**Fact Sheet: A Living Wage**

League of Women Voters of Montgomery County, MD, Inc.

Fact Sheet February 2003

**INTRODUCTION**

For the last year,The League of Women Voters of Montgomery County Social Policy / Living Wage Study Committee has been investigating the issue of income and costs of living in Montgomery County. Historically the League has been involved in issues of basic human need, including the 1935 Aid to Dependent Children (ADC), a program focused primarily on widows, orphans, divorced or deserted mothers and their children, through its revision into Aid to Families with Dependent Children (AFDC). In 1996, the Personal Responsibility and Work Opportunity Act ended welfare as an entitlement and replaced it with block grants to states for assisting the needy. This program, Temporary Assistance for Needy Families (TANF), took an approach which includes a requirement for recipients to be working within two years of receiving benefits. For example, fifty percent of families now receiving assistance in Maryland must be engaged in work-related activities. In addition, a five-year lifetime limit on assistance was established. Unfortunately the former welfare recipients have merely joined the ranks of the working poor.

The Economic Policy Institute ([www.epinet.org](http://www.epinet.org/" \t "_blank)) describes a living wage ordinance as one that "requires employers to pay wages that are above federal or state minimum wage levels. Only a specific set of workers are covered" usually those employed by a business with a government contract or one receiving economic development subsidies. The rationale being that "city and county governments should not contract with or subsidize employers who pay poverty-level wages."

EPI's Fact Sheet on Living Wage states that "the main reason for enacting a living wage ordinance is to reverse the downward trend in wages for low-wage earners. Wages for the lowest-paid 10% of workers fell 9.3% between 1979 and 1999. The number of jobs in which wages were below what a worker would need to support a family of four above the poverty line also grew between 1979 and 1999. In 1999, 26.8% of the workforce earned poverty level wages, an increase from 23.7 in 1979."

According to ACORN (Association of Community Organizations for Reform Now), an advocate for low-income people with 100,000 members in over two dozen cities, "the concept behind any living wage campaign is simple: Our limited public dollars should not be subsidizing poverty-wage work. When subsidized employers are allowed to pay their workers less than a living wage, tax payers end up footing a double bill: the initial subsidy and then the food stamps, emergency medical, housing and other social services low wage workers may require to support themselves and their families even minimally. Public dollars should be leveraged for the public good -- reserved for those private sector employers who demonstrate a commitment to providing decent, family-supporting jobs in our local communities." *ACORN's Living Wage Resource Center*

**LEAGUE OF WOMEN VOTERS' POSITIONS:**

* Children's Services, "We support a comprehensive range of child-centered services to ensure all children a chance to grow toward stable productive adulthood. "(1995). Reading further in that position, suggests that it is discussing services, like childcare, or crisis intervention, and only indirectly family income.
* The Housing positions state that the League, "supports policies and programs... to increase the supply of affordable housing."
* The Health Care position supports the "extension of financial assistance and eligibility parameters to include those with incomes above the cutoff to qualify for Medicaid.... but too low to afford private medical care." (2000)
* The League also supports supplemental nutrition programs for pregnant women, infants and children. (1991).

In relation to living wage legislation, the League publication "Impact on Issues 2000-2002: A Guide to Public Policy Positions" states that "The League of Women Voters of the United States believes that one of the goals of social policy in the United States should be to promote self-sufficiency for individuals and families and that the most effective social programs are those designed to prevent or reduce poverty."

**MONTGOMERY COUNTY'S LEGISLATION**

For the second time in three years, our county council has grappled with the question of how companies working for us pay their employees. The Montgomery County Council passed a "Living Wage" statute on June 11, 2002. The law becomes effective July 1, 2003. The act, Bill 5-01, covers "those employees who work on a County contract, wherever the employee is located" (Legislative Request Report). In essence, the act requires certain employers to include in their bid, offer, or proposal a plan for paying wages to employees working on the contract at a level above both the federal and state minimum wage. The wage would be at least $10.50 per hour. It would be annually indexed for inflation. An employer can substitute the cost of health insurance for part of the required wage.

Montgomery CountyÕs legislative report for the Living Wage law states that the goal is "to require employers that benefit from County contracts to pay employees funded by those contracts a wage that is higher than the eligibility level for food stamps." Without taking this action it was stated that "the County does not require employers who benefit from County contract to pay a wage that lets each employee escape poverty."

The Washington Post reported that the bill, which passed on a vote of 7-1, "is estimated to affect 3,100 people, including maintenance and construction workers, parking attendants and workers at hotels and other places where county officials conduct business." Council member Phil Andrews, D-Gaithersburg, the billÕs sponsor, stated that 447 service contracts with the county would be affected by the lawÕs requirements. Nancy Dacek, a Republican representing the Upcounty district at the time of the vote, opposed the measure and called it a "politically correct gesture." "ItÕs not going to help that many people," said Dacek, because the legislation covers only government contracts. "It wonÕt help the working poor in a lasting way".

Our neighbors see the new policy through different lenses. Tom Hucker, executive director of Progressive Montgomery, claimed that the dayÕs vote would lift "3,100 families out of poverty in one fell swoop". His organization had worked with council members to craft the legislation and also organized a supportive coalition campaign.

Long before local governments contemplated "Living Wage" laws, the Federal Government addressed the issue. In 1931 President Hoover signed the Davis Bacon Acts requiring prevailing wage standards for construction firms working under a government contract. "In 1935 Secretary of Labor Frances Perkins defined the prevailing wage as that paid to the majority of workers in an area." (Pollin and Luce, The Living Wage, New Press, 1998) In essence "prevailing wage laws ensure that low-wage firms cannot unfairly underbid higher-wage firms when competing for federal or state government contracts." (Economic Policy Institute- [http://www.epinet.org](http://www.epinet.org/" \t "_blank))

By using prevailing wage laws to force "all companies to adhere to the same wage, benefit and workplace standards when they compete for government contracts" economists have found that these industry standards yield other benefits. In the construction industry the wage floors are usually above state or national minimum wage thus an itinerant labor job has become a solid career. In addition training standards are often established and workers acquire skills and have more stable working lives. Skilled labor and high wages have lead to the general quality of government construction contracting to be quite high. (Pollin and Luce)

**THE POVERTY LEVEL**

In order to understand the intent of the Montgomery County statute we must first understand the governmentÕs criteria for "a wage that is higher than the eligibility level for food stamps" and "a wage that lets each employee escape poverty." What exactly is this "poverty" that people fall into or need to be "lifted out of." Who calculates it? How and why? And how can someone be working 40 hours a week and still be poor?

Every year the U.S. Census Bureau updates a number called the poverty threshold. This is the original poverty measure devised by the Social Security Administration (SSA) in 1963-64. The SSA created a way to measure poverty in quantitative terms. The analysis focused on the minimum needs of a two-parent family with one stay-at-home adult. It estimated a poverty threshold that was based on statistical formulas, an Agricultural Department household survey, the assumption that the cost of food makes up one-third of a familyÕs budget, and a standardized "thrifty food plan" for people in short term financial emergencies. The result became the governmentÕs official measure of poverty. All poverty population figures are calculated using the poverty thresholds. These statistics are updated annually for price changes using the Consumer Price Index for All Urban Consumers (CPI-U). However, the basic social and economic assumptions behind the numbers remain the same as the SSA conceived them almost 40 years ago. This is the "poverty" people are escaping.

The SSA poverty threshold is also expressed as poverty guidelines issued annually by the Department of Health and Human Services (HHS) and published in the *Federal Register*. They are a simplification of the poverty thresholds used for administrative purposes. Many government programs use the poverty guidelines to determine eligibility or inclusion in their programs. Applicants for Head Start, the Food Stamp Program, the National School Lunch Program, the Low-Income Home Energy Assistance Program and the ChildrenÕs Health Insurance Program are evaluated using these numbers. There are programs that do not use these guidelines. The Earned Income Tax Credit program does not use the poverty guidelines as criteria for eligibility. And in general, cash assistance programs such as Temporary Assistance for Needy Families (TANFF) and Supplemental Security Income (SSI) do not use the guidelines. (See table.)

Notice that the same poverty figure is used for all of the lower 48 states. Whether the family lives in urban Baltimore or growing Montgomery County the same threshold applies. In addition there has been no adjustment to the formula since 1964. There is no adjustment for the fact that costs of maintaining a household have shifted in four decades. For example, then Housing and Urban Development Secretary Andrew Cuomo noted in 2000 that the number of households living in clearly substandard housing and/or paying more that 50% of their income for housing had expanded to 5.4 million households.

In order to continue to evaluate this legislation we have to consider the other part of the concept of the phrase "working poor." We have looked at "poor," -poverty, being at the bottom of the economic and social ladder, images of a substandard life. The other concept is "work," -- dignity of a job, usefulness to society, contributing to the greater good, participating in the economy, earning a wage, skilled, earning a living.

The minimum wageis a federal set minimum amount that a worker can be paid an hour. This applies evenly across the nation and across most workers and most job categories. States may also set a minimum wage that is higher. The minimum wage, is currently $5.15 per hour.

In October, 2000 Neal Peirce, a syndicated columnist whose work appears in The Baltimore Sun, stated that, "ThereÕs not a single county in the United States where a worker earning the federal minimum wage (currently $5.15 an hour) can afford a "modest" two-bedroom apartment by federal standards. The National Low-Income Housing Coalition's calculates a "fair market rent" -- what income a family needs to pay no more than 30 percent of its pre-tax earnings for housing. The national average fair market rent for 1999 was $12.47 an hour -- more than twice the federal minimum wage."

Rough calculations show that a person working at minimum wage for 40 hours week/52 weeks (2080 hours a year) would earn $10,712 before any taxes. Using the 2002 HHS Poverty Guidelines (see chart), a single person would be barely above poverty and a household with only one wage earner would be in poverty. The federally mandated minimum wage may place a floor beneath workers but they could still tumble into poverty. While they do receive compensation for their labors, it does not mean they will be able to live independently of either formal government supports or informal family supports. e.g. several adult wage earners within a family or living unit.

**THE LIVING WAGE Ð THE PUBLIC SECTOR**

In Baltimore, an alliance of labor (led by AFSCME) and religious leaders (BUILD) launched a campaign for a local law requiring city service contractors to pay a living wage. According to Robert Pollin, author of The Living Wage, the Baltimore ordinance was the first of its kind in the country and went into effect July 1995. It established a minimum wage of $6.10 per hour for anyone working on a city contract. The ordinance outlined an annual increase with approval of the cityÕs Board of Estimates and held as a goal to "equal the amount required to raise a family of four above the poverty line" by 1999. At the $7.70 level in 1999, it was assumed "a full-time worker's pay (would) equal about 90 percent of the four-person-family poverty threshold." From that point forward the wage would be indexed to inflation.

The Baltimore living wage action has been studied for both its impacts on workers and on the economy of the city. A 1996 publication entitled Baltimore's Living Wage Law by Mark Weisbot and Michelle Sforza-Roderick (Preamble Center for Public Policy) studied the effects of the ordinance on city contracts, bids, and labor costs. After two years "interviews with contractors indicated that they did not reduce their workforce in response to the living wage." And "the winning bids on city contracts increased only slightly in current dollars and actually decreased in inflation adjusted dollars."

o **Marin County, CA** (2002) -- In January, the Marin County Board of Supervisors passed a living wage ordinance requiring County service contractors -- including non-profits -- to pay a living wage of at least $9.00 an hour, $10.25 if employer-paid health benefits are not included. Direct County employees must also be paid at least this living wage. In-Home Support Services workers whose agencies get County dollars must also be paid at least $8.50 an hour, $9.75 if no benefits are provided.

o **Cumberland County, NJ** (2001) -- In December, the Cumberland County passed a law requiring firms that enter into service contracts with the county to pay a living wage of at least $8.50 an hour. Firms that do not provide health benefits must pay an additional $2.37 an hour, and those that do not offer a pension must add an additional $1.50 an hour to the base living wage (New Jersey AFL-CIO).

o **Burlington, VT** (2001) -- In November, the Burlington City Council passed an ordinance providing a living wage for direct city employees and employees working on city service contracts or for businesses that have received grants from the city of at least $15,000. The living wage is at least $9.90 an hour with health benefits, or $11.68 without. The annual living wage rate adjustment will be guided by a state-issued "basic needs budget" determination for a single earner (a concept and formula introduced by the Vermont Livable Wage Campaign). The ordinance also requires companies to provide at least 12 compensated days off per year for employees who fall under the law. (Vermont Livable Wage Campaign)

o **Gloucester Country, NJ** (2001) -- In August, the Gloucester County Freeholders adopted an stating that all workers employed on contracts for the county must be paid the greater of $8.50 an hour or the federal poverty level. In addition, a health insurance plan and an apprentice-training program must cover all such employees. If no health benefits are provided, the employer must pay an additional $2.37, to be adjusted yearly with the Consumer Price Index. Job training and youth employment programs are exempt. (New Jersey AFL-CIO)

o **Suffolk County, NY** (2001) -- In July, the Suffolk County Legislature adopted a law establishing a living wage for the county. Under the law, recipients of county assistance in the form of loans, grants or tax abatements valued at $50,000 or more, and service contractors at more than $10,000 must pay a living wage of $9.00 an hour. If health benefits worth at least $1.25 an hour are not offered, the applicable living wage rate is $10.25. The law extends to tenants and leaseholders of beneficiaries, as well as their subcontractors. Youth employment programs and small businesses with fewer than 10 employees are not covered. Non-profits can be exempted for up to a year after passage of the law, if the ratio of pay from the highest paid employee to the lowest does not exceed 6:1, or the non-profit can demonstrate that its budget will increase more than 10% as a result of the living wage requirement. (Long Island Federation of Labor, Working Families Party, NY Labor and Religion Coalition)

David Neumark has written a monograph, How Living Wage Laws Affect Low-Wage Workers and Low-Income Families, for the San Francisco-based Public Policy Institute of California. His study suggests that "by finding some evidence that living wages do have a positive effect on wages at the bottom end of the wage distribution and also appear to lead to modest poverty reductions (despite some employment loss), it suggests that at least some of the beneficial claims of living wage advocates are borne out in the data." "On net, living wages may provide some assistance to the urban poor. But this by no means implies that living wages constitute the best method of combating urban poverty, in terms of cost-effectiveness or distributional effects."

**THE LIVING WAGE Ð THE PRIVATE SECTOR**

Campaigns for a "Living Wage" have occurred across the country. Many of them start on college campuses where students say they want to make a difference through how their tuition dollars are spent. In November, 2002 the Board of Trustees of American University, located in near-by Northwest Washington, D.C., unanimously voted to pay all full-time employees $11 per hour and raise certain health benefits over a three-year time period. University President LadnerÕs proposal to the board had estimated that the total cost of the new policy would be $600,000 per year. The new policy covers all full-time, non-union, staff employees as well as employees of multi-year service contracts and other people regularly employed by the university. One exception would be first-year food service workers.

Chairman of the University Board George Collins said, "I donÕt think anyone on the Board believes this is a living wage. It is a wage policy. It will ensure that the lowest paid members of the University community will be able to live better in the Washington economy." The BoardÕs decision was in response to a Living Wage Project Team report and an administration proposal. A photo caption accompanying the story stated that the federal minimum wage is $5.15 per hour and that most AU contract workers have been paid an average of $9.41 prior to this Board action. (The Eagle, AUÕs student newspaper, Nov.11, 2002)

**THE SELF-SUFFICIENCY STANDARD:**

**A NEW MEASURE OF INCOME ADEQUACY FOR WORKING FAMILIES**

In order to evaluate any government action designed to alter or enhance the populationsÕ income and economic status, the LWVMC committee realized that the first step was to ask a basic question. How much income is "enough" to live in Montgomery County?

We turned to research being developed by Wider Opportunities for Women (WOW) and Diana Pearce, Ph.D. at the University of Washington. The Self-Sufficiency Standard: A new Measure if Income Adequacy for Working Families is the outcome of The Family Economic Self-Sufficiency Project, a project initiated in 1996. WOW is working with three national partner organizations -- the Corporation for Enterprise Development, the Ms. Foundation for Women, and the National Economic Development and Law Center. ([www.sixstrategies.org](http://www.sixstrategies.org/" \t "_blank))

A self-sufficiency standard is based recognition of an individualÕs need for planning tools when making life decisions concerning education, career choice, and family structure anda governmentÕs need for information when designing and evaluating programs for alleviating poverty. According to the projectÕs materials there are "six proven strategies that can improve the chances for self-sufficiency for low-income families. These strategies can be adopted in state block grants or other state-level decision-making. The six strategies include:

* adopting a Self-Sufficiency Standard to measure how much income is needed to make ends meet and to assess the success of employment and training programs;
* targeting higher-wage employment in the development and design of education, employment and training programs and in the provision of career counseling;
* using the functional context education model to integrate literacy and basic skills with occupational skills and family support programs to improve the efficiency and success of adult education;
* improving the access of low-income women to nontraditional training and employment;
* training and support for microenterprise development; and
* supporting the development of individual development accounts, allowing low-income families to develop assets."

The Self-Sufficiency Standard numbers are based on the amount of income required to meet basic needs (including taxes) in the regular "marketplace" without public subsidies or private/ informal subsidies. Public subsidies are defined as food stamps, Medicaid, subsidized childcare. Private subsidies are things such as free baby-sitting from a relative; food provided by churches or food banks and shared housing.

The Standard assumes that all adults in the household work full-time. It includes the costs of working such as transportation, taxes, and childcare. It is designed to include all basic needs, to be updated annually and to allow for costs to increase at different rates. The Standard calculates cost tables for 70 different family types. Thus the costs of self-sufficiency vary according to the age and number of children. They also vary by geographic location, which is most important concerning the costs of housing, childcare, health care and transportation. The Standard also includes the "costs" of taxes (sales, payroll-Social Security, federal and state income) and "benefits" of tax credits (ChildCare Tax Credit, Child Tax Credit and EITC)

The 2000 MSN (Minimum Standard of Need is a combined effort of Montgomery County Community Action Board and data from the Self-Sufficiency Standards for Washington DC Metro Area prepared by WOW. The Self-Sufficiency Standard measures how much income is needed for a family of a given size to meet its basic needs without public or private assistance. It assumes the adults work full time. It also takes into account taxes and tax credits.

The Self Sufficiency Standard as calculated for Montgomery County (see chart on next page) examines costs in the following areas using data from these sources: Housing- 1998 Fair Market Rents, and HUD; Childcare and Family Support Act survey and WPA in Montgomery County; Food- USDA Low Cost Food Plan; Transportation -- auto costs from AAA; Health Care -- National Medical Expenditure Survey and Families USA report; Taxes -- 1998 Commerce Clearing House State Tax Handbook, local tax forms, Report of Revenue and Montgomery County government and Miscellaneous is based on 10% of all costs.

As shown on the chart, the Self-Sufficiency Standard calculated for a family of four (two working adults, two children- one pre-school and one school age) would be $49,668 per year or $23.52 total per hour wages to live at a basic level. (Note there is no calculation for savings in the Standard) For a family of three (one adult, two children- one preschool and one school age) they would need $44,556 per year or $21.10 per hour in wages to live at a bare basic level.

By no means is this an exhaustive study of the components of the issues underlying a "Living Wage." However this is part of our League's program to keep current on social issues and proposed remedies in order that we may feel confident in our comments and be able to fully participate in the decisions of our local, state and national government.

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