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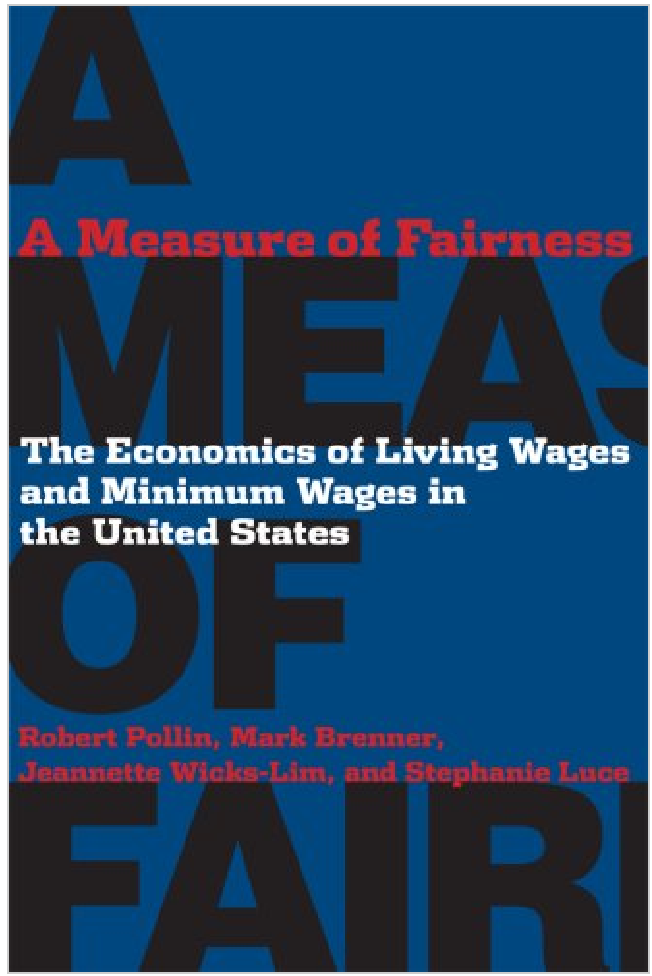
A discussion worth “waging”

A Measure of Fairness: The Economics of Living Wages and Minimum Wages in the United States. By Robert Pollin, Mark Brenner, Jeannette Wicks-Lim and Stephanie Luce, Cornell University Press, Ithaca, NY, 2008, 292 pp., $76.95/hardback; $26.50/paperback.



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Many people will read *A Measure of Fairness* and recall the fast-food worker strikes that took place in the summer of 2013. In several major cities, workers walked out of fast-food restaurants to begin striking for an hourly compensation rate of $15—what they believed to be a living wage. But $15 in Detroit is not the same as $15 in New York City or Los Angeles; likewise, cities in different regions are subject to unique price and wage pressures that can subtly or drastically shift the living-wage discussion. To some, this basic fact may call into question the very notion of a “living wage” in the absence of a concrete definition; for others, it is less of an issue. It would seem that the latter group is the intended audience of the book.

Given the number of pages and subject matter, “ambitious” may be the best word to describe the volume. Robert Pollin and his colleagues do their best to make the case that paying workers living wages is not only feasible, but necessary and beneficial to the vast majority of people. According to Pollin, no fewer than 140 different municipalities enacted living-wage ordinances between 1994 (when the movement began in Baltimore) and 2007. An impressive number for sure, but it raises the issue of why other municipalities haven’t enacted similar ordinances. Certainly, part of the issue is definitional. Borrowing from Lawrence Glickman, a professor of history at the University of South Carolina, Pollin essentially defines a living wage as “that which offers workers the ability to support families to maintain self-respect and to have both the means and leisure to participate in the civic life of the nation." Indeed, this is both a fine definition and an admirable societal goal, but it also may come across as unfocused and slightly vague; as a result, it seems less likely to influence policy.

A Measure of Fairness is divided into five parts: an introduction, three parts focusing on case studies around the country, and a final part in which results are analyzed and conclusions drawn. Early on, Pollin cites the downward trend in the real value of the minimum wage since 1968, and this trend appears to be an underlying theme for the rest of the book. Although few would refute such a statement, it is hard to understand why he would suggest that it was responsible for (in his own words) "a major transformation of U.S. society" without providing evidence of the "transformation," or at least an economic analysis of the underlying demographic factors that could explain it. Essentially, chapter 2 of part 1 sets a pattern for much of the rest of the book: the authors do an excellent job of citing and presenting statistical data, but their supporting analysis falls short.

Part II focuses on the important work done by the authors to enact living-wage laws in Santa Fe, New Mexico, and New Orleans, Louisiana. Along with Mark Brenner and Stephanie Luce, Pollin claims that increasing wages in those cities would account for only a small percentage of the covered firms' operating costs. Although their results may speak to the feasibility of implementing, and the benefit to workers of offering, living wages, they do not say much regarding the extent to which doing so is sustainable. For example, they list three possible ways for employers to finance the costs of providing a living wage: establish higher prices for their goods and services, get higher productivity out of their workers, and lower their profit shares. Many would agree that the third is the least likely of the three—why would owners take less profit?—while the first two are more intertwined than the authors appear to acknowledge. The authors focus on the restaurant industry in both cities. Interestingly, although estimates vary between fast-food and more leisurely dining establishments, research shows that demand for food prepared away from home is highly elastic. This high elasticity of demand suggests that cost increases are unlikely to be passed on to consumers via higher prices. So, can restaurants (a notoriously shaky industry to begin with) raise prices without a corresponding decline in demand and therefore revenue? Per this reviewer, the short answer is that they can't. However, the late Gary Becker argued in 1991 that demand for restaurant seating and Broadway shows can be highly influenced by social forces that, if sufficiently strong, could influence demand as well as price (and therefore elasticity). In other words, if a restaurant is sufficiently "in" or "hip," or if its patrons are, say, sufficiently sympathetic to the plight of low-wage workers, then they may be willing to pay higher prices. The authors, in a way, echo this idea via anecdotal evidence with regard to ethical consumers in Santa Fe. They also mention a 1999 survey conducted by Harvard University which found that, on average, U.S. consumers were willing to pay significantly more for items made under "good working conditions." This is all fine and well; however, in this reviewer's opinion, economics is concerned, not particularly with what people *say* they will do, but with what they *actually* do. The most efficient way to judge a person's willingness to pay is by the price that is actually paid. Absent empirical data capable of reconciling consumer sentiment with behavior, a healthy level of skepticism may be required with regard to some of the claims advanced in this section.

Part III is a case study of low-wage workers in places in the West, such as Santa Monica, California, and Arizona. As one might expect, the workers studied are overwhelmingly non-White (primarily Hispanic), have low career trajectories, are typically over 30 years of age, and tend not to work full time (about 85 percent of a full year's hours); further, they are largely from families with a low number of wage earners. Curiously, the average income for these families exceeds the federally defined poverty threshold in places like Santa Monica and Los Angeles, but is still below what Pollin defines as the basic-needs threshold, largely because they lack proper health insurance coverage.

Part IV examines the results of living-wage policies enacted in cities such as Boston and Hartford, where living-wage ordinances covered workers whose employers received municipal contracts. In this part, the authors proudly announce that, following the passage of those ordinances, the dollar value of bids for city contracts increased rather than decreased. Indeed, this information is surprising. However, the authors have trouble with relevant followup questions, especially the particularly relevant one, “Did the living-wage ordinance actually *improve* life for the workers in question?” In short, the evidence here is murky: the proportion of families in Boston who benefited from the living-wage ordinance and who lived in poverty declined, but the proportion of families with incomes below Pollin’s basic-needs definition did not change, partly because the authors do not define a basic-needs threshold for a household with more than two adults. But the absence of such a definition also raises a question: if the living-wage measure is assumed to be superior to the poverty level as an indicator of household well-being, but if it is well known that many more poor households than wealthy households are made up of multiple adults and children under one roof, is the living-wage definition useful if it cannot be applied universally to fit every situation?

The work presented in Part V is geared toward the more technically adept reader. For example, in Chapter 11, Jeanette Wicks-Lim estimates wage elasticities to demonstrate that, for a 10-percent wage increase, workers earning the minimum wage will receive a net benefit of only 4.4 percent. Further, she reports that increases in the minimum wage tend to benefit most those earning *exactly* the minimum wage whereas those earning slightly above or below it benefit less. In other words—to dispel an oft-cited analogy—a rising tide does *not* lift all economic boats equally. From a public policy standpoint, however, such a result does very little to dispel the idea that raising the minimum wage by a certain percentage will fail to achieve a corresponding benefit for all workers. In another section of Part V, however, Pollin, Brenner, and Wicks-Lim provide statistical evidence that employment growth is greater in states with minimum wages that exceed the federal threshold. This state of affairs is especially true of the retail and restaurant industries in which there is a positive, significant link between the proportion of employees receiving a minimum-wage increase and employment growth.

The minimum wage is one of the most widely studied subjects in all of economics, and *A Measure of Fairness* fits in nicely with the work of David Card, Alan Krueger, and others on the topic. Though not as rigorous as some of those books, *Fairness* is more accessible to the layperson. As a result, it should be considered an essential reference for those interested primarily in the normative aspects of the living-wage–minimum-wage debate (e.g., labor organizers and sociologists). For the card-carrying economist, however, the book is not as diverting, because it provides very little statistical information not already presented elsewhere.