Vermont Department of Labor
Summary of Verbal Testimony to the House General, Housing and Military Affairs Committee
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Since the passage of the Workforce Innovation and Opportunity Act (WIOA, 2014) the Department has been charged with serving the needs of employers and employees with equal energy. It is from this lens that the Department of Labor (VDOL) does not support raising the minimum wage. The Administration and the Legislature are both committed to improving the lives of each and every Vermonter.

Instead of asking what WILL happen, examine what HAS happened

No one disagrees with the intent of the minimum wage proposal. Helping Vermonters become self-sufficient and reduce dependency on state programs is everyone's goal. VDOL questions the efficacy of the minimum wage towards alleviating the financial stress of Vermont households. While much of the minimum wage discussion has been on "what *will* happen (increase in tax revenues, declines in costs of state programs, etc) if Vermont raises the minimum wage to $15/hour?", there does not appear any clear evidence of "what *has* happened?" post the previous four legislatively mandated increases to the minimum wage. How much additional tax revenue has been collected? How much savings has the state government incurred as a result of the past increases? Ultimately, has annual income increased for minimum wage earners?

Minimum Wage and Wage Inequality

The ability of the minimum wage to impact wage inequality or poverty statistics is suspect as evidenced by state outcomes across the country. Some states with high minimum wages have high inequality. Some states with low minimum wages have low levels of poverty. Vermont's own recent history with poverty is indication that the impacts of the minimum wage are not fully understood.

Impacts of Labor Force and a Rising Minimum Wage

Another example of this is that traditional economic theory would expect labor force participation rates to rise with the increase in the minimum wage. This has not been the case. Labor force participation rates for young and prime working age adults have been declining or held flat at best.

Economic Expansion Can't Last Forever

The U.S. economy has been on a historically long period of economic expansion. This expansion cannot go on forever. By waiting to adjust the minimum wage beyond the statutorily set annual adjustment for inflation, businesses would have maximum flexibility in adjusting to a future economic downturn. It is time to think about the next national recession.

Hourly Rates vs. Annual Earnings

The Department has both an employer focus and a labor supply focus. So, while "job losses" are a potential concern, the data indicates a bigger concern is reduction in hours. An increase in an hourly rate of pay does not guarantee an increase in annual earnings. As reported by private employers in Vermont in 2016, the number of hours worked per week is down 2.9% since 2008. In total, employers reported hourly earnings growth over the past ten years nearly equal the rate of inflation. However, if hourly earnings are converted to weekly earnings, one sees weekly earnings not keeping up with inflation due to reduced hours. And it is reasonable to assume the reduction in hours was not felt equally by all workers but disproportionately felt by those with the lowest skills.

The Part-Time Trend

The part-time trend is echoed in the stubbornly high U-6 (which includes individuals who want full-time work but can only find part-time work for economic reasons) level which is more than two times greater than the traditional unemployment rate or U-3. Typically, after such a long period of economic expansion, one would expect the ratio of the U-6 to the U-3 to be noticeably below 2. In addition, the population of long-term unemployed is rising indicating there is a population of Vermonters unable to gain economic traction. Increasing the minimum wage will make their challenge to find employment greater.

Addressing the Needs of Individuals Without Skills

The committee is correct that wage gains have been captured by the individuals experiencing the highest growth in productivity. It is the Department's position that there must be a better public policy option to address this than the minimum wage. For one reason, about 50% of Vermonters under the federal poverty level have no earnings at all. Households with no one earning wage income increases the risks of generational poverty as proper work ethics are not passed on.

There is significant money to be made right now in the Vermont for workers with skills. The Department is advocating for increasing the focus on skill acquisition to better prepare Vermonters to profit the changing market place instead of interfering with the market place and how wages are set.

Is Higher Better?

Under the "higher-is-better way of thinking": If 90,000 jobs "*will* benefit" from an increase in the minimum wage to $15/hour than surely more would benefit if the minimum wage was increased to $20/hour or $25/hour? Not necessarily. And even at a $15/hour minimum wage, the legislature's economist characterizes the magnitude of increase as "unchartered territory". Technological changes revolutionizing the way the work place functions will only become more attractive options as the cost of labor increases. In this future labor market, only employees with the best skills will be able to compete.

Does Help Always Help?

The debate over the slope of increase in the minimum wage was confined to subsection of Vermont's population – the discussion many times focuses on the roughly "90,000 people that raising the minimum wage would directly impact". In reference to a report from the University of Washington, funded in part by the City of Seattle, Seattle's hourly wage increased to $13 in

2016 (just over 3%), but hourly workers experienced a 9% decrease in hours worked. The net result was a $125 reduction in the monthly wages of impacted workers. There is an argument to be made that that an aggressive increase well above CPI could negatively impact those 90,000 Vermonters we are all concerned about. Applying this math to Vermont arbitrarily, $125/month in net income loss, would represent $1,500 per effected worker, or a 6.8% reduction in yearly pay. If all 90,000 Vermonters were impacted at the fulltime level, earnings would reflect a decrease of a collective $135,000,000.

Affordability and Examining State Budget Impacts
There is little disagreement that an increased minimum wage would increase many of the prices of the goods and services consumed by Vermonters. In addition to investigating the impact on household budgets, there should be close attention paid to the costs associated with rapidly rising price controls in the state's budget.

Child Care Cliff
Close attention needs to be paid to the impacts of child care subsidies, and "the cliff", when considering a drastic raise in the minimum wage. There are potential unintended consequences of parents experiencing greater financial burden if they were to earn more than the income thresholds for child care assistance, and numerous other assistance programs that also have earning limits. Furthermore, while families could lose thousands of dollars per year in assistance with child care tuition costs, the losses could be so substantial that individuals might be inclined to turn down raises, or shy away from future job opportunities.

Again, we do not disagree with the intent of the minimum wage proposal. Our goals and intentions are aligned, but it is compelling that Vermont has the 6th highest minimum wage in the country and yet problems of poverty and wage inequality continue to grow.

University of Washington Report:
https://evans.uw.edu/sites/default/files/NBER%20Working%20Paper.pdf