

## An Assessment of Methods and Findings of the New York City Economic Development Corporation's Living Wage Study

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### 1. Overview

In this research brief, we provide an initial assessment of the executive summary of the New York City Economic Development Corporation (EDC)'s living wage study, *The Economic Impact on New York City of Proposed Living Wage Mandate: Key Findings*, released May 9, 2011 (hereafter "the EDC "study summary"). The study is being conducted for EDC by Charles River Associates and a staff of consultant economists.

We emphasize that the executive summary provided by EDC omits many details about the methodology and data used and the basis for its conclusions, making a definitive assessment impossible at this time. However, even the limited explanation presented in the executive summary reveals a series of fundamental errors in methodology and analysis.

In our assessment, these errors render the study fundamentally flawed. The assessment of real estate market impacts is based on a mischaracterization of the proposed law, and focuses on a subsidy program, the Industrial and Commercial Abatement Program (ICAP), that the proposed law does not in fact cover. The assessment of labor market impacts is based on a methodology developed by Dr. David Neumark that has been demonstrated to be unreliable for evaluating the impact of living wages laws. Since these two sections constitute the bulk of the EDC study, our current assessment, based on the executive summary, is that the study is an inaccurate and unreliable guide for policymakers.

We elaborate on each of these points below.

## 2. Errors in the Real Estate Market Impact Analysis

The “Real Estate Market” section of the executive summary attempts to project the effect of a New York City living wage policy on decisions by developers or other businesses to go forward with new projects.

However, several serious flaws in the methods used and in the analysis are evident.

First and most important, the analysis erroneously focuses on New York’s ICAP as-of-right tax abatement program under which many small projects in the outer boroughs receive subsidies. However, this subsidy program would not be covered by the proposed law. While the current draft of the bill would cover the very limited number of as-of-right subsidies that the state legislature has authorized New York City to regulate, the legislature has not authorized the City to regulate ICAP. Neither the City Council Counsel nor the New York City Corporation Counsel has ever taken the position that the legislature has authorized the City to do so.

As a result of this significant mischaracterization, the modeling in the EDC study focuses on development projects that will not be covered by the proposed law – and that differ significantly from projects that will be covered. Instead, the EDC study should have focused on the large mixed-use development projects like Yankee Stadium, the Bronx Gateway Mall, Willets Point, Hudson Yards and Coney Island that receive the lion’s share of the City’s discretionary subsidies and that constitute the core coverage of the proposed living wage policy.<sup>1</sup> This critical misconception renders the study’s job loss simulations inaccurate. This is because while the City’s other subsidy programs do not affect enough jobs and worksites to amount to an appreciable share of the city’s labor market, the broad ICAP program almost certainly does. To illustrate, while the EDC reported approximately 516 IDA/EDC projects for fiscal year 2010, there are approximately 6,918 ICAP/ICIP exempt properties across New York City.<sup>2</sup>

Second, the real estate impact models are based on the assumption, from the outset, that subsidized development projects will not go forward without those subsidies – an assumption that in effect pre-determines the finding that a wage mandate would substantially alter developers’ cost/benefit analysis. However, David Neumark’s own research (of California’s enterprise zone program) has found that economic development subsidies “have no statistically significant effect on either employment levels or employment growth rates.”<sup>3</sup> That finding is consistent with conventional industry wisdom that developers and businesses typically make expansion decisions based on other factors and then, once they have decided to move forward, investigate what subsidies they may be eligible for. As Mayor Bloomberg himself has opined, “any company that makes a decision as to where they are going to be based on the tax rate is a company that won’t be around very long.”<sup>4</sup>

Third, because of the assumptions of the study’s real estate impact model and its failure to focus on discretionary subsidy programs, the study fails to test for the possibility that a living wage policy would function as a tool to help the City target development resources to different types of development projects, namely those that include “high road” tenants paying a living wage. Experience from Los Angeles suggests that this is frequently how business assistance living wage policies function: to steer subsidy dollars towards projects that include businesses like Costco, Trader Joe’s or unionized hotel chains that already pay a living wage.

Fourth and most surprisingly, the study failed to examine the most important evidence of how wage standards affect development projects: the actual experiences of cities like Los Angeles, San Francisco and

New York in extending wage standards to major projects. (While New York does not currently have a living wage policy for economic development, it has, on a project-by-project basis, extended wages standards to various categories of workers on a range of development projects since 2005.) EDC and its researchers should have conducted an in-depth series of interviews with the developers, employers and city agencies affected by those cities' policies, as they were urged to do at the start of the study. These case studies were repeatedly recommended to EDC's researchers as especially appropriate for close examination. The EDC study team's failure to examine these and other projects that have actually been the subject of wage standards is a glaring omission.

Finally, we should flag that even in the executive summary, there is evidence of careless use of data that alone should make policymakers question the study. For example, the real estate impact analysis makes unsupported and implausible statements about the costs of monitoring and compliance, asserting that those costs are substantial, and that they exceed the value of any financial assistance that would be offered. Similarly, the impact analysis depends on a tremendous over-statement of retail employment in the outer boroughs at 560,000; but according to the NYS Labor Department, total retail employment in New York City is a little over 300,000, with only about 160,000 in the four boroughs outside of Manhattan.

### 3. Errors in the Labor Market Impact Analysis

The "Labor Market Impacts" section of the executive summary attempts to project the effect of a New York City living wage policy on employment at covered economic development projects.

However, for this portion of the study, the researchers used a methodology drawn from Dr. Neumark's past research that has been shown to be unreliable.

Specifically, the study attempts to glean from regional employment data<sup>5</sup> the impact that business assistance living wage laws in other major U.S. cities have had on employment levels in those cities, using a methodology for assessing employment effects developed by David Neumark and Scott Adams in a 2003 study.<sup>6</sup> Claiming that such analysis shows reduced employment levels in other cities, the report then simulates a corresponding reduction in employment under the New York City proposal.

However, Dr. Neumark's methodology is fundamentally flawed. Built into it is the unsupported and inaccurate assumption that nearly all low-wage workers – typically 80 percent or more – in the U.S. cities with business assistance living wages that he studies are potentially covered under the wage laws. Why does he assume this? As he explains in his 2003 study, "For workers in cities where businesses receiving financial assistance from the city are covered, virtually any nongovernment worker potentially may work for a company that is subject to the legislation. Therefore, we characterize all private-sector workers as being potentially covered."<sup>7</sup>

However, in cities that have adopted and implemented business assistance living wage laws, typically only a very small number of projects and businesses have been covered. Consider, for example, the case of Los Angeles. Dr. Neumark's 2003 study assumed that in Los Angeles, 90 percent of low-wage workers would be covered by that city's living wage law. However, a careful study of how many businesses were actually covered by the living wage law after it passed, combined with telephone interviews with city officials in charge of implementing the ordinance, established that less than one percent of the Los Angeles' low-wage workforce had actually been covered by the law.<sup>8</sup>

What this means is that Dr. Neumark’s methodology essentially looks for living wage effects among workers *who were almost entirely not covered by the provisions of the law*. As a result, his model detects other trends that are occurring in municipal and regional labor markets and wrongly attributes them to living wage policies. In reality, when an accurate definition of living wage policy coverage is used and applied across all cities with living wage laws, including Los Angeles, researchers find that there is *no* statistically meaningful effect on overall employment in these cities.<sup>9</sup>

Other economists who have studied living wage law impacts in Boston, Los Angeles and San Francisco have used a better methodology. Specifically, they directly surveyed affected employers and workers and compared this affected group with a control group of those who were not affected by the measures. The studies using this alternative methodology have not found any negative overall employment effects from living wage policies.<sup>10</sup>

Finally, the most recent study of the impact of business assistance living wage laws, published in 2010, used a more detailed dataset and similarly found no evidence of any negative employment impacts.<sup>11</sup> This most analysis provides a further strong refutation of the job losses that have been estimated in the EDC study summary.

In short, because the EDC study uses the same inappropriate methodology as Dr. Neumark’s previous research, it is not capable of detecting what impact, if any, business assistance living wage laws have had in other cities – and by extension, are likely to have in New York City.

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To summarize, the assessment of real estate market impacts in the EDC study summary focuses entirely on a subsidy program, ICAP, that the proposed law does not in fact cover and that operates very differently from business subsidy programs that are covered. The assessment of labor market impacts is based entirely on a methodology that has been shown to be fundamentally flawed. As a result, the purported findings regarding potential job losses are unsupported by defensible empirical foundations. Taken together, it is our current assessment that these basic errors render the study invalid, and therefore unreliable as a guide for policymakers in assessing the merits of the proposed living wage law.

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<sup>1</sup> For background on the problem of large development projects creating low-wage jobs in New York, see Fiscal Policy Institute, Good Jobs New York and National Employment Law Project. “An Overview of Job Quality and Discretionary Economic Development Subsidies in New York City (Feb. 2011), <http://www.nelp.org/page/-/SubsidizedEmployersCreateLowWageJobsReport2011.pdf?nocdn=1>

<sup>2</sup> Sources: N.Y.C. Local Law 48 Report for FY2010; N.Y.C. Dep’t of Finance website of exempt properties.

<sup>3</sup> Jed Kolko and David Neumark, “Do California’s Enterprise Zones Create Jobs?” Public Policy Institute of Calif. (2009), [http://www.ppic.org/content/pubs/report/R\\_609JKR.pdf](http://www.ppic.org/content/pubs/report/R_609JKR.pdf).

<sup>4</sup> “The Big City; An Outsider Comes Inside To Run Things.” N.Y. Times (Nov. 8, 2001).

<sup>5</sup> The U.S. Census Bureau’s Current Population Survey (CPS).

<sup>6</sup> EDC study, Table 3, citing David Neumark and Scott Adams (2003). This is, presumably, referring to their paper, “Do Living Wage Ordinances Reduce Urban Poverty.” *Journal of Human Resources*, Vol. 38 (3), pp. 490-521 (2003).

<sup>7</sup> Neumark and Adams (2003), p.508.

<sup>8</sup> David Fairris, David Runsten, Carolina Briones, and Jessica Goodheart. “Examining the Evidence: The Impact of the Los Angeles Living Wage Ordinance on Workers and Businesses.” Los Angeles Alliance for a New Economy (2005); and, 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).

<sup>9</sup> 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).

<sup>10</sup> See the studies by Brenner, Fairris and Reich et al. in *Industrial Relations*, January 2005, “Special Issue: the Impacts of Living Wage Policies.” This issue also contains a paper by Adams and Neumark that finds quite different results from the 2003 model used in the report.

<sup>11</sup> William Lester & Ken Jacobs. “Creating Good Jobs in Our Communities: How Higher Wage Standards Affect Economic Development and Employment.” Center for American Progress (2010), [http://www.americanprogress.org/issues/2010/11/living\\_wage\\_cap.html](http://www.americanprogress.org/issues/2010/11/living_wage_cap.html).