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Testimony of
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Before the
New York City Council
Committee on Contracts

Living Wage

New York City
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Good afternoon. My name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. FPI regularly prepares reports on the state of the New York economy and the economic condition of workers and their families, and on city and state budget, tax and economic policy issues. Thank you for the opportunity to testify today.

At the City Council living wage hearing in May, I submitted a brief we prepared titled, "The Top 10 Reasons a Living Wage Makes Sense for New York City."[1] In the interests of time, I won't go over that same ground. Suffice it to say, those arguments are every bit as compelling today as they were last May.

I'd like to focus on four things this afternoon.

(1) There is absolutely no credible evidence from other cities that living wage ordinances are harmful either for the workers directly affected or for the broader economies in those cities. The expert labor market economists who have preceded me on this panel—Professors Stephanie Luce, Jeannette Wicks-Lim, and William Lester—have discussed their research on that question and I accept their findings and agree with their conclusions.

(2) The study conducted by Charles River Associates for the City's Economic Development Corporation (EDC)[2] should not be used to inform decision making by the City on this issue.

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[1] Fiscal Policy Institute, May 5, 2011. http://www.fiscalpolicy.org/TopTenReasonsALivingWageMakesSenseForNYC_20110505.pdf.

[2] Charles River Associates, *The Economic Impacts on New York City of the Proposed Living Wage Mandate,* Oct. 2011. http://www.nycedc.com/NewsPublications/Studies/Documents/CombinedReportLivingWageImpacts.pdf.

In both its labor market and its real estate analyses, the Charles River Study is severely flawed. In the interests of time, I will not go through a point-by-point review of that study's numerous failings, but I would be happy to answer any specific questions the Council might have. The study represents a significant missed opportunity that EDC could have taken to actually look at the impact of living wage requirements in other cities or in New York City. It also would have been useful to examine the types of projects actually affected rather than the tact the study took in looking at projects clearly and explicitly not covered by the legislation.

(3) The fundamental question the Council needs to consider is how the City can use is considerable economic development resources to help raise wages and living standards. The EDC study avoided that obvious need. Income polarization is well advanced in New York City and has reached a point where it is harmful to a sustainable economic recovery. As noted in our May brief, "Top Ten Reasons," real wages for New York City low-wage workers have fallen by 8 percent over the past two decades despite the fact that these workers' educational attainment has risen steadily. As the Mayor's own Poverty Commission emphasized in its final report, the relentless rise in the ranks of the working poor is at the heart of the persistence of high poverty levels in New York City. How do we reconcile that problem with the fact that the City has steadily increased the amount it provides to businesses annually in tax breaks and other economic assistance for the purposes of spurring job creation and economic development? Through its discretionary and as-of-right economic development programs and provisions of the city's tax structure, the City provides nearly $3 billion annually in the name of economic development.[3] The proposed legislation would cover the larger projects that are provided subsidies on a discretionary basis by the City's Industrial Development Agency and Economic Development Corporation. Such discretionary subsidies total $300 million on an annual basis. Isn't it time for EDC to tell us how economic development can be used to create better jobs?

(4) A lot of the public debate regarding the current proposal deals with the fact that the legislation covers contractors and tenants of the direct subsidy recipient. The reason for this is the obvious fact that, oftentimes, contractors and tenants employ most of the workers employed at the locations for which developers or large firms receive public subsidies. The intent is to improve the quality of low-wage jobs directly or indirectly subsidized by the city in the name of economic development. As the EDC study notes, if businesses that are the direct employers perceive the living wage requirement as potentially burdensome, the rent negotiation process should result in a rent acceptable to both landlord and tenant. We know from many of the large projects in recent years that have benefited from city subsidies or land use changes that developers often profit handsomely from these high-profile destination projects. Surely, there must be some latitude on the part of such developers to both accommodate tenants and realize a reasonable profit. It is particularly unfortunate that the Charles River study did not examine this issue in greater detail.

Thank you.

[3] For a detailed table on New York City's business subsidies, see Chart 1, James Parrott, Fiscal Policy Institute, Testimony before the New York City Council Committee on Finance, FY 2012 Executive Budget Hearing, June 6, 2011. http://www.fiscalpolicy.org/FPI_Testimony_FY2012Exec%20Budget_20110606.pdf.