

# LW Living Wage | Glossary

**Automation** /ó-ta-'má-shen/

The replacement of low-skill workers with mechanical equipment. Automation is often the result of a wage mandate increase. By increasing the cost of labor, living wage ordinances provide an incentive for employers to invest in this equipment.

**Collective Bargaining Exemption** /ka-'lek-tiv · 'bär-gen-eng · ig-'zem(p)-shen/

A feature of many living wage ordinances, this provision exempts businesses with unionized workforces from the wage mandate. This provision has been supported by many labor unions as a key factor in how living wages promote union organizing. This provision provides the incentive for an employer to enter into a contract with a union at a wage rate that is higher than the current minimum but lower than the mandated wage.

**Displacement** /di-'splá-sment/

An economic result of a wage mandate increase whereby workers the least skilled workers are replaced with higher skill workers attracted to the labor market by artificially high wages. While the government has the ability to mandate wages, it cannot mandate the skill level of the employees that firms choose.

**Earned Income Tax Credit** /'urnd · 'in-kum · 'taks · 'kre-dít/

A feature of the federal, and many state, tax system that operates as a negative income tax for low-wage workers. For every dollar that these low-wage workers earn the federal government contributes 41 cents. The EITC is a refundable credit. Research shows that a locally operated EITC is more effective at reducing poverty than a living wage.

**Entry-Level Employment** /'en-trê · 'le-vul · im-'pló-ment/

Employment for persons with little skills. Entry-level employment occurs at wages low enough that an employer can provide on-the-job training that allows these workers to efficiently complete their tasks. Entry-level employment is the first classification of employment that is destroyed by an increased wage mandate.

**Living Wage** /'liv-eng · wáj/

An above market wage mandate set at upwards of \$15 an hour. Traditional living wages apply only to government employees or employees of companies that contract with governments. Recently, efforts have been made to expand the reach of these ordinances to all local businesses.

**Low Income** /'ló · 'in-kum/

A generally accepted measure of low-income but not poor households is 200 percent of the poverty level.

**Marginal Tax Rate** /'márj-nul · 'taks · rát/

The percentage amount of every dollar earned that a worker does not receive. As low-wage workers see their wages rise, they often receive very little of the increase wage. Low-wage workers face extremely high marginal tax rates due to the high level of government assistance they receive. As their incomes increase the benefit they receive from the food stamps program, the earned income tax credit and the temporary aid for needy families program all decrease. Some low wage workers face an MTR of over 100 percent. For every hour these workers work, they actually lose money.

**Poverty Level** /'pá-vur-tê · 'le-vul/

A monetary threshold below which all family members of considered poor. There are different threshold levels for different family sizes and compositions. For example, the poverty level for a single adult is \$9,359 whereas the level for a four-person family with two children is \$18,244. Mainly used for statistical purposes, the system for determining the poverty level was developed in the 1960's by Mollie Orshansky.

**Poverty Trap** /'pá-vur-tê · 'trap/

An economic phenomenon whereby low-wage workers are unwilling to work themselves out of poverty because of the loss of government assistance. The poverty trap occurs during the "phase-out" range for benefits such as the EITC, food stamps and Section 8 housing. Workers face a disincentive to increased labor force participation because they will only realize a small portion of their increased income.

**Productivity** /prô-duk-'ti-vè-tè/

The output gained for a given amount of labor. A more productive business will produce more with the same amount of labor than a less productive business.

**Refundable Tax Credit** /rè-fund-â-bul · 'taks · 'kre-dit/

A method of distributing assistance to low-income residents that gives money back to workers in excess of the total amount of income tax they pay. The federal Earned Income Tax Credit is the largest refundable tax credit.

**Ripple Effect** /'ri-pul · i-'fekt/

An economic result of a wage mandate increase whereby all wages in a workplace increase (not simply the wages for workers below the mandated level) in order to retain the relative differences between workers of different skill levels. Failing to consider the ripple effect is a primary way that wage mandate supporters underestimate the potential cost of an increase.