

SYRACUSE UNIVERSITY
MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS

PPA 723

Managerial Economics for Public Administrators

Case #1

A LIVING WAGE FOR SYRACUSE

A growing number of cities in the United States have passed living wage legislation in recent years. These laws require that affected workers be paid a minimum wage that is higher than required by federal minimum wage laws. In 2007, the U.S. minimum wage reached \$7.25 per hour. Typical minimum wages mandated by living wage laws range from \$8 - \$10 per hour. In some cities, nearly all workers are affected. In others, only workers employed by the government, or by companies doing business with the government, are covered by the living wage requirement.

Recently, the city of Syracuse considered a living wage law. The law would only apply to employees of the city, employees of contractors that do more than \$20,000 worth of work for the city, or employees of companies that receive more than \$20,000 in economic development aid from the city. The living wage legislation would define any workers meeting these characteristics as “eligible workers”, and require that they be paid at least \$10.96 per hour.

In preparation for debate on the living wage legislation, you have been asked by a member Syracuse Common Council to prepare a two-page memo summarizing the potential impact of the legislation. The representative has asked you to provide estimates of the following: how employment levels will change in response to the policy and how workers’ incomes will be changed by this policy. Your analysis should consider not only the effect of the legislation on those directly covered by the living wage, but also how (if at all) other labor market participants will be affected. The councilor wants to be prepared to respond in the debate to concerns raised by the business community about the impact of this policy on the labor market for non-eligible workers. She also wants to be prepared to ask and respond to questions about which groups within her constituency will be harmed or helped by the proposed policy.

To aid your analysis, you have been provided with the following information (some real, some hypothetical). Please note that some of the information provided may be irrelevant. You may assume that a typical full-time worker works 40 hours per week, and works 50 weeks per year.

Population	140,658
Number of workers	75,955
Percentage of workers covered by living wage law ¹	15%
Median household income	\$26,464

¹ Note: this percentage includes *all* workers whose jobs make them eligible workers under the living wage law. This includes workers in jobs such as those described above who currently earn more than the proposed living wage.

<i>Percentage of all workers earning:²</i>	
\$7.25	7%
\$7.75	1%
\$8.25	2%
\$8.75	3%
\$9.25	4%
\$9.75	3%
\$10.25	3%
\$10.75	2%
over \$11	75%

In addition to the above demographic data, your research has uncovered the following economic parameters. Estimates of the elasticity of labor demand with respect to wages for low-wage workers are -0.1 in the short run and -0.3 in the long run. To interpret these elasticities, think of the wage levels per hour as the price of labor, workers as suppliers of labor, and employers as demanders of labor. Furthermore, your research staff estimates that, *when possible*, 35% of workers laid-off off *in each wage group* will find employment with non affected employers looking for the same type of labor within city limits, and an additional 15% will be hired by non-affected employers in the surrounding suburbs. (*Hint: for one group of wage-earners, finding similar positions will not be possible due to the federal minimum wage policy.*)

Based on this information, you have been asked to address the following questions in your memo:

- 1) How many workers in each wage group will lose jobs as a result of the living wage legislation?
- 2) Of these, how many remain unemployed, and how many obtain jobs elsewhere?
- 3) How, if at all, will the re-hiring of these workers affect the wages of workers not covered by the living wage law? If wages will change, please calculate the amount by which they will change. As the council member is concerned about workers under her jurisdiction, you only need to calculate this for other workers within the city limits.

Finally, the council member would like to know if certain groups will be affected more than others. In addition to considering how different wage groups might be affected, you have been provided with the following data:

<i>Demographics of affected workers</i>	% in affected wage group	% in overall labor pool
% between 16-19 years old	15%	5%
% living in households below poverty line	33%	23%
% female	58%	48%

The council member would like your recommendation for how to vote on the proposed living wage. Be certain to indicate the extent to which your recommendation is based on your analysis and the extent to which it is based on your personal value judgments.

As the contents of your memo will be used to prepare the council member for debate, it is important that this information be presented in a *direct, non-technical manner* that is accessible to non-economists. As such, the council member has asked that you limit your analysis to two pages and to avoid the use of economic jargon.

² You may assume that the distribution of wages is the same in affected and unaffected jobs.