The living wage sounds like a nice political gesture but it is not a sound economic strategy. The living wage is an "effective" price floor that is more than double the equilibrium price. This price is not decided naturally by the market like the majority of its counterparts in the economy but instead artificially raised by government interference.

The intended consequences of this legislation would be to make sure all city of Lansing employees and contractors earn enough to support a family of four above the poverty line ($19,350 in 2005). Another benefit of this legislation would be for political gain as it is popular among many voters and the low skilled workers who benefited.

However there are many unintended consequences of such legislation. As shown by the chart, the price floor will create a surplus. The supply of available workers will be much greater than the demand by both the city of Lansing and its contractors for such
workers. When the supply of the labor force is much greater than the labor demanded (jobs), the resulting surplus will manifest itself as a higher unemployment rate. This makes many former low paying jobs much like a lottery, the workers who keep their jobs are “lucky”, but there are now more of these unemployed workers on the outside looking in. In a state with the second highest unemployment rate in the nation (7%), legislation that will further increase this rate locally is not needed. On top of that, this additional pay cost the city money both directly and in the form of higher contract prices. This in turn hurts every taxpayer in the city who will eventually pay for this living wage legislation. Another unintended consequence of this legislation is less new investment from outside firms and stagnant growth. A business that will have any future contracts with the city and is looking to relocate will be less likely to relocate and invest in the city if the other options will be less expensive. A lack of new capital investment can further compound the high unemployment problems currently facing the city. Another unintended consequence of this legislation is the workers it unfairly benefits most. An unskilled worker who is single with no dependents has wages greater than the “family of four poverty level” regardless of whether or not they actually have a family to support. Meanwhile a worker who actually has a family to support gets paid the same wage, if of course, they actually have a job in the first place. A final unintended consequence of a living wage ordinance is the black market they can create. When there is a very strong supply of labor, workers lucky enough to have a job can subcontract their jobs to workers willing to work for below the current living wage. While this situation will most likely remain rare, if the living wage price floor keeps rising above the equilibrium wage of
labor it could become more common, especially among unsupervised jobs such as truck drivers.

The living wage is only offered to city employees and contractors. This creates a problem in that a few jobs in Lansing have a minimum wage that is twice the wage of other comparable jobs in the city. So a few city employees will be lucky, but the rest of the city will suffer from higher unemployment and increased taxes. The city of Lansing is not a private firm and they have monopolies in many areas. These monopolies may further increase in areas where they can offer twice the wages to workers as competing (private) firms. To make matters worse, this unfair advantage is only available because of taxpayer money and the city doesn’t feel the effective cost of such a program.

There are a multitude of alternatives to this living wage legislation. The city could at least make available the living wage to all workers who reside and work in the city of Lansing. Better yet, they could lower or forego the living wage and instead focus on supporting new business investments and economic growth that will in turn supply jobs and lower unemployment. They also could improve educational opportunities and provide tax credits to businesses in the city that pay their low skilled workers fair wages and benefits. Hopefully, this tax incentive would allow the majority of workers in the city of Lansing to be paid a wage at or above the living wage without artificially superimposing a pay rate for a few lucky workers.
As the economic advisor to the city council of Lansing, I would advise against the Living Wage policy. This policy would have adverse affects on the low skilled labor market in Lansing as well as affects on the contracting industry here in Lansing. By setting up this living wage we are creating an artificial price floor in the market for unskilled labor. This policy will create a huge surplus of workers in our market, this means less workers will be employed, but at a higher wage. This poses a problem, because this legislature is supposed to help people in poverty or people near poverty to earn a wage that is equal to the federal poverty rate. What this is going to do is put a lot of people who had jobs at $6/hour out of work, because employers will be forced to hire these people at a higher wage, and they will hire less of them. (See Attached for Market, and diagram of price floor.) This will cause the market to go into disequilibrium, which as stated before will cause a surplus of unskilled workers, which will cause a high amount of unemployment among the unskilled workers. People who were willing to work for $6/hour will not be able to find jobs anymore, which will cause an increase in people going on welfare, and unemployment.

There are also some unintended consequences of this policy as well. By making contractors that work for the city abide by this policy; it will cause the better companies to shy away from working in this city. The more skilled contractors that can do business in the private sector will not want to work in Lansing, because they have to pay their unskilled workers more, for the same amount of money for the job as before. This will cause their cost of resources to go up so it will negatively shift the supply; therefore there will be fewer contractors willing to work for this city. The contractors that do work for this city will hire less unskilled workers to do the same job because of the high wages
they have to pay them. That will cause jobs to take a longer time, and they will be less efficient. Overall this will cause bad things to happen to the unskilled labor market here in Lansing, and will affect the quality of work done by the contractors that do come here to work.

I propose that we keep the system the way it currently is and let the market naturally create the equilibrium. There are too many negative affects of the Living Wage policy, plus I believe that too much government involvement has an adverse affect on markets most of the time. There are plenty of people who are willing to work at the current rate, so why not let them work at that rate. If we enact this policy there will be a lot of people out of jobs, which will cause very negative affects on this city (as stated above.). So, for the time being I would advise that we let the market run it’s course, until we can come up with a policy that has less negative affects on our local economy.
The important thing to remember when dealing in economics is that everything involves trade-offs. At the moment, the equilibrium wage for low-skilled workers is $6 per hour, and the “living wage” is calculated to be a little over $12 per hour. Therefore, if it became a law that all companies had to pay the living wage, then a binding price floor would be enforced at $12 per hour. This, of course, would allow all citizens to support a four-member family with the bare necessities, but there are other things to consider.

First of all is that firms cannot afford to keep all of the workers that they currently employ at a wage of $12 per hour. This is the first trade-off in mandating a living wage. People will lose their jobs, but those who keep their jobs will obviously be better off.

Second is the potential misallocation of the living wage. It is intended to make such a situation where people who need to support families can afford to do so; unfortunately, most unskilled workers at the minimum wage of $6 per hour do not have families to support. They are usually teenagers working a part-time job. While they will appreciate the increase wage, it fails to serve its original purpose because the law is too broad. If it were specified to those with dependents, then it would allow for the intent to be more efficiently fulfilled with less of a loss in jobs.

Third is the increased cost to firms. They would not be able to afford to produce at the same amount since their input costs (labor) would increase. In the short-run this will cause them to fire their employees. In the long run this may cause them to raise their prices, since those who are still employed will have more money to spend, shifting the demand curve to the right, with an ambiguous effect on production quantity due to the earlier shift in supply form the lay-off of workers. All of these statements are supported in graphs below.

In conclusion, I would suggest that you do not support this bill as it stands. If you want to institute living wages for Lansing you should push for reform in the bill for the proper allocation of the wages in the knowledge that this, while more efficient, would still result in job loss and a drop in production.
This legislation could have huge negative ripple effects in the economy if it gets passed. The legislation sounds like it would be very beneficial to low-income families who are trying to survive. However, the negative effects of a price floor could actually cost many low-income families their occupations. Many local businesses may no longer be able to afford to pay all current employees at this “living wage”. If the cost of one employee is close to double what the same employee use to be worth some companies will have to cut back. As you can see in the graphs below this will create a labor surplus in Lansing. Graph A shows the current condition of the labor market with an equilibrium wage rate of $6/hour. Graph A then clearly shows the surplus of labor that will be created as a result of the artificial price floor of $12.09.

As the graph illustrates many Lansing residents will find themselves unemployed. This will affect even those who are able to keep their jobs in the form of lost tax dollars. Unemployed citizens will draw money from social services to meet their needs. With welfare and unemployment being overdrawn the city will have to raise taxes, which will not be popular with voters. These same citizens might also turn to crime in order to provide for their families. An increase in crime will cost the city lots of dollars in the form of police wages. Also if people cannot survive here they will move on further damaging the economy. As people move from the city of Lansing their tax dollars will also leave. High labor costs will also discourage future potential businesses and employers to look elsewhere when deciding to build their next venture. If they can pay employees half as much in Jackson then that’s where they will go. Discouraging new business is not the best way to get elected. The living wage ordinance could have very bad consequences that the city may not be able to recover from. These effects will be felt within the city limits for decades to come. It sounds like a great idea but the citizens it’s supposed to help will end up suffering the most because they will most likely lose their only source of income. This ordinance could cost the city thousands of tax dollars in the long run and future opportunities. I don’t think you should back this ordinance.
Mr. Future City Councilor,

I must warn you of the limitations associated with the legislation requiring a living wage for city contracted employees. While this legislation promises to deliver the commendable act of higher living wages to "improve the lives of working people and their families"; it hardly achieves its aspirations. Instead the actual legislation would impose a price floor that could cripple Lansing; as such I urge you to take into account the pitfalls of such an economic policy, doing so would help prevent increased unemployment, loss or renegotiations of city contracts and dissatisfaction from many in the voting public.

At current the market equilibrium rate for a low-skilled worker in Lansing is $6 per hour, with the new legislation the lowest the wage a city contracted employee could receive would be $12.09. This high wage is more than double the current equilibrium wage, which, as many may boast, will increase the demand for jobs here in Lansing. However, this rise in wages will also decrease the supply of jobs as the attached graph shows. Moreover this wage increase is not just limited to full-time employees it is also extended to part-time employees, a part of the working public that is often downsized when business cost increase. This is especially prevalent with the condition that only contractors with five or more employees will be held to the standard of higher wages. This condition not only encourages smaller businesses but potentially even encourages layoffs.

With the increase in business costs it is also completely conceivable that there will be back lash on the city’s contracts. When negotiations come up with the city of Lansing the bids for jobs will be at a higher price then the city has previously seen, an unwelcome sight for a city already crippled with a growing debt. These higher cost of doing business need to be addressed because someone is going to have to pay for the higher wages and it is likely to be the tax payers of Lansing. The new legislation also comes with the clause that the standards for higher wages will only be held to contracts exceeding $50,000. In an attempt to avoid the increased cost of business it is conceivable that companies may try to limit there contracts with the city or take their business elsewhere simply because it is not worth double the wage cost to do business with Lansing. With the already high wage of $12.09, a number that is 125% above the poverty level and the fact that the wage is up for recalculation each February, Lansing’s wages maybe too much to swallow for business owners.

Most importantly, to a hopeful future city councilor, a job that makes you an employee of the taxpayers of Lansing, you must look at the dissatisfaction of your employer, the public. The higher wages that cause higher contract prices result in higher taxes, unwelcome news to any tax payer. If contracts are neglected as a result of these new higher wages, many in the public will be looking to you to find out what that means to their lives. Will roads no longer be paved, or snow no longer shoveled from the side walks and will the busses that transport many still run, if the contracts are canceled due to higher wages. Also many in the public lack the understanding of simple economic models that express that as demand increases supply doesn’t always follow, especially in the job market. This legislation promises so much but may in reality deliver very little to the people of Lansing. That is why I urge you to thoroughly analyze the economic impact of this proposal before you endorse it with your support.
Equilibrium Price

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<tr>
<th>Wage</th>
<th>Job Supply</th>
<th>Job Demand</th>
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<tr>
<td>12</td>
<td>40</td>
<td>160</td>
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</tbody>
</table>

(Q) Jobs

(Q) Wages

(Q) Jobs

Demand for employees

Surplus

Price floor

Q_s = the # of employees looking for a job at $12.09

Q_0 = the # of jobs available at the wage of $12.09