Minimum Wage Testimony

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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. Thank you for the opportunity to testify today.

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 wages of all Vermonters, we have concerns about the impacts of increasing the minimum wage, beyond what is already statutorily in place, on employers and employees. This proposed wage scale represents a nearly 50% increase, on top of the 20% increase over the last four years. Most Vermont businesses, will not experience this rapid growth in revenues over the same period and thus will have difficulty in meeting cost pressures. Ideally, we would like to give businesses time to absorb the current wage increases before accruing additional increases.

Moreover, these increase discussions come on the heels of legislation four years ago in which all interests, including the Vermont Chamber supported linking the minimum wage to the Consumer Price Index (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.

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. The problem is they fail to mention the other side of the economic argument. Extreme increases could have the opposite result as employers make difficult decisions to keep labor costs in line with revenue. As wages rises, unskilled workers see a decrease in the quantity of labor demanded (i.e., fewer jobs or fewer hours worked). If you raise wages by 1 dollar, the actualized labor cost can be a minimum of $1.25 and most often much higher, especially when you add in the additional costs of healthcare. Numerous employers in this state already pay higher than the minimum wage. Those small businesses that pay the minimum wage cannot afford to pay more and offer many other benefits to their employees that will be in jeopardy if mandatory increases are implemented. Many businesses continue to struggle with legislatively imposed fees and mandates and the increase envisioned is only one of a myriad of bills that add to business cost pressures. Absorbing these costs may result in reducing employee hours, benefits, and training, wage compression (paying new higher wage workers less), price increases, and shifting to labor-saving technology and substitution of higher-skilled workers for lower-skilled workers.

The quickest and most beneficial increase in wages comes from creation of new employment. By growing our economy and improving our career and technical education programs we can help employees gain the skills and training employers need, so that they can move up the ladder and obtain high-wage positions. As we have traveled throughout the state with the Vermont Futures Project, asking communities to help resolve the nearly 11,000 annual workforce gap that the Futures Project has identified, we continually heard that there are good paying jobs that employers are struggling to fill. The state needs to work on helping Vermonters obtain the skills needed to fill these positions, while also attracting workers and business to Vermont. Further increasing the minimum wage will not help job creation in Vermont, but will result in eliminating some jobs and inhibiting the creation of others. Increasing the minimum wage may well assist a percentage of Vermont's workers, but will come at the expense of businesses closing, relocating out of state and job losses. Each 1,000 jobs lost represents more than $17 million in lost wages. Legislative economist, Tom Kavet has testified that the range of annual job losses projected on the low-end of ranges analyzed will be about 2,830 and those industries facing the largest employment losses will likely be in the retail trade, food service and accommodation industries, where labor costs can account for 50% or more of total operating costs. Some workers will get more; others will lose everything.

Minimum Wage Studies Have Not Studied the Effect of Such a Sharp Wage Increase
Numerous studies have been done on the effects of minimum wage, with varying results. Studies to date have not found significant disemployment effects because virtually all of the minimum wage changes analyzed have been relatively "modest." Per Tom Kavet's October 2, 2017 Memorandum to the Minimum Wage Study Committee, moderate or modest raises, are minimum wage increases that include not much more than 10% of the workforce in their sweep. A $15.00 minimum wage in 2022 in Vermont would represent a constant dollar increase of 32% above the 2017 wage rate and affect more than 25% of the labor force. While a modest raise in minimum wage will not have much of an effect on employment and the economy, any sharp increases will have a corresponding effect on those factors. Such sharp increases have not been studied and we do not yet know what the true economic effects are of this proposal.

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 $30 million, Vermont has the smallest economy in the U.S. Vermont also suffers from business costs that are 15% above the national average. The state's economic outlook is weak—projected to be the fifth worst in the U.S. over the next five years, with income growth expected to badly lag the rest of the country.

Additionally, there are unknown effects associated with competition from both internet sales and border firms in New Hampshire where the minimum wage differential would be 107% if there is no change to New Hampshire's minimum wage. According to the Caledonia Record's September 16, 2017 article, while maintaining a lower federal minimum wage, New Hampshire has the highest median household income in the nation, 30% above the national median and the lowest poverty rate at 6.9%. In contrast, Vermont is the only state in the country that suffered a rise in our poverty rate, 10,000 more Vermonters than last year. The independent, non-partisan Tax Foundation ranked Vermont 46th and New Hampshire 7th in its most recent index on states' business tax climate. Vermont suffers the highest confluence of income taxes, property taxes, tax progressivity, estate taxes, minimum wage, and costs of living in the nation. We also rank top in the country for age, welfare enrollment, and government employment - all factors to blame for the mass exodus of jobs and people leaving the state. New Hampshire's pro-growth, low-tax approach has a more impressive, enviable overall fiscal state. Collection of relevant analytic data and ongoing review and analysis of potential cross-border negative impacts should occur.

Population movement across states firmly illustrates the importance of policy decisions and state competitiveness and there is a clear trend of Americans "voting with their feet" and migrating to economically competitive states, taking their jobs and money with them. From 2000 to 2014, more than 18 million taxpayers moved from one state to another. This migration comes with a substantial penalty for the states that are not economically attractive. As our data shows, past minimum wage increases have not resulted in increased migration to Vermont and an increase as substantial as $15/hour is likely to have the opposite effect of in-migration, continuing the trajectory of businesses and individuals leaving Vermont.

Net Effects to Businesses

Businesses are still absorbing legislative fees and mandates imposed on them over the past several years which has deeply hindered the ability of our businesses to remain in business and competitive. This includes: raising the property tax on commercial and non-residential property, requiring paid sick leave to all employees, onerous burdens to the permitting requirements to develop, increased energy efficiency charges, costlier workers compensation rates than neighboring states, unsustainable health care rates, and increased sales and use tax. Furthermore, this year business' face possible implementation of a paid family leave program, per parcel fees to clean up the state's waterways, and stormwater retrofits, among others, all of which add up to negatively impact Vermont business owners.

We encourage the Committee to consider the net impact of mandating minimum wage increases, which will vary by industry sector, with some employers seeing increases as high as 50%. A state can mandate the minimum wage an employer must pay, but it cannot mandate the minimum number of workers an employer hires or the minimum number of hours they work. A small state such as Vermont, already facing minimal growth in 2017 of 0.2%, cannot expect to sustain a dramatic variation with the U.S. minimum wage without counterproductive economic consequences.

Restaurants tend to have a higher percentage of unskilled workers than the average workplace, operate on razor-thin margins, face fierce competition, and fail more often than any other business enterprise. More than half fail in less than five years. When the minimum wage is raised, some restaurants will reduce employee hours and others will close, leaving both the employer and employees unemployed. Additionally, recreation and tourism are significant economic drivers in Vermont and it will be difficult for the industry to continue to employ the quantity of Vermonters that it does at present if wages continue to increase. The numbers will depend in large part on how quickly the minimum wage is raised, and how many other cost increases are mandated in conjunction with wage increases. As a result, some businesses will fail. The strongest and largest (with the most economies of scale) will adapt and survive, but the smaller and more vulnerable companies will not survive. As stated earlier, roughly 90% of Vermont employers have 20 or fewer employees and the Legislature must be wary about the short and long-term impacts to this proposal.

Member Examples
Some of our members are not affected by increasing the minimum wage as they already pay greater than that to their employees, while other members are very concerned about these proposals. For several, labor is already their highest cost. Proposed increases will dramatically increase operating costs, as it is not just entry-level which will require increases, but many others will also require increases to compensate them for their education, experience, time and tenure. Some examples from our members regarding the effect to their business include:

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. Moreover, 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%. Some of this increased cost is those wages that will be directly impacted and some will be for those that will need to be raised beyond $15, in fairness. They will have to tighten their structure to put higher focus on personal productivity, likely decreasing flexibility. Many of their marginal employees are going to be hurt because some of them they can justify paying $10/hour, but $15/hour is out of the question, with the business preferring to compete in the $18/hour range to get people with greater ability than pay people $15/hour with lower skills. Pay is not the first thing on the mind of many employees, rather schedule flexibility for semi-retired individuals looking for something to do and wanting to earn a little extra money is important to them because they want family time. When the focus is greater on pay, the business cannot be so accommodating and are fearful of losing this labor pool. The cost of goods and services is directly affected by the cost of doing business; if you keep raising the minimum wage artificially and quickly, the economic impacts are going to be self-defeating and devastating.

Suggestions

Vermont has the potential to become a dynamic growth state, but to do so it needs to be cost-competitive with other states. This minimum wage proposal is the wrong medicine for an ailing economy. If the Legislature chooses to move forward with increasing the minimum wage, the Vermont Chamber offers the following suggestions:

- Set the minimum wage at the lowest level with incremental increases phased in over several years. Vermont's minimum wage sees a Cost-of-Living Adjustment (COLA) increase every January 1, and we are constantly hearing from employers that even that much of an increase in some years is hard. We would like to see a less dramatic incremented change so businesses are able to plan, prepare, and provide a reasonable wage and hopefully grow their workforce. We would not want a substantial increase in the minimum wage to result in fewer jobs for the workers that this bill is intended to help.

- Maintain the exemptions under 21 VSA § 383, including pay to high school students at less than the minimum wage. This will allow businesses who currently hire students for the summer, seasonally, or otherwise, to keep these individuals employed, enable them to develop skills, and see less impact on margins.

- Include a small business exemption.

- Beginning in 2014 the wage for service or tipped employees became one half of the prevailing minimum wage rate. We recommend decoupling the basic wage rate 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.