned Income Tax Credit?***

A: Yes. Up to one in five eligible persons do not apply for EITC benefits, according to the Center on Budget and Policy Priorities. Why? People may not know about it, or they don't know the right way to apply. Workers who don't earn enough to have federal income tax withheld from their pay may not be in the habit of filing a tax return, and those who do not file a tax return cannot get the credit. An estimated 5 million persons are eligible for the EITC, yet do not claim the credit. Unlike the EITC, a wage increase goes automatically to the workers—they receive the money every pay period.

More money from the employer in the form of a pay hike arguably also engenders more company loyalty among employees than money that comes from the government in the form of a tax credit. This effect may confer a competitive advantage on employers subject to living wage ordinances, since their employees—who fare better than their peers working for non-living wage employers—have reason to be more motivated, committed and productive. And when a covered employer experiences job openings, the applicant pool may be larger and the employer's ability to be selective greater because the living wage jobs are more desirable.

***Q: Don't living wage requirements unfairly target only certain employers to raise wages for only certain employees? Essentially, these employers are penalized for doing business with the government.***

A: Far from being penalized for doing business with the government, companies that contract with or receive assistance from local governments enjoy enormous advantages. The coverage provisions of the Madison, Wis., living wage ordinance illuminate the many types of benefits companies receive from local government. These may include city funds, services of city personnel, leases of property for less than the fair market value or for reduced consideration, permission to use city property or any interest in such property, the furnishing of city services without consideration or at a nominal consideration reduced for the purpose of assisting the recipient, capital revolving fund loans, redevelopment contracts, economic development agreements and so on. It is hardly unfair or

punitive to require firms that benefit from such an array of government supports to pay living wages. Living wage and other similar requirements help ensure the public actually receives promised economic development benefits in exchange for government development assistance.

Employers subject to living wage ordinances are covered only because they enjoy the benefits of government largesse. Companies receiving government subsidies already enjoy a considerable competitive advantage compared with companies that do not; attaching conditions such as living wage requirements certainly does not penalize them.

***Q: What about government contractors subject to living wage requirements? After all, they're not getting any special breaks.***

**A:** Traditionally, firms seek government contracts as valuable prizes. The contracts are valuable because firms can count on payment, and there usually is a good chance of contract renewal. The government is a reliable payer and will not go out of business. A government contract thus serves as a solid and reliable base of income that may facilitate further expansion for a business. These advantages may be particularly important to small firms.

***Q: Some firms, such as lessees of subsidized companies, do not receive a direct subsidy. Their landlords do. Yet the lessees may be required to meet living wage requirements. Is this fair?***

**A:** Yes, it is fair. For the lessee firm, the living wage requirement may be offset by other advantages, such as a prime location or a new facility, making it profitable to do business anyway. For example, even though a lessee firm had to pay higher wages, it might do several times more business than otherwise because of its advantageous location advantage, say, in a subsidized new mall. The lessee clearly benefits (although indirectly) from the government subsidy. Alternatively, the lessee and the subsidy recipient can negotiate a contract adjustment—such as lower rent—that confers a financial benefit on the lessee, offsetting the impact of the living wage requirement. If lessees and tenants were not covered, it would be possible to avoid the effect of the law and undermine its purposes simply by contracting out or subleasing facilities to entities that would then be free to pay substandard wages.

***Q: Won't a living wage requirement be a burden to nonprofits that provide valuable services on behalf of the local government? A living wage requirement can reduce or eliminate their ability to offer these services.***

**A:** Some living wage laws specifically address the issue of nonprofits by exempting certain ones from coverage altogether, or by covering only those meeting specific criteria (such as nonprofits whose chief officers earn more than a specific percentage above what the lowest paid employee earns). There is no reason for an outright exemption of all nonprofits, however. Nonprofits vary greatly in their ability to absorb any costs associated with living wage requirements. For instance, new research conducted by David Reynolds and Jean Vorkamp on nonprofits and the Detroit living wage ordinance found, “for a majority of nonprofits, the living wage requirements do not appear to represent an unduly harmful financial burden.”<sup>10</sup> The authors report that two out of three nonprofits

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<sup>10</sup> David Reynolds and Jean Vorkamp, *Impact on Detroit's Living Wage Law on Non-Profit Organizations*, June 2, 2000.

surveyed indicated that the living wage requirements had only a minimal or minor impact on their organizations.

Further, employees of many nonprofits—those working for various social service programs, for example—perform indispensable public services but often are unlikely to receive wage increases other than through living wage ordinances (or minimum wage hikes). Nonprofits enjoy various exemptions and other forms of special legal and tax treatment designed to recognize and support the role they play in community life. In light of the special benefits they already enjoy, the additional advantages conferred when they do business with the government and the needs of their workers, there is no reason nonprofits should not be subject to appropriate living wage requirements. Low-wage employees of nonprofits need adequate food, shelter and clothing—in short, a living wage—just like everyone else.

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