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Background on the Economists Selected by

the New York City Economic Development Corporation for Its Living Wage Study

Compiled by the National Employment Law Project and the Fiscal Policy Institute

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Overall Assessment

- The New York City Economic Development Corporation (EDC) has selected Charles River Associates, a Boston-based management consulting firm, and a team of affiliated economists to conduct a study of the possible economic impact of wage requirements on projects subsidized by the City. EDC is undertaking the study in response to growing interest in having the City extend "living wage" and "prevailing wage" standards to projects subsidized by the City. The senior economist leading EDC's living wage study is Dr. David Neumark of the University of California at Irvine. Another economist, Dr. Daniel Hamermesh of the University of Texas at Austin, will assist on the study.
- EDC's selection of a study team headed by such a controversial figure as David Neumark is surprising and troubling. The EDC could have chosen a balanced team of experts to give New Yorkers a rigorous assessment of living wage policies and credible information and analysis on which to develop better City economic development policies.
- Instead, it is spending $1 million in taxpayer funds to contract with a team of economists, the leading members of which have been consistent critics of minimum wage and/or living wage laws, and who are affiliated with a business-backed, anti-minimum wage lobbying organization, the Employment Policies Institute. This selection is all the more disturbing because the ambitious scope and scale of the EDC living wage study mean that it will have national implications.
- David Neumark advocated against even the modest increase in the federal minimum wage to $7.25 per hour that was approved by Congress in 2007. Over the course of his career, he has authored approximately twenty papers and studies criticizing the minimum wage, and seven criticizing living wage laws. Moreover, he intends to use a research methodology for the EDC wage study that has already been exposed by other researchers as flawed and unreliable.
- In light of the well documented anti-living wage bias of Neumark and Hamermesh, they are not appropriate consultants to conduct a credible and balanced study of the impact of living wage laws. If EDC goes forward with this research team, at a minimum the agency should (a) convene a more

balanced external review panel of economists to provide critical feedback on Neumark and Hamermesh's analysis during all phases of the project; (b) publicly release the draft reports that Neumark and Hamermesh will be producing at various stages of the project under its contract with EDC with sufficient lead time to allow for feedback by outside reviewers before the study advances to the next stage; and (c) publicly release all of the underlying data that is compiled by Neumark and Hamermesh at the time that they submit their final report.

Background on Wage Standards in New York City and the EDC Living Wage Study

- Wage standards have been used for many years in both New York and nationally to ensure that when taxpayer funds are invested to create jobs, the positions generated provide adequate wages and benefits. In 1996 and 2002, New York City enacted and then broadened a living wage law setting wage standards for more than 50,000 low-wage workers employed under various categories of contracts with city agencies. (See Appendix A for more background on these and other government wage standards.)
- In recent years, the city has begun to extend wage standards to some city-subsidized economic development projects on a project-by-project basis. For example, prevailing wage standards for building service workers – and in some cases for other workers – have been required on the redevelopment of the Greenpoint-Williamsburg waterfront, Coney Island and Willet's Point. On the other hand, in 2009 Mayor Bloomberg and the administration's chosen developer, The Related Companies, balked at community proposals to extend wage standards to workers at a retail complex proposed for the redevelopment of the Bronx's Kingsbridge Armory. The Mayor's refusal to ensure living wages led the city council to vote 45 to 1 against approving the project. Related balked at the deal despite having agreed to guarantee living wages at projects in Los Angeles and standing to benefit from millions in public subsidies, including $17.8 million from the New York City Industrial Development Agency alone.
- Other American cities, most notably Los Angeles and more recently Pittsburgh, have extended living wage and/or prevailing wage standards to many or all major subsidized development projects. The Los Angeles development agency, which is generally recognized as the national leader in this area, has found that these requirements have not prevented the city from attracting developers and moving forward with projects.
- This year, two companion bills have been introduced in the New York City Council aiming to move beyond project-by-project negotiations by extending wage standards to all large development projects that are subsidized by New York City. The first bill would guarantee prevailing wages for building service workers employed in projects built with city subsidies. The second bill would extend the city's modest $10.00 living wage to all other categories of low-wage workers employed at such projects.
- Mayor Bloomberg has steadfastly opposed these proposed extensions, arguing that the broadened wage requirements would prevent deals from going forward and slow job growth. The Mayor has generally opposed strengthening protections for low-wage workers – for example, he is the only mayor in America who has advocated to maintain the exclusion of home health care workers from coverage under the federal minimum wage. The Mayor took a similar position opposing the city's 2002 living wage expansion, before ultimately negotiating a deal to support the measure.
- It is against this backdrop that the New York City Economic Development Corporation has contracted with the Charles River Associates team led by David Neumark "to provide: (a) data on

the type, coverage and economic impact of wage requirements that have been introduced in jurisdictions around the U.S., and (b) an analysis of the potential economic impact of introducing similar wage requirements in the City."

David Neumark and Daniel Hamermesh's Ties to the Employment Policies Institute

- Illustrative of David Neumark and Daniel Hamermesh's biased position on the issues that EDC has hired them to study is the fact that both have ties to the Washington, D.C.-based Employment Policies Institute. As detailed in June 2010 by *The New York Times*, the Employment Policies Institute is a front organization created by the lobbyist Richard Berman and funded by low-wage employers to advocate against raising the minimum wage.[1] Since its founding in 1991, the Employment Policies Institute has focused on publishing studies and engaging in media advocacy opposing minimum wage and/or living wage increases. In recent years, it has also advocated against health care reform and paid sick days laws.[2]
- Berman is well-known for establishing industry-backed organizations to lobby against consumer, health and safety, and labor protections on behalf of industries such as the tobacco, liquor, and fast food lobbies. For example, Berman's groups lobby against cracking down on drunk-driving and against removing soft drink and candy machines from public schools.[3] Berman's groups are not legitimate think tanks and, as detailed by *The New York Times*, channel much or most of their revenue to Berman's personal consulting firm.[4] (For more background on the Employment Policies Institute, see Appendix B.)
- Hamermesh is a longtime member of the Employment Policies Institute's advisory board.[5] Neumark has published two of his anti-minimum wage articles with the Employment Policies Institute, and received funding from the Institute for another 2007 paper on the minimum wage. David MacPherson, another consultant for Charles River Associates, has published fifteen studies for the Employment Policies Institute. Taken together, these three CRA economists have authored 30 percent of the studies published by the Employment Policies Institute.

David Neumark's Record

- Beyond his Employment Policies Institute ties, Neumark is a controversial researcher who is widely known as a leading academic opponent of minimum wage and living wage policies. He therefore is not an appropriate candidate to evaluate the impact of living wage laws with an open mind.
- According to his Curriculum Vitae, Neumark has conducted twenty studies on the minimum wage and seven studies on living wages.[6] Unlike many other researchers, he has consistently argued against even modest increases in the minimum wage, charging that they cause job losses.[7]
- For example, in June 2009, Neumark published an op-ed in *The Wall Street Journal* in which he advocated against increasing the federal minimum wage to $7.25, an increase that had been approved in 2007 by Congress and President George W. Bush. He not only opposed that particular increase; he said, "I doubt there is ever a good time to raise the minimum wage." [8]
- Both Neumark's living wage research and his minimum wage research have been found to be seriously flawed. An examination of living wage studies that Neumark had co-authored with Scott Adams concluded that their findings were "neither methodologically sound nor statistically or substantively robust."[9] In attempting to gauge the impact of business-assistance living wage ordinances across the country, Neumark and Adams used a data set that was inappropriate for the

task and failed to correctly identify workers potentially covered by these laws. A critical replication of the Neumark/Adams study showed that the Neumark/Adams results did not hold up when the cities where living wage laws have been implemented for economic development assistance are identified in a more rigorous manner.[10]

- A follow-up study by Neumark and Adams was equally flawed, producing results suggesting that business-assistance living wage ordinances reduce employment among affected workers by an implausible 91 percent. University of California economists critiquing this finding concluded that the Neumark/Adams estimates are faulty and "do not provide a sound basis for policy."[11]
- These serious methodological errors in Neumark's past living wage research are especially troubling for the EDC study, since the CRA research team intends to utilize the same unreliable methodology that Neumark has used in his earlier living wage analyses. Having Hamermesh involved as a "peer reviewer" for Neumark's research is puzzling since, when it comes to the analysis of wage requirements like minimum wage or living wage, Hamermesh shares Neumark's policy position.
- More recently, Neumark's minimum wage research has been shown to be based on faulty methods which, when corrected, refute his conclusion that recent minimum wage increases have led to job losses. In a new study, University of California and University of Massachusetts economists examine the same datasets that Neumark uses in many of his wage analyses, but they incorporate controls for the critical state and regional economic differences that Neumark fails to address. They find that when accounting sufficiently for economic shocks and long-term growth differences across states, the negative employment effects claimed by Neumark disappear.[12]
- Similarly, *The British Journal of Industrial Relations* in 2009 published an extensive review of minimum-wage research. The authors found "little or no evidence of a negative association between minimum wages and employment." Referring to a 2007 minimum wage literature review co-authored by Neumark that surveyed many of the same studies, the authors criticize the discrepancy between Neumark's "subjective narrative review" and the actual findings of the studies he examined.[13]

Daniel Hamermesh's Record

- In addition to his Employment Policies Institute ties, Hamermesh is also on record as a strong critic of the minimum wage and therefore is not an appropriate candidate to evaluate the impact of living wage laws with an open mind. In 1995 and again in 1996, he opposed President Bill Clinton's proposal to raise the federal minimum wage from $4.25 to $5.15 and told *The San Francisco Chronicle*, ``As a conservative Democrat, I find it disturbing.''[14]
- In 2008, Hamermesh endorsed Neumark and William Wascher's book *Minimum Wages*, and supported their findings that the minimum wage hurts low-skilled workers. He wrote, "Neumark and Wascher demonstrate the overwhelming weight of careful U.S. evidence and other evidence showing the detrimental effects of minimum wages on low-skilled workers."[15]

Many Prominent Labor Economists Have Different Views

- Hamermesh and Neumark's opposition to minimum wage increases stands in sharp contrast to hundreds of other economists in the profession. In 2006, a group of 650 economists – including five Nobel laureates and six past presidents of the American Economics Association – released a letter disagreeing with Neumark and Hamermesh's position. The economists called for a minimum wage increase, finding that "a modest increase in the minimum wage would improve the well-being of low-wage workers and would not have the adverse effects that critics have claimed."[16]

- Over the past fifteen years, empirical economic research has found that increases in the minimum wage have not resulted in discernible job losses. For example, the President's Council of Economic Advisors found in 1999, "[T]he weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment."[17] As Nobel laureate Robert Solow of the Massachusetts Institute of Technology summarized, "The main thing about the research is that the evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."[18] Richard Freeman of Harvard University, regarded by many as the country's foremost labor economist, has similarly explained that "the debate is over whether modest minimum wage increases have 'no' employment effect, modest positive effects, or small negative effects. It is *not* about whether or not there are large negative effects" (emphasis in the original).[19]

The Appropriate Focus of a More Credible Study

- Instead, of what Neumark is proposing, city policymakers deserve the benefit of a rigorous study that looks at the actual costs – and benefits – of extending living wage standards to subsidized development projects. Such an analysis would include modeling the impact that living wage and prevailing wage requirements would have on affected workers and businesses at representative developments. On the cost side, such modeling would include factors such as: the scale of increased wage and/or benefits costs for typical "low road" tenants and service contractors (e.g., a low-wage retailer or a non-union janitorial company), taking into account offsetting savings from improved retention, customer service and productivity associated with better wages; costs or other factors associated with recruiting "high road" tenants and service contractors (e.g., a Costco or a unionized janitorial company), which is typically the way that developers comply with such requirements; the corresponding impact, if any, of either approach on developer profit margins; and the ways in which taxpayers end up subsidizing employers that pay very low wages through public assistance programs like Medicaid and food stamps for the workers. On the benefits side, such modeling would examine the impact of a retail worker receiving a living wage or a janitor receiving the prevailing wage on the well-being of an affected low-income New York family.

- EDC itself undertook a similar analysis in 2008 using actual cost-based modeling of the impact on representative projects of the city's Industrial and Commercial Incentives Program (ICIP).[20] The EDC analysis evaluated developer claims that the ICIP tax incentive program was necessary to incentivize businesses to proceed with development projects. This approach is far more rigorous and enlightening in assessing the actual impact of a proposed policy than is a subjective survey of what businesses or developers assert the impact of a proposed policy change would be. Building on EDC's well-received ICIP analysis, the wage study should incorporate this same approach.

Appendix A: Background on Government Wage Standards Nationally and in New York

Wage standards have been used for many years in both New York and nationally to promote decent wages and benefits – both across the labor market and, in particular, when taxpayer funds are used to subsidize businesses. President Franklin Roosevelt led Congress to enact the Fair Labor Standards Act, the national minimum wage law, in 1936. For jobs created under government contracts, President Herbert Hoover and Congress enacted the Davis Bacon Act in 1931 to ensure that federally- funded construction workers are paid at least the local prevailing industry wage. And in 1965, President Lyndon Johnson and Congress passed the Service Contract Act, which similarly guarantees prevailing wages for federally contracted service workers such as janitors, security guards and cafeteria workers.

New York, like many states, enacted its first minimum wage even before the federal government did. The state's prevailing wage law for construction contractors, New York Labor Law § 220, dates to 1921. And in 1971, following the passage of the federal Service Contract Act, New York enacted Labor Law § 230, which similarly establishes prevailing wage standards for building service workers contracted by state and local governments in New York.

New York City has for many years supplemented these federal and state standards with measures of its own. In 1961, under Mayor Robert Wagner, the city first enacted a local law establishing a minimum wage for employees of city contractors and subcontractors. In 1996, when cities across the United States began to enact "living wage" laws establishing more robust wage protections for employees at companies benefiting from city funds, the New York City Council and Mayor Rudy Giuliani enacted a local law extending prevailing wage requirements to several categories of low-wage employees – those in building services, food services and temporary services – employed under contracts with city agencies. The measure applied only to for-profit companies contracting to provide such services.

In 2002, the City Council passed and Mayor Bloomberg signed a measure that significantly broadened the 1996 wage law. First, the city living wage law was extended to cover new categories of contracted workers providing homecare services, day care services, Head Start services, and services to persons with cerebral palsy. Second, the expanded law supplemented the prevailing wage standard with a living wage floor that all covered workers were required to be paid.

The New York City living wage, which was $8.10 an hour when it was enacted in 2002, has been at $10.00 an hour since July 2006. The city's 2002 living wage law also calls for a health benefits supplement of $1.50 an hour in cases where an employer did not provide its employees health benefits.

Prevailing wage standards aim to ensure that publicly subsidized jobs do not undercut the wages that other private employers in the industry are currently paying. By contrast, the concept of a "living wage" is to ensure a wage level higher than the minimum wage and one that comes closer to enabling a worker to meet basic needs. The current federal and New York minimum wage is $7.25 per hour. Both would be more than $10.00 per hour if they had kept pace with inflation over the past forty years. The hourly equivalent of the federal poverty guidelines for a family of four is similarly more than $10.00 per hour.

Appendix B: Sources of Additional Information on the Employment Policies Institute

- http://www.nytimes.com/2010/06/18/us/politics/18berman.html?_r=2
- http://www.usatoday.com/money/companies/2006-07-31-lobbyist-usat_x.htm
- http://www.sourcewatch.org/index.php?title=Employment_Policies_Institute#cite_note-2

[1] Stephanie Strom, “Nonprofit Advocate Carves Out a For-Profit Niche,” *The New York Times*, June 17, 2010, http://www.nytimes.com/2010/06/18/us/politics/18berman.html?_r=2.

[2] Full list of Employment Policy Institute studies: http://epionline.org/study_list.cfm.

[3] “Nonprofit Advocate Carves Out a For-Profit Niche.” *See also* Jane O’Donnell, “Got a nasty fight? Here’s your man,” *USA Today*, July 31, 2006, http://www.usatoday.com/money/companies/2006-07-31-lobbyist-usat_x.htm; *Wikipedia*, “Richard Berman,” http://en.wikipedia.org/wiki/Richard_Berman.

[4] “Nonprofit Advocate Carves Out a For-Profit Niche.”

[5] http://epionline.org/RFP071.cfm?CFID=594857&CFTOKEN=42061000.

[6] David Neumark curriculm vitae available at http://www.socsci.uci.edu/~dneumark/cv_107.pdf.

[7] While his 2002 study “How Living Wage Laws Affect Low-Wage Workers and Low-Income Families” showed the living wage did lead to wage increases for a high proportion of low-wage workers, this finding was coupled with his conclusion that living wage laws reduce employment. Additionally, the methodology used in this study has been debunked by economists at the University of Massachusetts: http://www.peri.umass.edu/236/hash/8e2bab4488/publication/55/.

[8] David Neumark, “Delay the Minimum Wage Hike,” The Wall Street Journal, June 12, 2009, http://online.wsj.com/article/SB124476823767508619.html.

[9] Mark Brenner, Jeannette Wicks-Lim and Robert Pollin, “Detecting the Effects of Living Wage Laws: A Comment on Neumark and Adams,” in *A Measure of Fairness: The Economics of Living Wages and Minimum Wages in the United States*, Cornell University Press (2008).

[10] Ibid.

[11] David Fairris and Michael Reich, “The Impacts of Living Wage Policies: Introduction to the Special Issue,” Industrial Relations 44 (1): 1-13 (2005).

[12] Sylvia Allegretto, Arindrajit Dube and Michael Reich, “Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data,” Working Paper Series, Institute for Research on Labor and Employment, University of California-Berkeley, June 21, 2010 revision, http://www.irle.berkeley.edu/workingpapers/166-08.pdf.

[13] Hristos Doucouliagos and T. D. Stanley, “Publication Selection Bias in Minimum-Wage Research? A Meta Regression Analysis,” British Journal of Industrial Relations, Vol. 47: 406-428 (June 2009).

[14] Jonathan Marshall, “Minimum Wage Increase Finds More Support,” *San Francisco Chronicle,* January 25, 1995.

[15] Endorsement available at http://mitpress.mit.edu/catalog/item/default.asp?ttype=2&tid=11659.

[16]Available at http://www.epi.org/publications/entry/minwagestmt2006/.

[17] Economic Report of the President, U.S. Gov’t Printing Office, 1999, p. 112.

[18] Quoted in Louis Uchitelle, “A Pay Raise’s Impact,” *New York Times*, Jan. 12, 1995, p. D1.

[19] Richard Freeman, “Review: Comments by Reviewers,” Industrial and Labor Relations Review 48 (4): 828-849 (1995).

[20] New York City Economic Development Corporation, "The New York City Real Property Tax Industrial and Commercial Incentive Program (ICIP): Description and Analysis," Sept. 16, 2008, http://www.taxadmin.org/fta/meet/08rev_est/papers/brindisi2.pdf.