

TESTIMONY  
OF  
MARK A. PRICE, PH D, KEYSTONE RESARCH CENTER  
ON  
ECONOMIC DEVELOPMENT RESPONSIBILITY ACT  
FOR THE  
HOUSE COMMERCE COMMITTEE  
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AMBRIDGE, PA

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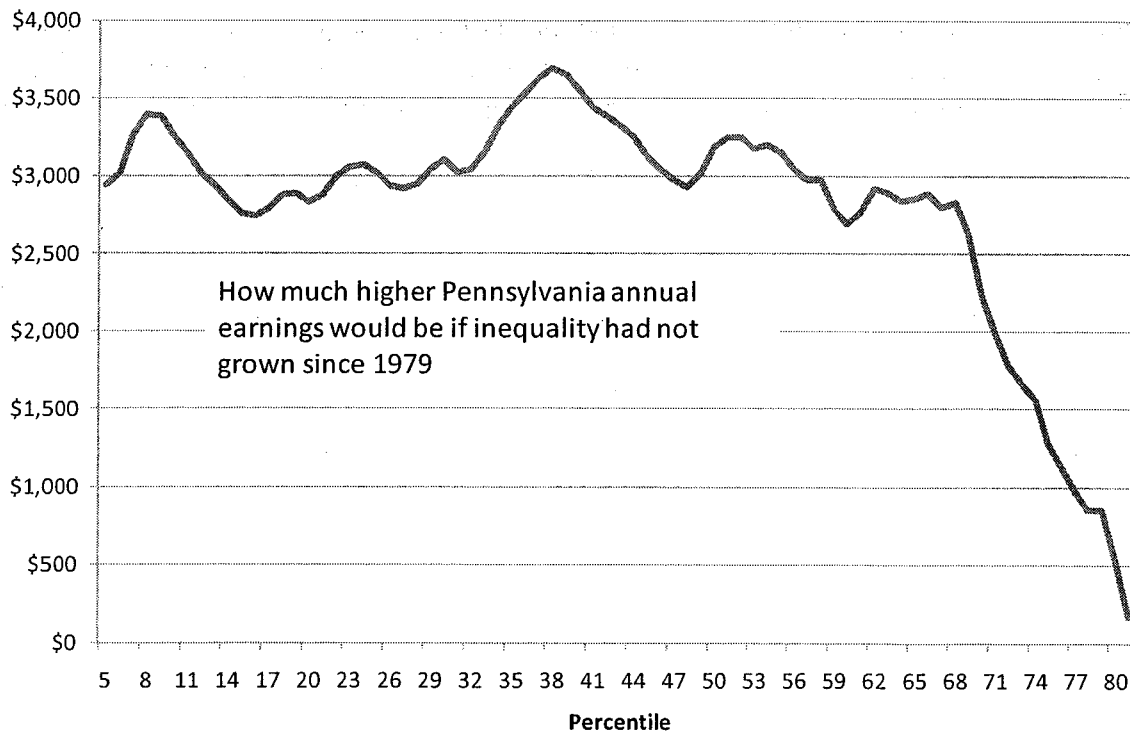
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Good morning, my name is Mark Price. I am a labor economist at the Keystone Research Center (KRC), a non-partisan research and policy institute based in Harrisburg. I very much appreciate the opportunity to testify before the committee on the Economic Development Responsibility Act (HB2645).

These hearings take place in a context in which the U.S. and Pennsylvania economies do not have enough middle-class jobs. A central reason is that most of the gains from economic growth over the past 15 years and the last 30 years have gone to a small group at the top of the wage and income distribution. As the Keystone Research Center documented in its State of Working Pennsylvania 2010 (available online - <http://keystoneresearch.org/publications/research/state-working-pennsylvania-2010>), most full-time Pennsylvania workers earn \$3,000 to \$3,500 workers less today than they would earn if the total increase in wages since 1979 had been shared equally by all wage earners (Figure 1).

**Figure 1. The Wage Deficit**



Source: Keystone Research Center analysis of CPS data

A major contributing factor to wage stagnation and the erosion of the middle-class in Pennsylvania and the United States has been growth in low-wage service jobs. Despite the hand wringing about competition with Mexico, China, and other low-wage countries, overseas competition does not have a direct impact on wage and benefit levels in most service jobs. The vast majority of these jobs are what economists call "non-mobile"--the jobs have to be, geographically, close to where they currently are. These jobs cannot move because they have to be near their customers. Classic examples of such non-mobile jobs are food service and janitorial jobs. Office buildings in Ambridge and Pittsburgh can't be cleaned by workers in Tijuana or Beijing.

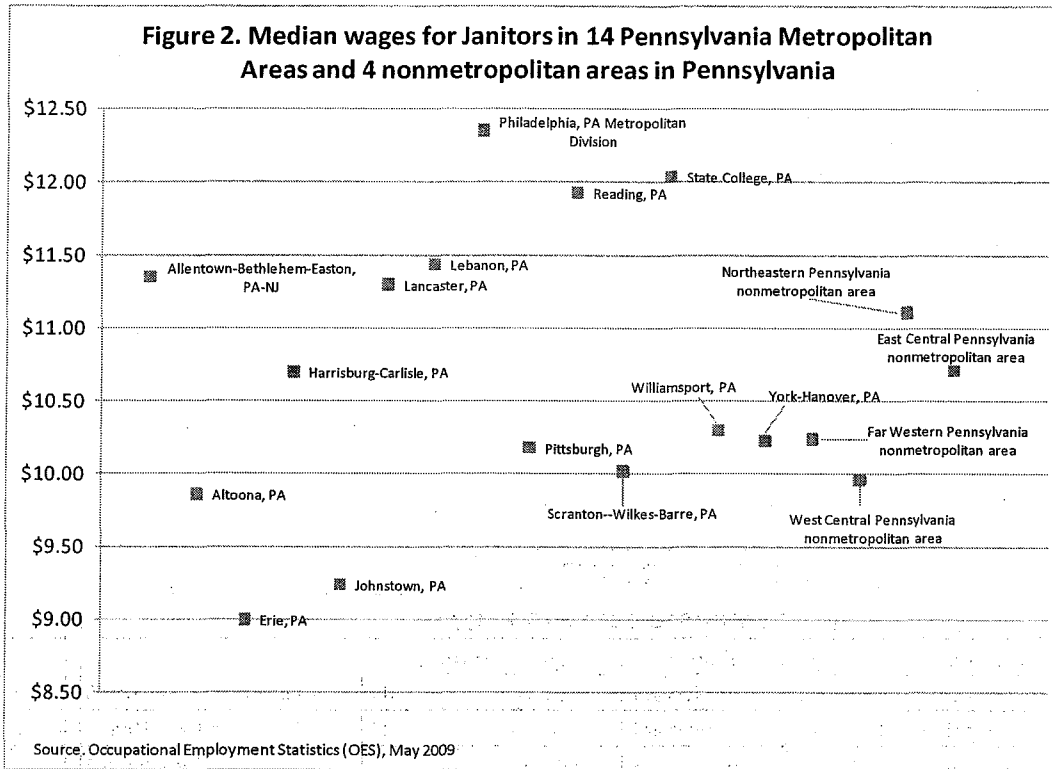
The non-mobile character of many low-wage service jobs means that the U.S.--and individual states and localities--have a significant amount of "choice" about what these jobs pay. Any political jurisdiction that covers a geographical labor market has significant autonomy in terms of whether it wants these jobs to pay poverty wages or enough to support a family. Until recently, most communities have chosen not take actions that could lift wages in low-wage service occupations. Now a movement is gathering in which more communities are deciding to take actions--deciding, in effect, that want to help bolster their middle class to the extent that they can.

The Economic Development Responsibility Act represents a very measured and responsible way to support the efforts of communities to lift up more non-mobile service workers to the middle class. The Act is narrow in several ways. It applies only to workers in certain occupations. It also applies only to workers on publicly subsidized projects. Even on these projects and in the covered occupations, the Act also includes two different approaches to lifting wages. One approach lifts wages only to 1.5 times the minimum wage--given the current minimum wage of \$7.25 per hour, 1.5 times the minimum wage is \$10.88 per hour--or about \$22,500 for a full-time, full-year worker. In communities in which a significant number of private sector workers earn above \$10.88, the Act also provides for workers to earn wages similar to those higher-paid private sector workers. The first approach taken by the Act helps ensure

that publicly subsidized projects don't create poverty-wage jobs. The second approach helps ensure that pay levels on publicly subsidized projects don't undermine the emergence in the private sector of middle-class service jobs. To better understand the nuanced and balanced approach of the Act, it may help to compare three familiar wage standards (see Table 1). The Act is not like a minimum wage because it covers only a few occupations. The Act combines elements of a "living wage" approach and a prevailing wage. It lifts wages in covered occupations towards a living wage. However where private sector wages are higher--where communities have already managed to create part of a new middle class within service occupations--the Act uses a prevailing wage approach and helps ensure that public economic development subsidies further expand rather than undercut that new middle class.

<b>Table 1.</b>			
<b>Types of Wage Standards</b>			
	<b>Minimum Wage</b>	<b>Prevailing Wage</b>	<b>Living Wage</b>
<b>Occupations Impacted</b>	All	Specific	All
<b>Locations Impacted</b>	All	Specific	Specific
<b>Geographic determination of wage level</b>	Legislation	Reference to Market	Cost of living
<b>Level for all of covered jurisdiction set in legislation</b>	All firms (private and public)	Private firms receiving public contracts or subsidies	Private firms receiving public contractor or subsidies
<b>Level set separately for each geographic sub-region</b>	Fed-State	Fed-State-City	City
<b>Workers impacted</b>	Low wage workers	Workers in specific occupations (e.g., in construction or service occupations)	Low wage workers

Wage data for Janitors one of the occupations covered by the Act make clear that, currently in Pennsylvania, there is significant variation in what these jobs pay (see Figure 2 and Table 2).<sup>1</sup> In some communities, jobs in these occupations pay poverty wages. In some communities, jobs in these occupations pay a meager living wage. In a couple of communities, the best paid jobs in these occupations are close to middle-class status.



**Table 2. Wages for Janitors by Metropolitan and Nonmetropolitan Pennsylvania**

	25th Percentile	50th Percentile (Median)	Average wage	75th Percentile
Pennsylvania	\$8.92	\$11.15	\$11.98	\$14.34
Allentown-Bethlehem-Easton, PA-NJ	\$9.29	\$11.35	\$12.61	\$15.53
Altoona, PA	\$8.04	\$9.86	\$11.29	\$14.06
Erie, PA	\$7.90	\$9.00	\$10.45	\$12.09
Harrisburg-Carlisle, PA	\$8.69	\$10.70	\$11.62	\$13.64
Johnstown, PA	\$7.92	\$9.24	\$10.25	\$11.83
Lancaster, PA	\$8.98	\$11.30	\$11.76	\$13.86
Lebanon, PA	\$9.24	\$11.44	\$11.65	\$13.66
Philadelphia, PA Metropolitan Division	\$9.94	\$12.35	\$13.03	\$15.47
Pittsburgh, PA	\$8.44	\$10.18	\$11.29	\$13.40
Reading, PA	\$9.52	\$11.93	\$12.64	\$15.28
Scranton--Wilkes-Barre, PA	\$8.50	\$10.02	\$11.22	\$12.97
State College, PA	\$9.43	\$12.04	\$11.96	\$14.51
Williamsport, PA	\$8.47	\$10.30	\$10.67	\$12.28
York-Hanover, PA	\$8.72	\$10.23	\$11.17	\$12.99
Far Western Pennsylvania nonmetropolitan area	\$8.26	\$10.24	\$11.05	\$13.18
West Central Pennsylvania nonmetropolitan area	\$8.13	\$9.96	\$10.98	\$12.90
Northeastern Pennsylvania nonmetropolitan area	\$8.82	\$11.11	\$11.93	\$14.11
East Central Pennsylvania nonmetropolitan area	\$8.74	\$10.71	\$11.34	\$13.44

Source: May 2009 Occupational Employment and Wage Estimates, U.S. Bureau of Labor Statistics

Where wages and benefits are higher in these occupations, we should add, there is ample anecdotal evidence that there are benefits in the form of lower turnover, higher quality customer service, and higher productivity. Less headaches for employers because the workforce is more stable and a modest impact on cost because more experienced and skilled workers perform better. A more stable workforce also expands opportunities to implement training and career advancement programs that further raise performance and restore the American Dream of upward mobility.

Americans at the national, state, and local level face a choice that has not yet been fully recognized--and which has contributed to us often making the wrong choice. The choice we have concerns what we pay workers in non-mobile, non-managerial, and non-professional service jobs. These jobs account for the majority of low-wage, no-benefit, dead end jobs in America. These jobs will continue to account for the majority of such jobs 10 years from now and 20 years from now. So far we have chosen--usually by default--to pay these jobs poorly. The proposed Act would protect and support a different choice that some local communities have begun to make--to create a small part of the next middle class in janitorial and food service occupations. It would provide a modest nudge to push more of these jobs out of poverty and into the middle class. The increased wages would be paid for in part by higher performance. If you believe in the middle class, and if you believe that having a strong middle class is essential to America's identity, you should support this Act. If you don't believe in the middle class, and if you believe that continued growth of economic inequality--and intergenerational immobility--are not a problem, then you can oppose this Act.

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<sup>1</sup> The data in Figure 2 and Table 2 is derived from the Occupational Employment Statistics (OES) program and is available online [http://www.bls.gov/oes/oes\\_dl.htm](http://www.bls.gov/oes/oes_dl.htm). The full occupational title summarized is Janitors *and cleaners, except maids and housekeeping cleaners* – Standard Occupational Classification 37-2011. The OES wage data summarized here is for Janitors in all industries. OES wage data is not appropriate for evaluating the wages established by Pennsylvania's Prevailing Wage Act which establishes wage levels on state financed construction projects. OES wages for construction occupations are based on a sample that includes both low skill residential and higher skill non-residential construction occupations—for example workers classified as electricians in residential construction although they do not typically have a skill level that is equivalent to electricians on non-residential construction projects are lumped together in OES wage tables. Because publically financed construction is more skill intensive than residential construction, wage and benefit levels on public projects are

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more similar to those on private sector non-residential construction projects. OES wage data for construction occupations is therefore typically lower than the wages that prevail on publicly financed projects. Because we do not have data on the wages of service occupations that would be affected by HB2645 it is not known whether there are systematic differences in wages of the service sector occupations typically created by economic development spending and the economy wide wage data available from the OES.