Choosing the High Road

Businesses That Pay a Living Wage and Prosper

Karen Kraut
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RESPONSIBLE WEALTH

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In February 2000, the booming economy broke the record for the longest expansion in US history – nine years – but the typical worker is still earning less than in 1973 after adjusting for inflation. For wealthy Americans, the economic miracle of the '90s represented a dream-come-true. For tens of millions of others, it represented a dream shattered.

It doesn't have to be this way. This report shows why paying a living wage to all employees is good for business, as well as workers and communities.

Headline: A crisis hits home: Rising prices, soaring rents put an American dream out of reach

"For many San Diegans, it is the painful flip side to the region's growing economic prosperity: rocketing housing prices and soaring rental rates are turning the American Dream of affordable housing into a frail and rapidly fading vision for many low- and moderate- income families."

— *The San Diego Union-Tribune*, May 17, 1998

Headline: Rents Squeeze Working Poor in Southland

"A couple holding down two minimum wage jobs would each have to work 11 hours a day, seven days a week to be able to afford the typical $1,140-a-month rent for an apartment in Los Angeles County, a new study shows. . . 'There are a lot of $6-an-hour jobs, but not a lot of $6-an-hour apartments, or even $10-an-hour apartments,' Said Jan Breidenbach, executive director of the Southern California Association of Non-Profit Housing."

— *Los Angeles Times*, September 10, 1999

There was a time, not so long ago, when a minimum wage job supported a typical family.

No more.

Headline: Asking the right questions in St. Paul

"Despite a strong economy and low unemployment, homelessness has more than doubled in the Twin Cities during this decade. Nearly 35 percent of those without homes work one or more jobs. And according to the Family Housing Fund, about 70,000 Twin Cities area renters earn less than $10,000. Yet fewer than half that number of affordable units exist."

— *Star Tribune* (Minneapolis), December 14, 1998

Headline: Booming State Failing the Hungry

"Washington State's sizzling high-tech economy and record-low unemployment doesn't bring to mind working mothers with bare cupboards. . . [A] three-year USDA survey covering 1996 to 1998 found that 12 of every 100 Washington households report that their families are 'hungry or on the brink of hunger,' USDA press secretary Andy Solomon said. . . Nearly 1.1 million Washingtonians used a food bank in the last fiscal year, and the number of visits to food banks has increased by nearly a third over the decade, according to data compiled by the state's Emergency Food Assistance program. . . The food banks are increasingly offering evening hours to serve needy working families. They say their lines have gotten thicker with parents whose $7- to $12-per-hour jobs aren't leaving much left for groceries once they pay their soaring rents, child care and utility bills."

— *Seattle Post Intelligencer*, October 14, 1999

In city after city the story is similar: the cost of economic success – increases in the prices of basic necessities, such as rent, gasoline, health care and food – give birth to a host of challenges for workers at the bottom of the economic ladder. A 2000 US Department of Housing and Urban Development report found that a record 5.4 million low-income families pay over half their income for housing or live in dilapidated housing, a 12% increase since the economic recovery began in 1991.[1] Many low-wage workers who are unable to find affordable housing in the communities where they work must endure increasingly long commutes, on top of an already long workday.

It wasn't always so in America. There was a time, not so long ago, when a minimum wage job supported a typical family.

No more.

The federal minimum wage of $5.15 an hour for year-round, full-time work adds up to $10,712 a year, not enough to afford basic housing, food and childcare. Low-wage workers generally have little or nothing in the way of financial reserves and assets to fall back on in the event of job loss or serious family illness. For their children, college is not a given, but a triumph of juggling work, school and debt.

Cost of Basic Living in Philadelphia, 1998

Monthly Basic Living Expenses	One Adult	One Adult and One Preschooler
Housing	$ 570	$ 704
Food	163	239
Child Care	0	425
Transportation	64	64
Health Care	71	149
Taxes	295	521
Offsetting Tax Credits		
Earned Income Tax Credit	$ 0	$ -4
Child Care Tax Credit	0	-42
Child Tax Credit	0	-33
Total Living Expenses	$ 1,163	$ 2,023
Minimum Wage, Full-time, One Month	$ 893	$ 893
Deficit	**$ -270**	**$-1,130**

Source: Pearce, Diana and Jennifer Brooks, 1999, "The Self-Sufficiency Standard for Pennsylvania," (Swarthmore, PA: Women's Association for Women's Alternatives).

The average American employee worked 140 more hours in 1998 than did the average employee in 1973.

Nearly four weeks of added work time, and still millions live pay-check to paycheck, struggling to survive.

With neither personal savings nor a pension, these workers will likely work until they die, as Social Security will be inadequate for their retirement.

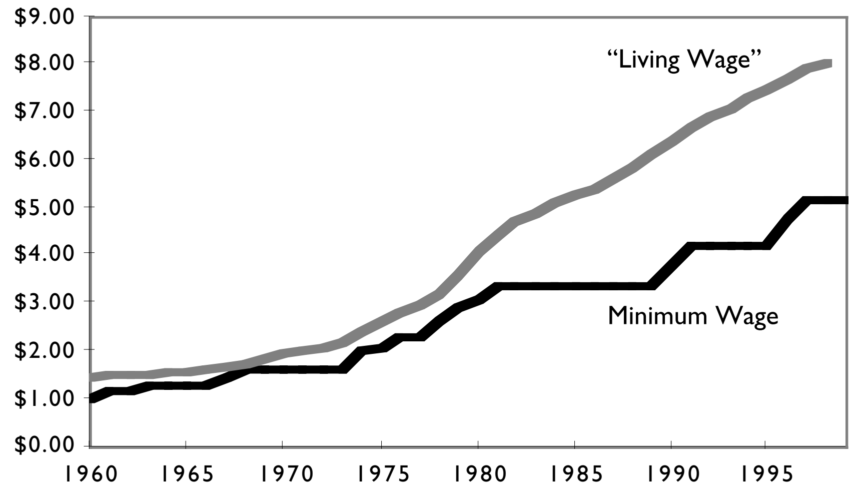
Not only do many working families with children need the income of two adults, but sometimes at least one of those adults must work more than one job. In fact, the average American employee worked 140 more hours in 1998 than did the average employee in 1973. Nearly four weeks of added work time, and still millions live paycheck to paycheck, struggling to survive. That's a month not spent with children, a month not spent enjoying the company of neighbors, a month not spent volunteering in the community.

So what's changed?

Some would argue that the biggest change comes from the opening of global markets, creating intensified global competition for labor. In community after community, well paying manufacturing jobs have been moved elsewhere by multinational corporations in search of lower costs. Though some on the American political scene attempt to point the finger of blame at workers in low-wage countries who are "stealing" Americans' jobs, the reality is that globalization has undermined the bargaining power of wage earners throughout the world. The rules of the global economy are spelled out in global trade and investment treaties and organizations like NAFTA and the WTO. These pit US wage-earners against workers in

Coalitions of labor, religious, community activists and business leaders are organizing to address the problem of stagnant wages.

The Minimum Wage and the "Living Wage," 1960-99
(Not adjusted for inflation)



Source: Authors' analysis of U.S. Census Bureau data. For each year, "Living Wage" is the Poverty Line for a family of four divided by 2,080 hours.

countries that outlaw unions and use sweatshops and prison labor. The result of these practices is that poverty is increasing on a global scale. More than 80 countries have lower per capita income today than they did a decade ago.[2]

While globalization is certainly a dominant force that has created the political justification for keeping a lid on wages, the most profound change has been in America's values. The growing number of working poor in this country are shredding the traditional American work ethic of "work hard and you'll get ahead." Over one-quarter of jobs in the United States now pay less than $8 an hour, which is less than the amount needed to raise a family of four above the federal poverty line.[3] In many higher cost cities, the real poverty level is far higher, giving rise to an even more stark gap.

The Living Wage Movement

A nationwide grassroots movement is sweeping across the United States to challenge the decency of a wage floor that confines millions of working families to a life in poverty. Coalitions of labor, religious, community activists and business leaders are organizing to address the problem of stagnant wages.

In 1994, a local coalition pushed the city of Baltimore to adopt a "living wage ordinance." This municipal law requires that corporations that do business with the city, that have substantial contracts or receive subsidies, must pay a living wage. The Baltimore ordinance defined a living wage as the amount of money required to lift a family of three over the federal poverty line – $6.10 an hour initially in 1996, rising to $7.70 an hour by 1999.

Voice of the Past

Purchasing Power

Edward A. Filene

The remarkable business leader who first made the business case for a living wage

At the turn of the last century, Edward A. Filene appeared to fit, almost perfectly, every popular stereotype of the business tycoon. But this Boston merchant, unlike most of his similarly gruff, cigar-smoking, wealthy contemporaries, is still remembered today, more than 60 years after his 1937 death.

Most Americans who recognize Filene's name know him from the popular Boston-based chain of retail stores that still bears his name. Students of American business practice know Filene from his gloriously innovative approaches to merchandising. But there's another side of Edward Filene that deserves to be remembered, especially today, a time when communities across the United States are debating whether or not to mandate that employers pay a "living wage."

Nearly a century ago, Edward Filene laid out a compelling *business* case for paying decent wages. Higher pay, for Filene, wasn't a matter of sentimentality. Paying good wages was good business.

Filene's business philosophy evolved over years of pragmatic business decision making. At the start of his career, notes one Filene biographer, the overwhelming majority of merchants accepted, as an absolute truth, "that it is better to sell an article at a profit of one dollar than to sell it at a profit of one cent." Filene understood, long before his peers, that selling an article at a one-cent profit is *always* better than selling that article at a far higher profit — if the lower profit margin multiplies your sales by one hundred and one.

Filene was absolutely confident that his approach made eminent business sense, but he acknowledged that his success depended on one other critical variable: Before people could get their money's worth, they had to have money. True mass production, Filene explained, is not production *of* masses of goods, but production *for* masses of people. Commercial success, Filene believed, rested ultimately on the average customer's power to purchase. Given that reality, Filene understood, sound business policy would seek to expand the average consumer's purchasing power, and Filene spent his business career working to do just that. Within his own enterprise, he bargained collectively with employees, instituted a profit-sharing plan, and put in place a then-novel assortment of fringe benefits.

Filene's vision extended far beyond the shelves of his showcase store. He realized early on that credit was as important to average working people as to the biggest corporations. His solution was to found the American credit union movement. But Filene left behind much more than the modern credit union. He helped create the US Chamber of Commerce, to encourage community-mindedness among business leaders. He later went on to launch the first significant 20th century consumer cooperatives.

A businessman who really knows his business, Filene believed, must necessarily be a worker for the "common good." That "common good" — for business and society — is what the living wage movement is all about.

For business leader Edward A. Filene, higher pay wasn't a matter of sentimentality. Paying good wages was good business.

Increasing the economic self-sufficiency of workers enhances business productivity and opens new markets.

Since 1995, over forty other communities have adopted living wage ordinances, now at the rate of almost one a month – these include Los Angeles, Boston, Chicago, Milwaukee, and San Antonio. Over 120 other communities have begun to organize for passage of living wage laws. In addition, sixty-seven other governmental bodies in 36 states have passed legislation requiring firms receiving government subsidies and tax abatements to provide quality jobs, often including living wages.

The Business Benefits of Paying a Living Wage

Many economists, businesses and policy makers recognize that higher wages often result in a variety of business benefits. When the federal minimum wage was first adopted in 1938 as a part of the Fair Labor Standards Act, its two primary purposes were to create jobs and increase consumer purchasing power in the wake of the Great Depression.

Studies and surveys of businesses that pay decent wages, including those highlighted in this report, describe real business advantages as a result of higher wages. These businesses report that higher base pay and benefits attract more qualified employees, and that those employees have high morale, are more productive, and require less supervision.

Businesses also report that higher wages reduce employee turnover and absenteeism, leading to lower costs in the recruitment and training of new employees and improvements in the quality of products and services delivered to customers. The cost of employee turnover is no small matter for many businesses. In 1999 Bliss & Associates and Gately Consulting developed a method that precisely measures the business costs and impacts of employee turnover.[4] Bliss and Gately determined that turnover costs at least 150% of the employee's base salary. For example: If a company of 50 employees has an average base salary of $15,000 and a turnover rate of 10%, it will spend at least $112,500 to replace those employees when such costs as training, lost productivity, new hires and recruitment costs are calculated. Therefore, having a motivated and stable workforce not only creates a work environment that supports increased productivity, but it reduces the significant expense of recruitment and training. Such business benefits can go a long way toward offsetting higher wage and payroll tax costs associated with paying a living wage.

> "(The) disgrace is that amid glittering affluence, millions of Americans report punctually to work, perform conscientiously – and still don't take home enough money to escape poverty."
> — Robert Kuttner
> *The Washington Post*
> August 20, 1997

These observations from businesses are consistent with those of economists who suggest higher direct labor costs may be offset by reduced indirect labor costs and higher productivity.[5] It is a standard economic efficiency argument that as labor becomes more expensive, employers have an incentive to use labor more effectively and thus to improve productivity.

Not only do individual businesses benefit from paying higher wages, but entire local communities, particularly low-income communities, gain when low-wage workers' wages increase. Low-wage workers are more apt to spend earnings locally, circulating money back into local economies, which has the potential to help rebuild America's poorest communities and spur job growth.[6]

Speaking to Small Business

Krishna Fells

Founder of Small Business Owners of Washington State

Small Business Owners of Washington State (SBOWS) is a 100-plus member network of small business owners who believe workers should be paid livable wages, provided benefits, and treated with respect.

In 1998, Washington State had a ballot initiative to increase the state's minimum wage from $5.15 to $6.15 per hour. Krishna Fells, co-owner of a high technology consulting business, believed full-time workers should not live in poverty and began to build a coalition of businesses that would publicly support the initiative. In four days, 20 members joined. In eight days, SBOWS was up to 100 members.

SBOWS brought a unique voice to the debate on raising the minimum wage, and as business owners, this voice was particularly influential. SBOWS members met with their state legislators to demonstrate that there were, in fact, business people who supported the wage increase. Being business owners in the community, they had access to the Seattle Rotary Club and the International Rotary Club and persuaded both clubs to publicly support the initiative.

SBOWS used their collective voice to educate other small businesses about the impact of NOT raising the minimum wage. Since small businesses don't get the tax breaks given to large businesses, they pay fairly high taxes. As a result, small businesses and other taxpayers often end up paying for government subsidies (medical and food assistance, EITC) to employees who aren't earning enough at their jobs to support themselves and their families. Not raising the minimum wage would be detrimental to small business.

During the campaign, SBOWS members consistently tried to find common ground with those whose views differed on this issue. Their most powerful opponent was the restaurant association, which not only tried to exempt restaurants from the proposed law, but also asked other businesses to either oppose or be silent on the initiative. Towards the end of the campaign, SBOWS engaged a representative of the restaurant association in a series of intense debates. In the end, while the association did not endorse the initiative, its representative finally admitted that raising the minimum wage was the "right" thing to do.

There is no question that this active and vocal alliance of business owners greatly influenced the passage of the initiative to raise the state minimum wage.

SBOWS members used their collective voice to educate other small businesses in an initiative campaign to raise the state minimum wage.

They demonstrated that NOT raising the minimum wage would actually be detrimental to small business.

Increasing the economic self-sufficiency of workers enhances business productivity and opens new markets, while also reducing poverty, strengthening communities and shrinking the demand for government assistance to low-income families. By restoring values to the economic equation, the Living Wage movement is fulfilling the promise of the American Dream that hard work will be rewarded.

The Business Lobby and the Wage Issue

Economic research debunks many common business concerns about raising the wage floor.

While a growing number of business people are supporting increased minimum wages and living wages, many local business organizations have joined with national organizations such as the Chamber of Commerce, the National Association of Manufacturers and the National Restaurant Association to provide strong and consistent opposition to efforts to raise the minimum wage and adopt living wage standards. These business leaders and lobbyists whose views receive great attention offer a litany of concerns: 'Raising the minimum wage will result in inflation and increase unemployment, thereby hurting the very people you are trying to help. The burden of increased wages on small employers will force many of these enterprises to leave the city or go out of business. The market is the best determiner of economic value and fair wages.'

The economic research that follows debunks many common business concerns about raising the wage floor.

Responses to Common Business Concerns

"Paying a living wage will cause inflation and inhibit economic growth."

"I believe that this [minimum wage] legislation will help low-income workers and low-income families share in the strong economy here in Massachusetts."[7] These words were not spoken by the head of the state AFL-CIO, but by Paul Cellucci, the conservative Republican governor of the Commonwealth. Cellucci spoke these words as he signed legislation to raise the state's minimum wage to $6.75, the highest in the nation. Cellucci admitted that his prior belief – that increasing the minimum wage would hurt the economy – was wrong. He changed his mind after witnessing continued economic growth in Massachusetts following a previous minimum wage hike in the mid-1990s.

Three studies on existing living wage ordinances found early evidence that relatively little of the extra cost in labor has been passed on to consumers or the cities with whom they contract. The studies suggest that companies are absorbing the higher wages or finding ways to offset them.[8]

Higher wages may actually help firms reduce turnover and fill vacancies, according to some economists, and can also lead to greater worker productivity by improving morale and overall job satisfaction. These benefits generate efficiency gains that could allow firms to absorb the increase in labor costs.[9] The businesses highlighted throughout this report all confirm cost-saving benefits resulting from paying higher wages that not only offset the higher labor costs but, in some cases, actually contribute to increased profitability.

Superior Performance

Tim Styer

CEO of Urban Works

Urban Works is an employee-owned contract cleaning company based in Philadelphia, founded and run by CEO Tim Styer. The two-year-old company has revenues approaching $350,000.

From the outset, Styer has paid his employees $7.90 per hour with benefits, the amount determined to be a living wage by the local living wage campaign in Philadelphia, and at least $1 per hour more than the local industry standard.

Due to their higher labor costs, Urban Works is seldom the lowest bidder and winning contracts has been challenging, particularly within smaller markets. However, once a contract is won, Urban Works's superior performance helps them retain customers.

Styer credits the wages, benefits and employee ownership for the high morale and productivity of his employees, which leads to quality work. The wage/benefit structure has also reduced turnover and absenteeism and eased recruitment efforts, which has resulted in reduced marketing expenses.

Urban Works's quality performance and contract retention stands out in an industry known for tremendous employee turnover and continuous switching by customers among companies due to dissatisfaction. Styer sees the positive impact of his wage policy in the families and disadvantaged communities from which his employees come.

"Being paid a living wage with benefits is important to me. Paying for food, rent, clothing and transportation is expensive. I barely have enough left over for extras."
—Employee Frank Sanders

Some economists believe that higher wages help reduce turnover, fill vacancies, and lead to higher productivity by improving morale and job satisfaction.

These benefits generate efficiency gains that could allow firms to absorb the increase in labor costs.

Some studies have examined the potential inflationary aspects of minimum wage increases. An Oregon Center for Public Policy study of the impact of the 1997 and 1998 minimum wage increases on the Oregon restaurant industry found that inflation of restaurant meal prices matched general price increases in the rest of the

Enacted in 1938, the minimum wage played a vital role in getting businesses and the economy back on track.

economy and was less than general food and beverage price inflation.[10] In another study, economists found that New Jersey's 1992 minimum wage increase led to modestly increased prices of restaurant meals, but there was no evidence that prices rose faster among retail stores that had the greatest proportion of minimum wage workers.[11]

The Baltimore living wage law increased the aggregate cost to the city by 1.2%, less than the cost of inflation. The inflation-adjusted cost to Baltimore of the 26 living wage contracts studied actually declined slightly despite the wage hikes, according to a 1999 study by the Economic Policy Institute.[12] These findings are consistent with those of the Preamble Center study, which found a decline of 2.4% in inflation-adjusted contract prices after the first year of the Baltimore living wage ordinance. The Preamble Center study suggested that the decline in overall costs might be attributed to efficiency gains at higher wages, and to the competitive pressures of the bidding market, which discouraged contractors from inflating their prices.[13]

"Raising wages will result in job loss for the very workers you are trying to help."

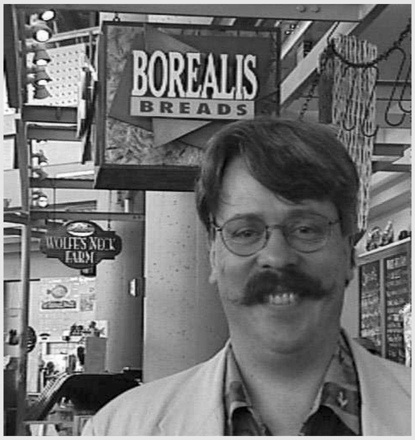
As described earlier, the federal minimum wage was first adopted as a part of the Fair Labor Standards Act of 1938. While the legislation was also intended to ensure that workers maintained a minimal standard of living, the primary purpose was to create jobs in the wake of the Great Depression. Legislators reasoned that good-paying jobs would increase consumer purchasing power, which in turn would stimulate the creation of still more jobs. The legislation played a vital role in getting businesses and the economy back on track.

Only a few studies to date have examined the unemployment effect of living wage laws. The Economic Policy Institute concluded in 1998 that after four years in force, the Baltimore living wage increase did not result in any discernible job loss.[14] A study of the Los Angeles living wage law, the nation's most far-reaching living wage law, found that total employment on City service contracts declined by about 3% over the first eighteen months of implementation.[15] The authors of this study note that in Los Angeles, unlike Baltimore, the city did not put contracts up for competitive bids, choosing instead to re-negotiate contracts with existing vendors. The study concluded that implementing a competitive bidding process would help "hold down both costs to the city and the loss of worker jobs."[16]

There is a much broader body of evidence examining the relationship between increases to the minimum wage and unemployment. The vast majority of economic research concludes that there is little or no loss of jobs associated with small wage increases, where small is defined as increases that adjust the minimum wage for the effects of inflation.[17]

The clearest evidence for evaluating the unemployment impact of increases in the wage floor comes from the increases to the federal minimum wage in 1996 and 1997. Following these increases, the economy has continued to produce jobs at

Loyalty's a Two-Way Street



Jim Amaral

CEO of Borealis Breads

Borealis Breads is a European style sourdough bread company, founded in 1993, which has grown from one store with one employee to over 50 employees in 3 locations in Maine. The company's dough has risen nicely with annual revenues now topping $2.25 million.

CEO Jim Amaral has made a commitment to pay his employees a living wage and provides an array of benefits, including health insurance and paid community service (3 hours/month). Amaral hopes to introduce profit sharing for all employees in the future.

The company's wages and benefits have been instrumental in recruiting higher skilled employees, and maintaining significant worker loyalty and retention in a business that traditionally experiences high turnover. Some employees of Borealis Breads have been at the company since its inception. Since it takes about six months to fully train an employee in the bread making process, keeping a loyal group of workers has saved Amaral significant sums on training costs.

He further believes that satisfied and committed employees are essential for producing a quality product on a consistent basis. Amaral is willing to trade off a higher personal salary for a pay structure that is equitable. Currently, managers are paid about twice the salary of the lowest paid employee, and the CEO is paid about 3.5 times the salary of the lowest paid employee.

CEO Jim Amaral has found that paying a living wage and providing full benefits helps his company recruit and retain skilled employees in a business that traditionally experiences high turnover.

The real deterrent to urban investment is not high costs, but high levels of poverty.

near-record rates. In February 2000 only 7.2% of the working age population was not in the workforce, compared to 11% in 1994.[18] Most remarkable are the gains in employment made by historically disadvantaged groups. Since 1998, millions of former welfare recipients have found work, though most at or near minimum wage. Overall teenage unemployment is at a 30-year low, while unemployment among African-American teens has fallen to 27.6%, its lowest level since this data was first gathered in 1972.[19]

"A living wage policy will chase away existing businesses and deter new investment."

For many businesses, their assets have value in a particular location and not outside of it. For example, restaurants, hotels, utilities, construction, universities, and many professional and personal services are very strongly place-bound.[20] If faced with a requirement to increase wages, it is likely that moving out of the city would be a last resort for such location-specific businesses. A further disincentive to moving to a new location are the numerous costs associated with relocation.

Some communities are concerned that higher wages may discourage new businesses from opening or expanding. It is true that wage levels are one factor in a business's decision as to where to locate. And if all else were equal, the wage level might very well be the determining factor. However, all else is *never* equal.[21] Access to markets and transportation systems, infrastructure, the education and skill level of the available workforce, and overall quality of life all vary city to city and exert influence over location decisions.

Early fears that a living wage law would drive investment from a city have not materialized in Baltimore, the first city to adopt a living wage ordinance, back in 1994. An analysis of the fiscal and economic costs of Baltimore's living wage ordinance by the Preamble Center in 1996 found no evidence that local businesses or potential investors have responded negatively to the ordinance. The study found that the value of business property, which had been declining in real terms in the four years preceding the passage of the ordinance, increased sharply after the ordinance passed.[22] While the authors are not suggesting a direct correlation between raising wages and increased business property values, neither did the living wage ordinance drive down business property values.

Economist Erica Schoenberger suggests that the real deterrent to urban investment is not high costs, but high levels of poverty:

> "Poverty, quite plainly, generates insecurity and difficulty for the rich and the poor alike. It severely limits the local market, which makes a city uninteresting to many kinds of business. It produces ill-prepared workers whose lives are easily disrupted by small catastrophes. If the car breaks down, if the kid gets sick, it suddenly becomes impossible to be a reliable worker. Poverty also generates poor health among workers, making them less reliable still and raising the cost of employing them. It creates a lack of physical security for workers, employers, and property. It produces also a

Low Markup, High Wages

Barry Hermanson
CEO of Hermanson's Employment Services

Hermanson's Employment Services was established in 1980 as an alternative temporary employment service in San Francisco. By keeping overhead low, the business was able to pay temporary office workers $2 - $4 more per hour while at the same time keeping client billing rates competitive. Because of this pay differential, word of mouth advertising became a powerful tool in growing the business. The temporary employees essentially became the marketing department.

Today, with no marketing department and no advertising budget, Hermanson's employs more than 200 people throughout the U.S. and in several foreign countries. Because a majority of the company's workforce is now referrals from clients, the wages are now frequently fixed by the client. Barry Hermanson believes that employees who work for Hermanson's should be able to benefit from the company's low markup on payroll, rather than having the entire benefit flow to the client.

While Hermanson's continues to thrive, the company's ability to directly impact the wages of each employee is decreasing. Hermanson's addresses this dilemma by using the profits of the business to become more politically active, to help pass legislation that will address the issues of wages and basic benefits for contingent workers.

In order to meet his company's social change goals, Barry Hermanson is Co-Chair of the San Francisco Living Wage Coalition. The Coalition is working to raise the wages of 30,000 people up to $11 per hour plus benefits. Barry is also advocating for a substantive increase in the minimum wage and an end to the tip credit that enables restaurant employers to pay a minimum wage of $2.13 in this country.

CEO Barry Hermanson believes that employees should be able to benefit from the company's low markup on payroll, rather than having the entire benefit flow to the client.

> meager tax base and poor physical infrastructure and public services. The costs of doing business could be subsidized to near zero in such a place and investment might still not be forthcoming."[23]

So, rather than threatening the city's economic prospects, a living wage policy, by helping to raise workers out of poverty, becomes a central tool for economic development and a positive contributor to a city's investment climate.[24]

"Jobs done by low-wage workers aren't worth higher pay."

Throughout the first seventy years of the 20th century, improvements in worker efficiency, measured as productivity, have provided the basis for steady wage increases for workers. This relationship has changed dramatically over the last 30

The primary beneficiaries of a higher minimum wage are adult members of low-income families.

years. Between 1973 and 1998, worker productivity increased by 46.5%.[25] Over the same period, hourly wages for average workers in 1998 were still 6.2% below 1973 (adjusting for inflation), and weekly wages were 12% lower.[26] The benefits of productivity improvements, once shared with workers, are now being disproportionately distributed elsewhere: to shareholders and corporate executives, and to consumers in the form of lower prices.

No matter the job performed, whether preparing hamburgers or nursing sick patients, workers must earn enough money to pay the rent and buy food and other basic necessities. Living wage proponents argue that employers who pay poverty wages are effectively being subsidized by taxpayers through government assistance programs (e.g., food stamps, Earned Income Tax Credit) which help many low-wage employees survive.

"Most low-wage workers are teenagers."

Who really benefits from a minimum wage hike? Extensive analysis of past and proposed minimum wage policies has determined that the primary beneficiaries are low-wage workers who are disproportionately adult, female, and people of color. Most of the workers who benefit are members of low-income families.

The Economic Policy Institute (EPI) analyzed the current proposed legislation to increase the minimum wage from its present level of $5.15 to $6.15 per hour. EPI found that about 11.8 million workers (10.1% of the workforce) would receive an increase in their hourly wage rate if the minimum wage were raised to $6.15 per hour. Seventy-two percent of these workers are adults (age 20 and older) and 59.2% are female. Because the minimum wage workforce is disproportionately minority, 15.1% of those affected by the increase are African-American and 17.4% of those affected are Hispanics (compared to 11.6% and 10.6% respectively of these groups' total workforce representation).

Close to half of the would-be beneficiaries of the minimum wage increase worked full-time (48.2%) and another third (32.9%) worked between 20 and 34 hours per week. Data from the last minimum wage increase reveal that 58% of the benefits went to low-income working families in the bottom 40% of income distribution.[27]

"We should let the free market determine wage levels."

What is often referred to as the "free" market often isn't free at all. Government plays a rule-setting role, seeking to promote market efficiency, while also containing the social costs stemming from a completely unfettered market. For example, the Federal Reserve Board tries to manage economic growth and control inflation by manipulating interest rates. Businesses are often beneficiaries of government intervention. Federal, state, and local governments consistently provide billions of dollars in subsidies, tax breaks, and other forms of corporate welfare to businesses in the name of economic growth.

A Living-Wage Restaurant

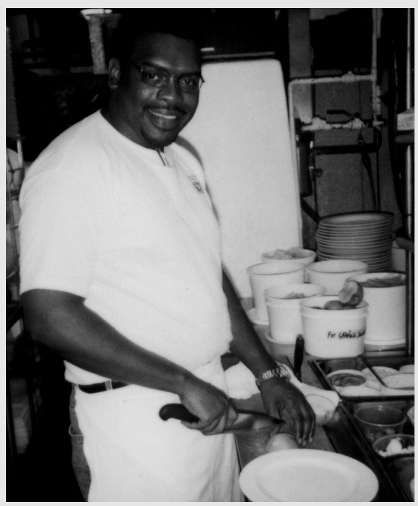
Judy Wicks

Owner of the White Dog Café

The White Dog Café is a profitable upscale restaurant in Philadelphia, PA owned and operated by Judy Wicks. In its 17-year history, it has grown to 100 employees, with annual revenues of $4.5 million. Wicks has made a commitment – not only to business profitability and to her loyal customers – but also to her employees, her community and the natural environment.

In a business that traditionally treats entry level employees as dispensable, and where tip-earning employees receive wages as low as $2.13 an hour, Wicks believes that all her employees can perform well with proper training and incentives. Her managers work extensively with entry level employees, who start at $6.50/hour, well above the minimum wage. Within three to nine months, these workers earn Philadelphia's living wage, which was $7.90/hour in 1999. Her employees experience a greater sense of professionalism and self-respect from earning a living wage, which ultimately eases the job of the Café managers.

Wicks recognizes that paying a living wage is difficult in the restaurant business, but encourages other restaurant owners to "try it, because it can be done." She adds "the traditional value system in the restaurant business of running people into the ground needs to change in order to create a more fulfilling workplace for everyone." The White Dog Café successfully combines profitability with a commitment to economic and community justice.



"It made a big difference in my life. First I paid off a credit loan I had been worrying about. I have three children and now I can afford to buy them some things they have always wanted. But the best thing is that I'm talking with a realtor about buying a house so I can move my kids to a safer neighborhood."

—Employee Oliver Collins

Given the degree to which businesses already benefit from market interventions, it is inconsistent to selectively argue that the market should freely set wage levels.

Given the degree to which many businesses already benefit from market interventions, it is inconsistent and even spurious for businesses to selectively argue that the market should be left to its own devices in the case of determining wage levels.

Over the longer term, a fairly paid and satisfied employee will save the company money and lead to more sustained growth.

"The restaurants are important, but the people who run them are probably more important…We think providing fair wages and benefits for good performance makes good business sense."

— Les Cappetta
Vice President for
Business Development
Host Marriott

Quoted in *People Magazine*, March 20, 2000, in response to the 1997 Los Angeles Living Wage Ordinance.

Additionally, businesses that pay poverty wages indirectly rely on government assistance programs to make up the difference between these wages and what it costs their employees to live. Without the intervention of government and private charities, paying poverty wages wouldn't be a sustainable business practice.

"Public companies have a mandate to maximize profits for shareholders."

There are many ways to maximize profits. While it is true that a company can lower employee wages and possibly increase profitability over the short term, over the longer term, a fairly paid and satisfied employee will save the company money and lead to more sustained growth.

Numerous studies have shown that reducing labor costs does not automatically result in reduced overall costs, improved profitability, or increased shareholder value. A 1995 Watson Wyatt Worldwide study found that less than half of companies surveyed met their expense-reduction goals after downsizing, fewer than one-third met their profit objectives, and only one in five enhanced shareholder return on investment.[28] In 1997, the Wharton Business School analyzed 52 studies involving several thousand companies and found that corporate restructuring had little if any positive impact on earnings of stock performance.[29]

Meeting the requirements of global competition will necessitate new practices and strategies that include an emphasis on worker satisfaction. Developing new products and new markets, and flexibly responding to shifting market demands requires a satisfied, stable and participatory workforce who have an investment in making a quality product.[30]

Paying a living wage can lead to increased profitability by positively affecting worker retention and morale. Companies can also save significant amounts of money on expensive recruitment and training efforts, leading directly to a greater profit margin and happier shareholders. Given a choice of how to please shareholders and maintain profitability over the longer term, why wouldn't a CEO choose the route that leaves all stakeholders, including the workers, feeling more satisfied?

A 3:1 Wage Ratio

Hal Taussig

CEO of Idyll, Ltd.

Idyll, Ltd. is a $6 million Philadelphia-based specialized travel business with 25 employees. When he founded the company, CEO Hal Taussig paid all his workers equal wages by dividing all profits. Over time, senior employees advocated for more wage variation, and Taussig responded by establishing a 3:1 ratio of highest to lowest wages.

The benefits Taussig has derived from paying his employees livable wages include high employee retention, "esprit de corps" of staff, and employees who actively seek ways to keep company costs low.

Idyll, Ltd. provides good health insurance, a 401(k) plan with a 50% match by the company, two weeks starting vacation, and an annual paid vacation to Europe, where the company has significant operations.

Idyll, Ltd. is ahead of most of its competitors, with profit margins over 10% annually for the past 3 years. Taussig says the trade-off for paying decent wages is lower immediate profits, but adds that his costs would be up in other areas (recruitment and training) if he "skimped on employee pay."

CEO Hal Taussig says paying his employees livable wages and maintaining a flat wage structure improves employee retention and encourages employees to actively seek ways to keep company costs low.

The Living Wage Covenant

Statement of Principles:

- ***No one working full time should live in poverty.***
- ***A living wage is good for families, businesses and the country.***

The following businesspeople have pledged to support living wages by paying employees at least $8.20 an hour (2001 federal poverty level for a family of four) and/or one or more of the following ways:

- *Publicly support living wage ordinances in their community.*
- *Publicly support legislation to increase the federal minimum wage.*
- *Begin a dialogue with their investment advisors, mutual fund managers and business leaders in an effort to move company compensation practices worldwide toward living wages.*
- *Write an op-ed on the benefits of paying a living wage.*

Rosalie Prosser, Alice Darling Secretarial Services, Inc., Cambridge, MA
Jeanne Zang, Allegheny Unitarian-Universalist Church, Pittsburgh, PA
Marjorie Aloni, American ORT, Hollywood, FL
Ruth & Alan Larson, Bernardo Dermatology Medical Group, San Diego, CA
Jim Amaral, Borealis Breads, Alna, ME
Laura Hansen Carey, Broward Coalition for the Homeless, Fort Lauderdale, FL
Mark Lichty, Bustin Industrial Products, East Stroudsburg, PA
Rian Fried, Clean Yield Group, Greensboro, VT
Tracy Gary, Community Consulting Services, Ross, CA
Mary Moffroid, Controlled Energy Corporation, Waitsfield, VT
Joan Lapham, DBL Foundation Inc., Glens Falls, NY
Eileen Fisher, Eileen Fisher, Inc., Irvington, NY
George Adams, Electric Supply of Tampa, Inc., Ste. Pete Beach, FL
Robert Cohen, Empower Telefundraising, Berkeley, CA
Robert Fitzpatrick, Fitzpatrick Management, Inc., Charlotte, NC
Sylvia Blanchet, ForesTrade, Brattleboro, VT
Joseph Kresse, Foundation for Global Community, Redwood City, CA
Gail Leondar, Gail Leondar Public Relations, Arlington, MA
Mark Golden, Golden Artist Colors, New Berlin, NY
Lion Goodman, The Goodman Group, San Rafael, CA
Catherine D'Amato, The Greater Boston Food Bank, Boston, MA
David Campbell, Healing Environments, San Francisco, CA
Anthony Wiggins, Healthmarket Inc., Wilton, CT
Judd Allen, Healthyculture.com, Burlington, VT
Barry Hermanson, Hermanson's Employment Services, San Francisco, CA
Hal Taussig, Idyll, Ltd., Media, PA
Krishna Fells, Independent Marketing Services, Inc., Redmond, WA

Marisha Zeffer, Institute of Noetic Sciences, Sausalito, CA
James Kern, International Market Brands, Kirkland, WA
Bob Connolly, The James Company, Milwaukee, WI
Judith Katz, Ed.D., The Kaleel Jamison Consulting Group, Washington, DC
Kristina Farrell, KF Consulting, Ellensburg, WA
Denise Guérin, Law Office of Denise M. Guérin, P.C., Cambridge, MA
Joyce Kauffman, Law Office of Joyce Kauffman, P.C., Cambridge, MA
Lawrence Ellis, Lawrence Ellis & Associates, Oakland, CA
Laurie Wick, The Learning Tree Montessori Childcare, Seattle, WA
Laury Hammel, The Longfellow Club, Wayland, MA
Richard Lundy, Lundy & Shacter, P.A., Plantation, FL
Kevin Lynch, Lynch Jarvis Jones, Inc., Minneapolis, MN
Mal Warwick, Mal Warwick & Associates, Inc., Berkeley, CA
Susan Remmers, McKenzie River Gathering Foundation, Portland, OR
David Melly, Melly Guitars, Berkeley, CA
Mia Pruett, Mia Pruett Gardening, Jamaica Plain, MA
Ana Anton, Miami Beach Community Development Corp., Miami Beach, FL
Anne Slepian & Christopher Mogil, More Than Money, Arlington, MA
Mary Willis, Morris Family Foundation, Kentfield, CA
Jay Harris, Mother Jones Magazine, San Francisco, CA
Prakash Laufer, Motherwear, Inc., Florence, MA
Jeff Mendelsohn, New Leaf Paper, San Francisco, CA
Larry Shaw, New Toy Classics, San Francisco, CA
Niman Karam, Niman's Big & Tall Men's Shop, Bangor, ME
Julie Goodridge, North Star Asset Management, Jamaica Plain, MA
Stuart Kraut, Orthodontist, Schenectady, NY
Rich Maggiani, Page Designs, Inc., Burlington, VT
Thomas Brassard, Paw Print Offset/Digital, South Burlington, VT
Eric Leenson, Progressive Asset Management, Berkeley, CA
Mario Yanez, Regis House, Miami, FL
Mary Roberts, Rejuvenation, Inc., Portland, OR
Doug Hammond, Relief Resources Inc., Hadley , MA
Eckhart Kiesel, Repunzel Pure Organics, Inc., Valatie, NY
Gary Stewart, Rhino Entertainment, Los Angeles, CA
Veena Aggarwal, Saira Corp dba The Body Shop, Wayne, PA
Judy Pigott Swenson, The Sattenberg Foundation, Seattle, WA
Stephen Abrams, Schneider and Abrams, PC, New York, NY
Bill Creighton, Sea Tow Midcoast Maine, Walpole, ME
Drummond Pike, The Tides Foundation, San Francisco, CA
Terry Mollner, Trusteeship Institute, Northampton, MA
Dal LaMagna, Tweezerman Corporation, Glen Cove, NY
Alec Hudnut, University Access, Los Angelos, CA
James Forbes, Urban Properties, San Francisco, CA
Tim Styer, Urban Works, Philadelphia, PA
Margaret Klis, Utne Reader, Minneapolis, MN
Beth Sachs, VT Energy Investment Corp., Burlington, VT
Judy Wicks, White Dog Cafe, Philadelphia, PA
Nola Wilken, Wilken and Company, P.C., CPAS, Portland, OR
Laura Scher, Working Assets Funding Service, San Francisco, CA

Shanna Ratner, Yellow Wood Associates, Inc., St. Albans, VT
Mark Albion, You & Company, Dover, MA
Judith Barnet, Investor, Barnstable, MA
Teri Barr, Investor, Oakland, CA
Ann Benson, Investor, Portola Valley, CA
Ari Blum, Investor, Palo Alto, CA
Mark Breimhorst, Investor, San Francisco, CA
Bob Burnett, Investor, Berkeley, CA
Frank & Ruth Butler, Investors, Topsfield, MA
Lois Canright, Investor, Seattle, WA
Nikki Daruwala, Investor, Bethesda, MD
Lee Draper, Investor, Culver City, CA
Aaron Edison, Investor, New York, NY
Duane Erway, Investor, Kailua-Kona, HI
Nica Faulkner, Investor, Jamaica Plain, MA
Albert Francke, Investor, Millerton, NY
Robert Glassman, Investor, Boston, MA
Joshua Grossman, Investor, Berkeley, CA
Amy Hall, Investor, Irvington, NY
Helena Halperin, Investor, Arlington, MA
Alan Hancock, Investor, Eugene, OR
Lucinda Hastings, Investor, Atlanta, GA
William Hochberg, Investor, Edmonds, WA
Mark Horowitz, Investor, Weston, MA
Stephen Johnson, Investor, Greensboro, NC
Peter Kilkus, Investor, San Anselmo, CA
Carla Kleefeld, Investor, Santa Fe, NM
Tracey Lake, Investor, Berkeley, CA
Lee Helena Lawrence, Investor, Moraga, CA
Gretchen Leavitt, Investor, San Jose, CA
Michele McGeoy, Investor, Richmond, CA
Catherine Mooney, Investor, Jamaica Plain, MA
Carolyn Moran, Investor, Eugene, OR
Scott Nelson, Investor, Crested Butte, CO
Lincoln Pain, Investor, Berkeley, CA
Marcia Peters, Investor, Jamaica Plain, MA
Suzanne Polen, Investor, Pittsburgh, PA
Howard Poulter, Investor, Oakland, CA
Patricia Rabby, Investor, Lexington, MA
Roger Rath, Investor, Fallston, MD
Kenneth Reiner, Investor, Long Beach, CA
Barbara Rhine, Investor, Oakland, CA
Marci Riseman, Investor, San Francisco, CA
Barbara Rose, Investor, Shoreline, WA
Margaret Rosenkrands, Investor, Howell, MI
Dianne Saenz, Investor, Alexandria, VA
Jacquelyn Scott, Investor, Fort Lauderdale, FL
Leonard Stein, Investor, Evanston, IL
Peter Stern, Investor, Mill Valley, CA

Sarah Stranahan, Investor, New York, NY
Thalia Syracopoulos, Investor, Seattle, WA
Dolores Taller, Investor, Berkeley, CA
Nancy Taylor, Investor, San Geromino, CA
Léonie Walker, Investor, Portola Valley, CA
Heleny Warren Cook, Investor, Washington, DC
Isobel White, Investor, Berkeley, CA
Andrew Wolk, Investor, Brookline, MA

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