

White Paper

ULW Effect on Business and Taxpayers

Living wages are good for business. When workers make more money, they also have more money to spend. In fact, minimum wage workers have spent almost 100% of past wage increases directly into the economy.¹ Increased personal income inevitably promotes commerce and stimulates local and nationwide economies. By protecting and stabilizing the very foundation of enterprises, the employees themselves, we can equally protect and stabilize businesses everywhere.

There are presently 10.1 million minimum wage workers in the United States.² These employees comprise our nation's pool of workers such as restaurant workers, construction laborers, dry clean operators, janitors and others that provide support for our principal businesses.

In response to the depression of the 1930s, the federal government created the Fair Labor Standards Act in 1938. In so doing, it established a single national minimum wage which today rests at \$5.15 per hour or about \$10,700 per year. The idea came in response to the legions of unemployed, underemployed, and low-wage workers roaming the country just as they are today. It was decided that in order to stimulate businesses and the economy, these workers needed to be economically stabilized. In exchange for a full day's work, a man needed to be guaranteed a wage sufficient to secure basic food, clothing, and shelter. The absence of which resulted in high employee turnover, increased absenteeism and an increase in internal employee theft.

Henry Ford, the father of the American automobile, was facing exorbitant retraining costs due to high employee turnover. He was being forced to replace every employee four times per year. He also found that absenteeism was at an equally unacceptable level. His response was to almost double the daily wage of his workers to \$5.00/day.

* The immediate result was:

- 1) significant reduction in employee turnover,
- 2) significant reduction in retraining costs,
- 3) significant reduction in unscheduled absenteeism,
- 4) and almost complete stoppage of internal theft (roughly 50% of the theft in today's retail world is committed by its own employees).³ Furthermore,
- 5) he created a true economic stimulus resulting in a business boom for his own company when his workers put discretionary funds right back into his company as purchasing consumers.⁴

*All of these savings/benefits are possible today with the enactment of the Universal Living Wage.

The ULW will dramatically reduce employee turnover. Such reduction of turnover means a significant reduction

ULW enactment will significantly impact unscheduled absenteeism. Again, this will result in financial savings. This will help business avoid higher salaried employees or even small business employers/owners from having to temporarily step into these lesser-paid positions. They can thereby avoid wasting a valuable resource who continues to be paid at a much higher dollar amount while performing a lesser-paid job (and not doing their own).

To illustrate these effects, examine the findings of Michael Reich of the University of California. He reviewed a quality standards program initiated in April 2000 in the San Francisco International Airport. The \$5.25 starting wage had been increased to \$10.00/ hour plus health benefits or to \$11.25 per hour without health benefits. (The industry wage average had been \$6.00/ hour.) Turnover dropped from 110% to 25%. Additionally, employers reported that skills, morale and performance improved while absenteeism and grievances also dropped.⁵

It is important to note that, when employers are forced to hire emergency temporary workers, they must pay for the service. And any new employee means **more down time** in training that new individual. The savings here is notable.

For example, New York worker-owned home healthcare facility, The Cooperative Home Care Associates, with 450 employees is paying \$7.65/hour, which is 20% above the area average. They also provide health benefits, training, and compensation for travel time for employees to see clients. As a result, they experience a job turnover rate of less than 20% as opposed to the industry level of 60%.⁶

Further illustrating the point, Vice President Artie Nation, Speaking for Mirage hotels, credits the low turn over in his casino hotels of only 70% (as opposed to an industry high of 300%) as being the result of better wages and training.⁷

Enactment of the ULW means stabilized, **loyal** employees who feel respected for their work contribution. This results in substantial reduction in the (number one dollar drain in the retail industry . . . internal employee theft.) The two largest retail employers in the world being (McDonalds and Wal-Mart) would greatly benefit from this dynamic. Employees tend not to steal from people who show them respect by paying them living wages.⁸

New small businesses are more likely to receive bank loans and support from the Small Business Association (SBA) by being able to produce solid Business Plans . . . plans that show that they are providing adequate budgeting to support all aspects of their business in a sustainable fashion. This includes manufacturing, advertisement, geographic considerations, transportation, employee training, **and** wages.

Employee Turnover/Retraining Costs

Currently, employers faced with employee turnover have begun to rely on the Work Opportunity Tax Credit. Employers in the fast food industry can receive \$2,400 for each minimum wage worker retrained. This can be repeated every 400 hours.⁹

In 1997, the subsidy was \$385 million.

Potential savings are significant:
2,080 (yearly work hours) ÷ 400 hours (minimum work hours necessary to be eligible for the subsidy) = 5.2 potential turnover rate (Henry Ford was facing a turnover rate of 4.) In Modern times this is the same turnover rate experienced at the Greely Beef Slaughter House supplying ConAgra.¹⁰

5.2 x \$2,400 retraining subsidy = \$12,480 per employee per year
\$17,680 x 4.5 million minimum wage workers in the fast food industry (which includes 1,000,000 agricultural workers)¹¹

Potential Savings of: \$79,560,000,000.

The Universal Living Wage

The Universal Living Wage relates to the local cost of housing and ensures that anyone working a 40-hour week will be able to eat, be clothed and afford the most basic level of housing. This ensures that a worker can store his belongings, get rest, wake in the morning refreshed, take a shower, and go to work. He can provide stable labor for the industry and advance himself at the same time. At present, this is not happening. In fact, millions of people are falling out of our work force and forming the ranks of homelessness. Three and a half million people will experience homelessness this year.¹² At the same time, the federal government says that 42% of these homeless minimum wage workers are still working on some level. But according to the last several US Conferences of Mayors' reports, no one can get into and keep housing at the current minimum wage.

One Size Doesn't Fit All

It has been suggested that a single uniform increase would address the problem. However, due to uneven localized inflation, to select a minimum wage level sufficient to afford even an efficiency apartment for someone in Washington, D.C. would mean the destruction of small businesses in rural America. Congress cannot set an appropriate single base wage using its current "one size fits all" approach. As a result, the Universal Living Wage, using existing government guidelines, establishes a wage that relates to the local cost of housing throughout the US. The ULW formula uses the same computations that the federal government has used to

subsidize business under the US Department of Housing and Urban Development for its Section 8 program. Under this program, the federal government has devised a sophisticated program to

determine how much one can reasonably expect to pay for housing in areas throughout the entire United States. These areas, called Fair Market Rent (FMR) regions, are usually about the size of a county. The federal government has used these figures to subsidize business for years and pay business the difference between what people can afford to pay and what business says it wants to be paid for housing in each of the Fair Market Rent (FMR) regions.¹³ It is being suggested here that this standard that has supported business for decades should now be applied similarly to unhoused minimum wage workers.

Transition

For over a decade, the gap has increased between the Federal Minimum Wage and what it costs to afford basic rental housing in urban America. During this time, business has used this economic windfall to its benefit. Often this has meant either accelerated expansion of individual businesses or an increase in personal wealth for their owners. Accordingly, many businesses will require an adjustment period to normalize budgets before enactment of the ULW. All businesses will be permitted a two-year transitional period before paying any current employees (relative to the date of enactment) by the ULW Standard. New hires (post passage) would immediately fall under the standard.

Tax Savings

With 3.5 million people experiencing homelessness this year alone¹⁴ and with 42% of them working at some point¹⁵ (clearly the work ethic is there), it is conservatively estimated that no less than 1,000,000 people will be able to work themselves off the streets of America.¹⁶

While we tend to think of minimum wage workers as individuals, we find that they often are attempting to sustain more than just themselves on the minimum wage. According to the collaborative work of Dr. Stephanie Luce (Living Wages/ Building a Fair Economy) and Economics Professor Robert Pollen (his fifth such writing) there exists a minimum wage **family**. This family comprises four people, two children, and two adults, one of whom is working at the minimum wage.¹⁷ This means a significant amount of government subsidies is currently required to minimally sustain this family. With the enactment of the ULW, it is conservatively estimated that a tax savings of \$10.7 billion per year can be realized.

(\$10.7 billion per year in food stamp and welfare savings based on: a four person family-one minimum wage worker, one spouse, and two children.)

According to the 2000 census there are:

10.1 million minimum wage workers¹⁸
 65% of these include one or more members who work and yet must be subsidized (\$1,627 savings per family)with food stamps, EITC, and MediCal¹⁹

10.1 mil	\$1,627
<u>x .65</u>	<u>x Z (6.565)</u>
= Z	= \$10,681,255,000 Tax Savings with Passage of the ULW

According to Robert Pullin and Dr. Stephanie Luce in the analytical book The Living Wage:

*the family reliance on non-health related subsidies will fall by 16.1%

*the family will become dramatically more credit worthy . . . thus being able to avail themselves of more goods and service which in turn will serve to stimulate the local economy.²⁰

Furthermore, according to Beth Schulman, author of: The Betrayal of Work: How Low-Wage Jobs Fail 30 Million Americans and Their Families, these minimum wage jobs are no longer the employment/economic stepping stones of the past but rather the economic job plateaus at which people/families are stagnating now for years.²¹

*Note: It is universally agreed that earning a dollar of income is far superior to being given a dollar of government support in terms of one's self-image or attitude toward life and work.

We are not suggesting the termination of programs such as food stamps, but rather that they revert to the transitional, emergency stop gap assistance programs they were initially intended to be by Congress in serving laid-off workers, battered women, natural disaster victims, etc. By conservative estimates, it is likely that the Universal Living Wage campaign will end homelessness for more than one million minimum wage workers, and it will prevent economic homelessness for all 10.1 million minimum wage workers. The result of which will generate millions of dollars in savings to tax payers.

General Effects- Regional Living Wage Campaigns

We find that there are serious concerns in the business community about local living wage campaigns. It has been suggested these local campaigns that draw circles around geographic areas are potentially damaging to small businesses. In fact, this was the basis of resistance to a living wage initiative in San Antonio, TX where it was feared that large business could and would pull up stakes and relocate just outside of the newly proposed wage boundary or that businesses would be drawn away from the region. The President of the San Antonio Restaurant Association was quoted as saying,

“We need to work with businesses to get businesses in San Antonio. Let's say for instance that Houston does not have a living wage and San Antonio does, and The PGA (Professional Golf Association) says, ‘I can go to Houston and get these incentives come, and I'm not forced to pay this living wage.’ So what's going to happen? Where are they going to go? They're going to go to Houston. (On the other hand) **the federal minimum wage establishes a balance.** It's all industries. It's nationwide. So there's a balance . . .”²²

-As reported in the San Antonio Express News 9/29/02
by Michelle Koivin

What effect will ULW have on business locating to a region?

For the most part, minimum wage jobs are support jobs. These low paying jobs are found in businesses such as the restaurant industry, janitorial, construction labor, landscaping, laundry, and the like. These are support type businesses. They support “principle” businesses that pay well above the minimum wage. Even when we immediately enact the Universal Living Wage, it will not affect the wages paid by these principal businesses to their lowest paid employees because they already pay more than the wages proposed under the Universal Living Wage. These minimum wage businesses will employ and lay off people based on their need to meet the support/service requirements of the principal businesses. If Intel Corp. moves to town, it does not make the decision to do so based on minimum, wage salary scales in as much as it does not employ workers at that low wage level. On the other hand, when Intel builds its offices it may contract employees such as construction laborers and ultimately landscapers who are minimum wage “support” workers, and once the facility is built, its workers will also need laundry services and restaurants, etc.

*Note: These support businesses do not ordinarily relocate independently of the principal businesses that they support. Clearly, in times of recession employees will be laid off but remember support businesses will maintain the number of employees necessary to satisfy the needs of the principal business.

No doubt, there are a few businesses that are minimum wage industries. In Los Angeles there is the coat hanger industry and the garment industry. However, there is evidence of strong support of living wage jobs among employers even here. For example, Sweat X, with 43 employees, a multimillion-dollar business in the heart of the garment industry has endorsed the Universal Living Wage.²³ They recognize the benefits of paying living wages in that a stabilized work force is part of the cost of doing business and **in the long run will reduce overall costs**. In addition to Sweat-X, which is making sweat shirt apparel for America college students, is American Apparel which is also in the garment industry with more than 1,000 employees. It too is a multimillion-dollar corporation and recognizes the benefits of paying living wages and has endorsed the campaign.²⁴ The employees and the wages they are paid are of equal importance to that of any other budgetary consideration. Furthermore, these budgetary considerations must be valued in an appropriate fashion whether the business is for-profit or nonprofit such as a community development corporation (CDC).

By recognizing the critical importance to the overall stability of a business, (especially a new one), steps can be taken that will greatly reduce the high percentage of failed small business start-ups. Each year, 50% of all new business start-ups fail. Within five years, no less than 80% of all new business start-ups fail.²⁵ Clearly, they need to start with the most solid financial footing possible.

When small businesses approach the Small Business Administration for loans, they must be encouraged to raise the level of budgeting for employee wages to the same level of importance as that of the manufacturing budget. It should be raised to the same level of as that of the advertising budget and to that of transportation, geographic location and that of product design, development and engineering.

In so doing, we can dramatically increase the percentage of success of these start-up businesses; increase the overall profitability of existing businesses and stimulate the economy generally.

Economic Stimulus Package

According to statistical surveys, minimum wage workers spend almost 100% of past wage increases right back into the economy thus creating quick economic growth and job creation.²⁶

As seen with the passage of the Fair Labor Standard Act in 1938²⁷ in response to the Depression, establishing a “living” wage similarly stimulates the overall demand for goods and services in the economy. Again, the family will become dramatically more credit worthy thus being able to avail themselves of more goods and more services.²⁸ The overall demand for goods and services will in and of itself increase demand for low wage workers as industry responds to this demand and stimulation.²⁹

Additionally, it is important to recognize that the difference between the existing Federal Minimum Wage and the Universal Living Wage is a considerable sum of money when calculated across the US. This difference represents an incredible national resource in as much as minimum wage consumers all need the same thing . . . affordable housing. Presently, housing, at this economic level, does not exist.³⁰ Therefore, the enactment of the Universal Living Wage Initiative creates an incredible opportunity for the local construction industry across America. By responding to this need, the local construction industry will be able to benefit economically while providing an immeasurable service to the entire country. HSR Construction, a national housing construction company, based out of Austin, TX has recognized this early on and eagerly endorsed the Universal Living Wage Campaign.³¹ Clearly, this presents a true Economic Stimulus Package of enormous proportions.

Inflation Effects

Concern has been raised about what possible inflationary effects passage of the Universal Living Wage will have on consumer purchasing.

First it is clear that when looking at manufacturing, there are a large number of economic

factors that comprise the budgetary costs of producing a product. Among these are manufacturing, transportation, design, marketing, geographic location, warehousing, profit taking, employee training and finally employee wages. We feel that employee wages should rank of equal importance to that of these other important components. There is room within any budget to absorb the payment of reasonable minimum wages. Beyond this, there may indeed be an inflationary component to the stabilization of our nation's businesses. Just as business will need to cut back on their profit taking, likewise consumers will be asked to pay just a little more for goods and services. However, reportedly consumers have expressed a willingness to pay their "fair share" to help house our nation's minimum wage workers meeting a similar pledge of many of our nation's businesses.³²



Overseas Job Loss

Of grave concern to both American business and American workers is the ever-increasing loss of jobs overseas. However, as stated previously, minimum wage jobs in most cases are support jobs. Restaurant jobs, dry cleaning, landscaping, maids, retail sales people, warehousemen, construction workers, and many others are all support positions. If principal businesses expand, the need for these support minimum wage workers increases. As the principal businesses contract, so does the need for these support positions. However, these jobs are not about to be exported. **These are local jobs and will remain local.**³³

Living wages are good for both business and taxpayers. With the passage of the Universal Living Wage the base of America's work force will become stabilized and motivated. Over one million minimum wage workers will be able to work themselves off the streets of America. All 10.1 million minimum wage earners will be able to avoid economic homelessness. The local construction industry will receive a true economic stimulus package nationwide. And finally, taxpayers will realize a financial windfall both from averted subsidies and from avoiding extensive retraining costs.

Universal Living Wage

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The ULW FORMULA has been crafted!

The Federal minimum wage of \$5.15 per hour won't allow anyone to get & keep housing throughout the US and one uniform wage is no longer appropriate.

Universal Living Wage Formula:

- indexed to the local cost of housing throughout the United States
- based on the moral premise: anyone willing / able to work a 40 hour week should be able to afford basic housing
- spend no more than 30% of income on housing (HUD standard)
- utilize HUD Fair Market Rents that are already adjusted annually

Advantages:

- A person willing/able to work a 40 hr wk can access housing; be it Austin, Boston, LA, etc
- makes housing truly affordable
- establishes true local control “state rights” ... “city rights”
- stimulates local development of SROs (single room occupancy units)
- infuses the local and national economy with new money
- stabilizes small businesses
- makes dedicated/reliable minimum wage workers
- reduces reliance on poverty subsidies
- attached to HUD FMRs and therefore is automatically adjusted each year
- prevents homelessness for all minimum wage workers
- can remove 30%+ of our nations homeless people from the streets of America

National Campaign:

Over one million registered voters from every state and territory in the Union have endorsed the campaign. Encourage every business, union, non-profit, religious group to go to **www.UniversalLivingwage.org** and endorse on line.

Endnotes

1 Eric Schlosser, *It Fast Food Nation* (Boston: Houghton Mifflin 2001)

2 2000 U.S. Census

3 *Living Wages/Building a Fair Economy*, Dr. Stephanie Luce & Professor Robert Pollen

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- 5 Reich, et al., *Living Wages and Airport Security*, Preliminary Report.
- 6 *The Betrayal of Work: How Low Wage Jobs Fail 30 Million Americans and Their Families*,
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- 7 Ibid
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- 9 Eric Schlosser, *Fast Food Nation* (Boston: Houghton Mifflin 2001)
- 10 Ibid
- 11 Ibid
- 12 www.NationalHomeless.org
- 13 www.UniversalLivingWage.org citing HUD Fair Market Rent Formula and Guidelines
- 14 www.nationalhomeless.org
- 15 U.S. Conference of Mayors Report, 2000
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- 17 *Living Wages/Building a Fair Economy*, Dr. Stephanie Luce & Professor Robert Pollen
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- 23 www.UniversalLivingWage.org
- 24 Ibid
- 25 Small Business Administration, SBA
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