

## STATE PREEMPTION OF LOCAL LIVING WAGES

### House Bill 4766 (Substitute H-3) First Analysis (11-30-00)

**Sponsor: Rep. Andrew Richner**  
**Committee: Employment Relations,**  
**Training and Safety**

#### ***THE APPARENT PROBLEM:***

The contemporary “living wage” movement began in the 1990s, with the city of Baltimore, Maryland, being the first municipality to enact a living wage ordinance in 1994. (See BACKGROUND INFORMATION.) Since then, over 40 local governments across the nation have enacted some version of a living wage requirement. In Michigan, Detroit was the first municipality to pass a living wage ordinance, the result of a November 1998 ballot initiative that passed by 81 percent of the voters. Both the city of Ypsilanti and Ypsilanti Township passed living wage laws in 1999, as did the city of Warren in 2000. (See BACKGROUND INFORMATION.) The former mayor of Ann Arbor vetoed a living wage proposal, and the city of Kalamazoo also decided against implementation of a living wage ordinance.

Legislation has been proposed to prohibit local municipalities from enacting living wage ordinances and to void existing living wage ordinances.

#### ***THE CONTENT OF THE BILL:***

The bill would amend the Minimum Wage Law of 1964 to prohibit local units of governments (defined in the bill to mean a city, county, township, village, school district, intermediate school district, or any political subdivision of the state) from enacting, maintaining, or enforcing (“by charter, ordinance, regulation, rule, resolution, or contract, either directly or indirectly”) a minimum wage requirement that was greater than that specified in the act. Currently, the state (and federal) minimum wage is \$5.15 an hour.

MCL 408.383

#### ***BACKGROUND INFORMATION:***

“Living wages.” The term “living wage” usually applies to wages set by local ordinance that are higher than state or federal minimum wages and that cover

certain employers. Some ordinances cover only businesses that contract with the municipality, others also cover businesses that receive public subsidies (such as tax abatements), and some cover the public entity itself. Living wages differ from both “minimum wages” (the minimum amount that a worker can be paid an hour under state or federal law) and “prevailing wages” (occupationally-based wages in which half of all workers in the community in the particular job earn more and half earn less). The prevailing wage generally is higher than the minimum wage, but lower than a living wage. A living wage usually is determined by reference to the federal poverty guidelines (which are different from, and more current than, the federal poverty thresholds) for a specific family size. An example of a living wage would be a wage level equal to what a full-year, full-time worker would need to earn to support a family of four at the poverty line, which this year (2000) would be \$17,690 a year or \$8.20 an hour. Some living wage levels are set to equal up to 130 percent of the poverty line, which is the maximum income a family can have and still be eligible for food stamps. Some living wage advocates have attempted to calculate a living wage based on a “self-sufficiency” income level, such as that needed to provide for a family’s basic needs; this kind of living wage is generally much higher than the federal poverty guidelines. Cities and counties with higher costs of living tend to have higher living wage levels, which currently range from a low of \$6.25 in Milwaukee to a high of \$10.75 in San Jose.

Living wage ordinances in Michigan. The Detroit living wage ordinance applies to all employers who receive over \$50,000 either in yearly city contracts or public financial assistance given for the purpose of economic development or job growth. The Detroit ordinance requires a minimum living wage equal to the federal poverty line for a family of four (\$8.35 an hour during 1999) if the employer provides medical coverage, or 125 percent of the poverty level if no

medical coverage is provided (\$10.44 an hour during 1999). To the greatest extent feasible, employers falling under the ordinance also must fill jobs created by the contracts or financial assistance with Detroit residents.

The living wage ordinance passed in 1999 by the city of Ypsilanti applies to service contracts or financial assistance over \$20,000 in a year, with a wage of \$8.50 an hour with benefits or \$10 an hour without benefits. Ypsilanti Township's ordinance applies to contracts over \$10,000, also with a wage of \$8.50 an hour with benefits and \$10 an hour without benefits. The city of Warren's living wage ordinance applies to service contractors receiving financial assistance over \$50,000, with a wage equal to the federal poverty level for a family of four with benefits, or 125 percent of the federal poverty level without benefits.

### ***FISCAL IMPLICATIONS:***

Fiscal information is not available.

### ***ARGUMENTS:***

#### ***For:***

Proponents of the bill, which consist mainly of business interests and some nonprofit organizations, generally argue that "the market" should be the ultimate determinant of wages and that there should be a uniform state-wide wage, set by state, not local laws. Proponents argue that living wage ordinances will increase taxes because they increase the local unit of government's costs. The higher wages required by living wage ordinances can discourage businesses from bidding on contracts, and the decreased competition could then both drive up costs and decrease quality. In addition, monitoring and enforcing such ordinances also carry additional costs in themselves. Proponents also argue that living wage ordinances entail overly-burdensome and costly administrative requirements, as well as creating a hodge-podge of different requirements across the state that are costly for businesses that operate across political boundaries to meet (especially when businesses already have to meet burdensome federal and state regulations). Proponents also argue that such ordinances actually hurt the people they are intended to benefit – the lowest-paid and least skilled workers – because higher wages will force businesses to cut jobs. Proponents argue that although poverty needs to be reduced, living wage ordinances are not the way to do this, and that promotion of job training and other educational opportunities would be more effective in increasing job opportunities and job advancement. Proponents also argue that living wages

create a "hostile" business environment that will discourage economic investment in communities with such ordinances and drive out existing businesses by raising the cost of doing business in the community. Such ordinances can be particularly harmful to economically distressed areas trying to attract and keep new businesses. Proponents argue that living wage ordinances will hurt nonprofit community organizations that provide basic services to the poor and the needy because the higher wages will mean that nonprofits will have to lay off some workers in order to meet the wage requirements. Other arguments for the bill include the negative impact that living wage ordinances have on small businesses, and particularly small businesses owned and operated by women and minorities.

#### ***Against:***

Opponents of the bill argue that the state should not usurp yet another power of local governments – especially one so basic as the decision of how to spend local tax money for contracted services. As the recent "local control" ballot proposal (which did not pass), Ballot Proposal 2, indicated, some local officials are concerned that the home rule powers granted by the Michigan constitution have been increasingly ignored by state officials, who have intervened in local matters inappropriately. Several recent state laws, for example, have ordered the state's more than 525 school districts statewide to cancel classes on the Friday before Labor Day; have restricted the authority of cities and townships to regulate local farms, including intensive animal operations; replaced Detroit's elected school board with an appointed board (and introduced a bill to do the same in Benton Harbor); and voted to end a decades-old practice in some cities that required public employees to live inside municipal boundaries. Some opponents of the bill also suggest that had the bill been acted upon before this November's election, Proposal 2 (which would have required a legislative "super majority" vote to enact certain laws affecting local government) might well have passed.

#### ***Against:***

Opponents of the bill argue that the negative business, labor, and tax effects predicted by proponents of the bill are not substantiated and that living wage ordinances can benefit local economies by enabling local workers to reinvest their higher wages in their communities in the form of buying the basic necessities of life, such as paying for food, shelter, and medical care. Opponents argue that taxpayers costs will be decreased because workers who are paid a living wage will no longer need public subsidization. Opponents also argue that as a matter of simple social justice, full time workers ought to be able to earn enough money to

support themselves and their families. At a time, moreover, when welfare reform policies are stressing the need for people to move from public assistance to paid employment, if the only available employment is at below-poverty level income, living wages are more important than ever for the most disadvantaged in society.

\* The Michigan Federation of Teachers

### ***POSITIONS:***

A representative of the Kalamazoo Chamber of Commerce testified in support of the bill. (11-29-00)

A representative of the National Federation of Independent Businesses testified in support of the bill. (11-29-00)

The following groups indicated support of the bill (11-29-00):

- \* The Small Business Association of Michigan
- \* MacDonald's Corporation
- \* The Grand Rapids Chamber of Commerce
- \* The Michigan Chamber of Commerce
- \* The Michigan Restaurant Association
- \* The Michigan Manufacturer's Association
- \* The Detroit Chamber of Commerce
- \* The Michigan Grocers Association

A representative of the Washtenaw Coalition for a Living Wage testified in opposition to the bill. (11-29-00)

A representative of the Michigan AFL-CIO testified in opposition to the bill. (11-29-00)

A representative of the United Food and Commercial Workers' Union, Local 876, testified in opposition to the bill. (11-29-00)

The following groups indicated their opposition to the bill (11-29-00):

- \* The Michigan Education Association
- \* The Michigan Regional Council of Carpenters
- \* The United Auto Workers International

Analyst: S. Ekstrom

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#This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.