Edgar O. Olsen, professor of economics

Inside UVA: Have your students been following the living wage campaign?

Olsen: Many have followed it, and recently in my Econ 305 class, Economics of Welfare Reform, I asked my students to collect some information relevant for assessing the proposed living wage. So they are now in a better position to have an informed opinion.

Inside UVA: What is your view of the living wage proposal?

Olsen: It is a bad way to go about seeking social justice. A better way is through good government policy. Social justice is what our welfare programs are all about. As a country, we already have programs in place to support social justice that were created by our elected representatives and funded by working people at all levels of society. Ensuring a minimum standard of living is an appropriate role for government, but not for a private employer. Our federal and state governments disburse about $600 billion in welfare assistance annually to our country's poorest families. These programs include: Medicaid, a program that helps low-income people obtain medical care; food assistance programs, such as the Food Stamp Program, the Women, Infants and Children (WIC) Program and the National School Lunch Program; housing programs, such as public housing, housing vouchers and subsidized private housing projects; and cash assistance programs, such as the Earned Income Tax Credit, Supplemental Security Income and Temporary Assistance to Needy Families (TANF).

One reason that government programs are a superior solution to the problem of insuring a minimum standard of living for all citizens is that, unlike the living wage proposal, they adjust benefits to account for differences in family composition. If the proposed living wage were appropriate for a four-person family with two full-time earners, it would be deficient for a family with one earner and three children and excessive for a family with two earners and one child.

Inside UVA: As an economist, are there any issues that you believe are important but that you haven't seen discussed in the public debate about a living wage?

Olsen: Yes. Why is there this unquestioning acceptance of the numbers for the cost of living from the Economic Policy Institute? To take one example, the Economic Policy Institute includes $744 a month for housing in its 2005 budget. That number is the so-called Fair Market Rent (FMR) for a two-bedroom apartment in Charlottesville in the U.S. Housing and Urban Development's Housing Voucher Program. Since the budget refers to a four-person household with two children, two bedrooms are entirely appropriate. The issue is the appropriateness of the quality of the unit. Better units cost more, and the FMR is greater than the median rent of two-bedroom units. That is, more than half of Charlottesville residents living in two-bedroom units have lower rents. So the proponents of a $10.72 an hour minimum wage seem to be arguing that UVA should pay enough so that its lowest paid workers can live in better than average rental housing.

It's not just the housing figure used by the Economic Policy Institute that's debatable. The Institute uses $587 as the monthly food figure for its calculation. But that amount is far more than what is needed to meet the minimum daily dietary requirements of a family of four for a month. The health care calculation is arguable as well. In my view, the numbers used in this budget are not reasonable numbers for the lowest-wage workers.

Inside UVA: If U.Va. adopted the $10.72 figure, what would be the impact on the Charlottesville wage market?

Olsen: In the short term, there would be no impact. More people would want to work for U.Va., but U.Va. would not want to hire them. Over time, current workers paid the minimum wage would leave their jobs for a variety of reasons. U.Va. would not replace all of those people. Instead it would make do with fewer lower-skilled workers because they would be more expensive. That’s what happened at Harvard, which implemented a higher minimum wage in response to a living wage campaign.

The University might also contract out more jobs to independent companies. The contractors would offer market wages. So raising the minimum wage rate at U.Va. would reduce the number of low-skilled workers who are employed directly by the University and force more people to work for contractors offering market wages. Offering higher minimum wages would improve the pool of workers from which U.Va. could hire. Not all unskilled workers are equally industrious or skilled. With a higher wage, the University could hire better people. So, the long-term effect of raising the minimum cash wage to $10.72 would be to shrink the total number of minimum-wage jobs at U.Va., while enabling the University to hire more of the community’s better workers.

Inside UVA: Is there anything else you believe has been missing from the debate?

Olsen: Something the campaign hasn’t addressed is the source of funding to make these raises possible. The options are: raising tuition and fees; cutting back elsewhere; or, seeking more money at the General Assembly. Since the University’s administration already makes every reasonable effort to get state funding, the latter doesn’t strike me as a credible approach. Someone at U.Va. would bear the burden of either of the other options.

The organizers of the living wage campaign obviously care passionately about helping the poorest members of our community, and I would be the last person to discourage them from pursuing this goal. However, I think that they should consider alternative means to this desirable end such as volunteering to tutor students from the poorest families and launching an effort to insure that their parents are taking advantage of the government programs that have been created to assist them. I hope that some will pursue a career in public policy devoted to improving the welfare system.