

Citywide Minimum Wage Laws: A New Policy Tool for Local Governments

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Over the past three years, a new trend in wage legislation has emerged in several cities across the United States. In response to Washington's longstanding refusal to preserve the value of the federal minimum wage at a meaningful level, these cities have recently enacted minimum wage laws of their own. The laws require local employers to pay a minimum wage that is higher than the state or federal minimum wage. And, significantly, these new laws apply to a far greater number of employers than do better-known and much more numerous "living wage" laws. Although living wage laws also require higher minimum wages, they generally extend only to those businesses that receive contracts or business subsidies from cities. The new citywide laws are significantly more comprehensive in that they cover most or even all employers in each city. Because of their broad coverage, citywide minimum wage laws offer local governments a valuable new policy tool for raising the incomes of working families in their communities. This policy brief recounts some key facts about our nation's minimum wage landscape. It then describes the new citywide minimum wage laws in the context of other wage legislation. Finally, it summarizes research findings on the economic impact of enacting these citywide measures.

Years of Neglect: The Diminished Value of Our Minimum Wage

The minimum wage is one of our country's most important public policies for ensuring the well-being of low-income Americans. Yet Washington has let its value drop dramatically over the past several decades. As shown in

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Table 1, the federal minimum wage would be worth \$8.49 today if Congress had consistently updated it to keep pace with inflation over the past thirty-five years. Instead it stands at \$5.15—40 percent below its real value in 1968.

The level of the minimum wage affects pay rates throughout the bottom of the labor market because employers use it as a guide for setting pay scales. The drop in the minimum wage has therefore contributed to the rapid growth of low-wage jobs in our economy. Today almost 30 million Americans—about a quarter of our nation’s workforce—work in jobs paying less than the federal poverty level for a family of four.¹

Restoring the Wage Floor: State and Local Initiatives

Congress and the president have failed to maintain the real-dollar value of the minimum wage. Advocates for low-wage workers and state and local policymakers have responded to this problem by taking action to restore the wage floor. As outlined in Table 2, these initiatives have taken several forms.

The first phase of local action started in 1994 when cities began enacting “living wage” laws. These local laws establish higher minimum wages that apply to businesses receiving contracts or tax breaks from a city government. The label “living wage” communicates that the higher wage level—typically between \$9.00 and \$11.00 an hour—is closer to the wage needed to enable a low-income worker to meet basic needs or to help sustain a family. Over the past decade, living wage laws have spread rapidly across the United States. Today more than 120 cities and counties have enacted such measures.¹²

Because of the limited coverage of these laws, the number of workers directly affected ranges from a few hundred to many thousands, depending on the size of the city and its programs. Although these numbers are relatively small, living wage campaigns have also played a key role in giving voice to the growing national concern about the needs of the working poor and the inadequacy of the \$5.15 federal minimum wage.

TABLE 1
The Decline of the Federal Minimum Wage (as of January 2005)

	Hourly Wage	Annual Earnings ²
Today’s Federal Minimum Wage	\$5.15	\$10,712
Today’s inflation-adjusted value of the 1968 federal minimum wage	\$8.78 ³	\$18,262
Wage required today to meet the basic needs of a one-parent, one-child family in a typical U.S. city	\$16.40 ⁴	\$34,121

¹ As of January 2005

TABLE 2
Types of Wage Laws at the Federal, State and Local Level (as of January 2005)

	Federal Minimum Wage	State Minimum Wage	Citywide Minimum Wage	City Living Wage
Where does it apply?	Nationwide	14 states	4 cities	More than 120 cities and counties ⁵
What is the wage rate (per hour)?	\$5.15	<ul style="list-style-type: none"> • Ranges from \$7.35 in Washington to \$6.15 in Delaware • Average is approximately \$6.75⁶ 	<ul style="list-style-type: none"> • \$8.62 in San Francisco, CA • \$8.50 in Santa Fe, NM • \$6.60 in Washington, DC • \$5.70 (phasing in to \$7.75) in Madison, WI 	Typically \$9.00–\$11.00 plus health benefits
Which businesses are covered?	All businesses (with some exceptions)	All businesses (with some exceptions)	All businesses (with some exceptions)	Businesses receiving city contracts or business subsidies
How many workers are affected by an increase?	Almost 10 million workers when last increased to \$5.15 in 1996–97 ⁷	<ul style="list-style-type: none"> • Typically 5–15% of the state workforce • For example, 1.5 million workers when California increased to \$6.75 in 2002⁸ • 177,000 workers when Oregon increased to \$6.50 in 1999⁹ 	<ul style="list-style-type: none"> • Typically 5–15% of the local workforce • For example, 54,000 workers when San Francisco increased to \$8.50 in 2004¹⁰ • 17,000 when Santa Fe increased to \$8.50 in 2004¹¹ 	Ranges from hundreds of workers in an average medium-sized city to many thousands in a large city like New York
How is it enacted?	Statute	Statute or ballot initiative	Ordinance or ballot initiative	Ordinance or ballot initiative

^o As of January 2005

During the same period that local living wage laws began to proliferate, advocates and lawmakers increasingly began acting as well at the state level to raise the minimum wage. Either through state legislation or voter ballot initiatives, fourteen states currently have minimum wages higher than the federal level.¹³ Spanning the country, these states include Florida, Alaska,

Hawaii, California, Oregon, Washington, Illinois, Delaware, New York, Connecticut, Massachusetts, Rhode Island, Vermont and Maine. Two more states—Nevada and Wisconsin—are currently in the process of doing the same,¹⁴ and increases are under consideration in other states such as New Jersey and Maryland.

The New Trend: Citywide Minimum Wage Laws

Spurred on by the success of these local and state initiatives, a second phase of local action has recently emerged: cities are beginning to enact their own citywide minimum wage laws. Broader than the earlier living wage laws, these new laws require *all* employers in a community to pay a higher minimum wage.

Although American cities have occasionally enacted minimum wage laws in the more distant past, local lawmakers and activists have shown much greater interest in such measures in recent years.¹⁵ Since 1993, five cities across the United States have enacted citywide minimum wage laws. Four of these five cities did so within the past three years.

The Effects of Citywide Minimum Wage Laws

As more cities consider enacting their own minimum wage laws, researchers have begun to analyze the impact of such measures on local workers, families, businesses, and communities.

Impact on Local Workers and Families

Because of their broad coverage, city minimum wage laws usually raise the pay of thousands of low-income working families. In San Francisco, an estimated 54,000 low-income workers received raises when the citywide minimum wage took effect in 2004.¹⁹ In Santa Fe, the total was estimated to be 17,000 when that city's wage law took effect that same year.²⁰ In Santa Fe, the minimum wage workers who received raises were overwhelmingly adults (89 percent), predominantly people of color (67.3 percent), and typically living in families where the low-wage worker contributes a significant share of the family's income (51.6 percent, on average).²¹ Sixty percent of Santa Fe households with low-wage workers currently cannot meet basic family needs and benefited substantially from the minimum wage increase.²²

Impact on Local Businesses

Citywide minimum wage laws are still too new to allow for rigorous studies of their impact. Instead, local governments have been guided by economic research examining the impact of minimum wage increases at the state and federal levels. This research has generally found few, if any, negative effects on employment, even for youth of color and other vulnerable

TABLE 3
Citywide Minimum Wage Laws (as of January 2005)

City	Year Enacted	Wage Rate (per hour)	Types of Businesses Covered	Current Status
Washington, DC	1993	\$6.60	All businesses (with a few exceptions)	In effect since 1993 & raised in 2005
New Orleans, LA	2002	\$6.15	All businesses	Blocked by the Louisiana legislature and courts
Santa Fe, NM	2003	\$8.50 phasing up to \$10.50 by 2008 ¹⁶	Large businesses	In effect since 2004 after court rejected legal challenge
San Francisco, CA	2003	\$8.62 ¹⁷ increases each year for inflation	All businesses but phase-in for non-profits & small businesses	In effect since 2004 & increased automatically for inflation in 2005
Madison, WI	2004	\$5.70 phasing up to \$7.75 over 3 years ¹⁸	All businesses	Took effect in 2005 when court refused to block it, but legal challenge still in process

^o As of January 2005

workers.²³ As a result, leading American economists now agree that the risk of job losses from increasing the minimum wage is very small.²⁴

Projections of the likely impact of several recent citywide minimum wage laws have reached similar conclusions: An analysis of the Santa Fe law found that the median employer would experience a cost increase equal to just 1 percent of its sales revenue and that the impact in the most heavily affected industry—restaurants—would be 3.4 percent of sales.²⁵ Figures presented in court by four restaurants challenging the Santa Fe law indicated that the actual cost impact for three of the four would be even less.

A survey of local businesses commissioned by San Francisco similarly found that 82 percent of employers would see less than a 1 percent increase in their operating costs under the new law. Only 5 percent of all businesses would see cost increases of 5 percent or more.²⁶ A survey in New Orleans found even smaller impacts—averaging 0.9 percent of operating costs for employers overall and 2.2 percent for restaurants—from a proposed citywide minimum wage.²⁷ The studies in Santa Fe, San Francisco, and New Orleans

also concluded that few employers would be likely to relocate outside of the cities to avoid the higher minimum wage levels, because the businesses most affected were ones that needed to stay close to their customer base in the city—for example, restaurants, hotels, and retailers.²⁸

Research also indicates that employers required to increase their wages could cover the higher labor costs through a combination of modest price increases and improved efficiency. The average employer affected by San Francisco and Santa Fe's minimum wage laws could fully cover the higher labor costs by raising prices less than 1 percent, although a small portion would need to raise prices by closer to 3.4 percent in Santa Fe and 5 percent in San Francisco.²⁹ Moreover, studies of actual price increases at restaurants when the minimum wage has been raised suggest that actual price increases in that industry would be closer to 1 percent after a minimum wage hike on the scale of those in San Francisco or Santa Fe.³⁰ A recent study of the effects of a wage law at the San Francisco International Airport found that turnover decreased by 60 percent among firms that were required to raise wages by 10 percent or more and that such firms also reported improvements in work performance, employee morale and consumer satisfaction.³¹

Impact on Local Consumer Spending

Increases in the minimum wage also function as an economic stimulus for low-income neighborhoods. Although higher-income households usually save a substantial portion of a pay increase, low-income households generally spend their higher wages. And they do so in local communities on necessities such as food, rent and transportation.³²

The scale of this new spending can be significant. The February 2004 San Francisco minimum wage increase is estimated to have boosted spending in low-income communities in the Bay Area by as much as \$70 to \$90 million annually.³³ This increase is three to four times as much as the Private Industry Council of San Francisco spends annually on job training services, employer wage subsidies, and other economic development initiatives.³⁴

Legal Feasibility

The power of cities to enact minimum wage laws varies from state to state. In a few states such as New Mexico, Maryland, and California, the legislature or the courts have already made clear that cities have the power to enact minimum wages.³⁵ A few others—Louisiana, Florida, Texas, Arizona, Colorado, Utah, South Carolina, and Oregon—have passed laws that actually forbid local minimum wage laws.³⁶ But in most states, the issue has not yet been tested. Legal analysis indicates that, in most states, cities may regulate minimum wages under their local “home rule” authority to enact legislation to safeguard the health, safety, and welfare of their communities.

Looking Ahead

A complete assessment of the effects of citywide minimum wage laws will require research that directly measures the actual impact of the laws on employers, workers, and local economies. Studies comparing economic conditions before and after city minimum wage laws went into effect are currently being planned in San Francisco and Santa Fe. In the coming years, their findings will offer more insight into this important new trend in local wage legislation. In the meantime, it is likely that more local governments will explore city minimum wage laws as a new tool for helping greater numbers of low-income workers and families in their communities make ends meet.

Resources

Technical assistance is available for local lawmakers and activists exploring citywide minimum wage laws for their communities:

- Brennan Center for Justice at New York University School of Law, for assistance with legal analysis, legislative drafting, and legal defense. The Brennan Center assists activists and lawmakers in cities and states across the country in designing, enacting, and defending new laws to raise the minimum wage, expand access to health care, and protect low-wage workers and families. The center has supported the new citywide minimum wage movement by helping San Francisco, Santa Fe, and Madison, Wisconsin, enact and/or defend their citywide minimum wage laws (www.brennancenter.org; contact: Paul Sonn, (212) 998-6328, paul.sonn@nyu.edu).
- ACORN Living Wage Resource Center, for assistance with campaign and organizing strategy. ACORN supports initiatives across the country to raise the minimum wage, and coordinated the San Francisco and New Orleans citywide minimum wage campaigns (www.livingwage-campaign.org; contact: Jen Kern, (617) 740-9500, jkern@acorn.org).
- University of Massachusetts, Political Economy Research Institute (PERI), for economic analysis and research. PERI has analyzed the impact of minimum wage laws at the state and local levels, including the Santa Fe and New Orleans citywide minimum wage laws, and provides economic technical assistance to campaigns across the country (www.umass.edu/peri/; contact: Mark Brenner, (413) 577-0241, brenner@peri.umass.edu).
- Economic Policy Institute (EPI), for economic analysis and research. EPI has analyzed the impact of minimum wage laws at the state and local levels and provides economic technical assistance to campaigns across the country (www.epinet.org; contact: Jeff Chapman, (202) 533-2579, jchapman@epinet.org).

Notes

1. Mishel, Bernstein, and Boushey (2003, 134, Table 2.9).
2. Annual earnings calculation based on 2,080 hours worked each year.
3. In 1968, the federal minimum wage was \$1.60 per hour. See U.S. Department of Labor, History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938-1996 (available at <http://www.dol.gov/esa/minwage/chart.htm>). Adjusted for inflation using the Consumer Price Index, \$1.60 in 1968 is the equivalent of \$8.78 in 2004 dollars.
4. Example uses data from Chicago as a typical U.S. city. In 1999, a family with one parent and one child in Chicago needed to earn \$29,762 in order to meet basic needs of housing, food, healthcare, childcare and transportation. See Boushey, Brocht, Gundersen, and Bernstein, (2001, Table A4.1). Adjusted for inflation using the U.S. Department of Labor's Consumer Price Index Calculator (available at <http://www.bls.gov/cpi/>), that figure is the equivalent of \$34,121 in 2004 dollars. Wage rate calculation is based on 2,080 hours worked each year.
5. Association of Community Organizations for Reform Now (ACORN) Living Wage Resource Center, Living Wage Wins (available at <http://www.livingwagecampaign.org>).
6. Washington State Department of Labor and Industries, Minimum Wage Information (available at <http://www.lni.wa.gov/WorkplaceRights/Wages/Minimum/default.asp>); U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division, Minimum Wage Laws in the States (available at <http://www.dol.gov/esa/minwage/america.htm>). Note that minimum wage increases for Florida, New York, Oregon, and Washington had not yet been updated on the U.S. Department of Labor website as of January 2005.
7. Bernstein and Schmitt (1998).
8. California Budget Project (2002, 1). Estimate includes indirect impact on workers earning slightly more than the new minimum wage level who also received a pay increase when the wage was raised.
9. Thompson and Sheketoff (2001). Estimate includes indirect impact on workers earning slightly more than the new minimum wage level who also received a pay increase when the wage was raised.
10. Reich and Laitinen (2003, 31). This 54,000 total includes both 23,000 workers who were previously earning less than the \$8.50 city minimum wage, and 31,000 more who were earning slightly more than \$8.50 but who were also expected to receive a pay increase when the wage was raised.
11. Expert Report of Dr. Robert Pollin submitted in *New Mexicans for Free Enterprise v. City of Santa Fe*, No. D-0101-CV-2003-468, (N.M. 1st Jud. Dist Ct., Mar. 9, 2004), p. 10. This 17,000 total includes both 9,000 workers who were previously earning less than the \$8.50 city minimum wage, and 8,000 more who were earning slightly more than \$8.50 but who were also expected to receive a pay increase when the wage is raised.
12. ACORN, Living Wage Wins.
13. U.S. Department of Labor, Minimum Wage Laws in the States. Note that minimum wage increases for Florida, New York, Oregon, and Washington had not yet been updated on the U.S. Department of Labor website as of January 2005.

14. In 2004, Nevada voters approved a ballot initiative to raise the minimum wage. If approved by voters a second time in 2006, it will become law. Wisconsin Governor Jim Doyle is in the process raising his state's minimum wage through an administrative wage order, which is likely to take effect in 2007.

15. Baltimore has had a city minimum wage law since 1964, although it has little significance today because it is set at just \$5.15—the same level as the federal minimum wage. New York City enacted a city minimum wage law in 1962, but it was blocked by the courts.

16. Will increase to \$9.50 in 2006, and \$10.50 in 2008.

17. Automatically increases each year to adjust for inflation.

18. Will increase to \$6.50 in 2006, \$7.25 in 2007, and \$7.75 in 2008.

19. Reich and Laitinen (2003, 31). For an explanation of this figure, see note 10 above.

20. Pollin, p. 10. For an explanation of this figure, see note 11, above.

21. Pollin, Tables 15 and 16.

22. Pollin, Table 17.

23. This research began with the pioneering work of David Card and Alan Krueger, who examined the effects of New Jersey's 1990 minimum wage increase. See Card and Krueger (1995; 2000). Subsequent research by Card and Krueger and other researchers examining the impact of the 1991 and 1992 federal minimum wage increases and of other recent state or federal minimum wage increases have found similar results. See Card (1992); Bernstein (2001); Bernstein and Schmitt (1998).

24. As the President's Council of Economic Advisors found in 1999, "[T]he weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment. In fact, a recent study of the 1996 and 1997 [federal minimum wage] increases, using several different methods, found that the employment effects were statistically insignificant. Moreover, the unemployment rates of black teenagers and high school dropouts—two groups of workers most likely to be affected by the wage hike—are lower today than they were just prior to the increases" (*Economic Report of the President* [1999], 112). Nobel laureate Robert Solow of the Massachusetts Institute of Technology explains, "The main thing about the research is that the evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small." Quoted in Uchitelle (1995, D1). Richard Freeman of Harvard University, perhaps the country's foremost labor economist, has said, "The entire literature on the minimum wage [now agrees] that employment losses are modest." Quoted in Mason (2002).

25. Pollin, Tables 6 and 10.

26. Reich and Laitinen (2003, 33, 34).

27. Pollin, Brenner, and Luce (2002, 849 and 851, Table 3).

28. Pollin, pp. 41–42; Reich and Laitinen (2003, 39–41); Pollin, Brenner, and Luce, (2002, 860–62).

29. Pollin, Tables 6 and 10 and pp. 43–49; Reich and Laitinen (2003, 33–34).

30. Reich and Laitinen (2003, 41).

31. Reich, Hall, and Jacobs (2003).

32. Reich and Laitinen (2003, 42). “Neighborhood and small town food and retail stores and restaurants, in particular, would be likely to see sales increase as a result of a minimum wage hike.” Markusen, Ebert, and Cameron (2003, 6).

33. This calculation is derived from Reich and Laitinen (2003, 32, Table 12). Average starting wages in each current wage level category in the table were multiplied by the average percentage wage increase that would result from an \$8.50 minimum wage, and then multiplied again by the number of workers in each category. That last figure was derived by multiplying the percentage of the San Francisco workforce in each category by 596,000, the city’s total workforce. Finally, the total hourly wage increase for the San Francisco workforce generated by the preceding calculation was multiplied by the number of hours worked per year by typical workers affected—estimated at ranging between twenty-five and thirty-five hours per week.

34. According to its website, the annual budget of the Private Industry Council of San Francisco for program year 2004–2005 was approximately \$22 million (<http://www.picsf.org>).

35. *New Mexicans for Free Enterprise v. City of Santa Fe*, No. D-0101-CV-2003-468 (N.M. 1st Jud. Dist., June 24, 2004) (upholding power of New Mexico cities to enact minimum wage laws); *Baltimore v. Sitnick*, 255 A.2d 376 (Md. 1969) (upholding power of Maryland cities to enact minimum wage laws); California Labor Code, sect. 1205(b) (amending California state law to provide that it does not preempt the power of cities to enact minimum wage laws).

36. In most cases, these state laws still permit local governments to enact living wage laws applying to businesses that receive city contracts or business subsidies.

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