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## Do "Living Wages" Kill Business?

**While opponents say such laws destroy profits, force layoffs, and drive businesses to relocate, some entrepreneurs don't see it that way**

Since opening Interline Value Vacations in Santa Monica (Calif.) in 1993, Karen Bauer has loved her company's seaside address and its cool breezes, ocean views, and proximity to the city's trendy restaurants and shops. Now, however, Bauer's address is her single biggest headache.

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In May, the city passed one of the nation's toughest "living wage" laws, requiring companies based in its coastal tourism zone pay employees a minimum of either \$10.50 per hour with health benefits, or \$12.25 without benefits. Although none of Bauer's seven employees make less than that, she plans to double her staff over the next 12 months. If forced to pay new employees the higher wage, she says, profits will drop at least 15%. "But I'll be out of here by then," says the 39-year-old entrepreneur, who is prowling for space in nearby cities. "I have to, because I have that hanging over my head."

**WAGE BANDWAGON.** It's getting more difficult to find a place to flee to. Since Baltimore passed the first so-called "living wage" law in 1994, 68 cities or counties have jumped on the bandwagon -- including six this past summer -- and at least 70 more campaigns are under way nationwide. Thus far, these laws have applied only to companies that contract with, or receive economic aid from, municipalities. As a result, the direct impact on small business has been slight.

Until Santa Monica made its move, that is. Now, for the first time, private companies with no direct links to local government are subject to the higher wage, if they are located within the city's coastal tourism zone. The law's passage has energized labor activists, who hope Santa Monica will prove a bellwether for the rest of the nation. "It pushes the movement another step," says Jen Kern, who directs living-wage efforts for the Association of Community Organizations for Reform Now (ACORN), a coalition of community organizations in Washington. "Many cities will be looking at the possibility of replicating it."

That has small-business groups worried. "It's a wage control that has proven not to be effective in legislating prosperity," says Giovanni Coratolo, director of small-business policy at the U.S. Chamber of Commerce. "Faced with the increased cost, small-business owners can either reduce their own salary, which they won't do, increase prices, which they can't do because of


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competition, or lay people off -- which is what they will do."

**LOW-INCOME LIABILITY.** Profits aside, many entrepreneurs say living-wage laws end up hurting rather than helping low-income workers by removing them from employers' radar screens. "If I have to start at \$12.25 an hour, I will go to hospitality schools to hire," says Paul Hortobagyi, general manager of the 56-employee Georgian Hotel, located in the heart of Santa Monica's tourist zone. "People like my front-desk manager, who started here five years ago as a waiter and couldn't string three sentences together, won't get those chances."

Economists seem to agree. According to the 2000 Living Wage Survey by the Employment Policies Institute, a Washington-based public policy research organization, more than 75% of labor economists believe a national living wage would result in employers hiring better skilled applicants than they hired before the increase.

Santa Monica's Chamber of Commerce is hoping to revoke the measure. It is gathering signatures to force the issue to a ballot in 2002. But not all small-business owners are so resistant. A number of small-business alliances -- like the Small Business Owners of Washington State and Boston-based Responsible Wealth -- have formed to support the wage mandates.

**WAGE MOTIVATION.** In fact, some such entrepreneurs argue that paying the living wage simply makes good business sense, since it creates a motivated, productive workforce. Timothy Styer, a member of Responsible Wealth and CEO of Philadelphia-based Urban Works, a 32-person janitorial contract-cleaning company, says he wouldn't have it any other way.

Even though he only handles private contracts and does no business with the city, Styer, 46, has been paying the Philadelphia living wage of \$7.90 an hour ever since he started the company two years ago. And although the higher cost of labor makes it "extremely difficult" to compete for contracts on cost, he says his strategy will yield results in the long term.

His profit margin, at 7%, is less than half of the industry average, which ranges from 10% to 19%. But his employee turnover rate, at 40%, is half the average 80% rate, too. "I'll never own a boat like my major competitor does," he says. "But I know I can grow this company into something solid and achieve a high profit margin over time."

Styer says it's a no-brainer. But he's still a minority among the business community. For most entrepreneurs, getting behind the loud protests from chambers of commerce seems to be the more logical choice.

To talk with other business owners about ways to attract quality employees without going broke, visit BusinessWeek Online's [Small Business Forums](#).

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