



Testimony

Submitted on behalf of the
Pennsylvania Chamber of Business and Industry

Public Hearing on the minimum wage

Before the:
Pennsylvania Senate Democratic Policy Committee

Presented by:

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January 18, 2021

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Chairwoman Muth and members of the Committee, my name is Gene Barr and I am President and CEO of the Pennsylvania Chamber of Business and Industry. The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout the Commonwealth. Thank you for the opportunity to testify today on issues surrounding the minimum wage.

It is fair to say few areas of public policy have been subject to more study than minimum wage and a variety of conclusions have been reached regarding its impact and efficacy. A University of California at Irvine economist even attempted a study of studies some years back, concluding that 85 percent of minimum wage studies found a negative employment effect on low-skilled workers.¹ Many analyses predictably conclude mixed results. University of Washington researchers, for example, found that hours for low-wage employees in Seattle were reduced, and total payroll in such jobs actually declined after the city increased minimum wage to \$13 in 2016.²

Closer to home, the Pennsylvania Independent Fiscal Office issued a report on the minimum wage as part of its March 2019 “Analysis of Revenue Proposals,”³ responding to Gov. Wolf’s 2019-2020 budget proposal. That February the governor

¹ Neumark, David and Washcher, William. “Minimum Wages and Employment.” *Foundation and Trends in Microeconomics* Vol. 3, No 1–2 (2007): 164.

² Jardim, Ekaterina; Long, Mark; Plotnick, Robert; van Inwegen, Emma; Vigdor, Jacob and Wething, Hilary. “Minimum Wage Increases, Wages and Low-Wage Employment: Evidence from Seattle. National Bureau of Economic Research. 2018.

³ Pennsylvania Independent Fiscal Office. Analysis of Revenue Proposals. 2019.

had proposed increasing the minimum wage to \$12 by July, with incremental increases to \$15 over the next several years and elimination of the tipped wage. The IFO estimated the initial increase to \$12 could lead to a loss of 34,000 jobs throughout the Commonwealth and a reduction in the average workweek for all affected workers.

A similar study from the Congressional Budget Office released in July 2019 concluded that a proposal to increase the minimum wage nationally to \$15 could result in lost jobs for 1.3 million American workers; a figure the CBO estimated could increase to as many as 3.7 million workers.⁴ To be sure, both the IFO and CBO predicted many workers would benefit from increasing the minimum wage. The IFO concludes, “There will be many who benefit from the change, but a smaller group will be adversely impacted too. Policymakers will need to decide whether the projected gains outweigh the drawbacks.” Lawmakers contemplating that decision should carefully consider unintended consequences and whether there are alternative approaches that help achieve the intended goals without triggering these negative impacts.

The public is often presented with the argument that a Pennsylvania worker earning minimum wage cannot afford to raise a family. We agree with this statement but its relevance is complicated by a review of demographic data of those in Pennsylvania earning the minimum wage. According to the Pennsylvania Department of Labor &

⁴ Congressional Budget Office. *The Effects on Employment and Family Income of Increasing the Federal Minimum Wage*. July 2019.

Industry's March 2020 Analysis of the Pennsylvania Minimum Wage⁵: well over half of minimum wage earners are under the age of 25; a quarter live in households with income exceeding \$100,000 (with nearly half over \$60,000); and 78 percent have no children. Among those who do have children, the majority are married with a spouse who may very well serve as primary breadwinner.

The CBO and IFO both concluded there are winners and losers when the minimum wage is increased. Most concerning is the reality that a winner may very well be a student working part-time and living in an upper middle class household while the loser is actually the struggling single parent who has now lost a job.

Despite the optimistic outlook of minimum wage advocates, the fact is many employers simply do not have the capacity to absorb significant labor cost increases. Consider the restaurant industry for example. According to the Department of Labor & Industry's report, fully half of Pennsylvania's minimum wage earners work in the "food services and drinking places" industry, in which it is common for employee's to earn the tipped wage: a smaller base rate that, when combined with tips, must at least add up to the regular minimum wage. If necessary, the employer is required to make up the difference though restaurant staff often earn far more than minimum wage when tips are included. Under the proposal sought by many advocates, including

⁵ Pennsylvania Department of Labor & Industry. *Analysis of the Pennsylvania Minimum Wage*. March 2020.

Gov. Wolf, the tipped wage option would no longer be available meaning restaurants would be required to implement a new wage system along with the higher minimum wage. In other words, legislation introduced early last session called for restaurants to comply in just a few months with a 235 percent increase in labor costs and an increase of over 500 percent in just a few years. Proposals along these lines are simply detached from reality. And of course, this was all before the industry was devastated by the pandemic and shutdown orders.

These are real employers and workers; and, despite the misleading perception perpetuated referencing large corporations, many of those impacted are small businesses. According to Bureau of Labor Statics data compiled by the Employment Policies Institute, nearly half of minimum wage workers nationally work for smaller employers with fewer than 100 employees.⁶ The previously cited CBO report describes the negative impact on small businesses stating “A higher minimum wage reduces the family income of business owners to the extent that firms’ profits are reduced. Those losses in business income are biggest in the first years after a higher minimum wage is introduced.” CBO focuses on consumers as well continuing, “Real income is also reduced for nearly all people because increases in the prices of goods and services weaken families’ purchasing power. Over time, as businesses increasingly

⁶Employment Policies Institute. *Fight 15? An Evaluation of the Evidence and a Case for Caution*. January 2019.

pass their higher costs on to consumers, the losses in business income diminish and the losses in families' real income grow.”

Over the years we have received considerable feedback from employers, particularly small businesses, who report that raising the minimum wage would hurt business.

Just a couple examples.

The owner of a campground site in southcentral Pennsylvania reported the following:

After crunching the numbers and accounting for the increased taxes and insurance expenses (all wage based) and expected increase in non-wage based expenses as vendors have to increase their prices, we will: At \$10/hr 20 percent of our staff will be eliminated, our prices will have to increase 10 percent, all capital improvement plans will be scrapped for the next 5 years and services to our customers will be cut (example: food service will be eliminated). After years of growth, the past 5 years have become stagnant. If the wage increase fails to increase business as promised by the administration, we will close within 5 years with the mandated increase in wages. At \$15/hr the business will close that year. There simply will be no way for us to compensate for that size of increase. There certainly is no evidence that business will increase enough to make up the difference. Our closure will eliminate over \$2 million in annual expenditures throughout the community, 18 jobs, our family business and our home will be lost, 20 years of 100 hour work weeks to make sure our employees and vendors always got paid before we did wasted, our hard earned credit worthiness wiped out.

A small manufacturer in northeast Pennsylvania submitted the following message:

I beg you please to NOT allow minimum wage rates to increase as this will have a devastating impact on my business. All plans to hire new employees will immediately halt and business expansion will be prevented...Lawmakers need to realize that taxpayers like myself are already pressed too hard with all the new & hidden tax increases... and with resulting profit margins so thin... we are barely staying afloat.

Also among the potential “losers” of a minimum wage increase are young workers, often students working part-time or summer jobs. An illustrative situation unfolded in Philadelphia following a minimum wage increase in 2007. An April 6, 2007 Philadelphia Inquirer article stated: “One consequence of January's increase in the minimum wage - from \$6.25 to \$7.15 an hour - is the threat it poses to summer jobs for youth. As salaries rise, the number of jobs comes down...”⁷ The article went on to explain that, in the summer of 2006, the nonprofit Philadelphia Youth Network facilitated summer jobs for thousands of young people between the ages of 14 and 21. However, with the minimum wage increase making it more difficult for businesses to hire, an estimated 1,100 young people would not be able to find summer jobs.

Ultimately, then-state Rep. Dwight Evans, D-Phila., was able to secure a sizable earmark to partially address the job shortage. Rep. Evans was quoted saying, "A summer job isn't just about earning spending money, it's about gaining valuable experience in the workforce." PYN president Laura Shubilla praised Rep. Evans, describing him as "a man who understands that to build a middle class in the city of Philadelphia we have to get connected to work as soon as possible." The article also quotes Ms. Shubilla stating, "Given all the attention to youth violence and the city's burgeoning homicide crisis, this summer isn't a good time to be down 1,000 jobs."

⁷ Michael, Matza. "Fighting a Summer Job-Fund Shortage." *Philadelphia Inquirer* 6 April 2007.

Several years later, an editorial was submitted by Richard Greenwald, Philadelphia's then-Executive Director for youth violence prevention and assistant to former Mayor Michael Nutter.⁸ In the editorial, Mr. Greenwald highlights the disturbing trend of rising minority youth unemployment, the connection to youth crime and violence, and the likelihood that impacted youth have a greater chance of experiencing unemployment and “encounters with the criminal justice system” as adults.

Dwight Evans, Laura Shubilla and Richard Greenwald are all absolutely correct. Youth employment is not just about the ability of Pennsylvania children to earn some pocket cash. It's about directing kids to positive, productive activities. Part-time and summer jobs are also often where life-long essential workplace and employability skills are first acquired and honed: the so-called “soft skills” so many are emphasizing as critical but lacking among today's new entrants to the workforce. With youth unemployment rates still unacceptably high⁹, lawmakers should pursue public policies that encourage job creation in the industries most likely to hire young Pennsylvanians, not make those jobs even scarcer. As the IFO report concludes, increasing the minimum wage will create a “more difficult entry into the labor market for inexperienced workers, especially part-time high school and college students.”

⁸ Greenwald, Richard. “Curb violence by finding jobs for city youths.” <http://www.philly.com>. 10 March 2015

⁹ U.S. Bureau of Labor Statistics. “Employment and Unemployment Among Youth Summary.” August 2020.

Lawmakers owe it to those who may be negatively impacted by artificially increasing labor costs to consider whether there are alternative approaches that help achieve the intended goals without triggering these negative impacts.

In the long-term, Pennsylvania's workforce will be best served by educational and skills training structures that prepare students from an early age to qualify for and excel in career-oriented jobs that pay family-sustaining wages. This is an achievable, but ongoing aspirational vision; certainly there are those who need support now, as there will always be citizens who unfortunately fall through the cracks. One can agree that systems should be in place to help struggling low-income families, but disagree that minimum wage increases remain, after over 70 years, the most effective strategy for providing support. There are simply smarter, more targeted policies that lawmakers could and should pursue. For example, numerous states have enacted state Earned Income Tax Credit (EITC) programs to compliment the federal program, which encourages work, targets support and does not harm employment. In a memo to President Bill Clinton, former Secretary of Labor Robert Reich stated "It can be argued that the substitution of a higher minimum wage with a higher EITC would be a positive accomplishment. To be sure, the EITC poses no threat to employment opportunities and can be better targeted to families in need."¹⁰

¹⁰ Department of Labor (2), Secretary of Labor, Memorandum to the President: Reconciliation, the EITC, and the Minimum Wage 20 Jul 1993 5.

Even simply bringing more awareness to the federal program could help. According to the Philadelphia Department of Revenue,¹¹ in previous years over 44,000 EITC-eligible Philadelphians never applied, losing over \$111 million, or an average refund of around \$2500. Extrapolate these figures statewide and Pennsylvanians are missing out on considerable federal dollars for which they are eligible.

Lawmakers should consider establishing a state EITC as well as directing public agencies to help bring awareness to existing programs, like the federal EITC, and help facilitate applications. Minimum wage advocates have expended tremendous time and resources in advocacy campaigns which perhaps could have been better utilized helping Pennsylvanians benefit from existing programs. Many seem to view raising the minimum wage as the ultimate goal, rather than a means to helping low-income families. If alternative means more effectively achieve the end we all want, a new course should be embraced and pursued.

Thank you for the opportunity to testify. I would be happy to answer any questions.

¹¹ <http://youearneditphilly.com>