News Analysis: 'Greedy businesses' and the 'living wage': popular policies, disputed outcomes

By Eric Schulzke, Deseret News
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Ann Coulter. No photo credit. (Submission date: 09/15/2003)

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Summary

If politics make strange bedfellows, Ann Coulter and ACORN are among the strangest. A feisty conservative, Coulter writes red-meat books with titles like "If Democrats Had Any Brains, They'd Be Republicans." ACORN is a leftist community action group best known for mobilizing low-income voters for President Barack Obama.

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One thing they seem to agree on is the "living wage."

"Cheap labor is cheap only for the employer," Coulter recently wrote in a column defending Mitt Romney's stance on illegal immigration. Coulter excoriated business interests for, she said, supporting illegal immigration to keep wages low on the farms, factories and fast-food restaurants. Or as she put it, "greedy businesses making the rest of us support their underpaid employees."

Citing estimates that 70 percent of illegal immigrant households collect government benefits, Coulter argued that the real costs are borne by society in food stamps and other anti-poverty programs. The public is burdened when "employers don't pay them a living wage," according to Coulter.

Intent on defending Romney and opposing illegal immigration, Coulter may not have known that the "living wage" is a rallying cry for liberal anti-poverty activists like ACORN. Essentially a minimum wage on steroids, some form of a "living wage" law is now on the books of more than 140 U.S. municipalities. In most cases, such laws only affect companies that receive direct subsidies or government contracts.

A few cities such as Santa Fe, N.M., and San Francisco impose the rules across the board. These two have of late dueled for the honor of the highest legal wage in the country. Santa Fe this year regained the edge at $10.29 an hour.

The laws are controversial. Some argue a high minimum wage heightens unemployment, while others see the laws as poorly targeted, shifting subsidies to workers who don't need them (teenagers) while doing little for those who do (working moms).

Whatever their actual effects, the living-wage agenda has proven politically durable and potent. It has, as Coulter knows, strong visceral appeal.

Gut-level appeal

In New York, a Sienna College poll released on May 14 found that 78 percent favored increasing the state minimum wage. "Nearly nine in 10 Democrats support it, as do three-quarters of independents and 58 percent of Republicans," said Sienna pollster Steven Greenberg.

In Connecticut, a recent Quinnipiac poll found that 70 percent favored a minimum-wage hike, including 88 percent of Democrats, 69 percent of independents and 48 percent of Republicans.

The Connecticut poll suggests that many of those favoring a minimum-wage hike also suspect that it will result in fewer jobs. When asked if raising the minimum wage would lead small businesses to reduce hiring, 50 percent of respondents agreed.

Disputed jobs impact

"Employers can benefit from paying higher wages," said James Parrott of the Fiscal Policy Institute in New York, who argues that higher minimum wages do not drag down employment. "Longevity and productivity increase, and employers don't need to hire and train as many new workers." Parrott also argues that in low-wage industries such as retail establishments and restaurants, most of the costs are the costs of goods. "Labor costs are just a small fraction of the total," he said.

This relatively new notion that minimum-wage levels can climb without sparking unemployment runs counter to standard economic theory. A landmark 1992 study conducted after New Jersey raised its minimum wage compared fast-food outlets there to those in eastern Pennsylvania. The study found no employment loss. In 2010, a team of prominent researchers compared adjacent counties on state borders where wages differed within a narrow region. They likewise found that higher minimum wages did not hurt employment.

The most prominent critic of this position is David

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Neumark, an economist at U.C. Irvine. In a 2009 Wall Street Journal op-ed article, he criticized "tirelessly (and selectively) cited" claims discounting unemployment caused by wage hikes. The best evidence, he argued, "clearly shows that minimum wages reduce employment of young, low-skilled people," as employers figure out how to do without low-value labor.

Conventional wisdom holds that when something costs more, less is consumed. And since employers consume jobs, the more jobs cost, the fewer people they will hire. "The most ardent supporters of the minimum wage have to recognize that point, for otherwise they would raise the living-wage level to $25, $50 or $100," argued law professor Richard Epstein in a recent article for the Hoover Institution.

Ken Jacobs at the U.C. Berkeley Labor Center agrees — to a point. "No one will argue that there isn't some point at which a higher mandated wage will result in higher unemployment," he said. "But the living-wage laws to date don't appear to have hit that threshold." Jacobs argues that there is a wide space in which better wages actually reduce employer costs by increasing productivity and reducing turnover.

But many economists argue that even the most aggressive living-wage proposals merely toy on the margins of what the working poor really need. The heavy lifting, they say, is being done by anti-poverty programs.

A blunt instrument?

Behind the living-wage movement is a gut instinct that an adult working full time should be able to survive without handouts.

Eighteen states currently exceed the federal minimum wage, with Washington leading the way at $9.01. But this is still out of sight of the $17.48 a single parent with one child would need to live in Seattle, according to the Poverty in America Project at Pennsylvania State University. It added that two adults with two children could get by on $14.58 an hour, if both were working full time.

At $7.25 an hour, the current federal minimum wage falls well short of that mark, but not even the most ambitious living-wage proposals reach these levels. The gap between actual wages and living wages, as Coulter said, is made up by the safety net of poverty programs such as Medicaid, food stamps and the earned income tax credit (EITC).

The safety net is a bit tangled, however. Back in 1996, Aaron Yellowitz, an economist at the University of Kentucky, drew up a table assessing the total government benefits a poor single mother with one child could receive — including cash, food, housing and medical care. He then tracked the decline in benefits as her income rose.

Despite numerous changes to the system, Yellowitz said, the gist of his table holds true today: as work income goes up, government benefits sharply drop. Because benefits are cut as earnings rise, real net income benefits are cut as earnings rise, real net income remains stagnant between $10,000 and $20,000 annual earnings. Net income then actually drops when earned income climbs between $20,000 and $25,000. Jacobs calls it a "steep implicit tax" on the poor.

Setting aside the implicit tax problem, Yellowitz still sees the "living wage" as poorly targeted to help those most in need. "We're taking from employers and giving to workers under the guise of the struggling single parent," he said. "That's part of the story but nowhere close to 100 percent of it." Estimates vary, but most agree that roughly 35 percent of minimum-wage workers are teenagers.

"If the object is to improve the lives of the poor, increasing the EITC is a much more effective tool than living-wage laws," Yellowitz said. "Most economists agree that minimum wage is a blunt way of trying to achieve this goal," Yellowitz said.

"It's true that we have some benefits that have cliffs and some that are just stingy," admitted Jen Kern of the National Employment Law Project. Smoothing out the penalties for increased earnings is important, Kern argues, but it is a "separate policy argument" from the minimum wage.

"Minimum wage is not perfectly targeted" to the most needy, Kern said, "but we are talking about a wage standard, a line below which we are not comfortable." Kern argues for a balance between fine-tuning the safety net and ensuring that wages do not slip.

"Wages have been flat and falling for decades, and businesses are carrying less and less of their weight," said Kern, who began her career as a living-wage advocate for ACORN.

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