



## “Living Wage” Law Is Public Policy at Its Worst

by Lawrence W. Reed

### Summary

Detroit’s adoption of a “living wage” ordinance last November will inevitably price some people out of their jobs and make the city’s economic comeback all the more difficult.

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On November 3, 1998, Detroit voters overwhelmingly approved a so-called “living wage” ordinance. As of January 1, 1999, it requires employers with at least \$50,000 worth of city contracts or financial assistance to offer workers a minimum hourly wage of \$8.23 if health benefits are included or \$10.28 if they are not. Furthermore, the law requires that employers hire only city residents. Violators are subject to a \$50- per-day penalty and may have their city contract or grant revoked as well. The city’s already bloated bureaucracy will get larger now because contracts will have to be monitored for compliance, which also means that businesses will be forced to reveal confidential payroll information. This is public policy at its worst.

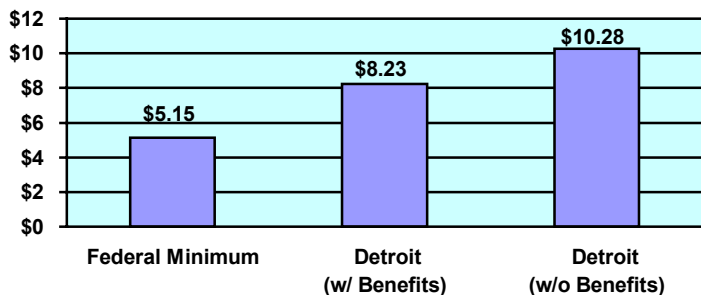
Of course, there’s nothing in the ordinance that will make workers more productive. It only makes them less affordable. A city that has already driven out a million people and countless businesses with a tax burden more than six times the average for Michigan municipalities will now become even less competitive and economically attractive. A prominent Detroit economist estimates that the ordinance will wipe out about 7 percent of the city’s jobs.

It isn’t just businesses that are affected. Nonprofit charities are, too. For example, two Salvation Army sites in Detroit receive \$300,000 from the city and most conservative estimates put the new law’s yearly cost to the Army at \$1.5 million. The Army will either have to raise an additional \$1.5 million, lay off workers, or cut back services.

The neediest of people whom the Army serves will likely get hurt. What we have here is a powerful argument against any charity getting entangled with politicians at all. “Government shackles follow government shekels,” as the saying goes.

Every economic argument against the minimum wage applies in spades to living wage proposals like Detroit’s. The law cannot make a person worth \$5.15 an hour (the current federal minimum) by making it

### Federal Minimum and Detroit “Living” Wage



Detroit workers under the “living wage” ordinance must be at least 60% more productive than minimum wage earners to give job providers an economic incentive to employ them.

illegal to pay him any less. By mandating an even higher minimum, the living wage prices even more people out of work. The people who push these cockamamie ideas never seem to ask why any employer would hire someone at \$8.23 if that person's services are only valued in the marketplace at, say, \$5.00.

Moreover, by imposing more costly than necessary employment arrangements, this new law will require more city revenue or reduced city services. The long and short of it is this: Though some workers may keep their jobs and even see their wages hiked, others will pay the price in the form of fewer jobs or higher taxes.

The Michigan Society of Association Executives, which opposes these ordinances, reports that other cities in Michigan are considering living wage proposals. They include Kalamazoo, Grand Rapids, Ypsilanti, Ann Arbor, Jackson, and Lansing.

Who is behind these silly laws? In Detroit, the ballot language was drafted and the campaign funded by none other than organized labor. Why? Because a city floor under wages will stifle the unions' low-cost competition and make it more difficult for the city to contract out for services. This is not organized labor playing the role of Florence Nightingale. It is the cannibalization of fellow workers by greedy, self-interested union bosses.

Nationally, the living wage effort is being led by a group known as the Association of Community Organizations for Reform Now (ACORN). This organization actually filed a lawsuit in California in an attempt to exempt itself from paying its own employees the state's then-current \$4.25 per hour minimum wage. In its legal brief, the organization declared that "[T]he more that ACORN must pay each individual outreach worker . . . the fewer outreach workers it will be able to hire." Hypocrisy has rarely been on more arrogant display.

Mayor Dennis Archer, who first supported and then at the eleventh hour raised some objections to the proposal last November, owes the city some wisdom and leadership on this issue. He should work for the repeal of the irresponsible living wage ordinance and in the meantime, endorse legal challenges to it. Otherwise, the legislature should cut back on the subsidies it sends to Detroit at the expense of the rest of the state's workers and taxpayers.

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(Lawrence W. Reed is president of the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. More information on economic policy is available at [www.mackinac.org](http://www.mackinac.org). Permission to reprint in whole or in part is hereby granted, provided the author and his affiliation are cited.)

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