

SYRACUSE UNIVERSITY  
MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS

**PPA 723**

**Managerial Economics for Public Administrators**

*Case #1*

**A LIVING WAGE FOR SYRACUSE**

A growing number of cities in the United States have passed living wage legislation in recent years. These laws require that affected workers be paid a minimum wage that is higher than required by federal minimum wage laws. Currently, the U.S. minimum wage is \$5.15 per hour. Typical minimum wages mandated by living wage laws range from \$7 - \$10 per hour. In some cities, nearly all workers are affected. In others, only workers employed by the government, or by companies doing business with the government, are covered by the living wage requirement.

Recently, the city of Syracuse considered a living wage law. The proposed law would only apply to employees of the city, employees of contractors that do more than \$20,000 worth of work for the city, or employees of companies that receive more than \$20,000 in economic development aid from the city. The living wage legislation would define any workers meeting these characteristics as “eligible workers”, and require that they be paid at least \$8.96 per hour.

In preparation for debate on the living wage legislation, you have been asked by a member Syracuse Common Council to prepare a two-page memo summarizing the potential impact of the legislation. The representative has asked you to provide estimates of the following: how employment levels will change in response to the policy and how workers’ incomes will be changed by this policy. Your analysis should consider not only the effect of the legislation on those directly covered by the living wage, but also how (if at all) other labor market participants will be affected. The councilor wants to be prepared to respond in the debate to concerns raised by the business community about the impact of this policy on the labor market for non-eligible workers. She also wants to be prepared to ask and respond to questions about which groups within her constituency will be harmed or helped by the proposed policy.

To aid your analysis, you have been provided with the following information (some real, some hypothetical). Please note that some of the information provided may be irrelevant. You may assume that a typical full-time worker works 40 hours per week, and works 50 weeks per year.

Population	147,306
Number of workers	79,545
% of these that are defined as “eligible workers” <sup>1</sup>	15%
Unemployment rate	4%
Median household income	\$40,747

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<sup>1</sup> Note: this percentage includes *all* workers whose jobs would be covered by the living wage law.

*Percentage of all workers earning different wage levels:<sup>2</sup>*

Category 1	\$5.15	7%
Category 2	\$5.50	1%
Category 3	\$6.00	2%
Category 4	\$6.50	3%
Category 5	\$7.00	4%
Category 6	\$7.50	3%
Category 7	\$8.00	3%
Category 8	\$8.50	2%
Category 9	\$9.00 and over	75%

<i>Demographics of affected workers</i>	<b>% in affected wage group</b>	<b>% in overall labor pool</b>
% between 16-19 years old	15%	5%
% living in households below poverty line	33%	23%
% female	58%	48%

In addition to the above demographic data, your research has uncovered the following economic parameters. Estimates of the elasticity of labor demand with respect to wages for low-wage workers range from a short run estimate of  $-0.1$  to a long run estimate of  $-0.3$ . To interpret these elasticities, first realize that for a given job category, there is a demand for labor and a supply for labor that determine the equilibrium. Think of the wage levels per hour as the price of labor, workers as suppliers of labor, and employers as demanders of labor for a given category. Higher categories require higher previous experience, skill, or education levels and hence draw higher wages. You can assume that the information presented above represents the job market equilibrium for the different categories of labor, and that the demand elasticities reported can be applied to the demand curve for each of the different categories. Furthermore, your research staff estimates that, 35% of workers laid-off by affected employers will find employment with non affected employers looking for the same type of labor within city limits, and an additional 15% will be hired by non-affected employers in the surrounding suburbs. (*Hint: for one group of wage-earners, finding similar positions will not be possible due to the federal minimum wage policy.*)

The council member would like your recommendation for how to vote on the proposed living wage. Be certain to indicate the extent to which your recommendation is based on your analysis and the extent to which it is based on your personal value judgments.

As the contents of your memo will be used to prepare the council member for debate, it is important that this information be presented in a direct, non-technical manner that is accessible to non-economists. As such, the council member has asked that you limit your analysis to two pages. If necessary, you may attach a graph or two to your memorandum, but you should use them as a supplement, not as a substitute for a written explanation.

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<sup>2</sup> You may assume that the distribution of wages is the same in affected and unaffected jobs.