

# When Mandates Work: Raising Labor Standards at the Local Level

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# WHEN MANDATES WORK

**RAISING LABOR STANDARDS AT THE LOCAL LEVEL**

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“Mandatory reading for anyone interested in smart mandates.” —Robert Reich



# When Mandates Work: Raising Living Standards at the Local Level

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# Timeline of San Francisco mandates

| <b>Contractor-Only Policies</b>                         | <b>Date passed</b> | <b>Citywide Policies</b>                         |
|---|--------------------|--|
| Equal Benefits for Domestic Partners                    | November<br>1996   |  |
| Employee Signature Authorization<br>(majority sign up)  | December<br>1997   |  |
| Prevailing Wage Revisions                               | November<br>1999   |  |
| Airport Quality Standards Program                       | January<br>2000    |  |
| Minimum Compensation Ordinance<br>(living wage)         | August<br>2000     | Office of Labor Standards Enforcement<br>created |
| Health Care Accountability Ordinance                    | July 2001          |  |
|   | November<br>2003   | Minimum Wage                                     |
|   | July 2006          | Health Care Security Ordinance                   |
|   | November<br>2006   | Paid Sick Leave                                  |
| Hunter's Point Shipyard<br>Community Benefits Agreement | June 2008          |  |

# Main questions

- SF's innovative labor standards policies go much farther than in other cities or states.
- Did their implementation hurt jobs or the local economy?
- What lessons can we draw from this experience?
- Are circumstances that led to adoption and positive effects of these policies unique to SF?
- Or can they be generalized to other areas?

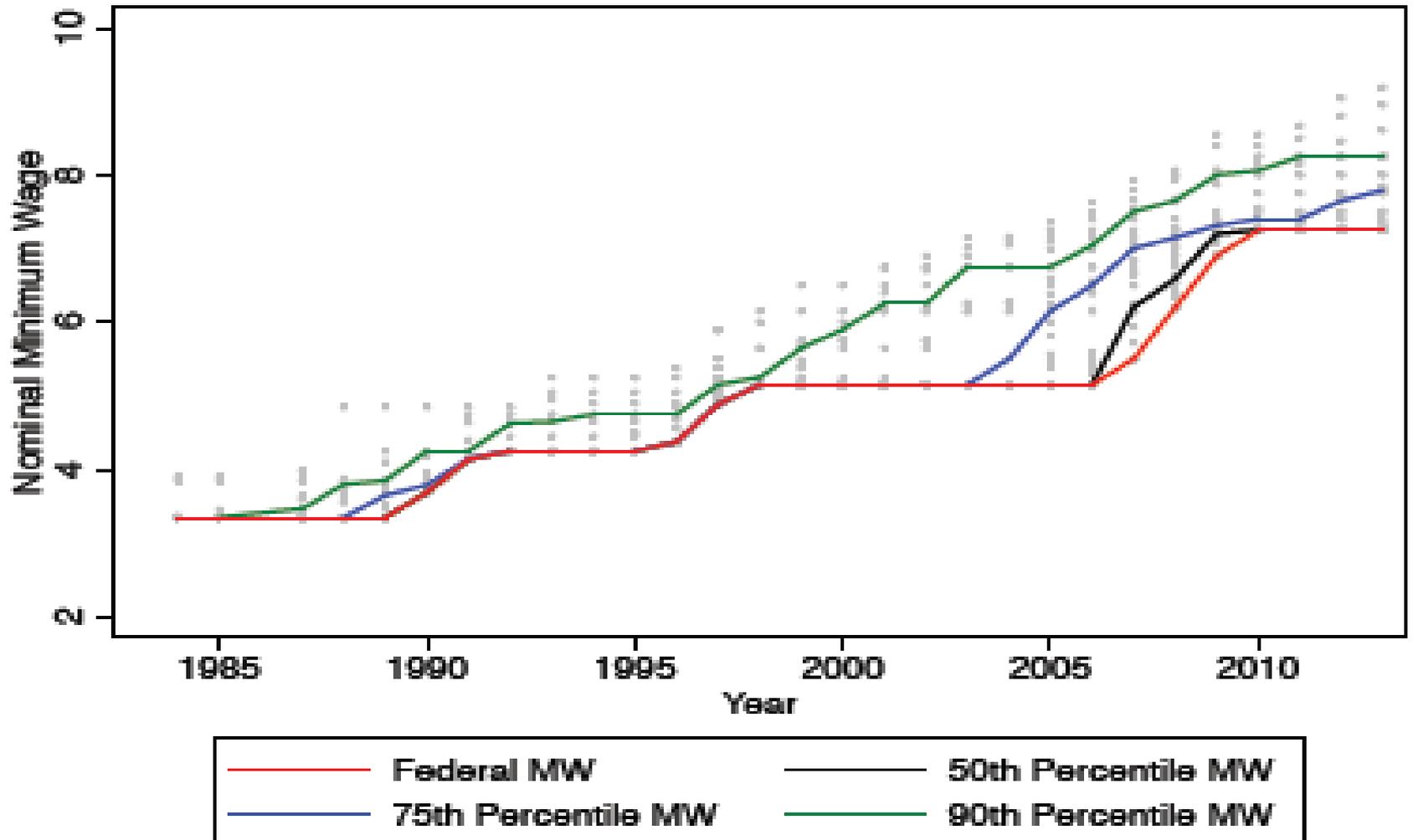
# IRLE Research on SF's policies

- Research, mostly conducted at IRLE, University of California, Berkeley, documents effects of the policies on pay and job creation.
- Opponents of the laws predicted significant negative impacts on jobs and the local economy.
- The research evidence indicates more positive results.
- Our volume brings this evidence together for the first time, reviews it as a whole, and makes it accessible to a broader audience.

# National context: Erosion since 1980 of Federal worker protections

- In the 1980s the real value of the federal minimum wage declined by 30 percent.
- In 2000, 14.9 percent of workers nationally were covered by a union contract, a drop of 42 percent over two decades.
- Counter-trend began in 1994-- Baltimore enacted the first modern living wage law.
- These laws require companies contracting with the city to meet wage standards well above federal minimum wage.
- By 2004, more than 130 local jurisdictions passed such laws.

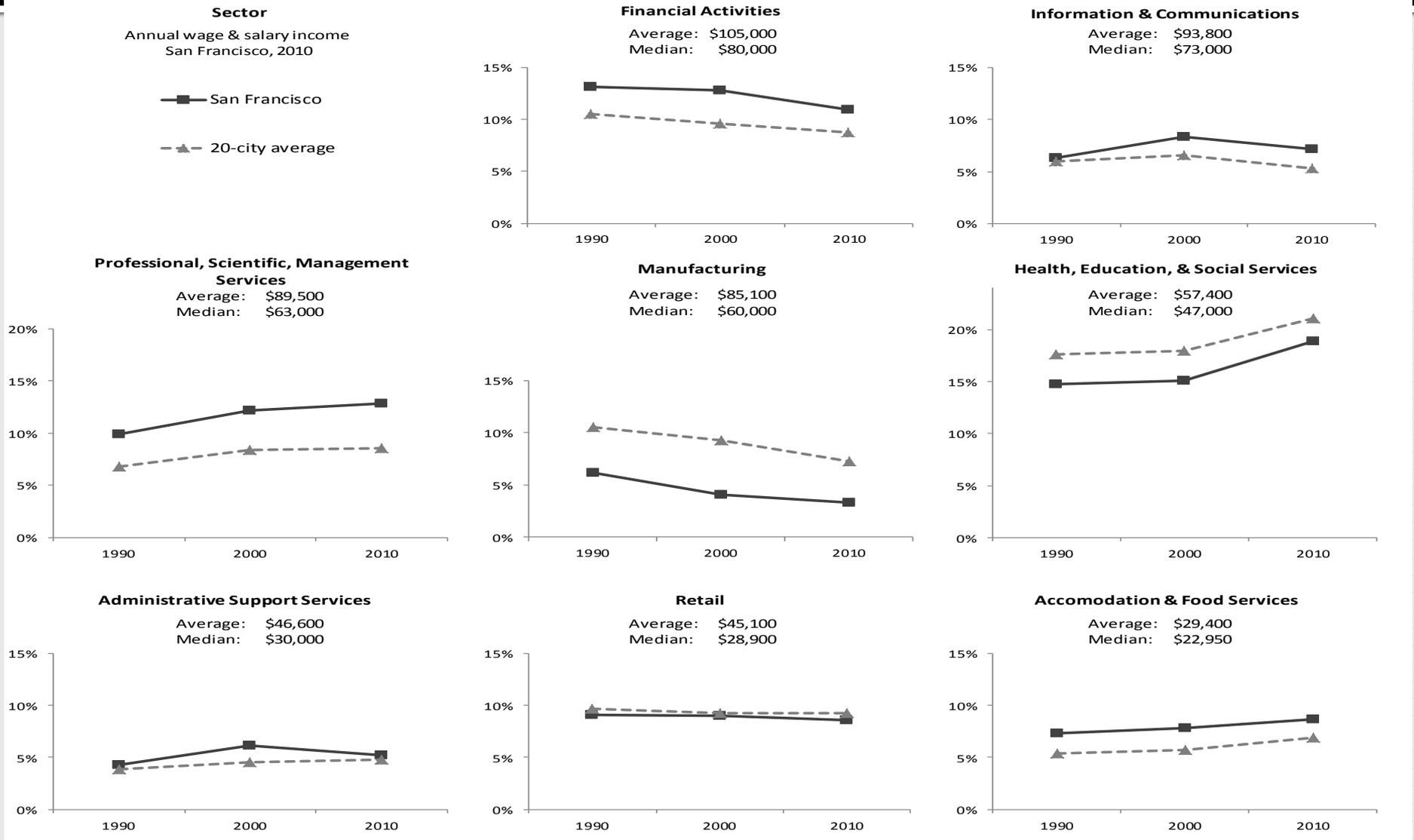
# Growth in state minimum wage variation over time



# Economic context: SF economy typical for large U.S. cities

- Local economic setting—recovery from hollowing out of industry and a loss of middle-paying jobs.
- Rapid economic growth with increasing economic inequality.
- Structural changes similar to those in most cities.
- SF a bit ahead of other cities, but on same trajectory.
- SF experience thus may carry important lessons for city, state and national policy.

# Employment shares, SF and 20 largest central cities, 1990-2010



# Growth with increasing inequality

| Year | Median household income in San | SF relative to California | SF relative to U.S. | Mean to median ratio San Francisco | Mean to median ratio California | Mean to median ratio U.S. |
|------|--------------------------------|---------------------------|---------------------|------------------------------------|---------------------------------|---------------------------|
| 1969 | \$49,271                       | 0.86                      | 0.94                | ---                                | ---                             | ---                       |
| 1979 | \$50,327                       | 0.87                      | 0.94                | 1.3                                | 1.23                            | 1.21                      |
| 1989 | \$59,539                       | 0.93                      | 1.11                | 1.37                               | 1.29                            | 1.28                      |
| 1999 | \$73,156                       | 1.16                      | 1.31                | 1.45                               | 1.38                            | 1.35                      |
| 2010 | \$71,745                       | 1.17                      | 1.37                | 1.43                               | 1.37                            | 1.37                      |

Source: Social Explorer, 2013; United States Census, 2013.

# Changing local political context

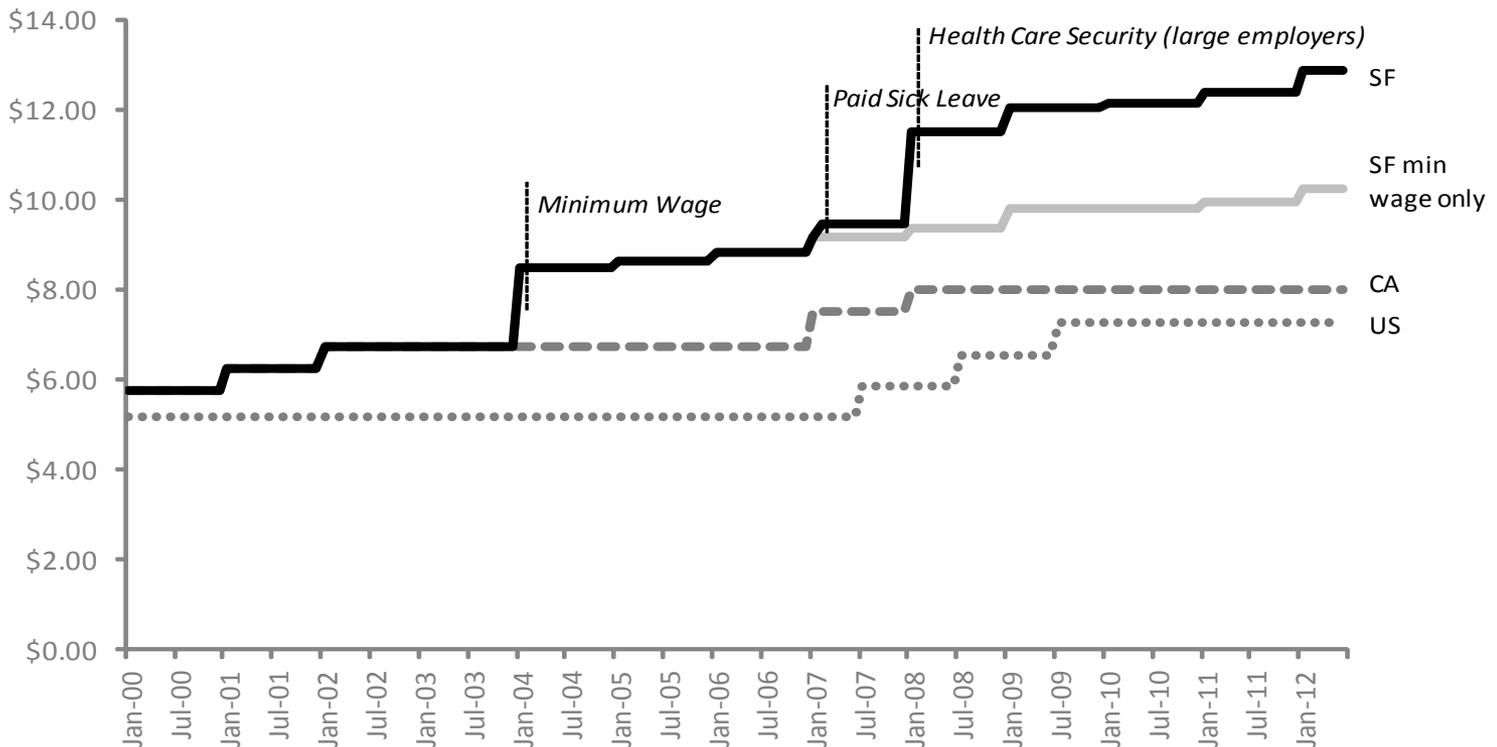
- Prior to 1990s, dominant pro-growth business-labor coalition wanted economic development and jobs for union members.
- This coalition in conflict with progressive community groups.
- Progressives concerned with livable neighborhoods, environmental issues and fairness for displaced groups.
- Beginning in 1990s, new coalitions formed between labor and community-based organizations.
- The new coalitions support mandates that also encourage inclusive and neighborhood-sensitive economic development.

# Possible economic effects of pay and benefit mandates

- Pay mandates: likely to affect employment in competitive model, but not in frictions models, efficiency wage models, or when mandates correct negative externalities (Summers 1989; Krueger 1994)
- Benefit mandates: in competitive model, more likely to be absorbed by lower pay (Summers; Gruber 1994) except at minimum wage, when effects are on employment.

# SF minimum compensation, 2012

Figure 1.3 San Francisco's minimum compensation in 2012



Source: Authors' calculations based on San Francisco Office of Labor Standards Enforcement.

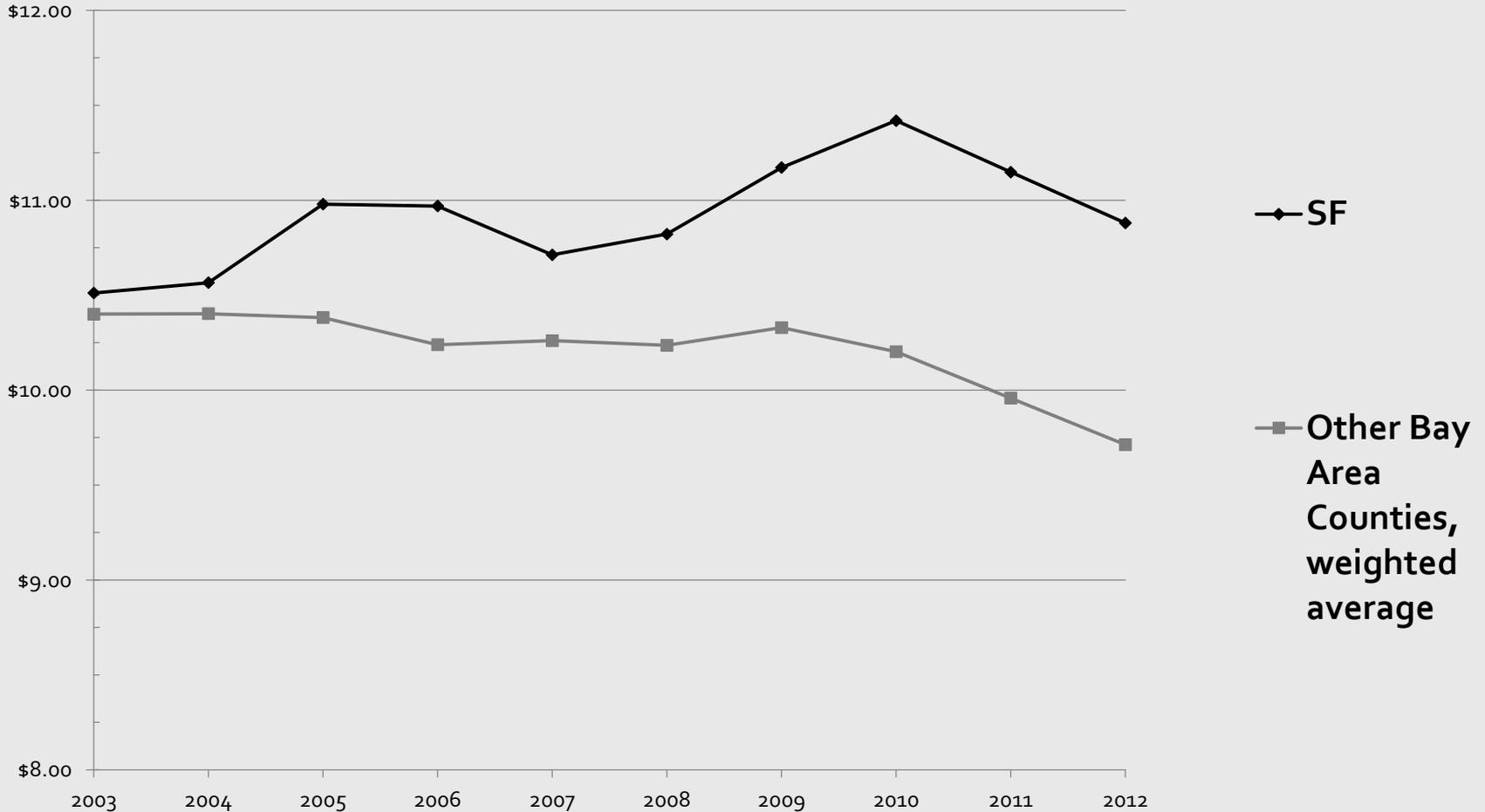
# A nexus of mandates

- 80 percent of SF workers in lowest pay quintile (78,000 workers) received pay increases as result of living wage, city-wide minimum wage and home care policies. 59,000 workers gained access to paid sick leave.
- 76 percent of private employers with 20 or more workers made changes to health care spending or coverage
- 1,000 employers paid into city's health plan, \$80 million on behalf of 55,000 participants.
- By 2004, 66,500 people had taken advantage of equal benefits for domestic partners.

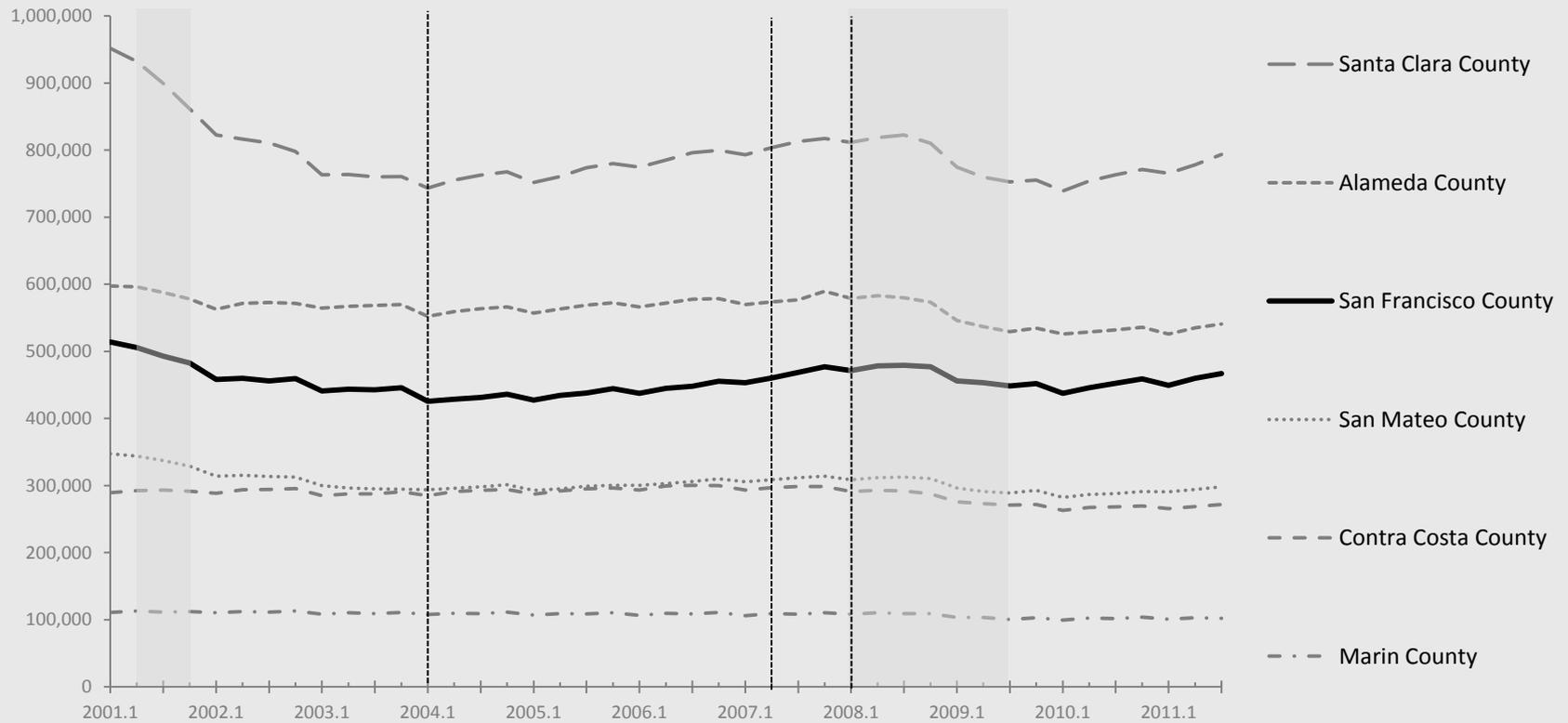
# A nexus of mandates II

- In 2012 about 560,000 people worked in SF.
- Considering only those who received wage increases and who work in SF, workers who benefit make up 12 percent of the city's workforce.
- The benefit mandates reached workers at higher income levels than did the wage mandates.
- Paid sick leave was newly offered to 15 percent of higher-wage employers; 14 percent of health plan participants are above twice the federal poverty line.

# 10<sup>th</sup> percentile wage 2003-2012

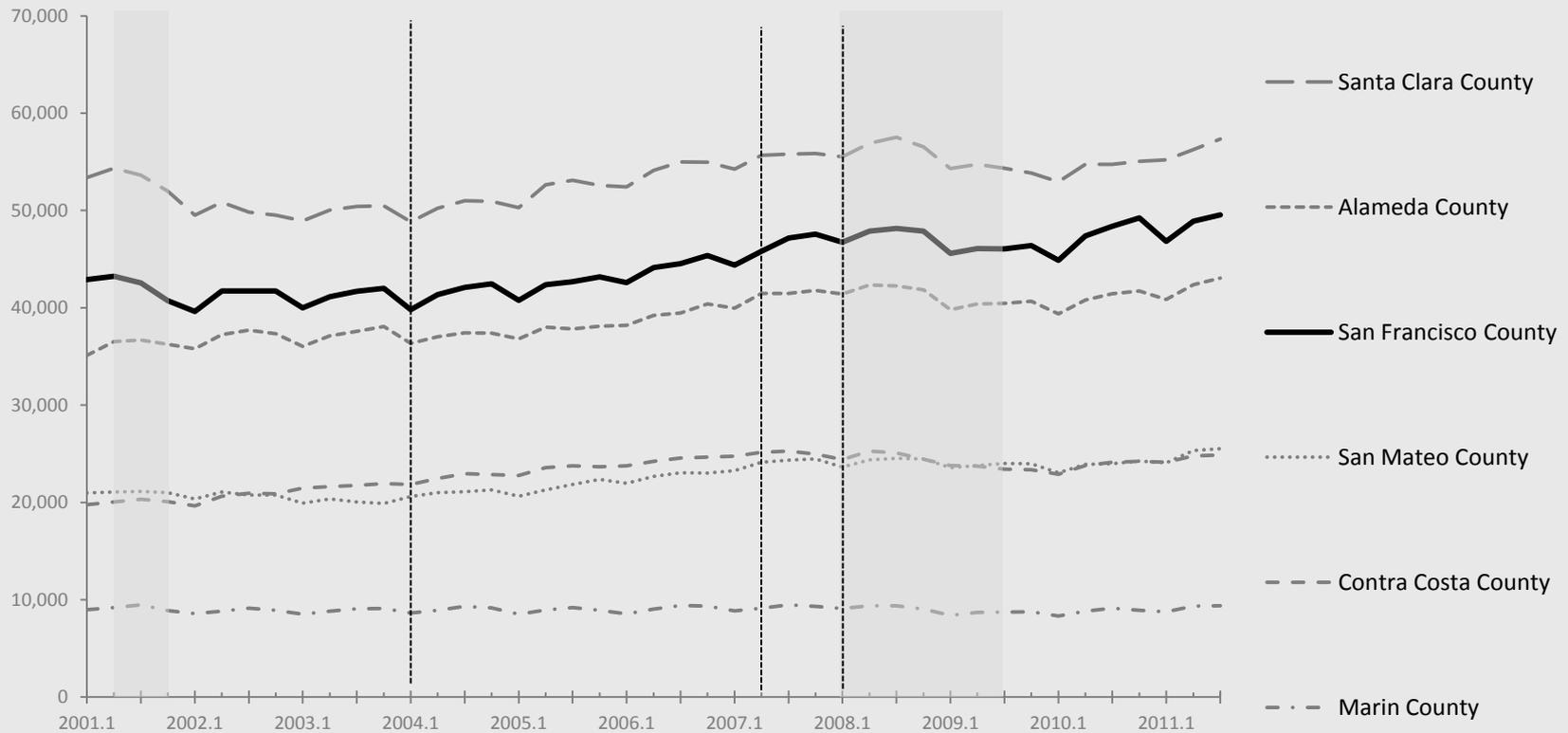


# SF's employment trends mirror surrounding counties



Indicates recession

# SF's restaurant employment grew relative to surrounding counties



Indicates recession

# Living Wage effect on wages at SFO

| <b>Average hourly wage<br/>in nominal dollars</b> | <b>Before QSP<br/>(mid-1999)</b> | <b>After QSP<br/>(mid-2001)</b> |
|---|----------------------------------|---------------------------------|
| Less than \$8 per hour                            | 23.1                             | 0.2                             |
| \$8 to \$9.99 per hour                            | 32.0                             | 4.7                             |
| \$10 to \$11.99 per hour                          | 26.9                             | 61.5                            |
| \$12 to \$13.99 per hour                          | 16.0                             | 28.2                            |
| \$14 or more per hour                             | 2.0                              | 5.5                             |
| All ground-based non-<br>managerial employees     | 100.0                            | 100.0                           |

Source: UCB-SFO Employer Survey, 2001, conducted by the authors.

Note: Chi-squared test indicates that the before and after QSP wage distributions are significantly different ( $p=0.000$ ). Sample size before QSP = 5,497 employees and after QSP = 5,827 employees.

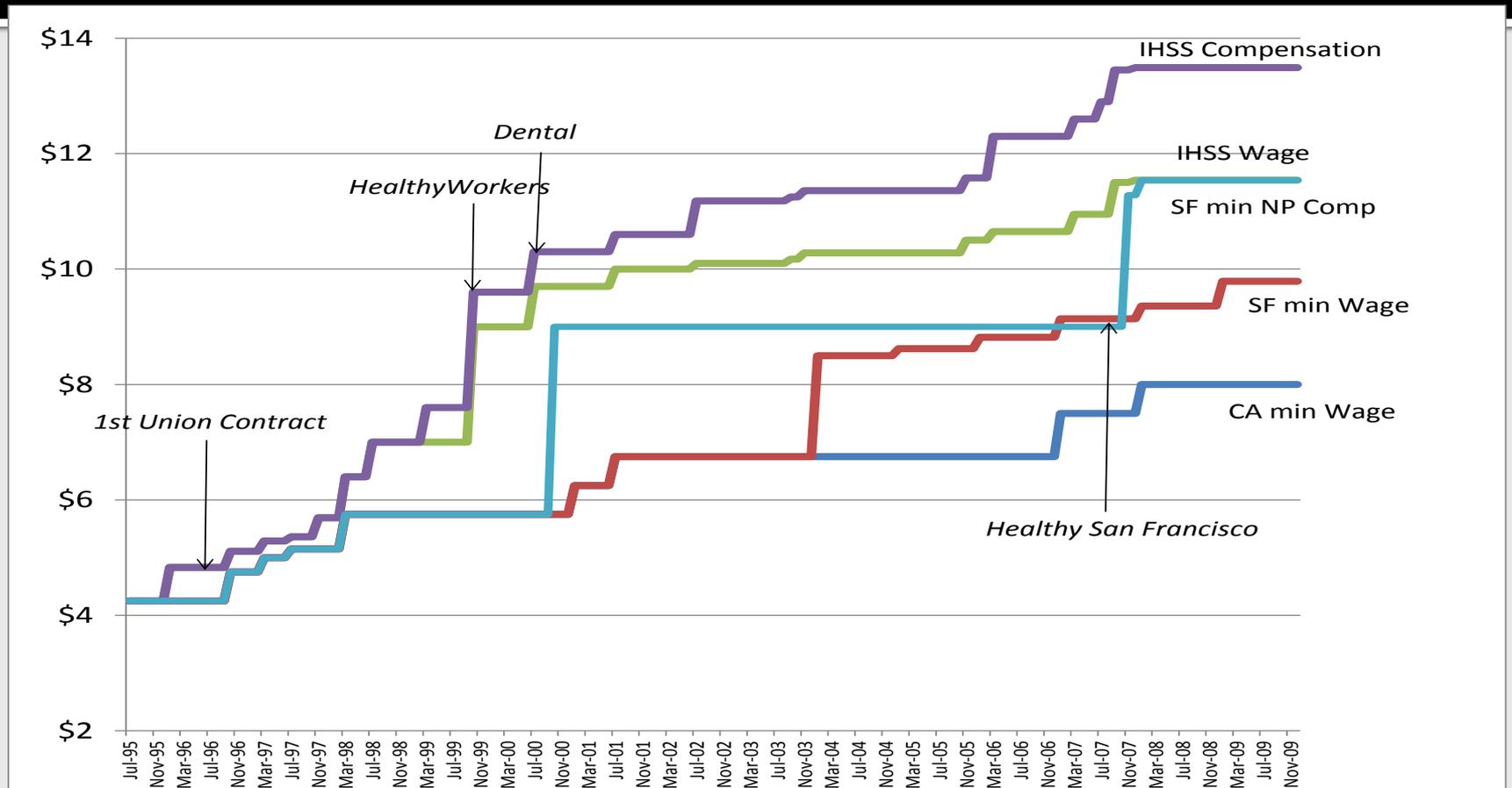
# Living Wage effect on SFO turnover

|                  | Percent increase |              | Percent decrease |
|------------------|------------------|--------------|------------------|
|                  | Entry wage       | Average wage | Turnover         |
| Customer service | 26               | 17           | 5                |
| Baggage/ Ramp    | 27               | 18           | 25               |
| Cabin cleaner    | 32               | 15           | 44               |
| Screeener        | 69               | 55           | 80               |

Source: UCB-SFO Employer Survey, 2001, conducted by the authors.

Note: All figures in percentages. The pre- and post-QSP entry wage, average wage and turnover rates are significantly different at the 99 percent level for all occupations reported here according to the paired sample t-test. Data cover April 2000 to June 2001. Sample size for customer service = 1,621 employees, for baggage/ ramp = 1,484 employees, for cabin cleaner = 553 employees, and for screener = 916 employees.

# Homecare (IHSS) compensation



# Living wage for home care workers increased retention rate

- Regression analysis of retention as a function of relative wage, unemployment rate, whether provider is caring for a relative and other variables (Candace Howes).
- Model predicts: retention is 76 percent when relative wage is 0.8 and 80 percent when the relative wage is 1.4.

# Health spending requirement

- SF the only city with an employer health-spending mandate.
- “Public option” for affordable universal access.
- 76 % of employers increased health spending to comply; 61 % support the law.
- Substantial employer demand for public option: 18 percent of firms use Healthy SF for at least some employees.
- Firms did not drop existing health insurance offerings.
- Little discernible impact on employment or earnings.
- Part of increased cost passed to consumers through surcharges.

# Effect of health mandate on health benefits: bonus table

|  | Full sample   |                                 |                    | Low-wage firms      | Most affected firms |
|--|---------------|---------------------------------|--------------------|---------------------|---------------------|
|  | San Francisco | Regression-adjusted comparisons | Difference (SE)    | Difference (SE)     | Difference (SE)     |
| 2008 Health benefit change   |               |                                 |                    |                     |                     |
| Plan to start offering insurance (of firms currently not offering)   | 41.72         | 8.46                            | 33.25*<br>(17.95%) | 50.53*<br>(25.21)   | 33.25*<br>(17.95)   |
| New Health Reimbursement Account (among firms who did not offer an HRA in 2007)  | 12.77         | 4.90                            | 7.87*<br>(4.02%)   | 20.04**<br>(9.62%)  | 20.64**<br>(7.00%)  |
| Reduced some health benefits (includes increasing employee premium, raising deductible, dropping coverage, or restricting benefits). | 10.57         | 17.48                           | -6.91*<br>(3.82)   | -25.98**<br>(10.82) | 3.35%<br>(9.09%)    |

Source: 2008 Bay Area Employer Health Benefits Survey.

# Universal paid sick leave

## **Table 7.1: Key provisions of the San Francisco Paid Sick Leave Ordinance**

- Workers hired after February 5, 2007 begin to accrue leave after being on the job for 90 days.
- Workers earn one hour of paid leave for every 30 hours of paid work, to a maximum of 9 days in firms with more than 10 employees and 5 days in smaller firms.
- Leave may be used for workers' own illness, injury, health conditions, and medical appointments, and to care for family members or a "designated person."
- Unused leave carries over from one year to the next.
- It is unlawful for employers to retaliate against workers for requesting or using leave under the PSLO.
- Employers are required to post information about the PSLO and maintain records on hours worked and PSD used.
- The San Francisco Office of Labor Standards Enforcement has authority to investigate worker complaints and levy penalties.

# Access to and use of paid sick leave

| Worker characteristics<br>(percent) | Needed PSL<br>in last 12<br>months | Has some<br>PSL | Has full<br>PSL | Workers with<br>some PSL<br>who used<br>PSL in last<br>12 months | Median days of PSL used in<br>last 12 months |   |
|-------------------------------------|------------------------------------|-----------------|-----------------|--|--|---|
|                                     |                                    |                 |                 |  | All workers                                  | Workers with<br>some PSL<br>who took<br>leave |
| <b>All</b>                          | 68.9                               | 84.2            | 44.1            | 72.5   | 2  | 4   |
| <b>Age</b>                          |                                    |                 |                 |  |  |   |
| 18 to 24                            | 68.5                               | 69.6            | 11.7            | 65.9   | 1  | 3   |
| 25 to 54                            | 73.4                               | 85.4            | 46.4            | 77.3   | 2  | 4   |
| 55 and over                         | 51.5                               | 82.9            | 43.2            | 60.4   | 1  | 4   |
| <b>Sex</b>                          |                                    |                 |                 |  |  |   |
| Women                               | 74.4                               | 87.1            | 48.6            | 74.7   | 2  | 4   |
| Men                                 | 64.4                               | 81.9            | 40.4            | 70.7   | 2  | 4   |

# Enforcement

- Individual complaint triggers investigation for all employees (unlike state and federal enforcement).

## 1 Enforcement of city-wide labor laws

| San Francisco Ordinance | Year Enacted | Worker Complaints | Wages / Health Care Expenditures Recovered | Workers Paid Back Wages / Health Care Expenditures |
|-------------------------|--------------|-------------------|--|--|
| Minimum Wage            | 2003         | 616               | \$5,820,000                                | 3,004  |
| Paid Sick Leave         | 2006         | 293               | \$100,000                                  | 434  |
| Health Care Security    | 2006         | 439               | \$6,915,000                                | 6,251  |

\* Sources: SF Administrative Code and OLSE case records through mid-2012

# Lessons for national and urban policy

## Presence of San Francisco-type laws in other jurisdictions I

- **Equal Benefits for Domestic Partners**
  - 19 other localities including Los Angeles, Minneapolis, Philadelphia and Seattle and State of California
- **Union Majority Sign-up / Card check / Labor peace**
  - A handful of localities including airports, school districts, and cities
  - Employee Free Choice Act proposed nationally 2009
- **Living Wage at airports**
  - Los Angeles, Miami, Oakland, San Jose , Seattle
- **Living Wage**
  - First enacted in Baltimore, living wage laws now exist in over 130 cities, counties and university campuses.
- **Contractor Pay-or-Play Health Policy**
  - Houston
  - New Mexico

# Presence of San Francisco-type laws in other jurisdictions II

|                               |  |   |
|-------------------------------|--|---|
| Minimum Wage                  | <p>Cities:</p> <p>Albuquerque (\$8.50), San Jose (\$10), Santa Fe (\$10.29), Washington DC (\$8.25).</p>   | <p>States:</p> <p>18 states with minimum wage laws above federal minimum wage and/or indexed to cost of living:</p> <p>Above federal: AK, CA, CT, IL, NM, MA, ME, MI, RI.</p> <p>Above federal and indexed: AZ, CO, FL, MT, NV, OH, OR, VT, WA.</p> |
| Paid Sick Leave               | New York City, Portland OR, Seattle, Washington DC   | Connecticut   |
| Health spending mandates      |  | Similar elements in HI and MA and in national Affordable Care Act.  |
| Community Benefits Agreements | Atlanta, Denver, Los Angeles, Milwaukee, New Haven, New York, Oakland, Philadelphia, Pittsburgh, San Jose, San Diego, Seattle, Syracuse, Washington DC, among others |   |

# Conclusion: How generalizable?

- **Specific crafting of SF's mandates contributed to success.**
- **An inclusive political process accounted for local economic conditions and community needs.**
- **Attentive to compliance issues.**
- **With careful consideration of local conditions, SF-type standards would work in many other places.**
- **Many SF policies have been adopted or are being seriously considered in other localities and states.**