



TESTIMONY
OF
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NATIONAL EMPLOYMENT LAW PROJECT

ON
THE PITTSBURGH SERVICE WORKER PREVAILING WAGE ORDINANCE

BEFORE THE
PITTSBURGH CITY COUNCIL

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Thank you for the opportunity to testify today before the city council. My name is Paul Sonn. I am legal co-director of the National Employment Law Project (NELP). NELP is a policy and advocacy organization that works with government leaders to address the problems of the U.S. labor market in the 21st century economy. In particular, we have worked with cities across the country on strategies for ensuring that economic development delivers quality jobs for local communities.

In this written testimony, I will provide a summary in bullet format of the experiences of cities across the country with these types of policies in recent years.

The Trend Towards “Good Jobs” Standards for City Economic Development Programs

- Over the past fifteen years, there has been a growing national movement by cities to adopt “good jobs” standards for their economic development programs. Their goal has been to ensure that when cities invest taxpayer funds, they do not promote poverty and instead create the good jobs that communities need.
- Different cities have taken different approaches in pursuing this goal. Many began initially by encouraging developers and community groups to negotiate good jobs standards on a project-by-project basis. Cities such as Los Angeles, San Jose, Seattle, New Haven and New York have used such agreements, sometimes called “community benefits agreements,” successfully in recent years.¹ A representative example is New York City’s plan to rezone and redevelop a broad swath of the city’s waterfront in Greenpoint and Williamsburg, Brooklyn. The project included an agreement by the developers to guarantee that building service workers employed in the new development would be paid at least the prevailing wage for such jobs.
- More recently, cities have begun to institutionalize such standards so that they apply to all development projects, eliminating the need for project-by-project negotiations and setting clear expectations for all stakeholders. New York and Philadelphia have recently done this with prevailing wage standards for service workers under some of their economic development programs. Los Angeles, Minneapolis and other cities have done the same using a living wage approach.
- These examples highlight that cities have also used a range of approaches in setting their good jobs standards. Many have used a “living wage” standard, aimed at raising pay in service jobs up to a level that better meets the needs of low-wage workers. Others, however, have taken the approach that Pittsburgh is now considering of using a prevailing wage standard. Prevailing wages are set based on what the majority of other employers in the same industry already pay in that community. They are therefore based on current industry standards and ensure that employers on publicly subsidized projects emulate the better employers in their field, rather than race to the bottom.

New Standards Have Not Slowed Development or Led to Job Losses

- The experiences of cities with these sorts of good jobs standards – including cities that have used wage standards that push farther than Pittsburgh is considering – has been that they have not slowed economic development or led to job losses.
- A good example is New York City, which extended prevailing wage requirements to one of its largest economic development subsidy programs in 2007 – the “421-a” program, which provides subsidies for new apartment, coop and condo construction in the city.² The prevailing wage standard and accompanying affordable housing requirements for new 421-a program subsidies took effect on January 1, 2008. This was just as New York’s real estate market began slowing, and was amid predictions by developers that the new rules would halt all new housing development. However, contrary to predictions, during the period between January 1, 2008 and September 1, 2009, new developments representing a total of 9,631 housing units applied for the subsidies. As of September 2009, more than 3,700 have been approved, and new buildings where service workers are paid prevailing wages have begun to open.
- Other illustrations are found in San Francisco, California and Santa Fe, New Mexico, which in 2003 adopted city minimum wages that were substantially higher than their state minimum wages. Critics in both cities predicted that the new policies would stall business growth, especially in low-wage industries like retail, and lead employers to shift development outside of the two cities. However, careful analyses of job and business trends by University of California and University of New Mexico researchers found no evidence of job losses, and major retailers continued to open new stores in both cities.³ The fact that these substantially broader policies have not harmed business growth is useful in assessing the likely impact of the more moderate proposal under consideration in Pittsburgh.
- Similarly, a 2001 survey of economic development officials from ten cities that had adopted wage standards for their economic development programs reported only one instance in which they felt that the standards had limited their ability to attract a desired employer. Some local officials reported that wage standards in fact increased public support for their economic development programs by assuring taxpayers that public funds would be spent to attract only good jobs.⁴
- Finally, a new sophisticated study by University of California economists compared employment levels and perceptions of “business climate” in cities that have adopted wage standards for economic development programs with those that have not. The study found no evidence that such policies have led to job losses, slowed business growth or otherwise harmed perceptions of the business climate in cities that have adopted them.⁵

Benefits for Local Working Families

- Cities generally have two goals in asking developers that receive taxpayer-funded subsidies to create good jobs in return. The first, of course, is to help local working families who are struggling to get by. The second is to protect high-road employers that are creating good jobs from being unfairly undercut by those that pay very low wages.
- The current recession has made improving wages for low-income service workers more important than ever. Job losses have been much higher in high-wage occupations like manufacturing and construction. As a result, more and more families are now depending on low-wage jobs in fields like building services, retail and hospitality to make ends meet.⁶
- Requiring publicly-subsidized jobs in these industries to pay prevailing wages helps families pay the rent and put food on the table. For example, a janitor, hotel housekeeper, or grocery clerk working for a low-road employer may earn as little as \$8.00 per hour, or just \$16,640 a year. By contrast, the prevailing wage rates paid by the majority of employers in these occupations in Allegheny County is reported to be closer to \$13.00 per hour for janitors, \$12.00 for housekeepers and \$10.00 for grocery workers. This translates to between \$20,000 and \$27,000 per year. That substantial boost in income can make all the difference in whether or not working families are able to make their rent payments, put food on the table, and get healthcare when their kids need it.

Benefits for Local Economies

- Ensuring decent wages for a city's low-wage service workforce is also one of the most effective ways to stimulate the local economy, since low-income families spend their wages on rent, food, gas, and other necessities at local businesses.
- Economists at the Federal Reserve Bank of Chicago have shown that wage increases for low-income families boost consumer spending substantially more than tax cuts do. They found that every \$1 increase in wages results in nearly \$3,500 in new spending at local businesses over the course of a year.⁷
- The scale of this new spending across a city's economy can be significant. For example, the 2004 increase in San Francisco's minimum wage is estimated to have boosted spending in low-income communities by as much as \$70 to \$90 million annually.⁸ That policy was far broader than what Pittsburgh is considering, and so its stimulative effect was proportionately greater. But the experience illustrates the important role that boosting the spending power of low-income families plays in supporting local businesses.

To summarize, extending wage standards to municipal economic development programs, as Pittsburgh is now considering, offers cities an important tool for promoting good jobs and boosting consumer spending to stimulate the local economy. And cities that have adopted these or related standards have found that they have not slowed business growth or led to job losses.

Thank you for the opportunity to speak with you today. I would be delighted to answer questions that members of the council may have.

¹ Partnership for Working Families, Community Benefits Agreements (CBAs), available at <http://communitybenefits.org/article.php?list=type&type=155>.

² Jillian Jonas, Redrawing the 421-a Formula for Tax Breaks and Housing: Developers will still get tax breaks for building housing in NYC, but with more strings attached, City Limits (June 25, 2007), available at http://www.citylimits.org/content/articles/viewarticle.cfm?article_id=3359.

³ Arindrajit Dube, Ethan Kaplan, Michael Reich and Felix Su, Do Businesses Flee Citywide Minimum Wages: Evidence from San Francisco and Santa Fe, (Univ. of Calif.-Berkeley Institute of Industrial Relations, Sept. 2006), available at http://www.irl.berkeley.edu/research/minimumwage/minwage_sfandsantafe.pdf.

⁴ Andrew J. Elmore, Living Wage Laws & Communities: Smarter Economic Development, Lower Than Expected Costs (Brennan Center for Justice at New York University School of Law, Nov. 2003), available at http://nelp.3cdn.net/4fdbdbf70be73ca80f_6tm6b5suw.pdf.

⁵ T. William Lester, The Impact of Living Wage Laws on Urban Economic Development Patterns and the Local Business Climate: Evidence from California Cities (Univ. of Calif.-Berkeley, Working Paper Series, Institute for Research on Labor and Employment, Sept. 10, 2009), available at <http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1190&context=iir>.

⁶ Tsedeye Gebreselassie and Paul Sonn, Women and the Minimum Wage: The increase in the federal minimum wage helps women -- but not nearly enough, The American Prospect (online edition) (July 24, 2009), available at http://www.prospect.org/cs/articles?article=women_and_the_minimum_wage.

⁷ Daniel Aaronson, Sumit Agarwal, and Eric French, The Consumption Response to Minimum Wage Increases (Federal Reserve Bank of Chicago, Working Paper 2007-23, May 29, 2008); Kai Filion, A Stealthy Stimulus: How boosting the minimum wage is helping support the economy (Economic Policy Institute, Issue Brief #255, May 28, 2009), available at http://www.epi.org/page/-/IssueBrief255_Final.pdf.

⁸ Paul Sonn, Citywide Minimum Wage Laws: A New Policy Tool for Local Governments (Brennan Center for Justice at New York University School of Law, May 2006), p.5, available at http://www.nelp.org/index.php/site/issues/category/citywide_minimum_wage/.