

The Costs and Benefits of a Living-Wage Ordinance in Greensboro

by Andrew Brod

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There's a proposal making its way to the Greensboro City Council about which you probably haven't heard much. But you'll soon hear more, because the proposal is a bit controversial. The proposal's supporters hail it as an important step towards wage equity. Its opponents condemn it as a dangerous step towards socialism.

The proposal is for the City Council to enact a living-wage ordinance. An LWO would require the city of Greensboro to pay no less than some target wage (called the "living wage") to a defined subset of its employees. It would require certain service contractors with the city to do the same. The idea is that by doing this, the city will be a community leader in paying decent wages, even to relatively low-skilled workers.

According to LWO proponents, government is more than just water service and street maintenance. Government is also an expression of community values, and minimizing poverty is an important community goal. LWOs of various types have been adopted by over 40 cities and counties around the country, including Durham.

LWO opponents reply that such ordinances amount to unwise interference in labor markets. When left alone, the market is generally the best way for prices (including wages) to be set. Opponents also note that raising wages will cost something, and nobody wants the city's budget to be increased without good reason.

At the request of a group of community and labor activists, the City Council established a Living-Wage Study Committee last year. The committee was charged with studying the LWO proposal, and it was set up to provide representation from the entire community, from union members to business leaders.

I served as the chair of this committee, a neutral party between advocates and skeptics. I thought I would share some of the committee's findings with News & Record readers.

Soon after the committee started meeting last summer, its members decided that the committee should neither advocate nor oppose an LWO in Greensboro. We felt that political questions should be decided by elected officials or by referendum.

Instead, we started out by assuming the City Council would enact an LWO. In this way, we avoided getting bogged down by political differences, and we were able to focus on the economic and administrative aspects of the proposal.

Among the questions we addressed: How should such an ordinance be structured? How much would it cost? To which city employees should it apply? Which categories of service contractors should be included? How high should the target wage rate be set?

The committee learned early on that an LWO cannot apply to firms with purchasing or construction contracts with the city. Dictating wages to these types of contractors is off-limits according to North Carolina law.

So firms that sell office supplies to the city or perform construction projects for the city will not be affected. Neither will newspapers that run city ads and notices. Only service contracts, such as janitorial services, are potentially coverable by an LWO.

The committee has recommended the following:

- That the living wage be set to correspond to the federal poverty-level income for a family of four. The family-of-four benchmark was chosen because it is a reasonable average family size, and it is the most common criterion used by cities that tie their living wage to the federal poverty level.

For 1999, the income benchmark was \$16,700, which translates to an hourly wage of \$8.03. The target wage is to be set slightly higher if medical benefits are not provided.

- That a workable LWO could not stop with city employees. In order to avoid creating a built-in incentive for city managers to out-source low-skill work, the LWO would have to include provisions for employees of service contractors.
- That the contracted services covered by the LWO should be those which city employees might reasonably perform as an alternative to out-sourcing.

For simplicity, the committee specified the following categories of service contracts to which the LWO would apply: janitorial services, landscaping, cable installation, temporary services, security, lot clean-up, moving, window washing, and carpet cleaning.

- That employees of businesses performing the above services for the city be covered by the LWO only during the period in which they do city work.

This last recommendation is important, because it eliminates the possibility that an LWO would render city business unattractive to contractors or impose a competitive disadvantage on them. Contractors would still be free to pay their employees whatever wage the market dictates when they work on non-city contracts. Any increased costs due to the LWO would be passed on to the city.

The committee was unable to come to an agreement on precisely which city employees should be covered by an LWO. All members recommended the inclusion of full-time and part-time employees (the latter work year-round between 20 and 30 hours per week). The disagreement was over seasonal workers.

Most of the city's seasonal employees work on mowing crews or at the city's recreation facilities. Most work full-time during the period of their employment. Because we

couldn't reach a consensus on whether an LWO should apply to these city employees, the committee's cost estimates were expressed for a range of scenarios.

Based on its recommendations and taking both city employees and service-contract workers into account, the committee estimated that the annual cost of implementing an LWO would be between \$544,000 and \$863,000.

To put these approximate figures in context, the estimated cost of an LWO is between 0.2 percent and 0.3 percent of the current City budget, or between \$2.69 and \$4.27 per Greensboro resident. A \$100,000 home in Greensboro is currently taxed \$582.50 by the City, and the cost of an LWO would add between \$3.62 and \$5.75 per year to that tax.

Therefore, it appears that a living-wage ordinance in Greensboro would not cost much. The political question the City Council must answer is: is it *too* much?

Often, debates over LWOs have gotten tangled up with conflicts over government-mandated minimum-wage laws. Like most economists, I am highly skeptical of minimum-wage laws and I oppose them in most circumstances.

But an LWO is *not* a minimum-wage law. Minimum-wage laws apply to all employers, public and private. An LWO would have no power to enforce wages paid by McDonald's, Belk, or Jefferson-Pilot. In any case, a municipal minimum-wage law would be impossible under North Carolina law.

Like any employer, a city is free to pay its workers more than the prevailing market wage. But in order to make that decision, it needs to know the relevant costs and benefits. That's why the Living-Wage Study Committee was created. I am quite pleased with the work done by the members of the Committee, as well as their conduct during this process. Greensboro has been well-served by this approach to a thorny issue.

The study committee's job is done now. It's the City Council's turn to weigh the benefits of a living-wage ordinance against the costs and then make its decision.

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