Top Ten Reasons
A Living Wage Makes Sense for New York City

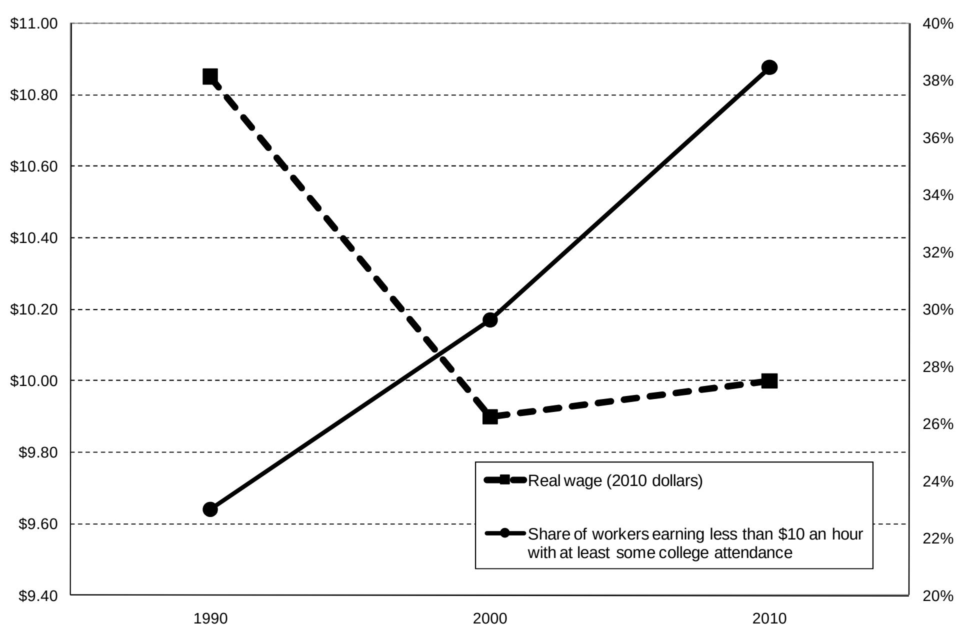
May 5, 2011

The New York City Council is considering legislation that would require the recipients of economic development subsidies for large projects to pay their employees at least a living wage ($10 an hour with medical benefits or $11.50 without). This requirement would also apply to the employees of tenants in these subsidized developments, such as cashiers in a retail mall or cafeteria workers in a commercial office building. Mayor Bloomberg's administration has expressed its opposition to this bill in particular and at times to wage standards generally.[1]

1. **Since 1990, pay for low-wage workers has declined.** Over the past 20 years, real wages for low-wage NYC workers have dropped, despite the fact that these workers' educational attainment has dramatically risen.

   The wages of workers at the 20th percentile of the wage distribution are typically taken as representative of those of low-wage workers; 20 percent of workers have wages at or below this level. In 1990, workers at the 20th percentile in NYC earned $10.85 an hour (in inflation-adjusted 2010 dollars). (See the figure.) A decade later, their wage had declined to $9.90. In 2010, it rose slightly to $10.00, an overall drop of nearly 8 percent over the two-decade span.

New York City low-wage workers' wages have declined nearly eight percent over the past 20 years, even as their educational attainment has risen.



Source: FPI analysis of Economic Policy Institute Current Population Survey data.

[1] For background on the quality of jobs in projects receiving subsidies in New York City, see Fiscal Policy Institute, Good Jobs New York, and the National Employment Law Project, *An Overview of Job Quality and Discretionary Economic Development Subsidies in New York City*. February 2011. http://www.fiscalpolicy.org/FPI_GJNY_NELP_SubsidizedEmployersCreateLowWageJobs.pdf.

While NYC low-wage workers' wages have declined since 1990, their level of education has increased.[2] In 1990, 23 percent of workers earning less than $10 an hour (in inflation-adjusted 2010 dollars) had a minimum of some college attendance, if not a college degree or higher. By 2000, this figure had risen to 30 percent. In 2010, fully 39 percent of NYC workers at this wage level had at least some college attendance.

Increased levels of educational attainment should have led to higher, not lower, wages.

2. **Low-wage jobs keep many families from rising above the poverty line.** Over the past two decades, there has been an increase in NYC in the number of families with one or more workers who fall below the poverty level.

   In its report to Mayor Bloomberg, the New York City Commission for Economic Opportunity noted this "large growth in the number of people who work but remain in poverty," and argued that "[p]laying by the rules and being rewarded for hard work must be the ticket to financial security for our city's families."[3]

   It is commonly assumed that families living below the poverty line are not working. Yet, of the nearly 400,000 NYC families at or below the federal poverty level in 2008-2009, 38 percent had at least one family member who was employed.[4] The simple fact is that having a job is no guarantee of living above the poverty line.

   Working poor families as a share of total poor families have nearly doubled over the past two decades, growing from 20 percent in 1989-1990 to 31 percent in 1999-2000 to the present level of 38 percent. Following welfare reform policies in the 1990s, public policy emphasized the primacy of employment for the poor, yet for employment to be a path out of poverty requires jobs that pay a living wage.

3. **Many families depend on low-wage workers' earnings, and their wages make a big difference for children's outcomes.** Retail is the industry with the largest number of low-wage workers in New York City. And the earnings of low-wage retail workers account on average for more than half of their family's earned income. These are not people working for pocket money, their jobs support NYC families—with critical repercussions for families and in particular for young children.

   On average, the wages of NYC retail workers in non-managerial/non-professional occupations represent 52 percent of their family's earned income.[5] And, defying the

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[2] FPI analysis of Economic Policy Institute Current Population Survey data.
[3] The New York City Commission for Economic Opportunity, *Report to Mayor Michael R. Bloomberg: Increasing Opportunity and Reducing Poverty in New York City*. September, 2006. http://www.nyc.gov/html/ceo/downloads/pdf/ceo_report.pdf.
[4] FPI analysis of Current Population Survey Annual Social and Economic Supplement data. Families considered to be "working poor" if: 1) family income at or below federal poverty level; and 2) reported total hours employed among all family members equaled at least one thousand hours during previous calendar year.
[5] FPI analysis of Economic Policy Institute Current Population Survey data.

stereotype of teenage workers predominantly holding low-wage retail jobs, the average retail worker in these occupations in NYC is 36 years old.

The importance of these workers' earnings for their children's welfare is becoming increasingly clear. Previous research in child development has pointed to the link between increases in poor families' income levels and children's eventual achievement in school and later in the labor market as adults. Recent findings have focused on the *timing* of income increases, indicating that increases in family income for poor families during the early childhood years (0-5 years) are associated with improvements in children's future earnings and hours worked as adults.[6] For instance, for a family with an annual income of less than $25,000, a $3,000 increase is associated with a 17 percent improvement in children's earnings in adulthood.

4. **Raising the pay of low-wage workers boosts consumer demand and helps neighborhood businesses.** Low-wage workers spend their additional income, improving living standards for themselves and their families while stimulating demand in the broader economy.

   It is well established that lower-income households spend a larger share of their income than do those in higher income brackets. When workers buy goods and services, doing so benefits neighborhood businesses, many of which are small. If these business owners see demand for their products and services rise, they have reason to hire more workers and expand their orders from suppliers. In this way, new spending creates a multiplier effect in the larger economy, as the initial increased consumption sets in motion a chain of subsequent economic activity. Neighborhood businesses directly benefit when workers' wages rise.

5. **It's basic fairness for workers to share in the fruits of their productivity.** Over the last two decades, the NYC economy has grown substantially, yet NYC workers have not shared in the productivity increases they have generated.

   NYC Gross Domestic Product grew by 63 percent between 1990 and 2007, about 2.9 percent annually.[7] Changes in technology and increased levels of education have helped make the city's workers more productive, contributing to this economic growth. Yet workers' real median hourly wages—the wages earned by those in the middle of the wage distribution (the 50^{th} percentile)—actually decreased over these years, falling 8.6 percent, and wages at the 20^{th} percentile fell even further.[8]

6. **Employers who pay very low wages shift a burden to public assistance.** With insufficient wages, many low-wage workers receive one form or another of public assistance, such as Food Stamps or Medicaid. When this happens with workers in subsidized developments, the

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[6] Duncan, Greg J., and Katherine Magnuson, "The Long Reach of Early Childhood Poverty." Pathways, Winter 2011. http://www.stanford.edu/group/scspi/_media/pdf/pathways/winter_2011/PathwaysWinter11_Duncan.pdf.

[7] Fiscal Policy Institute, *Grow Together or Pull Further Apart? Income Concentration Trends in New York.* December 13, 2010. http://www.fiscalpolicy.org/FPI_GrowTogetherOrPullFurtherApart_20101213.pdf.

[8] Fiscal Policy Institute, *Grow Together or Pull Further Apart?*

developers get a double subsidy: a direct one for the project and an indirect one when public funds are required to compensate for the low wages these businesses pay.

An analysis of public assistance usage in New York State found that nearly 900,000 families enrolled in one or more of six public assistance programs had at least one family member employed year-round.[9] Health care (reflecting the large and growing number of low-wage home health care aide jobs) and retail topped the list of industries that were disproportionately represented—their shares of enrolled workers were substantially higher than their share of workers in the overall labor market.

7. **NYC has dramatically increased the amount it spends subsidizing businesses over the past 10 years.** In the past decade, the value of business tax subsidies grew by 180 percent—two and a half times faster than overall NYC tax collections. We shouldn't be investing these public resources in poverty-level jobs.

   From less than $920 million in Fiscal Year 2001, annual business tax expenditures in NYC rose to well over $2.5 billion in Fiscal Year 2011.[10] At a time of city budget shortfalls and cuts to public services, it is all the more essential to use these public resources wisely.

8. **City land use policies have tremendously increased the value of land for developers in NYC.** In the wake of re-zoning actions by the city, land values in areas such as Hudson Yards and Greenpoint-Williamsburg grew much faster than the overall increase in NYC land values. Subsidized developers in these areas reaped huge financial rewards as a result. For example, in Greenpoint-Williamsburg on the Brooklyn waterfront, the City rezoned several parcels of land from industrial use to high-rise residential. Over four years from 2003 to 2007, property values in this area rose by 120 percent, one third faster than in the rest of Brooklyn.[11] Developers are clearly in a position to ensure that workers are paid decent wages.

9. **A living wage requirement benefits employers as well as workers.** It is important to bear in mind that paying higher wages results in benefits as well as costs to employers: wage requirements can lead to greater efficiencies such as reduced turnover, better customer service, and savings in recruitment and training costs. Moreover, any cost of the wage requirement may be offset by developers through lower rents charged to tenants in city-subsidized developments, thus further minimizing any effect on profits for employers.

   Previous estimates put the cost incurred by businesses affected by living wage ordinances at a small percentage of operating costs, from less than 1 percent to less than 3 percent

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[9] Bernhardt, Annette; Anmol Chaddha; and Siobhán McGrath, *When Work Doesn't Pay: The Public Cost of Low-Wage Jobs in New York State*. National Employment Law Project. December 2008. http://www.nelp.org/page/-/EJP/PublicCostReport08.pdf.

[10] Fiscal Policy Institute analysis of New York City Finance Department Annual Report on Tax Expenditures, FY 2001, and FY 2011; NYC Economic Development Corporation Local Law 48 report for FY 2009; and Independent Budget Office, Budget Options for New York City, April 2011. http://www.ibo.nyc.ny.us/iboreports/options2011.pdf.

[11] FPI and Good Jobs New York analysis of Department of Finance data.

depending on industry.[12] There are huge profits to be made on large commercial developments in NYC such as the malls, stadiums, and office buildings that have received subsidies. Big developers can certainly afford to absorb the cost of ensuring that cashiers, custodians, and security guards receive a living wage, and doing so will in no way jeopardize their ability to profit quite handsomely.

Further, following adoption of a living wage, employers have reported decreased turnover, improved employee morale, and better customer service.[13] Low-wage industries are characterized by high turnover, so higher employee retention can translate into substantial savings for employers on recruitment and training. This is good for the city, good for employees, and a minimal burden mixed with tangible benefits for employers.

Employer benefits of a living wage have not been confined to the U.S. Referring to London's living wage, the United Kingdom Chairman of the global firm KPMG stated, "We have found that paying the Living Wage results in higher levels of motivation, loyalty and productivity. Turnover amongst staff receiving the Living Wage has more than halved."[14] KPMG is among dozens of prominent firms such as Bank of America Merrill Lynch, Goldman Sachs, JP Morgan, Morgan Stanley, PriceWaterhouse Coopers, and Prudential to have voluntarily adopted London's living wage.[15]

10. **The gap between poor and rich has never been higher in New York City; an expanded living wage requirement is one of many things needed to redress that.** Income concentration in the U.S. is at an historic high—23.5 percent of the income went to the top 1 percent of earners in 2007, a level not matched since the stock market crash of 1929. Extreme as that is, the situation is even more dramatic in New York City where in 2007 the top 1 percent received 44 percent of income, up from only 12 percent in 1980. Among the 50 largest cities in the U.S., New York City ranks worst with respect to inequality of household income.[16]

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[12] Pollin, Robert; Mark Brenner; Jeannette Wicks-Lim; and Stephanie Luce, *A Measure of Fairness: The Economics of Living Wages and Minimum Wages in the United States*. Ithaca: Cornell University Press. 2008.
Reich, Michael, and Peter Hall, "Living Wages at the Airport and Port of San Francisco: The Benefits and the Cost." Institute of Industrial Relations, University of California, Berkeley. October 6, 1999. http://www.irle.berkeley.edu/research/livingwage/sf_oct99.pdf.

[13] Reich, Michael; Peter Hall; and Ken Jacobs, "Living Wage Policies at the San Francisco Airport: Impacts on Workers and Businesses." Industrial Relations, January 2005, 44, 106-138. Available at http://laborcenter.berkeley.edu/livingwage/.

[14] Greater London Authority, "Global Giants Sign Up to Pay Staff the London Living Wage." November 16, 2010. http://www.london.gov.uk/media/press_releases_mayoral/global-giants-sign-pay-staff-london-living-wage.
London Economics, *An Independent Study of the Business Benefits of Implementing a Living Wage in London: Final Report for Greater London Authority Economics*. February 2009. http://www.london.gov.uk/mayor/economic_unit/docs/living-wage-benefits-report.pdf.

[15] Greater London Authority, "Global Giants Sign Up to Pay Staff the London Living Wage." Greater London Authority, *A Fairer London: The 2010 Living Wage in London*. June 2010. Available at http://www.london.gov.uk/who-runs-london/mayor/publications/business-and-economy/2010-living-wage-london.

[16] Fiscal Policy Institute, *Grow Together or Pull Further Apart?*

Research has pointed to the failure of maintaining the real value of the minimum wage in contributing to widening income inequality.[17] Boosting the wages of low-wage workers is a modest but important step and one of many measures needed to ensure that the benefits of economic growth don't all accrue to the top.

Conclusion

Rising educational attainment yet falling real wages. A sharp rise in the working poor. And a staggering degree of income inequality unequaled in the city's past. This is not an economy that is working well for New Yorkers.

Requiring a modest living wage for publicly-subsidized economic development projects in New York City is not a panacea for these problems. But it is one sensible step that New York can take to ensure that the billions of dollars annually expended by the city on business subsidies are not an investment in more of the same.

Deputy Mayor for Economic Development Robert Steel recently reiterated the administration's opposition to a living wage, arguing that the City should not intervene in the labor market. Yet, when asked if providing economic development subsidies did not constitute an intervention in the real estate market, he maintained that subsidies are justified because they serve the larger policy goal of economic development.

In fact, government intervenes in the labor market every day—we have a minimum wage, child labor laws, and health and safety standards, and we are better off for it.

And surely allowing low-wage workers to support themselves and their families in dignity is a worthy policy goal of the administration, one as important as the goals served by developing shopping complexes and stadiums. When the government intervenes in the market to provide subsidies to developers, it is not too much to ask that the investment of public money results in jobs that pay a living wage.

More than ever, New York taxpayers need to know that public resources will be used to further opportunity for all of the city's residents, not just a wealthy few.

The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving policies and practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.

[17] Fortin, Nicole M., and Thomas Lemieux, "Institutional Changes and Rising Wage Inequality: Is there a Linkage?" The Journal of Economic Perspectives, Spring 1997, 11, 75-96.