A CASE FOR $15:
A LOW WAGE WORK CRISIS

Executive Summary

This is the first in a series of reports commissioned by Action Now and Stand Up! Chicago to examine the crisis of low wages facing American workers and the impact this has on our communities and the economy. Since the Great Recession, the disappearance of middle class jobs has accelerated, and the bulk of new jobs created have been low wage jobs. This report looks specifically at low wage workers in Chicago's retail and restaurant industries, examining the impact of a wage increase on the workers, their families, their communities, the companies where they are employed, and economic recovery as a whole.

Current debate amongst policy makers in Washington centers upon the so-called "fiscal cliff" and the impact of spending cuts vs. revenue increases. However, this debate fails to take into account the role of the private sector in contributing to economic growth and prosperity. Using the retail and restaurant industry in downtown Chicago as a case study, our analysis centers upon how the private sector can create good, middle class jobs and strengthen the economy by paying workers higher wages.

In this report, we make the case for increasing the wages of retail and restaurant workers in downtown Chicago to a minimum of $15 per hour, which our analysis demonstrates would lift thousands of workers out of poverty, create nearly 1,000 new jobs in downtown Chicago, and strengthen the communities hardest hit by the Great Recession. Our analysis of financial data from the fifty largest public retail and restaurant employers in downtown Chicago shows not only that these companies can afford to pay their employees a minimum of $15 per hour, but also that higher wages will lead to increased revenues, and have the potential to transform the retail and restaurant industry from a poverty wage industry into a creator of good, middle class jobs and a driver for economic growth.

Specifically, this report demonstrates that:

1. Low wage jobs made up 21% of all the jobs lost during the recession, yet have represented 58% of the entire job recovery. Americans' fears that the middle class is shrinking are well founded: since the recession, corporate profits have returned to their pre-recession levels and above, but job growth has been fueled by the creation of mostly low wage jobs.

2. About 57% of households in Chicago with a low wage worker depend solely on those wages. The minimum wage, at $8.25 per hour hour in Illinois, has not kept pace with the cost of living, with $17.24 per hour the current Self-Sufficiency Standard for a single parent with one child. Chicago's communities are experiencing socioeconomic problems that will remain intractable until wages are increased substantially.

3. In the years following the end of the recession, the top 1% of the income distribution captured 93% of all real income growth. There is enough revenue to create good jobs and economic recovery, but it is increasingly concentrated at the top.

4. Downtown employers can afford a very significant increase in wages paid to their low wage workers. **McDonald's** has increased profits from $4.3 billion in 2008 to $5.5 billion in 2011. **TJX**, owner of TJ Maxx and Marshall's, saw profits rise in the same period from $881 million to $1.5 billion. **Chipotle** profits increased over that period from $78 million to $215 million. **CEOs for downtown Chicago stores average $8.3 million per year in annual compensation, an hourly rate of over $4,011.** Meanwhile, the cost of raising all low wage workers in retail and food service downtown to $15 per hour is $103 million, a very small percentage of the billions going through the cash registers each year. Even if employers were to pass on the entirety of this cost to the consumer, it would only raise prices by 2.6%, a negligible amount that is unlikely to affect consumer spending patterns in any significant way.

5. An increase in pay for downtown workers would spur about $179 million in economic activity in workers' communities, and for every 25 low wage workers receiving a raise to $15 per hour, one full time job would be created. There are significant benefits to Chicago, and its communities, workers and employers, of paying retail and restaurant workers a higher wage. When low wage workers receive a pay increase, nearly all of the extra earnings go back into the economy as consumer spending. Our analysis also reveals that relatively small shifts in inequality could have a significant impact on levels of violent crime and educational outcomes for students.

Recommendations

1. The campaign of the Workers Organizing Committee of Chicago, known as Fight for 15, is demanding a wage increase for downtown workers to at least $15 per hour. Our analysis demonstrates that this is affordable for employers, and will have a positive impact on Chicago's economy, neighborhoods, and retail and restaurant workers and their families.

2. Retail and restaurant employers in downtown Chicago have an important role to play in the city's economic recovery and the economic development of our communities. By negotiating a wage increase to a minimum of $15 per hour for all workers, these companies can help transform our city's economy by supporting middle class job creation and sustained economic growth.

Introduction

In light of the national dialogue regarding how to address the budget deficit, this report examines private sector solutions to increase revenues and revitalize the diminishing middle class.

The Great Recession ended officially in mid-2009.[1] As corporate profits have returned to their pre-recession levels and major U.S. companies have emerged with increased productivity and profitability, and with record-setting cash reserves, there is an opportunity for these companies to use their significant resources to assist millions of working families across the U.S. who continue to struggle.[2] While unemployment has been slowly decreasing, job growth has been fueled by the creation of mostly low wage jobs. According to a recent study by the Economic Policy Institute comparing types of jobs lost in the recession to those added in the recovery, a substantial number of middle-income jobs have been replaced by low wage work.[3]

The leading growth sectors for employment in the city of Chicago are the restaurant and retail industries; these sectors are also leaders in low wage jobs. This report highlights original research that illustrates the crisis of low wages for workers in these industries compared to the profitability of their employers, and outlines a private sector solution to this crisis in which employers in downtown Chicago negotiate a wage increase to a minimum of $15 per hour for their workers as a means of growing and strengthening our city's economy and middle class.

Increased income disparity

Income inequality, which has been increasing in the U.S. since the 1970s, has continued to increase since the end of the recession.[4] During the recession, loss of income and wealth affected all economic groups, with median family wealth in the U.S. declining by nearly 40%.[5] However, this loss of wealth fell disproportionately on middle income and poor families. In the years following the end of the recession, the top 1% of the income distribution captured 93% of all real income growth; meanwhile, the poverty rate climbed steadily over the past four years,[6] and 2011 marked the highest percentage of Americans living in poverty since 1965.[7]

The rise of extreme inequality is especially evident in Chicago. Chicago is both one of the wealthiest cities on the planet and also one of the world's most important centers of finance.[8] The Chicago area is home to at least eighteen billionaires, thousands of millionaires, and several of the richest ZIP codes in the nation.[9] Only a few miles from these affluent places, however, vast numbers of Chicagoans struggle to meet their families' basic needs. Since 2008 the poverty rate in Chicago has increased steadily every year; going from 20.6% in 2008 to 23.7% by 2011. Child poverty has increased by nearly 20% over the last four years, from 30.3% in 2008 to 36.1% in 2011.[10]

Changes to the low wage workforce

According to a recent survey of Chicago's workforce, about 57% of households in Chicago with a low wage worker depend solely on those wages, up from 46% in 2001. This study reveals that the demographics of the low wage workforce have been shifting over the past decade, with this the workforce becoming older and more educated. Contrary to widespread belief that most low wage workers are teenagers, about 94% of Chicago's low wage workforce is now over the age of 20, and about 57.4% is over the age of 30.[11]

A new labor organization, known as the Workers Organizing Committee of Chicago (WOCC), has recently proposed addressing some of Chicago's most pressing social and economic issues by increasing wages to a minimum of $15 per hour for all workers in the retail and restaurant industries in Chicago. This report looks at that proposal and assesses the multiplier effect of the proposed wage increase on Chicago communities, economy, workers and employers. Data indicates that higher wages will have a strong positive impact on the workers and families of about 18,800 people who work downtown and about 83,000 people who work in these industries throughout the city.[12]

"About 57% of households in Chicago with a low wage worker depend solely on those wages, up from 46% in 2001"

A Crisis of Low Wage Work

The inequality of the recovery

One of the most striking traits of the last few years of economic recovery is how unequal recovery has been. While unemployment has decreased from its peak at the end of 2009, a recent study found that during the recession mid-wage occupations made up about 60% of all the jobs that were lost. Recovery in medium-wage jobs has been slow: only about 22% of new jobs created are considered medium-wage jobs. On the other hand, low wage jobs made up 21% of all the jobs lost during the recession yet have represented 58% of the entire job recovery. In Chicago, jobs that are considered low wage now make up about a third of all jobs, with 31.2% of all jobs considered low wage, compared to 23.8% in 2001. Many workers who may have been working a middle-income job prior to the recession are likely now earning lower wages.[12]

Retail & restaurants: high growth industries, low wage jobs

The low wage occupations that grew the most during the recovery are retail salesperson and food preparation occupations. Jobs in the restaurant and retail industries now make up about 10% of all jobs but comprise about one third of all low-income jobs. Jobs in these industries are known for their low wages. In the Chicago area, the median wage for a food preparation worker is \$9.04 per hour, while a typical retail cashier can expect to make about \$9.22 per hour.[13] An analysis of all occupations in the retail and restaurant sectors in Chicago reveals that the typical wage for a downtown worker in these industries is about \$9.80 per hour.[14]

While the above figures show that some of the retail and restaurant workers in Chicago are making wages that are slightly higher than the state minimum wage (currently \$8.25 per hour), such jobs are also typically part-time and offer few benefits. According to data from the Bureau of Labor Statistics (BLS), workers in the fast food industry can expect to log about 26 hours per week; department store workers can expect to log about 31 hours per week.[15] Many part-time workers can work full-time hours during peak seasons, however, they remain excluded from the benefit packages that might be offered to full-time workers.

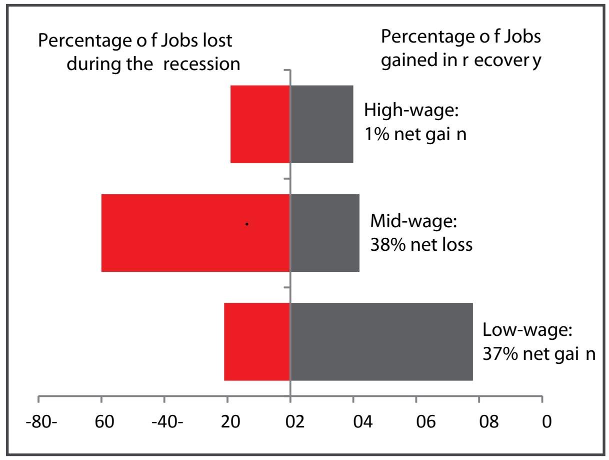

Figure 1: Job growth by wage level since end of recession.
Source: NELP Analysis of Current Population Survey

> "Jobs in the restaurant and retail industries now make up about 10% of all jobs but comprise about one third of all low-income jobs"

Erratic scheduling is another major challenge for retail and restaurant workers. A recent survey of retail workers in New York City, which reflects nationwide trends, found that only 17% of those surveyed had a set schedule, while the majority of the retail workers only knew their scheduling a week in advance or less.[16] This unpredictability can make it difficult for workers to meet family commitments, get a second job and/or arrange for child care. Erratic scheduling also means that workers in these industries do not have steady incomes, which makes it difficult to plan ahead, save money or pay bills on time.

Impact of low wages on families

According to Census Bureau data, in 2011 the percentage of families living in poverty in Chicago was 23.7%.[17] However, the official poverty threshold calculation is often criticized for not measuring ability to meet basic costs of living, and failing to account for the great variation in costs--such as housing or transportation--from region to region.[18] Many households that are not officially considered "poor" using the traditional measure of poverty nonetheless demonstrably lack enough income to cover essential expenses such as food, housing, transportation, healthcare, or child care.

Alternative models have been developed in order to determine what the costs of living are for a particular region of the country. One of the most prominent models is the Self-Sufficiency Standard, which was developed in the mid-1990s by the Center for Women's Welfare at the University of Washington.[19] The Self-Sufficiency Standard defines the amount of income necessary in order to meet basic needs without public assistance or private charitable assistance. The Self-Sufficiency Standard is a basic family budget models that does not take into account other costs, such as payments towards debt or putting money in savings account.[20]

Under the Self-Sufficiency Standard, a one adult, one child household would need an annual income of about $35,859, or the equivalent of about $17.24 per hour for a full-time worker. This is more than double the amount a full time minimum-wage worker would make; more than double the estimated earnings of an average retail or restaurant worker in downtown Chicago; and $20,000 more than the official poverty threshold.[22]

When the actual cost of living is not covered by wages paid, the employer is effectively shifting the actual cost of their products and services to the employee and to the public. Individuals receiving low wages pay through extreme hardship and loss of social mobility as a consequence of not being able to improve their circumstances (e.g. by getting an education, saving money, paying bills on time). The public pays when it is forced to provide either public or private assistance through programs such as Supplemental Nutrition Assistance Program, public housing, or private charity. Because poverty and inequality contribute significantly to other issues such as crime and poor health, society also pays the cost of low wages when paying for police protection, public hospitals, and the loss of productive citizens.

A Private Sector Solution for Chicago's Middle Class

Revenues of Chicago retail and restaurant industries

Chicago is one of the wealthiest cities in the world and one of the most important centers of finance. If the Chicago region were a country, it would have a GDP higher than that of Switzerland, Poland or Belgium, and GDP per capita that would rank among wealthiest places on earth.[23] Although there is clearly no lack of wealth in Chicago, many families have to struggle to meet basic needs, and many communities in the city face chronically high levels of unemployment, poverty and violent crime.

Retail and restaurants are among the city's most lucrative sectors. These two sectors produced an estimated $14.2 billion in revenue in 2011.[24] The downtown area, which is extremely dense and only takes up a small fraction of the geographic area of Chicago, brings in about $4 billion of that. Downtown Chicago is unquestionably the economic hub of the city, a place where hundreds of thousands of people come to work and visit every day. Pedestrian counts can exceed more than 50,000 on portions of Michigan Avenue and 30,000 on State Street.[25] The large pool of shoppers from within and beyond the city makes the downtown area an attractive place for all sorts of retailers. High-income visitors to the Magnificent Mile draw companies like Macy's, Burberry, All Saints, Eddie Bauer and others to invest in large, flagship-style stores along Michigan Avenue.

We estimate that the additional money required to bring retail and restaurant workers downtown up to $15 per hour to be 2.6% of revenues, a cost dwarfed by the profits that retail corporations are drawing out of the downtown area.[26] Notably, this is a conservative estimate; it does not assume reduced workforce turnover resulting in any savings or productivity gains. The remainder of this section describes how the retail corporations have more than enough wealth to increase workers' wages.

Corporate wealth

During the recession, large companies across all sectors of corporate America engaged in cost cutting and financing strategies that allowed them to rebound and recover at a faster pace than other parts of the economy, especially working families. An analysis of disclosures by more than 50 publicly traded retail and restaurant companies with operations in the downtown area shows that:

- **Over 82% were profitable in the last year;**
- **Over 70% stayed profitable through the recession;**
- **Combined operating incomes were $35.5 billion;**
- **Combined profits were $21.7 billion;**
- **Dividends paid to investors totaled $13.9 billion.**[27]

By these measures, large retail and restaurant companies are faring quite well, in part by not sharing their success with their workforce. **Some typical examples of how major companies in the sector are doing since 2008:**

• **Macy's Inc.**, among the largest retail chains in the country, operates about 842 stores nationwide under the Macy's and Bloomingdale brands and employs about 171,000 people. While the company reported major losses in 2008, that did not stop Macy's from spending more than $29 million in compensation for a few top executives and paying over $200 million in dividends to its investors that same year. Since 2009 Macy's operating margin, revenue and profits have increased every year.[28] Like many large companies prospering as the rest of the economy struggles, Macy's has amassed an unprecedented level of cash on hand – $2.8 billion at the end of 2011.[29] Macy's has two large stores in downtown Chicago (State Street and Water Tower Place), which the CEO recently indicated were among the highest grossing locations in the nation.[30]

• **TJX Companies,** the parent company of T.J. Maxx and Marshalls, is the largest discount retail department store operator in the country, with 22,000 locations and 168,000 employees. TJX revenues and profits have steadily increased each year since 2008, with the highest jump from 2008 to 2009 at the height of the recession. In 2011, TJX profits reached nearly $1.5 billion, nearly doubling the 2008 level, and TJX paid over $287 million in dividends to stockholders, almost triple the amount that it paid out in 2009.[31] TJX has three stores in downtown Chicago.

• **Chipotle Mexican Grill** has grown into a major fast food presence in the past decade by opening new locations at a rate of over 100 per year.[32] Since the recession began, Chipotle's profits have increased every year, nearly tripling from $78 million in 2008 to about $215 million in 2011. Revenues have almost doubled from $1.3 billion to $2.3 billion. While this resulted primarily from an increase in locations, sales at comparable restaurants within the chain increased an average of 7.2% per year. In 2011 comparable sales increased by more than 11% to $1.85 million per restaurant, the equivalent of about $74,000 per worker.[33] Chipotle has nine locations downtown.

• **McDonald's**, the quintessential fast food chain, is also among the world's most profitable. In 2011, the company had an operating margin that ex-

Revenues and profits - major retail companies, 2008 and 2011

	Revenue		Profit		Cash on Hand
Company	**2008**	**2011**	**2008**	**2011**	**End of 2011**
Macy's	$24,892	$26,405	-$4,775	$1,256	$2,827
TJX Companies	$19,000	$23,191	$881	$1,496	$1,507
Chipotle Mexican Grill	$1,332	$2,270	$78	$215	$401
McDonald's	$23,522	$27,006	$4,313	$5,503	$2,336

In Millions of USD. Source: Securities and Exchange Commission filings - www.sec.gov/edgar.shtml ceeded more than 30%, or about $5.5 billion in profit. McDonald's restaurants typically have annual revenues of about $2.5 to $2.8 million. About 80% of restaurants are franchised, with McDonald's Corp. making their money from franchise fees and, because the company owns much of its own real estate, rent payments based on revenue for the individual restaurant.[34] McDonald's has about twenty locations in downtown Chicago.

Wealth of CEOs

While the hourly wages of most employees at large retail and restaurant companies do not allow them to live without hardship or the help of public assistance, these same companies provide their top executives with lavish compensation packages. **Analysis of more than 50 publicly traded retail and restaurant companies that have operations in the downtown Chicago area found that the average CEO compensation package in 2011 was about $8.3 million**.[35]

If broken down as an hourly wage, this would amount to $4,011 per hour (assuming they work a forty hour week), about 409 times more than what these companies pay their typical worker. Also, many executives still receive lavish pay when the companies they run are doing poorly, even receiving large bonuses and other "performance-based" payments.

CEO stories

- **Sears Holdings CEO Louis D'Ambrosio** took charge of the company in February 2011. That same year, the company closed more than one hundred stores and laid off hundreds of employees, while D'Ambrosio received compensation totaling nearly $10 million. This figure included $852,037 in perks, of which $793,422 paid for D'Ambrosio to commute back and forth from Philadelphia to Chicago in a private jet.[36]
- **Chipotle co-CEOs Steve Ells and Monty Moran** made a combined $38.2 million last year.[37] This is a 39% increase from 2010 and a 189% increase – almost triple – from when the recession began in 2008. In the meantime, over 90% of Chipotle's workforce is part-time, and preparation/serving workers in the Chicago area make around $9 per hour.[38] This means Ells and Moran each make in one hour roughly what one of their Chicago-area employees makes in a year.
- In 2010, **Urban Outfitters CEO Glen Senk** received total compensation of $29.9 million. Four consecutive quarters of losses followed, and in early 2012 Senk jumped ship to run a luxury jeweler. During 2011, **CFO Eric Artz and President Stephen Murray** each received relocation packages exceeding $100,000 upon starting with the company, plus signing bonuses of $300,000 and $425,000, respectively. Murray is also no longer with Urban Outfitters, having stayed only one year.[39]
- The **outgoing CEO of McDonalds Corp., James Skinner**, retired on June 30, 2012. Skinner will receive a cash payment of more than $9.7 million on December 31st and cash performance incentives of $10.9 million plus other payments, for a total of almost $21 million to a former executive no longer doing any work for the company.[40] Skinner will now receive about $500,000 per year as Board Chairman for Walgreens Inc.[41]

Unprecedented profitability

Considering that retailers and restaurants in downtown Chicago have not just weathered the recession but are in fact, in many cases, experiencing unprecedented profitability, it is clear that these companies can afford to pay their workers a minimum wage of $15 per hour without sacrificing revenues or profits. Our analysis shows that paying the $15 per hour rate would cost only $103 million a year, a small fraction of what these companies pay their top executives and a negligible amount compared to profit figures.

Increased wages lead to higher sales and corporate profits

Higher wages for workers in the retail and restaurant sectors will also likely lead to higher sales for companies. According to a recent report by Demos, higher-paid workers tend to drive sales, as opposed to costs; also, when low wage workers receive a pay increase, nearly all of the extra earnings go back into the economy as consumer spending.[42] We expect that retailers and restaurants in downtown Chicago will not only be able to absorb the cost of increased wages easily, but will also experience higher revenues and stronger performance as a result of paying workers the $15 per hour rate.

Positive Impacts of a Raise for Workers

Multiplier effect: more money to communities

Raises for low wage workers do not only benefit the workforce directly receiving higher wages; many benefits may be felt community-wide. If retail and restaurant employers citywide were to raise wages such that all workers in these sectors were earning at least $15 per hour, we estimate that this would put more than a half-billion more dollars into Chicago neighborhoods. If only the downtown retail districts increased the wages of their workforce to $15 per hour, an estimated $103 million more would go to Chicago neighborhoods. These estimates are based on wage and employment figures from the Bureau of Labor Statistics that provide insight into what this workforce makes currently.[43]

When workers earn more money, they spend these extra earnings in their communities. For the citywide retail and restaurant workforce, this likely means every neighborhood in the city. In the case of downtown retail and restaurant workers, the additional money would go to poor and middle income neighborhoods throughout the city that have large numbers of residents that are employed in downtown retail and restaurants.

We estimate the additional wages to downtown workers would spur about $179 million in economic activity in workers' communities. This includes direct spending by workers receiving more in wages ($103 million) plus the "multiplier effect" of local businesses benefiting from worker expenditures and also re-spending locally.[44] The spending would spur job creation, alleviate socioeconomic problems associated with extreme inequality, and, perhaps most importantly, have a direct positive impact on the children of thousands of workers.

Job creation

New local spending will create jobs in Chicago communities. Working families are most likely to spend increased income on basic needs like food and shelter, child care and health care. This effectively channels that income into jobs providing those goods and services, often in a localized fashion.[45] This stands in contrast to the richest individuals, who are comparatively more likely to engage in speculation, off-shoring of wealth, or tax avoidance, i.e. financial strategies that benefit an individual but not the community.

> "Additional wages to downtown workers would spur about $179 million in economic activity in workers' communities"

We estimate that for every 25 low wage workers in the retail and restaurant sectors getting a raise to $15 per hour, one full-time job could be created. Citywide, raises to $15 per hour for all low wage workers in these sectors could create close to 4,000 new jobs. Raises for the retail and restaurant workers in the Loop and the Magnificent Mile alone could create almost 750 new jobs.[46]

In making our estimate, we have drawn on the academic literature on the economic impact of state and federal minimum wage increases. This literature has shown consistently that there is no job loss associated with modest increases in minimum wages, and that furthermore, wage increases at profitable stores will increase demand and job creation.[47] We have adjusted our estimate to take into account the higher profit margins of downtown retail stores and the higher than minimum wage increase that we are proposing. High profit margins suggest that activity at these stores that serve local markets will not be constrained by the costs of a wage increase to $15 per hour, but rather by the level of demand.[48]

> "For every 25 low-wage workers in the retail and restaurant sectors getting a raise to $15 per hour, one full-time job could be created"

Impact on violent crime

Recent increases in violent crime in Chicago have garnered media attention nationally and even globally. The homicide rate has increased dramatically this year, and by the end of the year the total number of homicides is expected to exceed 500.[49] Over the past decade more than 5,500 people have been murdered, about 1,000 more people than troops that were killed during in the Iraq War.[50] Observers wonder how a global city in the richest country in the world can possibly suffer such an epidemic of violence.

While root causes of violent crime are complex, **income inequality has consistently been identified among the best predictors of violent crime rates**. This holds true both in comparing populations and over time for changes in inequality experienced by a society. The research suggests that increased inequality breaks down social cohesion between those with higher and lower incomes, with a range of negative consequences including increased violent crime. Further, research suggests that relatively small shifts in inequality can have a big impact on levels of violent crime.[51]

Low wage workers in the restaurant and retail sectors often live in the neighborhoods of Chicago most affected by violence. This is particularly true for those working in the Loop and the Magnificent Mile, who come to work in retail districts among the richest in North America from places where they have to worry about their own safety or the safety of their children. Raises to the wages these workers earn should be regarded as one means of making Chicago neighborhoods safer.

Impact on students and schools

Public education in Chicago is also in crisis. Many Chicago Public Schools (CPS) students are struggling to meet benchmarks of the quality education all students deserve. Many students are struggling just to finish school at all. Recently, some education policy makers have responded with near-exclusive focus on performance measurement through standardized tests scores and "holding teachers accountable" for these scores.[52] This is the premise behind CPS's wave of "turnarounds" that has closed more than 100 schools in Chicago over the past decade but barely moved the needle on student achievement.[53]

Educational achievement and outcomes correlate with socioeconomic status, especially for students at the bottom end of extreme income inequality.[54] Children from poor households are twice as likely as non-poor children to repeat a grade, get expelled or suspended, or drop out of high school.[55] Research has shown that children that live below the poverty lines are 1.3 times more likely to have developmental delays and 1.4 times more likely to have learning disabilities than non-poor children. Twenty-two percent of children who have lived in poverty for a period in their lives do not graduate from high school. This rate goes up to 32% when students spend more than half of their childhoods in poverty. In contrast, the dropout rate for students that never experience poverty is about 6%.[56]

The official child poverty rate in Chicago stands at about 36%, and CPS estimates that about 87% of all students come from households where the head of the household works low wage jobs.[57] Raising wages for parents will make a real difference in how these children perform in school. Increasing the wages of downtown workers has the potential to directly impact close to 9,760 children in the city, while increasing the wages of all restaurant and retail workers can have the potential to impact more than 50,000 children in Chicago. Raising wages to reduce child poverty should be considered an important part of sensible efforts to improve public education.

Stronger, safer communities

Forthcoming reports in this series will examine the relationship between wages and education and violent crime in further detail. Higher wages have the potential to move thousands of workers and their families out of poverty. Many challenges facing Chicago neighborhoods may be rooted in high levels of poverty and inequality. Poverty has been shown to have a strong correlation with academic performance and school dropout rates. Inequality has been shown to be a strong predictor for a number of socioeconomic issues, including homicide rates and violent crime. Improving the wages of workers who live in the city's lowest-income neighborhoods has the potential to address some of these issues.

The Workers Organizing Committee of Chicago (WOCC) is a newly formed union of downtown retail and restaurant workers whose primary demand is for a minimum wage of $15 per hour. An increase to $15 per hour for all employees in the restaurant and retail sectors in Chicago, starting with those from the downtown area, would bring enormous benefits for workers, their families, and their neighborhoods. While the cost for employers would be negligible compared to the wealth of downtown retail districts, it would make a significant difference for thousands of restaurant and retail workers across Chicago.

The rate of $15 per hour is more in line with the actual cost of living in Chicago, and raising wages for retail and restaurant workers to this level would bring thousands of Chicagoans out of low wage work and into the middle class. We recommend raising the wages of all retail and restaurant workers in downtown Chicago to a minimum of $15 per hour, which our analysis demonstrates will result in increased economic activity in our neighborhoods, the creation of thousands of new jobs, and improvements in education, and public safety in our communities.

Methodology Appendix

Defining Low Wage

There is no set, standard definition of low wages. We reference levels used in reports by several organizations.

- *The Low wage Recovery and Growing Inequality*: Wages that are lower than $13.84 per hour. For this analysis, NELP divided all occupations into thirds (high, mid, and low) based on median wage.
- *Chicago's Growing Low wage Workforce*: Wages that are lower than $12 per hour, based on a "modest and conservative" assessment of cost of living ("At this wage level, a full-time worker living by herself will barely be able to cover life's basic costs without public assistance. When a worker earning $12 per hour is supporting family or other household members, public assistance programs will likely be indispensable to household subsistence.")

For the purposes of this report, we tend toward a definition of low wage in relation to actual, local costs of living. We refer sometimes to wages below $15 per hour as low wage because of the relationship to the cost of living in Chicago.

Corporate Wealth and Wealth of CEOs

Figures in the Corporate Wealth were calculated by analyzing corporate financial data from a select group of 50 publicly traded companies that have operations in the Chicago downtown area. The data used came from each of the company's Form 10-K, which is the annual financial statement that public companies must file with the Securities Exchange Commission. The data used was from fiscal years 2008 through 2011.

The data for CEO compensation packages came from each of the company's proxy statements, which is an annual report that public companies must file with the Securities Exchange Commission. All the CEO compensation figures were from FY 2011, with the exception Burger King Holdings, because it has not disclosed CEO compensation figures since the company changed its corporate structure in 2010.

The companies that were used for this survey are: Abercrombie & Fitch, Aéropostale, American Eagle Outfitters Inc., Ann Inc., Barnes & Noble Inc., Bebe Stores Inc., Bed Bath & Beyond Inc., Best Buy Co. Inc., Bon Ton Stores Inc., Brinker International Inc., Burger King Holdings, Caribou Coffee Co., Charming Shoppes Inc., Cheesecake Factory Inc., Chico Fas Inc., Chipotle Mexican Grill Inc., Collective Brands Inc., Cosí Inc., DSW Inc., Einstein Noah Restaurant Group Inc., Gap Inc., Foot Locker Inc., GameStop Inc., Guess Inc., Jack In The Box Inc., Jos. A. Bank Clothiers Inc., Kenneth Cole Productions Inc., Limited Brands Inc., Macy's Inc., McDonald's Corp., Men's Wearhouse Inc., New York & Company Inc., Nordstrom Inc., Office Depot Inc., Office Max Inc., Panera Bread Co., PF Chang's China Bistro Inc., RadioShack Co., Saks Inc., Sally Beauty Holdings, Sears Holdings, Staples Inc., Target Corp., The Wendy's Co., Tiffany Co., TJX Inc., Urban Outfitters Inc., Wet Seal Inc., Williams and Sonoma Inc., Yum Brands Inc.

Downtown Retail and Restaurant Revenue

It is estimated that the retail and restaurant industries bring in about $4 billion in annual revenue to the downtown area.

Restaurant revenue

Restaurant revenue was calculated by using data from taxers collected in the Metropolitan Pier and Exposition Authority (MPEA) taxing district, which encompasses an area of central Chicago bordered by Diversey Ave on the north, Ashland on the west, and the Stevenson Expressway on the south PEA tax collection data. The MPEA tax collects a 1% tax on food prepared for immediate consumption, alcohol and soft-drinks. In 2011, the average business located within the MPEA taxing district had a gross revenue of $1.3 million. Business data from the city indicated that there are over 1,000 eating and drinking places subject to this tax in the Loop and the Magnificent Mile area, which indicates that the restaurant industry brought in about $1.4 billion in 2011.

Retail revenue

In 2011, an economic study of the Loop estimated that the retail industry in the Loop brought in about

$2.2 billion in revenue. This number was calculated by multiplying retail square footage by the average sales per square foot rate in the area, which was about $600. However, the number was calculated using all the existing retail floor space in the Loop, including retail space that was not occupied at the time of study. We have adjust the estimate to $1.5 billion to reflect a more accurate revenue for the district in 2011 by removing floor space that was not being used at the time of the study, and by adjusting Macy's sales per square foot to the low end of typical sales in the Loop, which is $400 per square foot.

The revenue estimate for the Magnificent Mile retail is $1.1 billion and was taken from the Michigan Avenue Vision 2012 report, published by the Greater North Michigan Avenue Association.

Numbers of Workers and Average Wages

The number of workers and average wages are estimated by sector (retail and restaurant) for downtown and citywide. The source wage data for the estimates is the Bureau of Labor Statistics: overall employment and wage levels by occupation in the Chicago region, and wage levels for each occupation within each industry, both of which are in Occupational Employment Statistics (OES) data series, May 2011: http://www.bls.gov/oes/

To estimate the downtown workforce, employment from OES data was allocated based on Bureau of Census ZIP Code Business Patterns, which contains localized counts of business establishments by industry and by workforce size, for downtown ZIP codes (60601, 60602, 60603, 60604, 60605 and 60611) and checked against estimates of citywide and downtown revenues in these sectors (see "Downtown Retail and Restaurant Revenue" section above).

The direct cost of raising workers from current wage levels and $15 per hour is calculated by multiplying the downtown workforce (18,800) times the average hourly wage ($9.80) times the average hours per week. The average number of hours range from about 19 to 30 hours per week which means the cost to arrive at $103 to $179 million, which is the equivalent to about 2.6% to 4.5% of the $4 billion in revenue for the downtown retail and restaurant industries. While BLS data suggests that estimate number of hours to be on the higher end of this range, anecdotal evidence from retail and restaurant workers in Chicago indicates that average number of hours per week likely falls on the lower on the end this range.

Multiplier and Job Creation

The multiplier and job creation estimates in this report generally follow methodology from the Economic Policy Institute (EPI). EPI uses numbers from:

> Zandi, Mark. 2011. "At Last, the U.S. Begins a Serious Fiscal Debate." Moody's Analytics' Dismal Scientist website.
> *http://www.economy.com/dismal/article_free.asp?cid=198972&tid=-F0851CC1-F571-48DE-A136-B2F622EF6FA4*

Specifically, according to EPI, "Averaging the stimulus multipliers of the Earned Income Tax Credit (within Recovery Act parameters) and Making Work Pay (the Recovery Act's refundable tax credit for working individuals and families) gives a reasonable fiscal stimulus multiplier for the spending increase due to the increase in compensation of low wage workers. This value is 1.2, which means that a $1 increase in compensation to low wage workers leads to a $1.20 increase in economic activity." EPI then offsets these numbers to account for cost shift for employers. We use the multiplier of 0.74, which EPI calculates to represent 20% passthrough.

EPI uses two figures to estimate job creation from increased economic activity: $115,000 for a full-time equivalent job (measuring work hours inclusive of both new jobs and increased hours for those who already have jobs); and $127,000 for a payroll job (measuring only wholly new jobs). EPI uses an average of estimates with each number. For this report, job creation estimates under these scenarios are: 600-900 downtown payroll jobs; 663-693 downtown full-time equivalent jobs; 3,380-5,060 citywide payroll jobs; 3,732-4,582 citywide full-time equivalent jobs.

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