THE IMPACT OF A LIVING WAGE POLICY FOR THE CITY OF CALGARY

REVIEW OF LITERATURE

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BACKGROUND

What is a Living Wage?

Living wage amounts in the cities reviewed varied in terms of amount. Generally, living wages were determined to be wages above the federal poverty line for a full-time worker with a family of four. Actual amounts varied from $8.35 / hour in Detroit to $9 / hour at the San Francisco Airport, and $11 / hour for The City of San Francisco. Some municipalities also require health care benefits, or the equivalent in wages. In some municipalities, wage levels are also indexed to inflation. At the San Francisco Airport, It also mandated 12 days per year of paid time off, established educational hiring criteria (min. high school completion) and mandated a training standard of 40 hours for new employees.

In Canada, various definitional approaches have been advanced. In a backgrounder prepared for the Region of Waterloo, it is recommended that the living wage be a wage that supports a family of three and includes benefits that supplement the financial income (Skillen, 2003). Shenk (2001) suggests that there are two primary definitional approaches:

i) wage set at 70% of the average wage and indexed to inflation;
ii) wage required to reach the Statistics Canada Low Income Cut-Off (LICO).

A policy tool that has been implemented in several Canadian jurisdictions is the Municipal Fair Wage policy. Fair Wage policies are intended to ensure that contractors for The City pay their workers union rates, or for non-union workers, the prevailing wages and benefits in their field of employment. As these wage rates are based on union rates, they tend to be substantially above the LICO.

Coverage and Implementation of Living Wage Policies.

Most ordinances cover employees working under municipal contracts. Some also cover municipal employees, employees of business receiving public economic development funds, or employees of businesses located in districts that have benefited from significant public investment (Thompson and Chapman). In Baltimore, the ordinance applies strictly to private contractors performing services for The City, including food service, janitorial, stenography, homemaker services, carpet repair, maintenance and repair of solid waste transfer stations, health care, equipment cleaning, moving and hauling, charter bus services, and school bus services. In Miami-Dade County, the ordinance applies to The County and all service contractors (and licensees) of The County who hire locally. In San Francisco, the ordinance covers employees of organizations that work on service contracts with the City of San Francisco but does not apply to employees working on other projects. It also covers employees of companies that lease property from The City. In Detroit, the ordinance applies to employers who receive over $50,000 in contracts from The City, as well as to companies that receive financial assistance for economic development or job growth from The City.

In Canada, Fair Wage policies have been implemented that are similar to Living Wage policies. Fair Wage policies originally dealt with construction trades, though their scope has expanded over the years. However, they still generally omit many non-construction classifications, particularly those wherein women constitute a majority of workers, such as cafeteria workers. Fair Wage policies are currently in place in Toronto, Hamilton, London, Windsor, Kingston, Edmonton and Vancouver.

Two of the most significant Fair Wage policies have been in Toronto, and B.C. and Toronto. Toronto's Fair Wage Policy was enacted in 1893. This policy requires all contractors for The City to pay their workers union rates, and for non-union workers, that they be paid prevailing wages and benefits in their industry. The policy also requires compliance with acceptable working hours and conditions of work. The policy applies to all employees that are hired by contractors, sub-contractors, suppliers or tenants of City property. The policy does not apply to small business (such as owner-operators), partnerships or principals of companies.

Fair wage rates are established through negotiations between employee and employer groups and associations. These rates are then recommended to Council and reviewed on a three year basis. For the construction industry, wage rates are based on the lowest rates established by collective bargaining. Other occupational rates are based on market and industrial surveys along with the prevailing wages for non-union workers. Wages and wage rates are to include fringe benefits such as health benefits, but does not include payroll deductions. The contractor must display a copy of the Fair Wage Policy in a prominent position in the workplace where all workers have access to view the policy.

If a contractor violates the policy twice within a three year period, they are disqualified from conducting business with The City for one year. If, after this period of time, they violate the policy again, they are suspended indefinitely.

> “According to the 2003 Review of the Fair Wage Policy, this policy in Toronto has attempted to produce stable labour relations with minimal disruption. It provides a compromise between the wage differences between organized and unorganized labour. Toronto’s Fair Wage Policy has created a level playing field in competitions for City work for all contractors, sub-contractors, suppliers and City business tenants. It has protected the workers that are covered under City contracts, and this Fair Wage Policy has enhanced the reputation of the City by providing fair and ethical business dealings for all workers and bidders.”

The second significant Fair Wage policy was that enacted in B.C. British Columbia adopted the Skills Development and Fair Wage Act in 1993 to ensure Fair Wages were paid on Provincial construction projects. The City of Kamloops subsequently adopted this policy for municipal contracts as well. The provincial policy was rescinded in 2001, and Kamloops then also rescinded the local policy.

On a provincial scale, research commissioned by The Government of Canada's Labour Management Partnership Program determined that there was no measurable impact of the policy on construction costs. Another study found that there was no difference between pre and post SDWFA bid prices and final costs of construction. Further, the number and amount of change orders (final costs exceeding the bid price) declined.

One of the key challenges for both Toronto and B.C. was enforcement. Both jurisdictions began with a complaints based process, but this soon needed to be expanded. In Toronto, this included the establishment of a registry of non-compliant companies, regular audits and compliance evaluation reports, the development of performance indicators, and ensuring the provision of sufficient staff training.

SOCIAL IMPACTS

Raising low wages has multiple social benefits. In the review of the possible introduction of a living wage policy in the Region of Waterloo several of these benefits are discussed.

> "For communities, raising the living wage can provide income redistribution, bring more money into local economies, reduce inequality, have 'spillover effects' that raise low wages just above the minimum wage, lower the burden on social services and increase rates of home ownership and education." (p.6)

The impact of a municipal living wage policy is dependent upon the number of employees of firms under contract to the municipality that would be affected and benefit from an increase in the wage level. In the American cases reviewed, the number of workers actually affected varied from 2,300 workers in Detroit to 12,000 in San Francisco. In San Francisco, this accounted for 2.5% of total employment in the San Francisco area.

In addition to the direct beneficiaries of the living wage policy, others not directly affected may also benefit as employers may be pushed into providing pay increases that are not mandated, to workers currently just above the living wage amount. Thompson and Chapman note that one of the impacts of living wage policies appears to be the compression of wage scales, as wages at the top of the scale do not increase proportionately to the increase experienced at the bottom. Employers may raise wages at the margin just above the living wage threshold (vertical push). A study of the impact of a living wage ordinance in Los Angeles found that wages increased for workers earning up to 12% more than the living wage threshold. Wage scales may also experience a “horizontal push” as employers seek to maintain parity between workers covered by the ordinance and those not covered.

Research has shown that those that benefit from living wage policies are generally those most in need. Thompson and Chapman (2006) note that studies have generally found that those benefiting from living wage ordinances are predominantly adult, full-time workers, and also tend to be workers of colour. They also tend to be predominantly female. Most workers lived in households that earned below a basic needs budget. In San Francisco, it was reported that the primary beneficiaries of wage increases were predominantly women and / or Latino.

As living wage policies have not been widely implemented in Canada, there is no comparable research on the impact of such policies in the Canadian context. However, there has been research regarding the profile of minimum wage workers. Shenck (2001) reports that in Quebec, Ontario, Alberta and B.C. in 2001, there were 228,545 minimum wage workers, accounting for 3.6% of the labour force. Of these, 27% are adults age 25+, and 35% are young adults age 19 – 24. While 36% of minimum wage workers are women, women make up 70% of minimum wage workers over the age of 25. Most minimum wage workers have low levels of education, with 36% having less than a high school education while 15% have a high school diploma; 31% have some post-secondary education. Of all minimum wage workers, 55% are teenagers or young adults living with parents, 6% are young adults or adults living alone, and 23% are young adults or adults who are either married or are lone-parents.

While the high proportion of young people may suggest that minimum wage workers are not independent and therefore do not have the same financial requirements as older workers, this is not necessarily the case. First, over one-third (34%) of minimum wage workers are in families with total family income below the 25^{th} percentile. Shenck further points out that:

> "… live-at-home minimum wage earners are part of a trend toward young people living with their families longer because of poor labour market or job prospects. One could therefore note the obvious, that students had to live at home as the minimum wage they received was so low it prohibited living on their own. A higher minimum wage could therefore lead to more financial independence." (p.7)

In addition to direct wage gains, workers also benefit from higher incomes as this increases their credit-worthiness, as well as increased spending power and increased access to health care. This increase may reduce dependence on public assistance. Further, enhanced economic stability may lead as well to stronger and more stable family structures.

Impacts on Wages

Living wage policies implemented in the American cities reviewed were significant. In San Francisco, total wage increases were estimated to be $50.3m / yr., and an additional $11.2 m in health benefits. In addition, a further $3.7m in wage increases was estimated to accrue to those not covered by the ordinance, but who experienced wage increases as employers raised wages for those just above the mandated amount (those currently earning between $11 – 13 / hr).

At the San Francisco Airport, of the 11,000 workers covered, almost 90% received a wage increase as a result of the policy, with pay increases averaging approximately 22%, with the largest increases among entry-level employees. Earnings increases were the result of both direct and indirect effects. Of the $56.6 million total increase, $34.6 million can be attributed directly to the policy. The remainder can be attributed to either indirect effects, or to general increases in the labour market. It is estimated that about 45% of the indirect wage increases were the result of general increases in the labour market, with 55% being an indirect effect of the policy. Indirect increases attributed to the policy were greatest in non-covered contractors.

> "…employers not covered by the (policy) raised pay at a faster rate than they otherwise would have, in order to keep employees from leaving for higher-paying jobs covered by the (policy), and to match the new wage norms."

At the San Francisco Airport, in addition to increased wages, approximately 2,000 workers who were previously not covered by health benefits received coverage. Approximately 70% of firms chose to provide benefits rather than pay the wage premium. These firms accounted for 75% of covered employees. Many firms also eased eligibility requirements and increased their share of out of pocket expenses.

In Miami-Dade, it is estimated that wages increased by 43% for a family of two or three, and 46% for a family of four. Workers also benefited from decreased reliance on government assistance. In Detroit it is estimated that covered workers would gain between $1,312 and $4,439 per year in income, and half would also gain full health benefits.

In Baltimore, despite the living wage ordinance, most of the primary beneficiaries (school bus aides) still fell substantially short of the poverty line for a family of four due to the part-time nature of much low-wage employment. Much of this part-time employment was involuntary. Despite the fact that many workers were still unable to earn a living income, the living wage ordinance did result in increased earnings of approximately 35%. Among bus-aids, it was found that workers who worked for larger firms saw a greater benefit as larger firms tended to provide more hours than smaller firms. In both cases, employers tend to spread available work hours out over a large number of employees, rather than providing more hours to fewer employees. It is speculated that this provides greater flexibility to employers.

As the effect of the living wage is attenuated by part-time work, the Baltimore study suggests “The City needs to be sure that its vendors are allowing the full benefits of the living wage to be realized”. Further: “It may be productive to make employment practices part of the process of assessing the contract-worthiness of bidders for these jobs. This step may provide much needed incentives to retain staff, stabilize work schedules and develop workers’ capabilities.”

Impacts on Employment

One concern of living wage policies is that it will lead to reduced employment or the displacement of labour. A study examining the potential impact of a Living Wage ordinance in Chicago estimated that it could result in the loss of up to 1,300 jobs. However, studies that have examined the actual impact of living wage policies after implementation have found little evidence of this effect.

Thompson and Chapman (2002) report that most available studies (e.g. Boston, Los Angeles) have concluded that there are either no, or very small employment losses following the implementation of a Living Wage Ordinance. Some opponents of the Living Wage argue that firms may substitute low-skilled workers with higher-skilled workers, thus in the long run disadvantaging lower-skilled workers. The alternative argument is that the higher wage will boost the skills and productivity of lower skilled workers through greater work effort and training. Most studies have found that firms have not in fact changed their hiring practices following introduction of the Living Wage Ordinance. While the San Francisco Airport study did find some substitution, the more prevalent employer response was to increase training rather than to alter hiring practices.

At the San Francisco Airport, employers covered by the policy did not appear to be adjusting to increased wage increases by changing schedules or employment practices. In fact, in the period following introduction of the QSP, employment rose by 15.6%, while airport activity rose by only 4%. There is some concern that the policy has caused some displacement as there is some evidence that this impact has occurred, although no workers have been terminated. Rather, qualifications of new hires have increased, with the proportion of employees with less than high school falling from 31.6% to 23.1%, while the proportion with some college education rose from 16.5% to 23.1%. The study notes that:

> “At these pay levels the higher wages generate a real but small pressure to increase the average skill level of workers … To summarize, we find evidence of small displacement effects as a result of the program. The (policy) allowed employers to hire screeners with slightly more education, although increased training mandates and worker protection clauses ensured that few incumbent workers were displaced.”

In Baltimore, interviews with affected workers did not reveal any changes in employment levels in affected firms. About half of the workers interviewed reported that they were working harder after the ordinance than before. Many of the workers interviewed also reported that they worked second jobs, though mostly irregular work.

Impacts on Working Conditions and Quality of Life

At the San Francisco Airport, workers in jobs covered by the policy reported some changes in working conditions. Covered employees reported that following implementation of the policy, their jobs did involve increased skill and more effort. They reported that they were working harder at their jobs, have greater stress on the job, and the pace of work has increased.

> "In summary, both the worker interviews and employer survey confirm that employees are working harder, whether this increase is voluntary or because employers are demanding more. The present anecdotal worker interviews suggested that working harder and with more stress was generally seen as a favourable tradeoff for greater pay and the associated sense of appreciation for their work."

In Baltimore, about half of the workers interviewed reported that they were working harder after the ordinance than before. They also reported improved attitudes toward work.

At the San Francisco Airport, quality of life impacts were also observed among workers following introduction of the policy. Workers were surveyed about changes in time spent with family, vacation time, personal finances, hours worked in all jobs, housing situation and health status. While few covered workers reported increases in these factors, non-covered workers reported significant decreases in these factors.

> "Taken together, these worker-reported chances in quality of life suggest that stagnating pay, decreased benefits, and increased labour market flexibility in recent years has led to significant deterioration in the quality of life among low-wage workers. It took the (policy) to arrest this trend."

Skillen (2003) notes personal anecdotes that are provided from a number of impact studies. One such anecdote is about a security guard at the Los Angeles airport who was able to quit his second job and attend a local college (increasing human capital). Another anecdote is from Baltimore, where a worker benefiting from a living wage ordinance was able to purchase a house.

ECONOMIC IMPACTS

Impacts to Firms / Contractors

Mandated increases to wages will result in initial labour cost increases to employers. Costs to employers included direct wage increases, health insurance, and payroll tax costs. There may be additional costs due to the "ripple effect" as employers increase the wages of other employees as they adjust their wage scales. Research into this effect notes that the effect diminishes as pay increases, resulting in a compression of wages.

The magnitude of the labour cost increase is dependent on the percentage of the workforce employed at wages below the specified minimum. In Baltimore, research showed that contract cost increases varied by the type of contract. Janitorial services increased the most (16.6% overall), while school bus contracts rose by just 2.1%. The difference is due in part to the proportion of workers in a contract type that are paid below the minimum wage. The variation is also due to differences in labour intensity of the sector. Some sectors are more labour intensive than others, so a greater proportion of contract costs go to labour cost as opposed to equipment or other costs. The greater the labour intensity, the greater the cost impact of the ordinance.

In the Miami-Dade study, researchers determined that 43% of City contractors were earning less than a living wage, and that the new ordinance would cost them an additional $4.2m in direct annual labour costs. In the San Francisco case, researchers estimated that new direct labour costs would be $31m, roughly 4% of the total prior year's contracts. Indirect wage gains were estimated to be $3.7m. In a pre-ordinance impact study conducted for the City of Jacksonville, it was estimated that the direct labour cost for the 310 impacted workers would be $2.34m annually. In Detroit, the total cost for bringing all city service contract workers up the living wage level was just over $6.9m.

In addition to strictly examining the absolute cost of the increase, it is important to view the increased cost relative to the total value of the affected contracts. One study (Waterloo) reported that studies show that the cost to business of increased labour costs averages less than 1% of production costs. This is in line with actual reported increases from post-implementation evaluation studies. In Detroit, it was reported that, for over half of contractors, the maximum possible cost increases represented under 1% of the funds they receive for the contracted work. At the most, one quarter of firms experienced cost increases of between 5% and 9% of the contract cost. In San Francisco, total labour cost increases to affected firms was found to represent roughly 4% of The City's total contract cost of $728m for covered firms.

How do firms respond to increased labour costs? The pre-implementation impact study conducted in Chicago predicted that labour costs to contractors would rise by $37.5m. In the face of this increase, employers would respond in one of four ways: raise prices to the city, reduce cost by reducing employees, not bid on future city contracts, or relocate out of the city. Other research, however, suggests a fifth way that contractors may respond, and that is to decrease profits. Indeed, if wage costs increase and this is not offset by increased contract costs or decreased labour, the only offsetting cost reduction strategy is reduced profits. In fact, a study of the Boston ordinance (Brenner, 2005) found that while few contractors reduced employment, 40% indicated that they had reduced profits in response to the ordinance.

One further effect of living wage ordinances has been found to be increased productivity that offsets increased labour costs. Studies generally tend to support the finding that increased wages raise productivity through decreased turnover and greater work effort, as well as by providing incentives for firms to seek out other productivity enhancing means. These responses partially offset the increased wage costs. The reason for the increased worker productivity is that the cost of job loss for the worker increases at a higher wage, thus providing an incentive for the worker to work harder in order to retain their job, and to be less likely to leave their job voluntarily. This lowers the costs of recruitment and training. Schenk (2001) notes that increased minimum wages may also induce firms to switch toward production methods that emphasize more training and, with it, more job stability and income.

> "These studies suggest that increases in productivity at firms subject to a living wage ordinance are not the result of wholesale replacement of the workforce, but something else. Some of these firms may be able to attract better qualified workers at the living wage than before, but the current workforce is experiencing less turnover, less absenteeism, and likely greater work effort that is increasing productivity enough to offset some of the higher costs associated with the living wage ordinance." (Thomson and Chapman, 2002:18).

Skillen (2003) cites the example of Alberta Carpet Cleaning / Alberta Furnace Cleaning. In response to company concerns about high turnover, poor service and low quality in the 1980's, company devised a strategy to increase wages, invest in training, improve equipment, and provide a safer working environment.

> "In total, wages have been raised by 20 – 30%. Staff turnover is now very low, labour cost as a percentage of sales has dropped, productivity is better and morale is higher." (Skillen, 2003:8).

The San Francisco study similarly noted that employers would be expected to realize benefits from the ordinance, including reduced worker turnover and absenteeism, and in the more efficient utilization of human resources so that cost increases may be significantly lower than expected based solely on the per unit labour cost increase. A post-implementation evaluation study at the San Francisco Airport found that, following the introduction of the policy, turnover among the lowest paid workers fell dramatically..

> "For those firms experiencing an increase in wage costs of 10% or more as a result of the QSP, turnover rates fell by three-fifths (from almost 50% per year to 20%). In contrast, the turnover reduction among firms experiencing an increase in wage costs of less than 10% as a result of the QSP was small (from 17 to 14 percent)"

The policy was also reported to have impacted productivity. In a survey of employers, those that were covered by the policy were more likely to report improvements in work performance, employee morale, absenteeism, disciplinary issues, equipment maintenance, equipment damage, and customer service.

Reynolds, Pearson and Voortkampf (1999) note that these impacts should result in increased value to the public authority. With better wages and benefits, firms should also be able to attract and retain the best workers, and over time, deliver the highest quality of service. In the Miami-Dade study, it was also noted that the living wage ordinance had the effect of leveling the playing field. As some companies already pay higher wages, passage of the ordinance would create a level playing field for these companies and increase their competitiveness viz. low wage companies.

Although research suggests that the impact of wage increases to private contractors is small relative to the total value of affected contracts, and that costs may be largely offset by increased productivity, special consideration should be made for non-profit organizations. Reynolds, Pearson and Voortkampf (1999) note that, in the case of Detroit, there may be impacts on non-profit organizations that are unable to increase wages without undue hardship. It is estimated that the ordinance would cost this sector \$4.9m, or between under 1% to 6.8% of the value of city contracts. In Detroit, a substantial number of covered low-wage workers are believed to be working in the non-profit sector. Other municipalities have addressed the issue of non-profits in a number of ways including exempting non-profits totally, exempting non-profits within a given formula, supplementing the grant or contract to aid the organization to meet the living wage levels, or a combination of these approaches.

Impact to City Budgets

One concern with living wage policies is that they will increase contract costs and thus have a significant and negative impact on City budgets. One study estimating the potential impact of a Living Wage ordinance in Chicago estimated that the annual cost to Chicago would be $20m to cover 8,740 workers, requiring a permanent tax increase. Studies that have actually monitored the impact following implementation, however, have not found that these feared cost increases have actually materialized.

Thompson and Chapman (2002) report that several studies have examined changes in municipal contract costs, and these studies have generally found that the overall cost of contracts does not rise significantly. A 1999 study of the Baltimore case found that costs overall rose just 1.2%, lower than the rate of inflation for the period. A study by Elmore (2003) of 20 cities and counties that had implemented living wage ordinances found that contract costs increased by less than 0.1% of the overall local budget in the years after a living wage ordinance was adopted. However, there were a few contracts in each city that did experience significant price increases. These were labour intensive operations that employed a large number of workers at low wages; particularly janitorial and security services.

Another study conducted by the University of Massachusetts found that one particular type of bidding process is more likely to lead to cost increases; that is, unit-cost bidding.

> "Unit cost bidding is used for services such as security or temporary office help, where the city is unable to predict exactly how much of a need they will have in advance. Instead of bidding on the price of providing services for the entire period, firms bid on the price of one hour of service provision."

At the same time, the authors found that one strategy that tends to lead to lower costs is the practice of consolidating multiple services into a single contract – for example, janitorial services that are independently contracted for multiple facilities, can be rolled into one contract to cover all facilities. Another study of the Los Angeles case (Sander and Lockey, 1998) noted, however, that if cities intend to absorb increased costs and inform their contractors of thie intention, they are likely to face increased costs.

Elmore (2003) reviewed fourteen cities that had adopted living wage policies. Of these, the average increase in service contract prices were quite small, ranging from 0.003% to 0.079% of the localities' budget. Cost increases for mid-sized cities ranged from $40,000 to $265,000, while price increases for smaller cities ranged from $10,000 to $$60,000. In all cases, price increases were less than 0.08% of the cities budget. On average, cost increases were 30% to 50% less than anticipated when the ordinance was passed.

> "However, administrators did note significant increases in costs for specific contracts in sectors involving labour-intensive work performed by large numbers of low-wage workers. In some localities, several such contracts increased substantially in cost." (p.6)

Sectors reporting significant cost increases include security services and janitorial contracts.

> "One would expect contracts for labour-intensive services such as security, grounds-keeping, and janitorial services to increase because such contracts usually employ a large low-wage workforce." (p.7)

Generally, living wage ordinances do not cover human service contracts. In cases where human service contracts are covered, these contracts saw larger than average contract cost increases. Cost increases ranged from 0.3% to 2.79% of the human service budget. Although higher than other contract cost increases, such increases are not significantly high. "These experiences suggest that local governments that extend living wage laws to non-profit human service programs can anticipate slightly higher – but, overall still quite modest – increases in the costs of such contracts." (p.8)

Factors accounting for the limited impact on contract cost included the fact that, first, relatively few of the covered service contracts employ large concentrations of low-wage workers, and, second, that most ordinances include size thresholds that exclude from coverage small businesses or businesses with small city contracts. Thirdly, most contractors absorb some of the labour cost increases because the introduction of the living wage often opened up for competitive bidding some contracts that had not been subject to competitive bidding before. This led many contractors to be more willing to absorb costs. In some cases, cities negotiated directly with contractors to share the cost increase. In these cases, contractors often agreed to absorb nearly half of the labour cost increase.

> "… where service contracts reflect generous or above market profit margins (as may be the case for contracts that have not been competitively bid for some time) and a living wage law increases costs modestly, contractors are likely to absorb a significant share of the increase labour costs. On the other hand, where contracts have small, defined profit margins and involve large concentrations of low-wage workers (as is often the case for non-profit human service contracts), the cost increases resulting from a living wage law will be larger and it may be necessary for the local government to bear a greater proportion of them." (p.10)

Finally, contractors may have been wiling to absorb some costs because the costs were partially offset by savings from reduced turnover and higher productivity among workers whose wages rose because of the living wage requirements.

In Baltimore, a post implementation study compared 26 living wage contracts that could be compared to pre-living wage contracts, representing slightly more than half (52%) of total contracts covered by the ordinance. Between 1995 and 1996 (before and after Living Wage ordinance), contract prices increased by just 1.2% from $20,273,909 to $20,510,301. If costs are adjusted for inflation, the actual cost of contracts actually declined slightly.

A study estimating the impact of a Living Wage Ordinance in Detroit found that if all contractors passed the entire cost on to the City, the most that the ordinance would cost the city would be $6.9m, which represents under three-tenths of one-percent of Detroit's city budget of $2.5b. The study further notes that,

> "Given the modest costs involved in meeting the living wage requirements, it is unlikely that many city contractors would increase their bids to the city."

In fact, other research suggests that contractors would absorb any cost increases up to 10%. Assuming that companies will absorb half of the cost increase and pass the other half on to the city, the total cost increase is $2.9m, one-tenth of one-percent of the city budget.

The study further notes that, with better wages and benefits, firms should also be able to attract and retain the best workers, and over time, deliver the highest quality of service.

> "Since all City contractors would have to compete with the same base line wage and health care benefit levels, the competition for city contracts should result in contracts being awarded to firms that offer the best quality service."

In Miami-Dade, study estimating the potential impact of a living wage ordinance on the County identified two possible impacts. The first is to the payroll of The County itself as it would be required to adhere to the ordinance for its own employees. With respect to increased payroll costs, the study estimated very little impact as the majority of full-time workers already earned wages above the threshold, and all had health insurance. However, a considerable number of part-time employees earned below the threshold, and did not have health coverage. The County would therefore have greater costs to comply for part-time employees. Adding additional costs for full and part-time employees would increase payroll costs by an estimated $4.4 m. For contract costs, it was estimated that contractors would pass on approximately 37% of their increased labour costs, resulting in an additional $701k / year in contract costs. The combined impact of payroll and contract costs was estimated to be an additional $4.31m to the County budget for the first year and $360k in each of the next two years.

In San Francisco, it was estimated that contractors would pass on approximately 1/3 of their increased labour costs to The City, though this will likely be higher for non-profit organizations. The estimated total cost pass-through is $21.3m. At the same time, the 4,200 workers who gain health insurance would reduce demands on The City's public health budget, resulting in an estimated savings to The City of $5.7m.

At the San Francisco Airport, total costs to employers at the airport were $42.7 million including increased wages, payroll taxes, health benefits, paid time off and training costs. Spillover (indirect) costs were an additional $14.9. These costs do not take into account any potential savings arising from increased productivity, reduced turnover or others savings. These total costs amounted to 0.7% of fare revenue received at the airport. Two-thirds of airline service firms reported that all or part of these costs had been passed on to the airlines. Over the long term, it is expected that the proportion of increased costs passed on will decline as contracts come up for bid, and savings from increased productivity are passed on to the airlines. Given that costs were largely passed on to airlines, it may be expected that these costs would then be passed on to airline passengers. It is estimated that, if costs were fully passed on to passengers, it would result in and average cost increase of $1.42 per airline passenger.

In addition to direct payroll and contract costs, a couple of studies have attempted to estimate monitoring and compliance costs. A study estimating the impact to Miami-Dade County suggests that the County's compliance monitoring cost would be $230,000 annually. Another pre-ordinance assessment estimated the cost to the City of Jacksonville to be $103,500 annually.

Impacts To Bid Process

An important concern with respect to the implementation of Living Wage Ordinances is that they will result in fewer bids as firms may choose not to bid on City contracts due to the increased labour cost requirement. However, Thompson and Chapman (2002) report that most studies have found that the presence or introduction of competitive bidding associated with the implementation of living wage ordinances has mitigated any potentially negative effects on bidding.

> “The competitive bidding environment may prevent firms from passing costs back onto the municipal government, and the relatively small size of the costs of the living wage may make it still worthwhile for the company to continue to bid on contracts. It will be easier for firms to absorb small costs increases, rather than dramatically adjust operations (moving, laying of workers, not bidding etc…)”

Other studies have found that the number of bids actually increased following implementation of Living Wage ordinance. Another study noted that the introduction of the Living Wage ordinance “leveled the playing field” for firms that were paying decent wages.

> “Under the ordinance, competition for contracts is determined by more than which firms can drive wages down the lowest, and is influenced by other factors, such as service quality.”

In the case of Baltimore, the study was not able to do a complete analysis of the effects of the policy on bidding. The limited analysis that was conducted produced conflicting results. In one case (grass cutting), the ordinance appeared to result in the withdrawal of medium sized contractors in favour of smaller contractors. In another case (bus contracting), there was a slight shift toward larger national companies and away from smaller local companies. Study was unable to determine, however, if these changes were related to the living wage ordinance.

Impacts to Local Economy

Most studies of the impact of Living Wage Ordinances in the United States report positive economic impacts of such Ordinances. Reich, Hall and Hsu (1999). estimate that the proposed San Francisco ordinance would result in an additional $20.8m / yr flowing to the city's economy. Skillen (2003) cites a study of Santa Rosa Ca. which found that, if all 5,391 lowest-wage individuals in the city were paid a living wage, this would circulate an additional $23,818,301 in the local economy per year.

Several studies report that the impact of a living wage policy to the local economy is greater than other investments due to a greater multiplier effect as low-wage households tend to spend a higher proportion of their income within the city and on locally produced goods and services.

> "Multiplier effects are the strongest among wage increases for the lowest paid, since poor workers need to spend wage gains on immediate needs, rather than savings or other actions which take the income out of the community." (Reynolds et al, 1999).

In the San Francisco case, researchers estimated that new direct labour costs would be $31m, while indirect wage gains were estimated to be $3.7m. This would result in economic growth in the San Francisco economy of $20.8m / year, with 40c of each additional dollar being spent locally (Weiss and Clements, 2002). As increased wages are spent locally, this can lead to local employment gains.

In addition to increased local economic activity resulting from the increased wages, there may be other indirect local economic benefits. Nissen (1998) notes that taxpayers benefit from living wage policies through reduced subsidies paid to lower income families. In Jacksonville, it was estimated that taxpayers would save between 3 – 4k / family / year, with those savings being largely realized at the federal and state levels.

The actual impact on public subsidies will be in part dependent upon the degree to which living wage policies actually raise family income above the poverty line. In the case of Baltimore, it was found that, due to the part-time nature of contracts, the living wage ordinance did not raise living standards to poverty levels, so the offsetting impact of the increased wages on public assistance was not largely realized.

There are some concerns that a living wage will chase away business and discourage new investment. However, Skillen (2003) points out that relocation is expensive and many businesses have assets whose value is place specific (e.g. hotels), making relocation impractical. In addition, there are other more salient factors determining a company’s location decision including access to markets and transportation systems, infrastructure, education and skill level of the available workforce and overall quality of life.

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