

Assessing the Economic Impact of a Living Wage Ordinance in the City of Fresno

Center for Economic Research and Education of Central California
Research Working Paper No. 2006-02

July 2006

Dr. Antonio Avalos*
aavalos@csufresno.edu
Department of Economics
California State University, Fresno



* This research was financially supported by the Rosenberg Foundation. The findings, interpretations, and conclusions are the authors' own responsibility and do not necessarily represent any position of the Rosenberg Foundation or California State University, Fresno

Table of Contents

Executive Summary.....	3
I. Introduction.....	6
1. Purpose of the Study	
2. Scope and Methodology	
II. Living Wage Ordinances	8
1. What is a Living Wage Ordinance?	
2. The Impact of Living Wage Ordinance	
3. The Living Wage Movement in the US	
4. The Economics of Living Wage Ordinances	
5. Brief Review of the Literature on Living Wage Ordinances	
5.1 <i>Ex-ante</i> Studies	
5.2 <i>Ex-post</i> Studies	
III. Poverty in the City of Fresno.....	17
1. A Snapshot of Urban Poverty	
2. Characteristics of the Working Poor	
IV. The Number of Living Wage Workers and the Additional Income	26
1. Estimating the Number of Impacted Workers and the Additional Income	
V. The Economic Impact of the Living Wage	28
1. The Impact on the City	
2. The Impact on Firms	
3. The Impact on Poverty	
VI. Final Remarks.....	34
References	36
Appendix.....	38

EXECUTIVE SUMMARY

This study provides an assessment of the potential benefits and costs of establishing a living wage ordinance in the City of Fresno and offers a better understanding of the merits and drawbacks of implementing such wage policy.

ABOUT THE LIVING WAGE

- A local living wage ordinance requires private companies that receive funding from the local government, through either contracts or financial assistance, to pay their employees a wage that is higher than the minimum wage set by state and federal legislation. Living wage supporters argue that this policy aims at raising the incomes of low-wage workers in order to reduce poverty by ensuring that these workers can support themselves and their families at a subsistence level.
- For the City of Fresno, living wage campaign supporters argue that the City Council should approve an ordinance requiring city service contractors with contracts worth \$50,000 or more to pay their employees a living wage of \$10.00/hour and provide health insurance coverage or \$11.50/hour without health insurance coverage.

ABOUT POVERTY IN THE CITY OF FRESNO

- In 2004, the City of Fresno had a total of 109,327 families, of which 21,107 lived under the poverty level. This poverty rate among families of 19.30% placed the City of Fresno among the three cities with the largest poverty rates in the State of California and which is larger than in Fresno County (15.35%) and almost double the state's rate (10.53%).
- Geographical and racial poverty concentration constitutes a relevant salient fact. The City of Fresno exhibits a significantly higher poverty rate for Black or African Americans (27.59%) and for Asians (23.57%) relative to whites (17.68%). Similarly,

the poverty rate for those that identified themselves as Hispanic or Latino is the highest of all demographic groups (28.33%).

- Out of the 57,318 individuals over 16 years old living under poverty level in 2004 in the City of Fresno, only 8.5% had a full-time job. The rest of them either had a part-time job (43.9%) or did not work at all (47.6%).

ABOUT THE WORKING POOR IN THE CITY OF FRESNO

- In 2004 out of the total 21,107 families living under the poverty level in the City of Fresno, 13,468 were composed by one worker. Most of these families are characterized by either a single parent with children or by a single earner in a couple, either with children or without them.
- 13,468 families composed by one worker represent 63.81% of the total number of families living under the poverty level which is significantly higher than the same indicators for Fresno County (58.47%) and the State of California (50.06%).
- The percentage of poor people that own a house in the City of Fresno (11.57%) is strikingly low when compared to those rates for Fresno County (20.60%) and the State of California (24.64%). Out of the 21,107 poor families in the City of Fresno, only 2,240 (11.57%) families owned a house. Conversely, among the 88,220 families at or above poverty level, 60,500 (88.42%) owned a house.

THE IMPACT OF THE LIVING WAGE ON THE CITY, FIRMS AND POVERTY

KEY FINDINGS:

- The maximum estimated cost increase originated by the living wage mandate represents 0.39 % of the total city budget for 2004.

- Due to the economic ripple effect of the living wage ordinance, that is, the additional disposable income spent in the economy of the City of Fresno which generates additional sales and income for local firms and residents, can generate up to \$258, 881 in state and local tax revenue.
- The living wage ordinance can potentially reduce employment by up to 36 workers due to increased labor costs. However, due to the economic ripple effect, the wage mandate can generate up to 33 new jobs in the industries positively affected. Therefore, the net employment effect of the living wage ordinance is undetermined since it depends on the difference between the proposed hourly living wage rate and their current hourly wage rate and the number of workers impacted.
- The living wage ordinance can potentially increase sales for local business by up to \$3.8 million. The sales increase will be higher the larger the number of workers impacted and the higher the difference between the proposed hourly living wage rate and their current hourly wage rate.
- Retail Trade and Health & Social Services are the industries that would register the bulk of the economic impact generated by the living wage ordinance. The effect on these two industries would amount to more than 33% of the total additional sales, and almost 50% of the newly created jobs.
- The living wage ordinance could reduce family poverty rate from its current level of 19.3% to 18.8%. This is the maximum projected reduction in the poverty rate that the living wage ordinance can potentially produce, which represents only a modest improvement.

I. Introduction

1. Purpose of This Study

The main goal of the present study is to provide an assessment of the potential benefits and costs of establishing a living wage ordinance in the City of Fresno. The relevance of the assessment in terms of economic policy cannot be overstated considering that last year, following a relatively recent trend across the country, a living wage campaign was launched in the City of Fresno by the Community Alliance for a Fair Economy (C.A.F.E). The current Living Wage Committee is made up of local labor leaders, church members, and several active retirees with no national affiliation.

Living wage campaign supporters argue that the Fresno City Council should approve an ordinance requiring city service contractors with contracts worth \$50,000 or more to pay their employees a living wage of \$10.00/hour and provide health insurance coverage or \$11.50/hour without health insurance coverage. This standard will apply to full-time and part time workers. Wages will be indexed annually per Consumer Price Index. In addition, workers will be paid for 10 off-days annually, either as holidays, personal or sick days.

Since most living wage ordinances differ in the required wage level and the scope of coverage -depending on the particular needs and capabilities of the public entities that implement them- each community must establish whether or not the benefits of living wage ordinances outweigh the costs before passing such regulations. Therefore, the aim of this study is to contribute to a better understanding of the merits and drawbacks of implementing a living wage ordinance in the City of Fresno. Only then can policy makers, employer organizations, labor unions and voters, make informed decisions regarding the impact of such mandate on the local community.

2. Scope and Methodology

This study assesses the potential benefits and costs of establishing the aforementioned living wage ordinance for the major stakeholders in the City of Fresno: poor families, city government and firms. Measurable benefits include the increase in income as well as the

number of workers impacted by the mandate, sales levels increases that business experiment when families react to increases in their disposable income and a positive fiscal impact due to increased sales tax revenues. Measurable costs include the direct costs of the living wage to the City of Fresno resulting from higher contract costs and the potential increases in unemployment as firms, in response to the living wage ordinance, may substitute low-wage workers by higher skilled labor or machinery, or even decide to relocate. The merits of the proposed living wage campaign will be investigated by making use of detailed information about the interactions between firms, industries, and social institutions within the Fresno economy to quantify the impact of the living wage ordinance in terms of output, income, employment and tax revenue.

The main tool utilized in this study is the IMPLAN input-output system, which allows users to build economic models to estimate the impacts of economic changes in their states, counties, or communities. For this analysis, the economic change is the increased expenditures by workers employed by firms with city contracts who receive higher wages as mandated by the living wage ordinance. The impacted area is the City of Fresno.¹

Finally, a word of caution about methodology limitations is in order. All living wage research can be divided in two broad categories: *ex-ante* studies, which basically are assessments of the likely effects of proposed living wage regulations *before* they are implemented (prospective evidence); and *ex-post* studies, which mostly analyze data *after* the living wage regulations have been enacted (retrospective evidence). This study clearly belongs to the first category, which means that all calculations are hypothetical. Therefore, the economic impact of the living wage ordinance is an estimate, inherently subject to error. With the understanding that living wage ordinances vary substantially and that their impact may differ across communities in the country, the literature review section briefly discusses the evidence based on both, *ex-ante* and *ex-post* studies.

¹ For a more complete description of the IMPLAN system and its application to this analysis see Appendix.

II. Living Wage Ordinances

1. What is a Local Living Wage Ordinance?

A local living wage ordinance requires private companies that receive funding from the local government, through either contracts or financial assistance, to pay their employees a wage that is higher than the minimum wage set by state and federal legislation. Such ordinances effectively create a wage floor that is based on some definition of “need” rather than “skills”. This means that living wage levels are usually pegged to the wage level needed for a family of three or four with one full time worker to reach the federal poverty line. Some ordinances incorporate annual adjustments based on the current year federal poverty level. Other ordinances incorporate methods to calculate wage adjustments according to an inflationary index, either Consumer Price Index or the average state wage increase. So, in principle, a “living wage” should provide a full time worker an annual income high enough to buy the basic needs of life, such as food, shelter and clothes. In other words, living wage regulations are an effort to raise incomes of low-wage workers in order to reduce poverty by ensuring that full-time low-wage workers can support themselves and their families at a subsistence level.

Local living wage ordinances and federal minimum wages have some similarities. For example, both federal minimum wages and living wage ordinances mandate a wage increase for some workers and both potentially can reduce employment among some groups of workers. However, as Bartik (2002) explains, federal minimum wages and living wage ordinances have at least two important differences as well. First, local living wages are higher than both, federal and state minimum wages. This implies a higher probability that living wages mandates have a negative impact on employment. Second, local living wage ordinances affect a smaller proportion of the workforce since they only cover employees working for companies with financial dealings with the city while federal and state minimum wages cover most employees. This implies that in general, we should expect smaller benefits and smaller costs from living wages ordinances than from federal and state minimum wages.

Finally, it is worth emphasizing that a local living wage ordinance is not a single specific policy. Instead, a “local living wage ordinance” is a broad concept that denotes a

wide range of policies regarding employer regulations. In other words and following Bartik (2002), local living wage ordinances differ across cities in at least three regards. First, the required wage level varies significantly across cities; from \$5.70 per hour in Madison, WI to \$15.52 per hour in Burlington, VT.² In addition, in those cities where the mandate requires health benefits coverage, the required wage level is higher. Second, local living wage ordinances vary in their coverage. Most only cover service contractors with the city, while some cover only companies that receive financial assistance by the city, and some cover both. A few ordinances additionally cover some firms leasing land from the city and some also cover direct city or county employees in addition to contracts or subsidies recipients. Third, while some ordinances clearly establish specific enforcement provisions –including procedures about public disclosure of employer payroll records, penalties for violator companies and law suits brought by employers– others have no enforcement provisions at all.

2. The Impact of Local Living Wage Ordinances

This section briefly discusses the potential benefits and costs that local living wage ordinances can have an impact on three major stakeholders: city governments, firms and poor families. Notice that most of these impacts can only be measured after the ordinance has been implemented (retrospective evidence) while only a few can be estimated before its implementation (prospective evidence). The discussion has no reference to empirical evidence as its aim is only to gain a grasp of potential repercussions of living wage ordinances in the local economy. The literature review section will address relevant evidence.

A main concern of establishing a local living wage ordinance is that the city may face higher contract costs as firms incorporate increased wage costs in their bids for contracts. If contract prices in fact increase, the city will have to decide among cutting services, raising taxes to pay for the higher contract costs or some combination of the two. Clearly, this possibility assumes that the increased cost of the living wage is passed onto the city through the bidding process, which is not always necessarily the case. Since

² Based on numbers reported by the ACORN Living Wage Resource Center, the national median living wage in 2005 was \$10.19 per hour.

wages are only one characteristic of jobs, firms have many alternative options in response to pressure from higher wages. For example, some firms preoccupied with rising costs may respond by reducing benefits, degrading working conditions or cutting back on training. It is even possible that some firms facing a forced wage increase decide not to bid for city contracts anymore.

Additionally, the payroll effects of a living wage ordinance can be enhanced by its impact on the firm's wage structure, that is, "wage spillovers". Firms employing minimum wage labor normally also employ other low-wage workers earning near-minimum wage levels. This group may include workers with more skills, more responsibilities or even low-skill workers but with more seniority. As the living wage ordinance is implemented, firms will be pressured to raise the wage not only of those workers directly benefited by the mandate, but also the wages of this group of workers earning near-minimum wage levels, if they want to keep their compensation scheme proportionate.³ It is worth to notice however, that an increased wage floor can also bring some positive elements. For example, higher wages can lead to reduced turnover rates and greater work effort among the affected workforce, since now the costs of losing the job are larger. Consequently, as workers work harder and are less likely to leave their jobs, firms may experience a productivity boost large enough to offset the increase wage costs. This possibility could even challenge the argument that local living wage ordinances create a "hostile" business climate since the wage mandate increases the labor costs of contractors.

With respect to the impact of living wage ordinances in reducing poverty, which is the ultimate goal of the policy, there are two main factors determining its success. First, the larger number of workers affected by the mandate, the more effective the policy will be in reducing poverty. For example, analysts of the Economic Policy Institute estimate that most living wage ordinances cover less than 1% of the local workforce. If this estimate is correct, the effectiveness of the policy in reducing poverty should be extremely limited. Second, the demographic characteristics of workers affected and the type of jobs they have are crucial, because not all low-wage workers live in families that are below the poverty line. For example, the living wage ordinance will have a smaller

³ These indirect effects have also been called "wage push", "ripple effects" and "wage contour effects".

beneficial impact on the working poor if they do not work full-time for the whole year. Similarly, if workers impacted belong to families with two low-wage working adults, this will place the household income above the poverty level and the wage mandate will not reduce poverty levels. Conversely, living wage ordinances will be more effective in alleviating poverty if more workers affected by it belong to families composed by either a single parent with children or a single earner in a couple with children.

3. The Living Wage Movement in the US

The first city in the United States to pass a living wage ordinance was Baltimore, Maryland in 1994 followed a year later by Milwaukee, Wisconsin and Santa Clara County, California. These ordinances only applied to companies that provided contracted services for a city or a county. However, as other campaigns were launched and obtained popular support across the US, the scope of the ordinances was expanded to include companies that had received financial assistance such as tax abatements, incentive grants, or government property leases. In 2001 for example, 26 living wages were passed around the country, from Santa Monica, California to Burlington, Vermont. The expansion in scope also included higher required wages and benefits packages in some cases.

The living wage movement across the country has gained momentum and, at least at the local level, it has become a source of intense debate in terms of public policy. According to ACORN, by the end of 2005, there were 130 entities (cities, counties, school boards, colleges and universities) with living wage policies. Brenner (2004) offers interesting data in an attempt to gain a sense of the penetration of the movement into the local economic policy-making in the country. According to his calculations, “by January 2003 cities with living wage ordinances comprised approximately one fifth of the population residing in municipalities of 10,000 people or more, and close to 40 percent of the population in cities larger than 100,000.” Arguably, it is evident that living wage campaigns, however successful in terms of bringing people out of poverty, have been very successful politically.

4. The Economics of Living Wage Ordinances

The standard neoclassical model of labor markets produces a straightforward prediction regarding mandated wage floors: they reduce employment. The reason is that since the demand for labor is assumed to be downward sloping, higher wage levels imply that, in order to maximize profits, employers must reduce their use of labor. That is, there is a substitution effect away from the expensive labor toward the use of relatively cheaper inputs. For example, mandated wage floors can discourage the use of low-skilled low-wage labor and encourage the use of higher-skilled labor or capital. In the particular case of living wage ordinances, which main goal is to raise incomes of low-wage workers so as to reduce poverty, the theoretical implication of the model is significant: the imposed wage floor may reduce the employment opportunities for those that the policy was intended to benefit in the first place.

However, there are at least three important theoretical caveats to highlight. First, although the model clearly establishes the tradeoff between wages and employment, it does not make predictions about the effects of living wages on poverty. These effects depend on the size of the impact of wages on employment and on its incidence on family income distribution. In other words, the question about whether a living wage ordinance reduces poverty or not, is an empirical question whose answer depends of the particular characteristics of the communities where they are implemented.

Second, the labor market is more complex than the theoretical model proposes. In fact, as Neumark (2004) proposes, wage floors may not produce measurable declines in employment, but could even in some cases increase employment. The reason is that labor is more heterogeneous than the model suppose, which means that workers are differentiated by their skill level giving employers a wide range of choices. This implies that substitution among labor types –low-skill for high-skill for instance- will moderate the negative effect on overall employment. Therefore, when focusing on particular groups of workers, employment may not fall at all or perhaps even increase. The only way to measure the impact of wage floors on employment of different workers and to test whether they help the poor is to look directly at the evidence. This empirical issue has produced a substantial literature but mostly offering mixed and inconclusive evidence.

Third, given this unsatisfactory explanation produced by research based on traditional techniques, scholars have looked for alternative theoretical models and methodological approaches to better understand the wage-employment tradeoff triggered by minimum wages. This is an ongoing debate in the literature which certainly has made important contributions. Unfortunately, these studies mostly apply to minimum wages and only provide a very limited guidance as to the impact of living wage ordinances, particularly with regard to its effects on poverty. Although both, minimum wages and living wages are wage floors, they do not necessarily produce the same effects because as explained before, living wages do not only provide a more limited coverage, but also because they imply higher wage increases. Consequently, the smaller coverage of the local living wage implies lower costs and benefits than the minimum wage requirements and therefore results obtained in minimum wage studies are not totally comparable.⁴

Finally, as Bartik (2002) argues, whereas wage increases accomplished through either minimum wage or living wage policies are important in enhancing the living standards of the lower-middle working class, they are not necessarily very useful in reducing poverty. More effective poverty alleviation policies instead, should target wage increases in full-time, full year jobs among the poor. One such alternative approach is the Earned Income Tax Credit (EITC), which is the largest refundable tax credit and the largest federal aid program targeted to the working poor. Some analysts favor a ‘localized’ version of this type of poverty alleviation programs because it does not reduce employment, discourage work efforts nor increase reliance on public assistance.⁵

5. Brief Review of the Literature on Living Wage Ordinances

While there exists some agreement about the political success of the living wage movement around the country in terms of the number of entities that have passed living wage ordinances, there is much less agreement on its success in terms of effectiveness to improve living conditions of the working poor and to alleviate poverty in general. The issue has been the source of an abundant literature originated by the intense public policy

⁴ For a discussion of these new models and approaches see Neumark (2004) and Brenner (2004).

⁵ Turner and Barnow (2003) offer interesting evidence on the efficiency of localized Earned Income Tax Credit (EITC) programs compared to local living wage ordinances.

debate, particularly at the local level. The following does not pretend to be an exhaustive review, but only a summary describing the main results obtained in the most relevant *ex-ante* and *ex-post* studies.

5.1 *Ex-ante* Studies

Among earlier attempts to analyze the impact of living wages, the work by Pollin (1996) and Pollin and Luce (1998) provided the bases for a series of studies which essentially found that living wages provide benefits to workers and impose only modest effects on employer's costs. These studies include for example Nissen (1998) for the County of Miami-Dade and Reynolds (1999) for the City of Detroit. Along the same lines, based on a series of studies produced for California at the Institute for Industrial Relations at Berkeley, Reich (2003) concludes "that living wage policies increase pay for their intended beneficiaries without creating disemployment effects". Furthermore, he claims that the living wage costs to employers and taxpayers are considerable smaller than some have projected. For the Living Wage Ordinance in San Francisco for example, Reich, Hall and Hsu (1999) conclude that "the proposed ordinance would achieve its stated objectives of lifting the targeted workers to self-sufficiency and improving the quality of city services". Nichols (2000) argues that for Santa Cruz and Watsonville, a living wage ordinance would have a significant positive impact since low-wage workers would increase, reducing their dependence on public assistance and increasing their contributions to the local tax base. Finally, in their study for Los Angeles, Williams and Sander (1997) hold that a living wage ordinance would have a minor negative impact on employment (but displaced workers would easily find new jobs in other sectors), a minor cost to the City and a very modest effect on poverty among the affected workers.

On the other hand, there is some literature that provides a less optimistic picture of living wage ordinances. For example, Tolley et al. (1999) claim that for the City of Chicago, the wage ordinance would cost the city nearly \$20 million per year (which would require a permanent tax increase) and that the city could expect at least 1,300 lost jobs as a result of increased labor costs. Similarly, Alunan (1999) argues that a living wage in San Francisco would have a negligible impact in reducing poverty considering

that only 9% of the employees covered live in households with only one working adult. She adds that the city should expect a job loss of 1,790 displaced low-skilled workers. More dramatically, the Employment Policies Institute (1999) estimates that assuming California adopted a state-wide living wage, there would be more than 600,000 lost jobs and close to \$8.3 billion in lost income. In examining the efficiency of living wage ordinances in reducing poverty, researchers have produced some worth mentioning evidence. Yelowitz and Toikka (2005) for example, conclude that living wage ordinances “do little to actually increase the standard of living for low-income families”. In fact, these authors regard living wage polices as “ineffective” when considering that wage floors push the intended beneficiaries out of a job while providing minimal benefits to remaining employees.

5.2 *Ex-post* Studies

Due to the relative recent emergence of living wage ordinances after its increased popularity, not very many empirical studies have been conducted to test their effects. Among the early contributions, Weisbrot and Sforza-Roderick (1996) and Niedt et al. (1999), claim that for the City of Baltimore, the living wage ordinance had positive effects on a relatively number of workers without significant costs to the city, and that evidence “suggests that higher wages and hours improve the stability and reliability of the workforce”. More recently, in a survey-based study for Los Angeles, Farris et al (2005) find that the living wage has provided significant pay increases and other benefits to workers in primarily poor and low-income families, with minimal job reductions. Similarly, Thomson and Chapman (2005), based in extensive review of the literature, explain that living wage polices have small to moderate effects on municipal budgets and that they benefit working families with few or no negative effects. Furthermore, these authors argue, living wage policies have raised productivity and decreased turnover among affected firms.

In contrast, there are also a number of researchers reporting ill effects of living wage ordinances. For example, Yelowitz (2005) finds that the living wage implemented in 2003 in the City of Santa Fe in Kentucky, has significantly increased unemployment and that most of this negative employment impact was concentrated on the city’s least-

skilled and least educated workers, the very individuals the living wage was supposed to help. Finally, in a couple of studies addressing the role of living wage in reducing poverty, Neumark and Adams (2000) conclude that although a living wage boost wages of low-wage workers and help to achieve modest reductions in urban poverty, the mandate can have a mild negative impact on the number of hours worked and a strong negative employment effect.

Empirical examinations on the impact of living wage ordinances have clearly produced mixed evidence. This fact is not surprising when considering that as explained earlier, most living wage ordinances differ in the required wage level and the scope of coverage. As a result, the benefits of living wage ordinances may outweigh the costs of these regulations in some communities but not in others. Thus, for the case of the proposed living wage in the City of Fresno, it is necessary to understand the basic characteristics of the community, in particular the employment situation among the poor. This issue is tackled in the next section.

III. Poverty in the City of Fresno

1. A Snapshot of Urban Poverty

In 2004, the City of Fresno had a total of 109,327 families and a total estimated population of 473, 249 making it the most populated city in Fresno County and the fourth largest in the State of California. The median income for a household in the City of Fresno was \$38,842, which is below the one for Fresno County (\$42,059) and the state (\$51,185). Similarly, the per capita income for the city was \$17,901, which is below the one for Fresno County (\$19,247) and the state (\$25,411).

As shown in Table 1, 19.30% of the families and 21.16% of the population are below the poverty line, placing the City of Fresno among the three cities with the largest poverty rates in the State of California.⁶ When compared to Fresno County and the State of California, data indicates that the City of Fresno fares no better. The population-based poverty rate of Fresno City is almost 20% larger than in Fresno County and almost double the state's rate.

Table 1. 2004 Poverty Rates in California: Selected Cities

California City	Poverty Rate Population	Poverty Rate Families
Long Beach	26.40%	23.86%
Stockton	23.01%	19.81%
Fresno	21.16%	19.30%
Oakland	19.68%	14.98%
Los Angeles	18.04%	15.76%
Sacramento	17.84%	15.21%
Santa Ana	15.00%	12.13%
San Diego	13.04%	8.84%
Bakersfield	12.98%	10.66%
Visalia	12.42%	9.71%
Riverside	12.20%	7.17%
San Jose	11.36%	8.98%
San Francisco	10.20%	7.73%
Anaheim	8.22%	6.40%
Other Geographic Units		
Fresno County	17.86%	15.35%
California	13.34%	10.53%

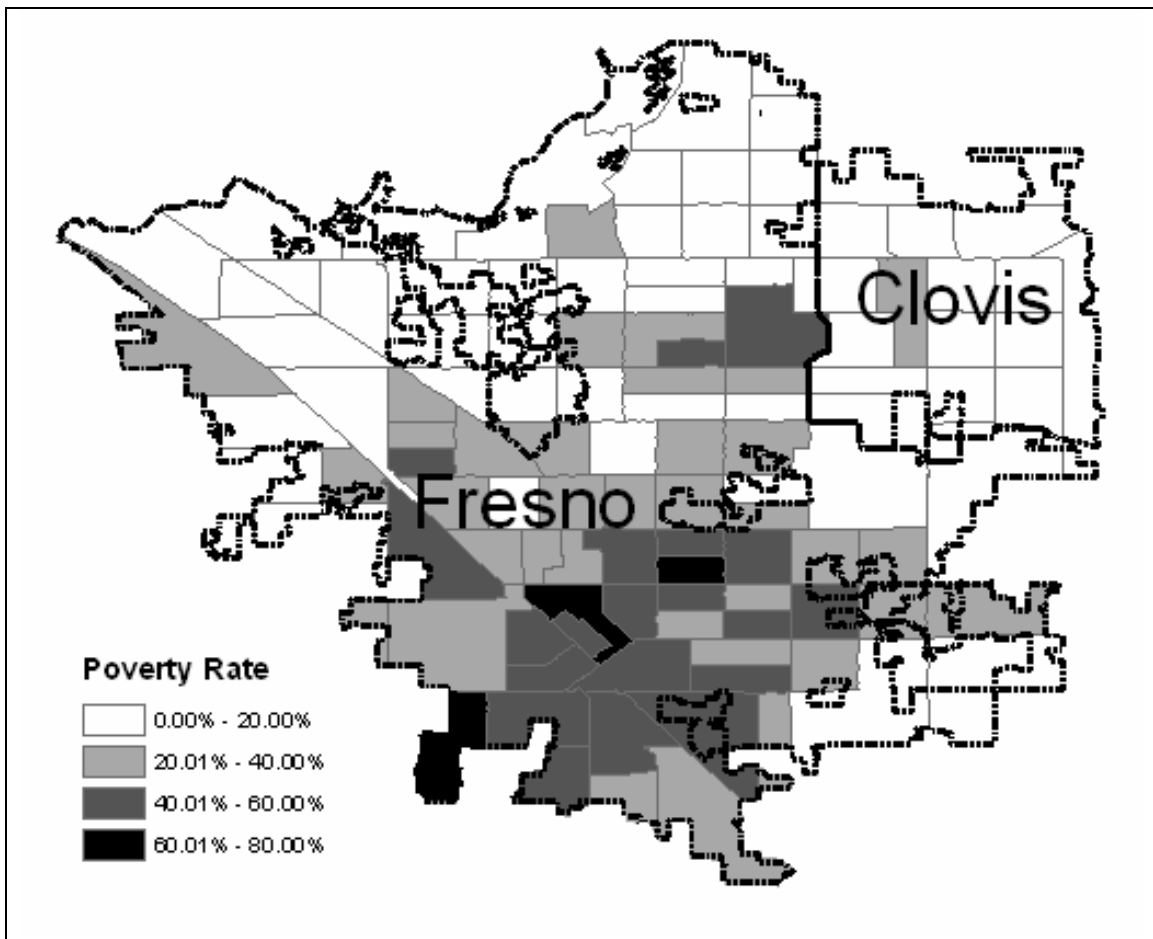
Source: U.S. Census, 2004 American Community Survey (ACS)

NOTE: The universe for the population-based poverty numbers is the population for whom poverty status can be determined.

⁶ ACS data is only available for 14 cities in California.

When looking at the distribution of poverty within the City of Fresno, data shows substantial geographical concentration. Figure 1 shows poverty rates by census tracts.⁷ Most census tracts registering the highest poverty rates (above 40%) are located in South Fresno (roughly below McKinley Avenue).

Figure 1. Poverty Rate by Census Tract: City of Fresno



Source: U.S. Census 2000, Summary File 3 (SF 3)

⁷ Poverty rates by census tract are obtained by computing the following ratio: population living under poverty by the total population in the same census tract.

Clustering is only one dimension of poverty concentration. Another worth mentioning characteristic of poverty is the demographic composition of the urban poor. As Table 2 shows, the composition of the poor population considerably differs across races. The City of Fresno exhibits a significantly higher poverty rate for Black or African Americans and for Asians relative to whites. Similarly, the poverty rate for those that identified themselves as Hispanic or Latino is the highest of all demographic groups. A similar pattern is observed for Fresno County but not for the whole state, where not only poverty rates are lower, but also the differences across racial groups are less striking.

Table 2. 2004 Poverty Rates by Selected Race and Demographic Group

	Fresno City	Fresno County	California
White	17.68%	15.10%	11.46%
Black or African American	27.59%	27.01%	21.02%
Asian	23.57%	18.98%	11.78%
Hispanic or Latino	28.33%	24.48%	20.30%

Source: U.S. Census, 2004 American Community Survey

Since the racial composition of the poor population could be a mirror of the racial composition of the whole population, rather than a disproportionate difference in poverty rates, it is informative to look at the overall population data. Similar to Fresno County and the State of California, there are three racial groups that make the bulk of the population in the City of Fresno: 64.76% identified themselves as White, 8.29% identified themselves as Black or African American and 8.12% identified themselves as Asian. However, as Table 3 shows, the demographic composition of the City of Fresno differs in two main aspects. First, data indicates that the City of Fresno has the highest concentration of Black or African Americans and the lowest concentration of Asians – although this racial group represents a significant large population. Second, 44.70% identified themselves as of Hispanic or Latino Origin, which indicates a concentration of this demographic group that is higher than the State although slightly below than Fresno County.

Table 3. 2004 Total Population: Hispanic or Latino Origin By Race

	Fresno City Count		Fresno County Count	California Count
Total Population	473,249		848,226	35,055,227
		% of Total	% of Total	% of Total
Not Hispanic or Latino	261,706	55.30%	53.68%	65.06%
White Alone	167,539	35.40%	37.65%	44.18%
Black or African American Alone	39,109	8.26%	4.66%	5.99%
American Indian or Alaska Native Alone	5,044	1.07%	0.70%	4.90%
Asian Alone	38,444	8.12%	8.96%	11.97%
Native Hawaiian and Other Pacific Islander Alone	0	0.00%	0.00%	3.20%
Some Other Race Alone	655	0.14%	0.10%	0.24%
Two or More Races	10,915	2.31%	1.59%	1.85%
Hispanic or Latino	211,543	44.70%	46.31%	34.93%
White Alone	138,926	29.36%	30.52%	18.85%
Black or African American Alone	128	0.03%	0.01%	0.16%
American Indian or Alaska Native Alone	3,825	0.81%	0.71%	0.25%
Asian Alone	0	0.00%	0.00%	0.17%
Native Hawaiian and Other Pacific Islander Alone	0	0.00%	0.00%	0.02%
Some Other Race Alone	55,050	11.63%	12.57%	14.28%
Two or More Races	13,614	2.88%	2.41%	1.18%

Source: U.S. Census, 2004 American Community Survey

Therefore, this comparative demographic composition reveals disproportionate poverty rates across racial groups for the City of Fresno. On the one hand, Black or African Americans (not Hispanic or Latinos) represent 8.25% of the total population while the poverty rate among this group is 27.59% (more than three times higher). Similarly, Asians (not Hispanic or Latinos) represent 8.12% of the total population while the poverty rate among this group is 23.57% (almost three times higher). On the other hand, Whites (not Hispanic or Latinos) represent 35.40% of the total population while the poverty rate among this group is only 17.68%. Hispanics or Latinos (not considered a race) far equal better. They represent 44.70% of the total population while the poverty rate among this group is only 28.33%.

With regard to the age composition of the urban poor, out of the total population, 9.73% of those under the age of 18 and 8.17% of those 65 and older are living below poverty level. More revealing is the fact that out of the total number of poor families, those with 1 or 2 children represented 51.23% followed by families with 3 or 4 children

which totaled 27.67%.⁸ Families with no children represented only 11.92% of poor families.

In terms of the housing characteristics of the urban poor, Table 4 shows noticeable contrasts across household types and among different geographic units. First, out of the 21,107 poor families in the City of Fresno, only 2,240 (11.57%) families owned a house. Conversely, among the 88,220 families at or above poverty level, 60,500 (88.42%) owned a house. This is remarkable evidence of the vulnerability of families in the City of Fresno, which is linked to asset ownership -the more assets families have the less vulnerable they are. It is worth noticing that most of the houses owned by poor families include married-couple families and female household families.

Second, the percentage of poor people that own a house in the City of Fresno (11.57%) is strikingly low when compared to those rates for Fresno County and the State of California, which are around double -20.60% and 24.64% respectively. The disproportionate difference is more noticeable for married-couple families, where the ownership rate for the state is almost three times higher than the one for the city.

Table 4. Families with Income Below Poverty Level by Tenure (%)

	Fresno City	Fresno County	California
Type of Household by Tenure			
Married-couple family			
Owner Occupied	5.84%	10.83%	15.14%
Renter Occupied	21.56%	24.69%	28.50%
Male Householder, no wife present			
Owner Occupied	0.89%	3.07%	2.40%
Renter Occupied	7.83%	9.24%	8.09%
Female Householder, no husband present			
Owner Occupied	4.84%	6.70%	7.10%
Renter Occupied	59.03%	45.46%	38.76%
Total Owner Occupied Rate	11.57%	20.60%	24.64%
Total Renter Occupied Rate	88.42%	79.39%	75.35%

Source: U.S. Census, 2004 American Community Survey

⁸ It is worth noticing that out of the total 10,814 poor families with 1 or 2 children, females (with no husband present) accounted for almost 75% (3 out of 4 families).

In terms of schooling, almost 50% of the urban poor population does not have at least a high school degree and only 10% has a bachelor's degree or higher. This indicators significantly contrast with the same indicators for the entire population, where only 22.82% of the population does not have at least a high school degree and more than 20% has a bachelor's degree or higher.⁹ Low educational attainment levels for the poor citizens of Fresno imply that their ability to help themselves to escape poverty is severely undermined.

Complementing the picture of the urban poor in the City of Fresno, the employment situation of the population living below poverty level is examined. The universe considered for the following data is the population sixteen years older for whom the poverty status is determined according to the ACS. Therefore, although the indicators calculated are not directly comparable to unemployment or employment numbers for example, they provide a sense of the differences between those living below poverty level and those who don't.

Out of the 57,318 individuals living under poverty level in 2004 in the City of Fresno, only 8.5% had a full-time job.¹⁰ The rest of them either had a part-time job (43.9%) or did not work at all (47.6%). In contrast, out of the 284,497 individuals living at or above poverty level, 42.8% had a full-time job and 28.6% had a part-time job. Furthermore, the employment-population ratio among urban poor is 0.52 while the same indicator for those at or above the poverty level equals 0.71. Low employment levels among the urban poor imply again less opportunity to escape poverty.

The snapshot of poverty in the City of Fresno ends by looking at the accessibility to social protection and safety nets. Social insurance benefits include pensions and unemployment insurance. Safety nets and social assistance interventions include various forms of cash and in-kind transfer programs that supplement income such as child feeding and vouchers for schooling and housing. As Table 5 shows, access to Social Security income is more limited for the urban poor in Fresno City (6.69%) than their counterparts in Fresno County (10.04%) and the State of California (10.73%). However

⁹ The universe for the educational attainment calculations is the population for whom poverty status can be determined according to the American Community Survey.

¹⁰ The universe for the employment status calculations is the population 16 years and over for whom the poverty status can be determined.

for both groups together, those receiving Social Security income and those who don't, the poor population of the city (38.64%) has slightly better access to cash public assistance than the poor populations of the county (38.05%) and the state (24.64%).

Table 5. Families with Access to Social Security Income (%)

	Fresno City Count	%	Fresno County %	California %
Families Living Under Poverty Level				
With SS Income in the past 12 months	1,414	6.69%	10.04%	10.73%
With SSI* and/or cash public assistance	574	2.72%	3.17%	1.83%
Without SSI and/or cash public assistance	840	3.97%	6.87%	8.89%
Without SS Income in the past 12 months	19,693	93.30%	89.95%	89.26%
With SSI and/or cash public assistance	7,583	35.92%	34.88%	22.81%
Without SSI and/or cash public assistance	12,110	57.37%	55.07%	66.45%

Source: U.S. Census, 2004 American Community Survey; * SSI means Supplemental Security Income

2. Characteristics of the Working Poor

As explained earlier, living wage policies aim at raising the incomes of low-wage workers in order to reduce poverty by ensuring that these workers can support themselves and their families at a subsistence level. However, although it seems intuitive that a natural way to fight poverty is to increase wages for low-wage workers, it is possible that the wage mandate may not help to achieve this goal. The reason is that mandated wage floors may ineffectively target 'below poverty level' families because some low-wage workers belong to 'above poverty level' families. Examples of low-wage workers belonging to 'above poverty level' families include: those workers living with a parent or relative (perhaps young workers who don't have the skills yet, but who are likely to escape low-wage work as skills are acquired), those dual earners in a married couple (with or without children) and those single earners workers with no children (either single or married). In other words, the effectiveness of the living wage policy depends on the number of low-wage workers that belong to 'below poverty level' families; the higher the number of these workers are covered, the larger the impact of the wage mandate in reducing poverty. Therefore, in order to get some perspective of the likely impact of the

wage mandate in reducing poverty in the City of Fresno, it would be helpful to establish some sense of the working and living conditions of the working poor.

As shown in Table 6, in 2004 the City of Fresno had a total of 21,107 families living under the poverty level, from which 13,468 were composed by one worker. This is the universe of families for which the living wage ordinance can potentially be beneficial in terms of bringing them out of their poverty status.¹¹ Most of these families are characterized by either a single parent with children or by a single earner in a couple, either with children or without them. It is worth noticing that this number represents 63.81% of the total number of families living under the poverty level which is significantly higher than the same indicators for Fresno County (58.47%) and the State of California (50.06%).

Table 6. Selected Characteristics of Families Below Poverty Level

	Fresno City Count		Fresno County Count	California Count
Total Families	109,327		202,108	8,257,977
Total Families below Poverty Level	21,107		31,019	862,665
Family Poverty Rate	19.31%		15.35%	10.45%
		% of Total Families below Poverty Level		
Families Below Poverty level with 1 Worker	13,468	63.81%	58.47%	50.06%
		% Distribution by Household Type		
Composition by Household Type				
Married-couple	3,190	23.69%	32.71%	43.94%
Male householder, no wife present	1,841	13.67%	13.38%	11.37%
Female householder, no husband present	8,437	62.64%	53.91%	44.69%
TOTAL	13,468	100.00%	100.00%	100.00%

Source: U.S. Census, 2004 American Community Survey

In terms of the household composition, it is noticeable the high percentage of female low-wage single earners, particularly for the City of Fresno where this indicator reaches

¹¹ Obviously, the living wage will affect a significantly smaller of workers and their families, because the policy would only cover employees working for companies with contracts with the City. Estimating the number of workers impacted by the wage ordinance is described in the next section.

62.64%. Also interesting, and perhaps even puzzling, is the fact that the percentage of married couples with a single earner is significantly lower in the City of Fresno (23.69%) than in Fresno County (32.71%) and the State of California (43.94%)

Finally, a word of caution regarding the estimated number of families for which the living wage ordinance can potentially be beneficial is in order. Although it is reasonable to think that two (or more) low-wage working adults in the same family will place the household income above the poverty level, this is not necessarily always the case. The reason is that not all workers have a full-time all-year-long job. Thus, since the American Community Survey data do not classify number of workers within families by type or duration of job, the 13,468 families mentioned as the universe of potential beneficiaries of the living wage is probably not entirely accurate. Actually, the estimate is likely to be biased because of two opposite factors. First, the estimate might be biased upward because it is assumed that all low-wage workers have full-time all-year-long jobs. Therefore, since two (or more) low-wage working adults in the same family will place the household income above the poverty level, the estimate only takes into account families with one low-wage worker. Second, the estimate might be biased downward because it is possible that families with two or more low-wage workers don't make an income above the poverty level if such workers don't have full-time all-year-long jobs. In other words, the estimate by only taking into account families with one low-wage worker is leaving out the possibility that families with more than one worker be poor. With the data available however, it is not possible to get a more accurate estimate.

IV. The Number of Living Wage Workers and the Additional Disposable Income

1. Estimating the Number of Impacted Workers and the Additional Income

Evidently, obtaining an estimate of the number of workers impacted by the living wage ordinance is essential to assess its economic impact. Equally important is to estimate the additional disposable income that will circulate in the City which will generate the spending ripple effect due to the interactions between firms, industries, and social institutions that naturally occur within the local economy. This section addresses both issues by building nine possible scenarios depending on the number of workers impacted by the wage mandate and the hourly wage rate they currently earn, that is, before the wage ordinance is implemented.

The number of workers impacted by living wage policies depends on the breadth of coverage. For example, according to Benner and Rosner (1998), the living wage measure for San Jose, which is similar to the one proposed for the City of Fresno in that only covers city service contractors, was projected to cover only 1,561 individuals. In contrast, according to Reich et al. (1999), the living wage measure for San Francisco, which is more comprehensive in that also includes companies that lease property from the city, was projected to cover 12,380 individuals. In general, most studies of living wage ordinances similar to the one proposed for the City of Fresno, report that the total number of workers impacted by living wage ordinances is under 1% of the labor force. For example, Benner and Rosner (1998) report for San Jose that 0.15% of the local labor force is covered, while Nichols (2000) projects for Santa Cruz and Watsonville that 0.11% of the local force is covered.

For the City of Fresno, the California Employment Development Department (EDD) reports a labor force of approximately 200,000 in 2004. So, based on these numbers and assuming the living wage mandate in the City of Fresno will have similar characteristics in terms of workers covered, three possible scenarios are considered: that the living wage ordinance has an impact on 100, 250 or 500 workers, which represent 0.05%, 0.125% and 0.25% of the labor force in the City of Fresno respectively.

In order to calculate the additional disposable income of these workers, it is necessary to calculate the difference between the proposed hourly living wage rate and

the hourly wage rate they currently receive. However, since not all workers make the same hourly wage rate, some assumptions are required. While some workers only make the established state minimum wage rate of \$6.75, others make higher but near minimum wage rates. Therefore, in addition to the state minimum wage rate and in order to get more realistic estimates, two additional possible hourly wage levels are considered: \$7.75 and \$8.75.

Assuming that all workers work full time all year long, the difference between the proposed hourly living wage rate and the hourly wage rate they currently receive is multiplied by 2000 hours to calculate the additional annual income. Furthermore, in order to calculate the additional disposable income, these numbers were multiplied by a factor of 0.85, which produce the nine scenarios shown in Table 7.

Table 7. Additional Annual Disposable Income (\$)

		Hourly Wage Rate (\$)		
		6.75	7.75	8.75
Covered Workers	100	525,500	382,500	212,500
	250	1,381,250	956,250	531,250
	500	2,762,500	1,912,500	1,062,500

Obviously, additional annual disposable income increases with either the number of workers impacted by the wage mandate or with the difference between the proposed hourly living wage rate and the hourly wage rate workers currently earn. Therefore, additional annual disposable income ranges between a minimum of \$212,500 and a maximum of \$2,762,500 as indicated by the grey boxes in the North East (NE) and South West (SW) corners respectively. The projected number of workers and their additional annual disposable income will be used in the next section to estimate the economic impact that the living wage ordinance could produce for the City, firms and in reducing poverty.

V. The Economic Impact of the Living Wage Ordinance

1. The Impact on the City of Fresno

Assuming that all bidding firms incorporate the wage cost increase in the bids for contracts –consequence of the living wage ordinance-, the City will face higher contract costs which, again, will depend on the number of workers impacted and on the difference between the proposed hourly living wage rate and the hourly wage rate workers currently earn. According to the Budget and Management Studies Division (BMSD) of the City of Fresno, the total net city budget for the 2004 FY was \$699,486,700. Table 8 shows the potential cost increase for the City as a percentage of this city budget. As indicated by the SW corner of the table (shadowed in grey), the maximum estimated cost increase originated by the living wage mandate represents significantly less than 1% of the total city budget. The actual number is 0.39% as indicated by the grey box.

Table 8. Cost Increase as a Percentage of the Total City Budget

		Hourly Wage Rate (\$)		
		6.75	7.75	8.75
Covered Workers	100	0.08%	0.05%	0.03%
	250	0.20%	0.14%	0.08%
	500	0.39%	0.27%	0.15%

Furthermore, the additional disposable income spent in the economy of the City of Fresno generates additional sales and income for local firms and residents, which subsequently lead to further spending and income in an economic ripple effect. This additional spending and income can also generate additional tax revenue. Presenting the state and local tax revenue impact of the living wage ordinance for the nine scenarios is not very revealing. Instead, Table 9 only shows the state and local tax revenue impact assuming that 500 workers are impacted and that all of them make state minimum wage.¹²

¹² The economic impact on the economy of the City of Fresno was estimated using the IMPLAN system. Unfortunately, IMPLAN does not break down the tax revenue impact between state and local levels.

Table 9. State and Local Tax Revenue Impact of the Living Wage Ordinance

Tax Impact						
		Employee Compensation	Household Expenditures	Corporations	Indirect Business Taxes	TOTAL
S t a t e a n d L o c a l T a x e s	Corporate Profits Tax			\$12,091		\$12,091
	Dividends			\$26,997		\$26,997
	Indirect Bus Tax: Motor Vehicle License				\$1,310	\$1,310
	Indirect Bus Tax: Other Taxes				\$13,224	\$13,224
	Indirect Bus Tax: Property Tax				\$62,893	\$62,893
	Indirect Bus Tax: S/L NonTaxes				\$7,624	\$7,624
	Indirect Bus Tax: Sales Tax				\$83,813	\$83,813
	Indirect Bus Tax: Severance Tax				\$23	\$23
	Personal Tax: Estate and Gift Tax					
	Personal Tax: Income Tax		\$28,310			\$28,310
	Personal Tax: Motor Vehicle License		\$1,177			\$1,177
	Personal Tax: NonTaxes (Fines- Fees)		\$14,894			\$14,894
	Personal Tax: Other Tax (Fish/Hunt)		\$186			\$186
	Personal Tax: Property Taxes		\$600			\$600
	Social Ins Tax- Employee Contribution	\$1,352				\$1,352
Social Ins Tax- Employer Contribution	\$4,387				\$4,387	
TOTAL		\$5,739	\$45,167	\$39,088	\$168,888	\$258,881

The multiplier effect of the living wage ordinance can generate up to \$258, 881 in state and local tax revenue. These estimates rely on IMPLAN estimates of spending patterns for low-income households making between \$15,000 and \$25,000 per year. Obviously, the tax revenue impact will be smaller the lower the number of workers impacted and the lower the difference between the proposed hourly living wage rate and their current hourly wage rate. Although not shown in a table format and simply for comparison purposes, the minimum tax revenue impact produced by 100 workers covered by the ordinance currently earning \$8.75 per hour is only \$19,914.

In summary, based on these costs and benefits for the City, it seems unlikely that city services will suffer significant cuts or that taxes will be significantly increased as a consequence of the living wage ordinance, under any scenario.

2. The Impact on Firms

The impact on firms is assessed in two main areas. First, the employment effect, as measured by the number of workers that can potentially be fired as a consequence of

increased labor costs and the new jobs created product of the additional disposable income spent in the local economy. And second, the additional sales that the increased additional disposable income circulating in the City can generate. These estimates assume that firms absorb the whole cost increase of the ordinance. In other words, contracting firms, instead of adding the increased labor costs to their bids, respond by either reducing the number of employees (or replacing them by more skilled workers), reducing benefits, degrading working conditions, cutting back on training or a combination of all of the above.

It is well established in the literature that estimates for the elasticity of employment of low-skilled workers with respect to minimum wages are between -0.1 and -0.2 (see for example Neumark, 2004). This means that an increase in the minimum wage of 10% for instance, could reduce employment among low-skilled workers between 1% and 2%. Since there are no estimates for the elasticity of employment of low-skilled workers with respect to living wages, it is assumed that this elasticity oscillates between a similar range. Thus, the elasticity value used in the estimates is -0.15. The difference between each of the three wage levels currently earned by workers in the City (\$6.75, \$7.75 and \$8.75) and the proposed living wage rate (\$10.00) imply a change of 48.10%, 29.03% and 14.28% respectively. So, these wage changes combined with the assumed elasticity of employment produce the potential employment effect shown in Table 10. The living wage ordinance can potentially reduce employment by up to 36 workers, assuming that 500 workers are impacted and that all currently receive the state minimum wage. This is the maximum projected job loss. Clearly, the job loss will be smaller the lower the number of workers impacted and the lower the difference between the proposed hourly living wage rate and their current hourly wage rate.

Table 9. Jobs Lost Due to the Living Wage Ordinance

		Hourly Wage Rate (\$) / Percentage Change		
		6.75 / 48.10%	7.75 / 29.03%	8.75 / 14.28%
Covered Workers	100	7	4	2
	250	18	11	5
	500	36	22	11

Even though it is intuitively clear that a forced wage increase imposed on contracting firms generates a job loss, it is important to realize that the living wage ordinance can also generate new jobs. As explained earlier, the additional disposable income spent in the local economy generates additional sales and income for local firms and residents. The economic ripple effect can also generate new jobs in the industries positively affected. That is, the living wage ordinance can also create a few jobs in industries not directly affected by it. As shown in Table 10, the living wage ordinance can potentially increase employment by up to 33 workers, assuming that 500 workers are impacted and that all currently receive the state minimum wage. This is the maximum projected job gain. Once again, the number of new jobs generated will be smaller the lower the number of workers impacted and the lower the difference between the proposed hourly living wage rate and their current hourly wage rate.

Table 10. New Jobs Created by Additional Income and Sales

		Hourly Wage Rate (\$)		
		6.75	7.75	8.75
Covered Workers	100	6	4	2
	250	17	12	6
	500	33	23	12

Therefore, to fully characterize the employment impact of the living wage ordinance, the net effect must be considered. According to this assessment, the sign of this net employment depends on the scenario. The living wage ordinance seems to have a minimal positive employment impact the lower the difference between the proposed hourly living wage rate and their current hourly wage rate and the higher the number of workers impacted. For example, when 500 workers are covered and they make \$8.75 hourly, the living wage ordinance is projected to generate a net gain of one new job.

With regard to the additional sales that the increased additional disposable income circulating in the City can generate, Table 11 shows that this effect can be considerable.

The living wage ordinance can potentially increase sales for local business by up to \$3.8 million, assuming that 500 workers are impacted and that all currently receive the state minimum wage. This is the maximum projected additional sales (shadowed in grey). The sales increase will be higher the larger the number of workers impacted and the higher the difference between the proposed hourly living wage rate and their current hourly wage rate.

Table 11. Sales Generated by Additional Income and Sales

		Hourly Wage Rate (\$)		
		6.75	7.75	8.75
Covered Workers	100	\$738,504	\$537,541	\$298,634
	250	\$1,941,120	\$1,343,852	\$746,585
	500	\$3,882,240	\$2,687,705	\$1,493,169

Finally, as stated before, the living wage ordinance can create additional business sales and a few new jobs in industries not directly affected by it due to the economic ripple effect. Continuing with the assumption that 500 workers are impacted and that all these workers currently receive the state minimum wage, Table 12 shows the additional sales and new jobs by industry based on the 2 digit North American Industry Classification System (NAICS). It is clear that the Retail Trade and Health & Social Services industries would register the bulk of the economic impact generated by the living wage ordinance. The effect on these two industries would amount to more than 33% of the total additional sales, and almost 50% of the newly created jobs. It is worth pointing out that these new jobs would not necessarily benefit poor workers. In fact, although the overall employment effect is undetermined, it is unlikely that the jobs lost among low-skilled poor workers will be replaced by new jobs among these same workers. As indicated by Table 11, most new jobs would be created in sectors that require some skills.

Table 12. Additional Sales and New Jobs by Industry

Economic Impact by Industry		
INDUSTRY	Sales (Output)	Employment
Ag, Forestry, Fish & Hunting	\$11,091	0.0
Mining	\$3,464	0.0
Utilities	\$62,962	0.0
Construction	\$37,615	0.0
Manufacturing	\$198,429	1.0
Wholesale Trade	\$234,848	2.0
Transportation & Warehousing	\$88,026	1.0
Retail trade	\$596,255	8.0
Information	\$158,959	0.0
Finance & insurance	\$295,897	2.0
Real estate & rental	\$322,334	2.0
Professional-scientific & tech services	\$139,674	1.0
Management of companies	\$40,180	0.0
Administrative & waste services	\$89,652	1.0
Educational services	\$55,038	1.0
Health & social services	\$690,317	8.0
Arts- entertainment & recreation	\$26,166	1.0
Accommodation & food services	\$315,600	4.0
Other services	\$187,965	1.0
Government	\$333,768	0.0
TOTAL	\$3,888,240	33.0

3. The Impact on Poverty

The impact on poverty, which is the ultimate goal of the living wage ordinance, is assessed by the number of families that the policy can bring out of poverty and by the magnitude in which the poverty rate can be reduced. The effectiveness of the wage mandate basically depends on three factors: the number of workers affected by the policy, the demographic characteristics of workers affected and the type of jobs they have. It follows then that the living wage ordinance will be more effective in alleviating poverty the larger number of workers affected by the mandate and the more workers affected by it belong to families composed by either a single parent with children or a single earner in a couple with children that holds a full time job all year long. Consequently, this assessment assumes that all workers affected by the wage mandate belong to single earner families working full time all year long.

As established earlier on this section, it is estimated that the living wage ordinance could bring out of poverty between 100 and 500 families, which represents between 0.7% and 3.7% of the 13,468 families living under poverty levels with 1 worker in the City of Fresno in 2004. As explained before, the majority of these families are characterized by either a single parent with children or by a single earner in a couple, either with children or without them. Once again, assuming that 500 workers are impacted and that all currently receive the state minimum wage, these numbers imply that the living wage ordinance could reduce family poverty rate from its current level of 19.3% to 18.8%. This is the maximum projected reduction in the poverty rate that the living wage ordinance can potentially produce. Notice that this projected reduction in the poverty rate is slightly biased upwards because it assumes that no workers will lose their job as a consequence of the living wage ordinance which is probably incorrect. However, the point is simply to illustrate that even when the living wage ordinance impacts a large number of workers, the reduction in the poverty rate is very modest.

VI. Final Remarks

This study provides an assessment of the potential benefits and costs of establishing a living wage ordinance in the City of Fresno. Several conclusions emerge. First, a living wage ordinance such as the one proposed for the City of Fresno would imply a modest cost increase for the City, which amounts to significantly less than 1% of the City Budget. Second, such living wage would entail a moderate reduction in employment among low-skill workers employed by companies with City contracts (up to 36 workers). However, the economic ripple effect could also generate up to 33 new jobs in the industries positively affected. Therefore, the overall employment effect is undetermined as additional disposable income spent in the economy of the City of Fresno can generate new jobs. Third, the living wage ordinance could potentially increase sales for local business by up to \$3.8 million. The Retail Trade and Health & Social Services industries would register the bulk of the economic impact generated by the living wage ordinance. Fourth, the living wage ordinance could produce a minor reduction in the poverty rate among families from its current level of 19.5% to 18.8%.

These conclusions should not be construed to imply that a living wage ordinance is a desirable policy to be pursued for the City of Fresno, nor that a living wage ordinance is undesirable and therefore needs to be avoided. Rather, they should serve to highlight the merits and drawbacks of implementing a living wage ordinance in the City of Fresno. Only then can policy makers, employer organizations, labor unions and voters, make more informed decisions regarding the impact of such mandate on the local community.

References

- Alunan, Susan, "The Living Wage in San Francisco: Analysis of Economic Impact, Administrative and Policy Issues", San Francisco Urban Institute, San Francisco State University, 1999.
- Bartik, Timothy J., "Thinking about Local Living Wage Requirements", Upjohn Institute Staff Working Paper No. 02-76, 2002.
- Benner, Chris and Rachel Rosner, "Living Wage: An Opportunity for San Jose", Working Partnerships, San Jose, CA, 1998.
- Brenner, Mark, "The Economic Impact of Living Wage Ordinances", Political Economy Research Institute, Working Paper Series #80, University of Massachusetts Amherst, 2004.
- Employment Policies Institute, "The Employment Impact of a Comprehensive Living Wage Law: Evidence from California", Employment Policies Institute, Washington D.C., 1999.
- Farris, David, David Runsten, Carolina Briones and Jessica Goodhearth, "The Impact of the Los Angeles Living Wage Ordinance on Workers and Businesses", University of California, Los Angeles and Riverside.
- Neumark, David, "The Economic Effects of Mandated Wage Floors", Public Policy Institute of California, Occasional Papers. 2004.
- Neumark, David and Scott Adams, "Detecting Effects of Living Wage Laws", *Industrial Relations* 42 (2003): 531-564.
- Neumark, David and Scott Adams, "Do Living Wage Ordinances Reduce Urban Poverty", NBER Working Paper No. 7606, 2000.
- Nichols, Leslie, "A Living Wage for Santa Cruz and Watsonville", Working Partnerships USA, 2000.
- Niedt, Christopher, Greg Ruiters, Dana Wise and Erica Schoenberger, "The Effects of the Living Wage in Baltimore", Working Paper No. 119, Department of Geography and Environmental Engineering, The Johns Hopkins University.
- Nissen, Bruce, "The Impact of a Living Wage Ordinance in Miami-Dade County, Center for Labor Research and Studies, Florida International University, 1998.
- Pollin, Robert, "Economic Analysis of the Los Angeles Living Wage", University of California, Riverside, 1996.

- Pollin, Robert and Stephanie Luce, *The Living Wage: Building a Fair Economy*, New York: New Press, 1998.
- Reich, Michael, “Living Wage Ordinances in California”, University of California, Berkeley, 2003.
- Reich, Michael, Peter Hall and Fiona Hsu, “Living Wages and the San Francisco Economy: The Benefits and the Costs”, Center on Pay and Inequality Institute of Industrial Relations, University of California, Berkeley, 1999.
- Reynolds, David, “The Impact of the Detroit Living Wage Ordinance”, Center for Urban Studies and Labor Studies Center, Wayne State University, 1999.
- Thomson, Jeff and Jeff Chapman, “The Economic Impact of Local Living Wages”, Economic Policy Institute, Washington D.C., 2005..
- Tolley, George, Peter Bernstein and Michael Lesage, “Economic Analysis of a Living Wage Ordinance”, Employment Policies Institute, 1999.
- Turner, Mark D. and Burt S. Barnow, “Living Wage and Earned Income Tax Credit: A Comparative Analysis”, Employment Policies Institute, 2003.
- Weisbrot, Mark and Michelle Sforza-Roderick, “Baltimore’s Living Wage Law: An Analysis of the Fiscal and Economic Cost of Baltimore City Ordinance 442”, Preamble Center for Public Policy, 1996.
- Williams, Douglas and Richard Sander, “An Empirical Analysis of the Proposed Los Angeles Living Wage Ordinance”, Prepared Under Contract for the City of Los Angeles, Carleton College and UCLA, 1997.
- Yelowitz, Aaron, “Santa Fe’s Living Wage Ordinance and the Labor Market”, Employment Policies Institute, 2005.
- Yelowitz, Aaron and Richard Toikka, “Effective Tax Rates and the Living Wage”, Employment Policies Institute, 2005.

Appendix: IMPLAN and its Implementation

The IMPLAN System

The IMPLAN computer software package consists of procedures for estimating local input-output models using associated databases, which are techniques for quantifying interactions between firms, industries, and social institutions within a local economy. The economic data for IMPLAN come from the system of national accounts for the United States based on data collected by the U. S. Department of Commerce, the U.S. Bureau of Labor Statistics, and other federal and state government agencies. Data are collected for 509 distinct producing industry sectors of the national economy corresponding to the North American Industry Classification System (NAICS). National and county level data are the basis for IMPLAN calculations of input-output tables and multipliers for local areas.

The Multiplier Effect

The total impact of the living wage ordinance on the City of Fresno, also known as the multiplier effect, is equal to the sum of three components: the direct effect, the indirect effect and the induced effect. The direct effect is the immediate upshot caused by workers' expenditures. Due to the interactions between firms, industries, and social institutions that naturally occur within the local economy, the direct effect initiates a series of iterative rounds of income creation, spending and re-spending that result in indirect and induced effects. The indirect effects are changes in production, employment and income that result from the inter-industry purchases triggered by the direct effect. Finally, induced effects arise due to changes in household income and spending patterns caused by direct and indirect effects. Since the total impact of workers' expenditures is a multiple of the initial expenditures, the total effect is expressed as a multiplier effect, that is, the sum of the direct, indirect and induced effects. Therefore, the total impact of workers' expenditures on the local economy as estimated by IMPLAN is larger than the initial expenditures. For example, an output multiplier of 1.5 indicates that for every million dollars spent (direct expenditure) an additional 0.5 million dollars is generated within the regional economy. Similarly, an employment multiplier of 1.6 indicates that

for each job created by direct expenditure, an additional 0.6 full time jobs are created or supported.

Leakages and the Regional Purchase Coefficient

The increases in economic activity resulting from the multiplier process become smaller with each round due to leakages from the spending stream. To be exact, spending on goods and services that are not produced within the local economy do not generate additional local spending. Therefore, the multiplier process traces the flows of spending and re-spending until the initial expenditures have completely leaked out to other regions. To properly estimate the effects at the regional level, an adjustment known as the regional purchase coefficient is implemented within the IMPLAN system. The regional purchase coefficient represents the proportion of the total supply of a good or service used to fulfill the demands of a region that is supplied by the region to itself. For example, a regional purchase coefficient of 0.7 for peaches, indicates that 70% of the demand by peach processors, peach wholesalers and retailers, foreign exports, and all other demands for peaches are met by local producers. Thus, 30% of the demand leaves the region to buy “imports”.

Margins and the Deflator

Two additional adjustments are necessary. First, since some expenses in the local economy involve purchaser prices (not producer prices), data need to be subdivided to work with the input-output model because all values are in producer prices. Specifically, all purchases by end users or consumers must be split into the portion going to the retailer, the wholesaler, transportation and the manufacturer. This is done by the IMPLAN system using ‘margins’. Margins are simply a mark-up the retailer applies to a product over and above the wholesale cost of the good the retailer had to pay to be able to sell it at the store. Thus, margins improve the impact assessment since it allows the model to be more specific as to the economic activity triggered by a retail purchase. Second, since inflation changes the value of a dollar over time, deflators must be used to adjust values from one time period to another. Therefore, to obtain an accurate impact analysis, expenditures need to be expressed in the same year’s dollars as the model’s data. The latest IMPLAN data for the City of Fresno are for the year 2003. For that reason, the numbers are adjusted to 2004 dollars, which is the year under analysis.

The Researcher

Antonio Avalos is Assistant Professor of Economics at California State University, Fresno since 2003. He earned his Ph.D. in Economics from Oklahoma State University with specialization in Economic Development and International Economics. His areas of expertise also include Regional Economics and Latin American Economic Development.

Professor Avalos has spent several years conducting research on workforce issues. In 1998, he was appointed Herman Kahn Fellow at the Hudson Institute in Indianapolis, Indiana working for the Center for Workforce Development. Professor Avalos assisted the Center in several applied research studies integrating economic development and workforce development at the local level. In 2002, Professor Avalos was selected by a panel of international economists as a visiting scholar at the Andean Corporation of Development in Caracas, Venezuela, where he conducted applied research in international trade, economic development and labor markets in Latin American economies.

Currently, Professor Avalos is investigating the dynamics of the regional economy identifying the forces shaping the Central Valley's economy. His work includes analyzing the changes in work, the workplace, compensation and occupations in recent decades and developing a scenario for the Central Valley regional economy's future.

