Living Wage

A living wage refers to the amount of money a full-time employee needs to either afford the basic necessities in life or exceed the poverty threshold. It is based on the principle that people working full-time should make enough money to financially support their families. The minimum wage should be a living wage, but that is not the case in the United States.

More than thirty million Americans working full-time, representing more than 20 percent of the labor force, earn below poverty-level wages. Women account for nearly 60 percent of the total. In 2005, a full-time employee paid the minimum wage of $5.15 an hour would have annual earnings of $10,712. The poverty threshold for an adult with two children was $16,090, equivalent to an hourly living wage of $7.74. Most living wage initiatives are local municipal ordinances lobbied by the AFL-CIO and the Association of Community Organizations for Reform Now (ACORN).

Source of the Problem

When President Franklin Roosevelt proposed a federal minimum wage law in 1938 the guiding principle was “a fair day’s pay for a fair day’s work.” His administration initially recommended a minimum wage of 40 cents an hour, but that was reduced to 25 cents an hour in order to achieve Congressional approval. The minimum wage was not indexed to inflation or a poverty threshold.

The minimum wage’s purchasing power peaked in the mid-to-late 1960s and has declined steadily since then. The current hourly federal minimum wage of $5.15 would be $8.88 if it had been indexed to inflation in 1968. Proponents of a living wage, frustrated with opposition from federal and state politicians to increase the minimum wage to a living wage, have focused their lobbying efforts at the level of local municipalities and particular employers, such as school boards and colleges and universities. They invoke the term “living wage,” rather than “minimum wage,” because it highlights the inadequacy of the current minimum wage and has greater moral resonance with the public.

Living wage proponents typically recommend indexing the wage to the poverty threshold. But some policy analysts argue that the federal poverty threshold is currently underestimated. In the 1960s, food accounted for approximately one-third of an average family’s budget and that became the benchmark poverty threshold formula. The federal government annually determines the poverty threshold by multiplying by a factor of three the minimal amount of food needed to sustain different household sizes. This formula continues to be used even though food now accounts for only one-fifth of an average family’s budget due to increases in healthcare, childcare and other basic living expenses. If the 2005 poverty threshold for an adult with two children was adjusted accordingly, a living wage would be $12.89 ($26,811 annually) rather than the current $7.74 calculation ($16,090 annually).

Living Wage Movement Growth

The living wage movement was spawned in 1994 when a coalition of churches and labor unions successfully lobbied the Baltimore city council to pass legislation that took effect in 1996. The coalition pursued what they considered to be a politically winnable strategy by limiting their living wage demands to private companies providing city services rather than requesting that all city government employees or all employees within the city receive a living wage. They argued that city government should not contract services from private employers who pay below poverty-level wages.

All private service contractors doing business with the Baltimore city government – firms providing food, healthcare, maintenance, security, etc. – were required to pay employees a wage equivalent to the poverty threshold for a family of four, which at the time was $6.10 an hour, more than one dollar higher than the federal or state minimum wage. The wage increase benefited more than two thousand employees.

The Baltimore success spread quickly to other local municipalities. Milwaukee, Wisconsin passed a living wage ordinance in 1995, followed by Jersey City, New Jersey, Portland, Oregon, and New York City in 1996.

The type of businesses and employees covered by living wage ordinances expanded over time. In 2002, New Orleans residents overwhelmingly approved the first-ever citywide living wage, one dollar above the federal minimum wage. Exempted from this legislation were businesses with less than $500,000 in annual revenue and city employees. The local ordinance was voided by the Louisiana Supreme Court seven months later on the grounds that only states and the federal government had the constitutional right to establish minimum wage laws..

By 2005, one hundred and thirty jurisdictions have enacted living-wage ordinances and another one hundred and nineteen were considering them.

Living Wage Ordinance Differences

Living wage advocates have focused on influencing the smallest political unit – local municipalities. In 2005, living wage amounts ranged from $7.73 an hour in Philadelphia to $13.20 in Sonoma, California. The wage differentials are a function of variety of factors, including regional cost-of-living estimates, what it is indexed against, and healthcare considerations. Living wage ordinances also differ according to the type of businesses or employees covered.

Types of Businesses or Employees

Most living wage ordinances are aimed at city or county government service contractors. Some ordinances cover all service contractors and others cover only particularly types of service contractors. Exemptions are also made based on the size of the contract – less than $25,000 in Brookline, Massachusetts – or number of employees – less than ten in Bloomington, Indiana.

Some municipalities extend the living wage to a contractor's sub-contractors (Fairfax, California; Syracuse, New York), nonprofit organizations (Philadelphia; Sonoma, California), and businesses with city leases (Sebastopol, California). Lakewood, Ohio's living wage ordinance applies to any business receiving tax incentives, loans, or other forms of city assistance worth at least $75,000.

Some living wage ordinances also cover city government employees, such as those in Cincinnati, Orlando, Philadelphia, and Sacramento.

Efforts also are being made to cover a broader range of employers residing within a city's jurisdiction. The Santa Monica, California city council passed a living wage ordinance in 2001 that applied to all employers in the coastal tourist district with revenues of more than $5 million a year.

Indexing Considerations

Local municipalities have indexed living wage rates to minimum wage rates (Philadelphia), the Consumer Price Index (Sonoma, California; Syracuse, New York), and the federal poverty level (Durham County, North Carolina; Lawrence, Kansas; Lincoln, Nebraska).

Philadelphia's living wage is indexed at 150 percent of the minimum wage. In Lawrence, Kansas, the living wage is indexed at 130% of the federal poverty threshold.

Healthcare Considerations

Many municipalities establish two living wage rates, one for employers who provide healthcare benefits and another for those who do not. In Port Hueneme, California, the living wage is $9 an hour if healthcare benefits are provided and $11.50 if not. In Bloomington, Indiana, employers covered by the ordinance may deduct up to 15 percent of the $10 living wage if it provides healthcare benefits. Private contractors hired by Orlando, Florida's city government must either provide a bona fide health program or increase its living wage by 20 percent.

Other Employee Benefits

Some living wage ordinances address other employee policies. City service contractors in Oxnard, California must provide their employees 96 hours of paid leave. Those in Sonoma, California must provide 12 compensated days off and 10 uncompensated days off.

Opposition to a Living Wage

Arguments against the living wage are similar to those against any legislated wages, such as the minimum wage. The most common arguments against a living wage are:

- Wages should be determined by labor market supply and demand, not government intervention
- Cities will lose the valued services of businesses that choose not to pay a living wage
- Cities will have to raise taxes to pay for the higher-priced services
- Businesses have to raise prices to compensate for the higher wages, leading to local inflation

- Businesses will hire fewer low-skilled employees due to the higher wage rates
- Businesses will relocate to outside the ordinance's jurisdiction, which would reduce the city or county's tax base, result in higher taxes for those that remain, and increase local unemployment
- Artificially high wages will discourage some people from staying in school to advance their education

Recent Setbacks

Living wage advocates focused on local municipal ordinances, beginning with companies that contract city services, because of political opposition against increasing the minimum wage to a living wage at the state and federal levels. Success with these narrowly defined local ordinances have resulted in efforts to legislating wages city-wide that are higher than state and federal minimum wage laws.

In 2002, Santa Fe, New Mexico's city council enacted a living wage for all city employees and service contractors. The following election cycle, shortly after the Louisiana Supreme Court voided New Orlean's city-wide living wage, the city council extended the living wage to every business in the city with at least 25 employees. San Francisco followed suit later that year, legislating a living wage for all city businesses with at least 10 employees.

Living wage opponents are lobbying state legislatures to overturn these local initiatives. In Wisconsin, the city of Madison passed a city-wide minimum wage of $5.70 an hour in 2004, and in 2005 three other cities in the state – Milwaukee, Eau Claire, and Lacrosse – did likewise. Each Wisconsin city intended to gradually increase its minimum wage to that of a living wage.

But then the state legislature repealed all four city-wide minimum wage laws for violating the state's constitutional right to establish minimum wage laws within its jurisdiction.

ACORN has responded by directing more effort on lobbying federal and state governments to pass minimum wage laws that at least meet the poverty threshold.

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See also: ACORN, Capitalism; Just Wage, Minimum Wage, Poverty

Further Readings and References

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