NELP

National Employment Law Project

TESTIMONY

OF

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NATIONAL EMPLOYMENT LAW PROJECT

ON

HOUSE BILL NO. 2645

THE ECONOMIC DEVELOPMENT RESPONSIBILITY ACT

BEFORE

THE COMMERCE COMMITTEE OF

THE PENNSYLVANIA HOUSE OF REPRESENTATIVES

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Thank you for the opportunity to submit this testimony to the Pennsylvania House Commerce Committee on House Bill No. 2645. 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 to restore the promise of opportunity in the 21st century economy. In particular, we have a long history of working with cities and states across the country on strategies for ensuring that economic development delivers quality jobs for local communities.

House Bill No. 2645, the Economic Development Responsibility Act, reflects a policy trend that we are seeing among states and cities across the United States. More and more state and local governments are adopting standards to ensure that when taxpayer funds are invested to create jobs, the jobs generated do not promote poverty and instead provide the quality wages and benefits that local communities need.

In this testimony, I will provide background on these policies. First, I will provide an overview of the types of jobs standards that states and cities, including Pennsylvania, have adopted in the past, and explain how they relate to House Bill No. 2645. Second, I will summarize the evidence on whether such measures have slowed economic development or led to job losses, as opponents have predicted they would. And third, I will discuss the impact that such measures have had on working families and on local economies.

1. <u>More States and Cities Are Enacting "Good Jobs" Standards Like H.B. 2645 for Jobs Created with Taxpayer Dollars</u>

There is a growing national movement by states and cities to adopt "good jobs" standards for jobs created with taxpayer dollars. The specific approaches used, and the types of public subsidies and jobs that are covered, vary from city to city and state to state. I'll briefly outline the three major categories of such measures.

The first and earliest forms these policies took were construction prevailing wage laws. Dozens of states, including Pennsylvania, have for decades required that when public funds are spent to finance construction, the jobs created must pay the prevailing industry wage. In Pennsylvania, the construction prevailing wage law applies both to construction jobs created under contracts with public agencies, and those created by private developers that have received public subsidies such as TIF funds or Ben Franklin Partnership Grants.[1] Thus, for example, when a business receives a TIF subsidy to help build a new office building or mall, the construction jobs must pay prevailing wages – a standard which ensures that they provide middle class wages and benefits, and do not undercut the going industry rate in that community.

Second, many states and cities have moved beyond construction and adopted good jobs standards for low-wage service jobs that are created under government contracts. More than 150 cities across the United States, including Philadelphia and other Pennsylvania cities, have adopted living wage laws setting wage and benefits standards for businesses performing city service contracts. And at the state level, several states – including New

York, New Jersey and Connecticut – have enacted state service worker prevailing wage laws, to ensure that when state agencies contract for services, they similarly create quality jobs for low-wage workers.[2]

Third, cities and states have expanded these service worker wage standards beyond government contracts in order to reach – as the construction prevailing wage laws do – service jobs created by private employers or developers that receive public subsidies. At the local level, at least fifteen cities and counties – including this year Pittsburgh and Allegheny County – have extended living wage or prevailing wage standards to service jobs created that are generated by economic development projects that receive public subsidies. Similarly, at the state level, a wide range of states have adopted wage standards of various categories for their economic development subsidy programs. For example, Nevada requires businesses receiving many categories of subsidies or tax abatements to guarantee that all employees will be paid at least 100% (or in some cases 110%) of the statewide average hourly wage, which translated to more than $20 per hour in 2010.[3] In fact, Pennsylvania has for many years had similar standards in some areas. For example, employers receiving state job retention tax credits or Pennsylvania Industrial Development Authority Job Retention Loans must guarantee that their low-wage workers are paid at least 150% of the federal minimum wage.[4]

The proposed House Bill No. 2645, the Economic Development Responsibility Act, is part of this national trend. Building on Pennsylvania's existing laws noted above, it would ensure that when taxpayer dollars are invested in the state to create building service and food service jobs, that the positions created pay the standard wage that responsible employers in the same industry currently pay.

The proposal sensibly defines the standard wage by reference to the prevailing wage rates under the federal Service Contract Act that the U.S. Department of Labor calculates each year for each region of Pennsylvania. These wage rates are based on what other employers in these industries are currently paying in the same region of the state. They are therefore market-based benchmarks for realistic wages that ensure that employers on publicly subsidized projects emulate the better employers in their field, rather than race to the bottom.

In addition, the bill also factors in two other criteria in determining the applicable standard wage. First, in cases where there exists a local living wage law establishing a higher local living wage rate, that rate is deemed to be the standard wage. Second, as a protection against those cases where the federal prevailing wage rates are exceptionally low (as they can be in a few very low-wage occupations), the bill specifies that, in any event, the standard should be no less than 150% of the Pennsylvania minimum wage rate, which translates to $10.88 per hour.

The bill is tailored in its approach, focusing on just the largest subsidized development projects – for example, commercial office buildings, hotels and malls of at least 100,000 square feet. This narrow focus ensures that these standards are applied to employers and projects where there can be no question that they have the wherewithal to pay the standard wage.

Taken as a whole, the bill reflects a balanced, economically realistic proposal for ensuring that subsidized development projects in Pennsylvania create good jobs for local residents.

2. State and City "Good Jobs" Standards Have Not Slowed Development or Led to Job Losses

The experiences of states and 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 State, which in 2007 extended prevailing wage requirements for building service workers to all projects subsidized under – the "421-a" program, which provides subsidies for new apartment, coop and condo construction in New York City.[5] There has been no indication that such standards made it harder for the city to attract developers for new projects or for developers to get financing.

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.[6] The fact that these substantially broader policies have not harmed business growth is useful in assessing the likely impact of the more moderate proposal now under consideration by the legislature.

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.[7]

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 polices have led to job losses, slowed business growth or otherwise harmed perceptions of the business climate in cities that have adopted them.[8]

3. Such Standards Have Produced Substantial Benefits for Working Families and Local Economies

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 as janitors, security guards and cafeteria workers to make ends meet.[9]

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 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 rate paid by the majority of employers in Allegheny County for janitors is reported to be $13.61 per hour.[10] This translates to over $28,000 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.

Ensuring decent wages for 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.[11]

The scale of this new spending across the economy can be significant. For example, the modest 70 cent increase in the federal minimum wage in July 2009 is estimated to have generated more than $5.5 billion in new consumer spending.[12] This data underscores the important role that boosting the spending power of low-income families plays not only in helping those families, but also in supporting local businesses.

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To summarize, extending wage standards to low-wage service jobs at subsidized economic development projects, as Pennsylvania is now considering, offers the state an important tool for promoting good jobs and boosting consumer spending to stimulate the local economy. States 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 any questions that members of the committee may have.

[1] *Pennsylvania. State Building* & Construction Trades Council *v. Prevailing Wage* Appeals *Bd*, 570 *Pa.* 96, 808 A.2d 881 (2002). *See also* Pa. Dep't of Labor & Indus., Prevailing Wage Summary (June 7, 2007), available at http://2007.treatminewater.com/images/Prevailing_Wage_Summary.pdf.
[2]N.Y. Labor Law § 23058 et seq.; N.J.S.A. § 34:11-56.58 et seq.; Conn. Gen. Stat § 31-57f.
[3] Good Jobs First, The Policy Shift to Good Jobs (Nov. 2003), p. 23, available at http://www.goodjobsfirst.org/pdf/jobquality.pdf.
[4] Id., p. 26.
[5] 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.
[6] 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.irle.berkeley.edu/research/minimumwage/minwage_sfandsantafe.pdf.
[7] 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.
[8] 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.
[9] 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.
[10] U.S. Dep't of Labor, Wage Determination 05-2451 (Rev.-13) (August 24, 2010), available at www.wdol.gov.
[11] 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).
[12] Kai Filion, "A Stealthy Stimulus: How boosting the minimum wage is helping to stimulate the economy," Economic Policy Institute, Issue Brief #255 (May 28, 2009), available at http://www.epi.org/publications/entry/ib255/.