Testimony on S.40 Minimum Wage

Betsy Bishop, President, Vermont Chamber of Commerce
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As the largest statewide business organization, the Vermont Chamber of Commerce represents about 1,500 members covering all industries and sectors from tourism to manufacturing, retail to health care, and construction to technology. Our mission is to help our members grow their businesses *and* the Vermont economy.

The Vermont Chamber shares your concerns about growing wage disparities and the ability of working Vermonters to earn a living and raise a family here. While we support working on increasing the skills and wages of Vermonters, we have concerns about the impacts of increasing the minimum wage at this accelerated pace. The proposed wage scale in S.40 as it passed the Senate represents a 43% increase over the next six years, on top of the 20% increase we've experienced over the last four years. During that same time, we don't anticipate the economy to perform much more than 2-3% a year in economic growth. Certainly, most businesses, will not experience this rapid growth in revenues over the same period and thus will have difficulty in meeting these additional wage pressures. Ideally, we would like to give businesses time to absorb the current wage increases before accruing additional increases.

Therefore, we would prefer to allow the current law to work. We have yet to see the concept of minimum wage rising at CPI in effect as each time we reach that point, a new bill is introduced. The notion behind enacting this concept is that the wages would rise annually but at a manageable level in line with economic growth. After all, successful businesses are fueled by happy, well-trained employees that are receiving good wages that are affordable and sustainable for the business as well as rewarding them for the work they do.

The current discussion about raising the minimum wage comes as we conclude the mandated wage increases that we all agreed to four years ago. The notion then was that this would be the last time we discussed these large jumps in wages and instead rely on the CPI. This compromise was intended to allow businesses to plan and prepare for the increases, budgeting in these cost increases, while avoiding further legislatively mandated increases. These new proposals overshadow and undermine the prior hard-fought compromise and adds to uncertainty of doing business within the state. We took that agreement seriously. We supported it. And now we would like to adhere to it and let the increase come from the CPI.

Arguments in favor of raising the minimum wage talk about the wage side, how it will raise the standard of living and help lift many out of poverty. However, we rarely discuss the difficult decisions employers will make to keep labor costs in line with revenue.

Economic Comparisons to Other Jurisdictions

While other states and cities are also considering increasing their minimum wage, it is important to note the differences in the scale of economies between Vermont and these other jurisdictions. Only in California, Washington, D.C. and New York will the minimum wage incrementally reach $15 per hour. These jurisdictions have economies and populations that are growing and thriving, enabling minimum wage increases. At $31 billion in gross state product, Vermont has the smallest economy in the U.S. coupled with slow but steady economic growth.

Net Effects to Businesses

Businesses are still absorbing fees and mandates imposed on them over the past several years which hinders the ability of our businesses to hire more people and increase wages and benefits. This includes: raising the property tax on commercial and non-residential property, requiring paid sick leave, increased energy efficiency charges, costlier workers' compensation rates than neighboring states, and high health care rates. Also, the wage is only one portion of the employer's responsibility when hiring. We also pay a payroll tax, federal tax, UI, WC plus many companies pay benefits that may include life, health, dental, vision and retirement packages. With all this included, an employer can pay an additional 30% or more in benefits and other taxes and mandates.

Tip Wage

We would also support decoupling the tip wage from the minimum wage as it was done in the past. This will enable restaurants to pay their employees who are at the lower end of the pay scale as the mandated wage increases rather than also paying the tipped staff who are already earning above minimum wage.

Member Examples

For one member in the recreation industry, an increase to a base of $15/hour represents a 38% increase to their current operating costs and will put them in a position where neither banks nor private equity will continue to invest in their business. These costs cannot be absorbed or passed on to the consumer as they already charge 15-20% more than in neighboring states. Their state taxes, employee costs, and worker compensation rate is substantially higher in Vermont than the other states in which they operate.

Another member in business services, who prides themselves in the fact that they have paid above the minimum wage and provide other benefits and compensation to their staff so they feel well-liked and valued, will face significant overhead cost increases and/or be forced to raise their prices to cover the extra costs, which they acknowledge the customer is not likely to understand or care, but rather will take their business elsewhere, resulting in cost pressures to the business.

A member in the services industry acknowledged that it is not employers wanting to keep people poor or make money on the backs of others, but rather it is employers trying to stay in business. The member will see a significant decline in their cleaning business because they cannot afford to pay their employees a $15/hour rate and cannot raise hourly rates to clients sufficiently enough to still have the jobs and make money to cover payroll.

One manufacturing member, where labor represents 50% of their overall costs, stated that moving the minimum wage to $15/hour will increase their production labor cost by 35%.

Suggestions

Vermont has the potential to become a dynamic growth state, but to do so it needs to be cost-competitive with other states. The Vermont Chamber offers the following suggestions:

- Allow the Cost-of-Living Adjustment (COLA) to go into effect, increasing wages for employees while allowing employers to absorb wage increases in line with economic growth.

- Maintain the student exemption in the statute and adopt Rep. Briglin's language or something similar to clarify the definition of student.

- Decoupling the basic wage rate for tipped employees from the minimum wage, allowing it to stand alone at its current rate. Continual increases in this basic wage rate has the effect of mandating an employer pay higher wages for a class of employees that are often already paid above the minimum wage while other employees who are not tipped, may not see those increases.

Thank you very much for the opportunity to testify today. I am happy to answer any questions that you might have.