

# Testimony of Michael Saltsman

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Good afternoon, members of the Advisory Board. My name is Michael Saltsman, and I'm the research director at the Employment Policies Institute in Washington, DC. I was invited here today to testify by the Connecticut Restaurant Association, the Connecticut Food Association, and the Connecticut Retail Merchants Association.

Connecticut has been identified by proponents of a higher minimum wage as one of a handful of state targets for a \$15 minimum wage. Neither proponents nor critics would likely deny that there's been a rapid escalation in recent years in the size of proposed minimum wage levels. In 2013, President Obama proposed a \$9 federal minimum wage; by 2016, just three years later, a leading candidate for the Presidential nomination has advocated for a \$15 federal minimum wage.

To put this in context: The historical inflation-adjusted minimum wage average at the federal level is \$7.40 an hour, or less than half of the proposed \$15 figure.<sup>1</sup> This rapid moving of the goalposts has left even left-of-center economists feeling uneasy, and it's generating some headline-grabbing consequences on the west coast.

Rather than discussing a specific bill in my time today, I'd like to discuss the empirical and anecdotal evidence regarding a \$15 minimum wage, and also address some common misconceptions about what such a law would accomplish.

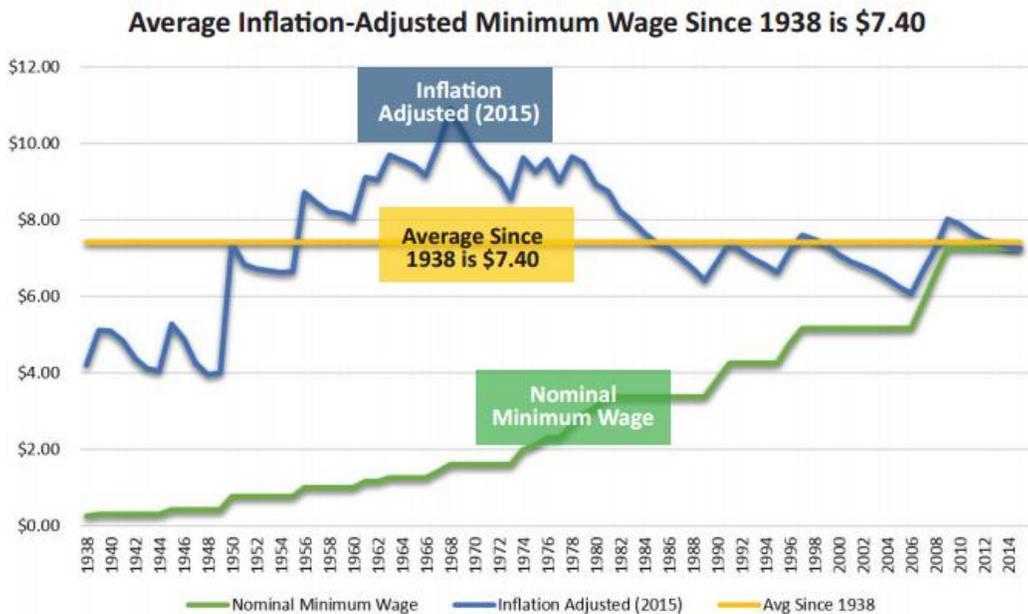


Figure 4. Nominal Vs. Inflation-Adjusted Minimum Wage Based on CPI Data, Since 1938

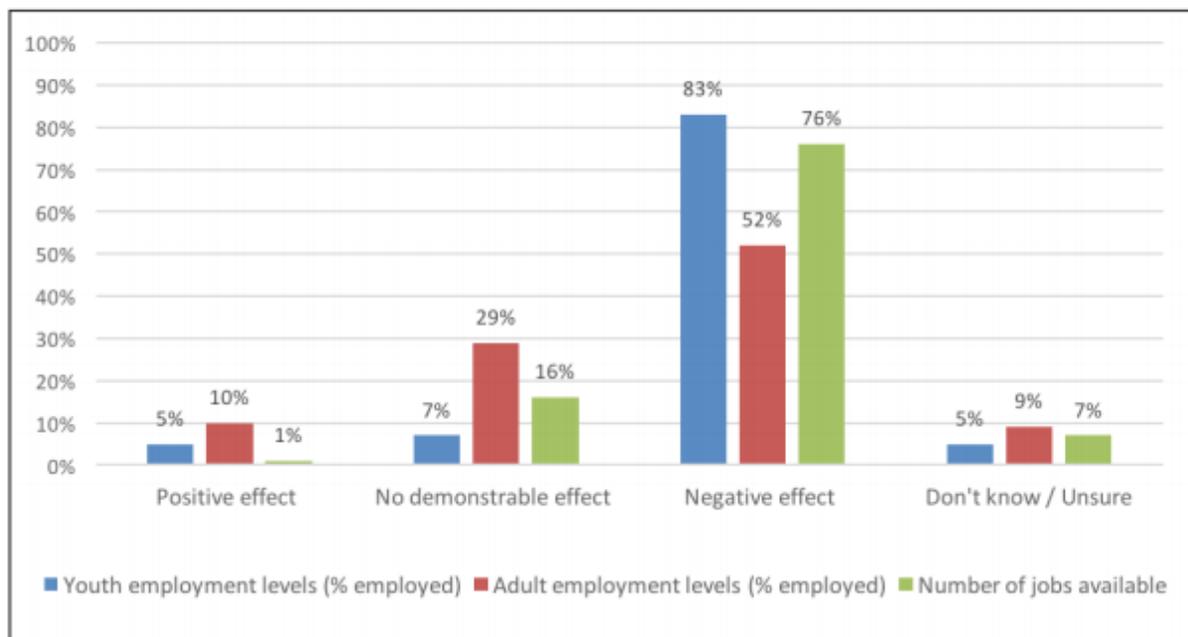
## A \$15 Minimum Wage and Its Impact on Employment

Perhaps the most intensely debated aspect of raising the minimum wage is the policy's impact on employment. I don't want to rehash this entire debate today: I'd point interested parties to a summary of the minimum wage research, published late last year by the San Francisco Federal Reserve Board, which finds that the best evidence points to some job loss for affected employees after even modest wage increases.<sup>ii</sup>

What I want to emphasize today is that these disagreements about a higher minimum wage and its negative effect on jobs mostly disappear at the \$15 level.

Last year, we asked the University of New Hampshire to survey the country's leading labor economists on this topic.<sup>iii</sup> It was a bipartisan group of respondents, with about 60 percent identifying as Democrats. What the University's survey team found is that nearly three-quarters of these economists opposed a broad \$15 wage mandate. 83 percent of these economists said that such a policy would have a negative effect on the number of jobs available for young people.

*Figure 6: Overall, do you believe that a \$15 / hour minimum wage would have a ...*



I'd encourage members of the board to read an essay I included with my testimony. It's titled, "**A \$15-hour minimum wage could harm America's poorest workers,**" and it's authored by the former chief economist in President Clinton's Labor Department.<sup>iv</sup> He's someone who strongly supported a \$10.10 minimum wage, but now describes \$15 as "extremely risky." Other notable Democrats, including past members of President Obama's Council of Economic Advisors, have taken a similar stance.<sup>v</sup>

If you need more proof, I'd direct you to the report that *proponents* of a \$15 minimum wage released in New York. It was authored by a team of economists affiliated with the University of California Berkeley, whose work has been touted in Connecticut as well. Their study estimated that, by 2021, over 41,000 jobs would be lost due to automation-related consequences of a \$15 minimum wage.

To summarize: You can still argue about whether any benefits of a \$15 minimum wage are worth the employment costs, as the Berkeley economists do. But you can't credibly argue that a \$15 minimum wage won't destroy a large number of jobs.

### Real-World Impacts of a \$15 Minimum Wage

The "Fight for \$15" campaign originated in New York City in late 2012; in 2016, it has now spread to cities across the country, at a cost to the Service Employees Union of over \$70 million dollars.

Because of the recent origins of the campaign, and the unprecedented nature of the \$15 demand, it's difficult to estimate with precision how large the jobs impact will be. However, there are early indications from cities on the east and west coast. We launched a project in early 2015 called Faces of \$15, where we started aggregating news stories that discuss how businesses were adapting to these wage levels. (If you're interested in reading more stories, or citations for the examples below, they're available at [FacesOf15.com](http://FacesOf15.com).)

Take Oakland, California: The city raised its minimum wage to \$12.25 in March of last year. Shortly afterwards, at least 10 businesses in the city's Chinatown, including four restaurants and six grocery stores, closed down in part due to the wage hike.<sup>vi</sup> Multiple child care providers in the city were forced cut hours and employees. Across the Bay in San Francisco, a \$12.25 forced restaurants like Abbot's Cellar, Luna Park, Source, and Roosevelt Tamale Parlor to close, citing the minimum wage as a factor. In Berkeley, California, the coffee shop Mokka survived Starbucks coming to town, but couldn't survive the city's \$12.53 minimum wage. It's closing this month.<sup>vii</sup>

Close to home on the east coast, consider the impact of a \$2.50 jump in New York's minimum wage for full-service restaurants. Betty's Diner in Buffalo, Longway's Diner in Watertown, and Peppermill Restaurant in Rochester all reduced their hours of operation in order to cut down on unsustainable labor costs associated with the new wage requirement. McGirk's Irish Pub in Binghamton and P.J. Clarke's in New York City eliminated staff positions entirely to try to compensate for these costs. Piggy Pat's BBQ in New Hartford laid off six employees, eliminated employee healthcare, cut hours of operation, reduced menu options, doubled up duties, and sent people home early because of the new tipped wage.<sup>viii</sup>

Medici House in East Aurora shut down, placing the blame on the higher minimum wage. Here's what the owner said: "I've got employees that have been working for me for 14 years that we had to say goodbye to...for no other reason than that increase in the minimum wage."<sup>ix</sup>

I cite all of these stories because they demonstrate why economists are so concerned about a dramatic jump in the minimum wage. This isn't business owners "crying wolf"—with a \$15 minimum wage, the wolf is real.

### Impacts on Taxpayers from a \$15 Minimum Wage

There's another interesting real-world impact of a higher minimum wage that's playing out in California right now—the impact on taxpayers.

In California last month, Governor Jerry Brown projected that the recently-enacted \$15 minimum wage would cost the state \$3.4 billion by the time it's fully implemented.<sup>x</sup> This is likely a conservative estimate: In an alternative to the Governor's budget that was proposed by Assembly Democrats, they've suggested *raising* the eligibility threshold for a public program, to ensure that employees who are now

receiving a larger paycheck still qualify for them.<sup>xi</sup> Public sector unions will use the new wage floor to argue for raises further up the pay scale.<sup>xii</sup>

Figure INT-05  
Major Poverty-Focused Budget Actions Since 2012

<b>Minimum Wage</b>	
• Increase from \$8/hour to \$10/hour	\$208 million
• Increase from \$10/hour to \$15/hour and extend paid sick leave	\$3.4 billion
<b>Medi-Cal</b>	
• Optional expansion under Affordable Care Act	\$2.1 billion
• Exemptions from provider cuts	\$387 million
• Adult Dental restoration	\$170 million
• Full Scope Services for Undocumented Children	\$229 million
<b>CalWORKs</b>	
• 11.4 percent in cost-of-living increases <sup>1</sup>	\$362 million
• Enhanced employment and early engagement services	\$288 million
• Creation of designated housing assistance	\$35 million
<b>CalFresh</b>	
• Work Incentive Nutritional Supplement	\$33 million
• State Utility Assistance Subsidy	\$15 million
<b>In-Home Supportive Services</b>	
• Overtime	\$468 million
• Restoration of 7 percent of hours	\$266 million
<b>Earned Income Tax Credit</b>	
• Creation of California credit	\$295 million
<b>Child Care</b>	
• Various increases to rates and slots	\$289 million
<b>Cal Grants</b>	
• Various augmentations and restorations	\$176 million
<b>SSI/SSP</b>	
• 2.76 percent cost-of-living increase	\$74 million
<b>Proposition 98</b>	
• Local Control Funding Formula—Supplemental and concentration grants for low-income and English Learner students	\$10.2 billion
• State Preschool—various increases to rates and slots	\$307 million
• Community Colleges Student Equity funding increases	\$155 million
• Community College Full-Time Student Success Grants	\$41 million
<b>Total:</b>	<b>\$19.5 billion</b>
	<b>(\$10.7 billion Prop 98,</b>
	<b>\$8.4 billion General Fund,</b>
	<b>\$0.4 billion Local Realignment Fund)</b>

Note: Fiscal estimates reflect fully implemented costs.

<sup>1</sup> Funded by 1991-92 State-Local Realignment Revenues.

These direct public costs of the policy might seem unusual, given the discussions about taxpayer *savings* associated with a higher minimum wage. In truth, the taxpayer benefit from a higher minimum wage is a talking point that's not backed up by the empirical evidence.

In a report last year, economists from San Diego State University examined 35 years of government data across a number of different datasets covering the country's major public support programs.<sup>xiii</sup> The authors found that, on net, minimum wage increases have little to no ameliorating effect on net

participation in (or spending on) these programs. This finding is consistent with a 2014 report from the Congressional Budget Office, which estimated that a \$10.10 minimum wage at the federal level would have little net impact on the federal budget.<sup>xiv</sup>

There are a number of reasons for this finding. At a very basic level, it's a fact that a majority of working-age adults currently in poverty don't have jobs. (In Connecticut, this figure is 61 percent.<sup>xv</sup>) These are program recipients who need a job, not a raise—and who will need the benefits regardless of the current minimum wage level. Program beneficiaries are also a small fraction of the total population of employees affected by a higher minimum wage: For instance, among those who would be affected by a \$15 minimum wage, just 12 percent are SNAP recipients and just 10 percent are Medicaid recipients.

More important to account for, though, are the “winners” and “losers” of a higher minimum wage. While some employees receive a raise and are now eligible for fewer benefits, others—who see their hours or jobs cut as employers adjust to higher costs—are now eligible for more benefits. That's exactly what the San Diego State economists find in their study of 35 years of minimum wage increases.

From a policy perspective, I've always found the “taxpayer subsidy” argument confusing. Most public support programs actually put *upward* pressure on the wage that employers must pay. This isn't even a controversial position: I want to quote here briefly from Arin Dube, a University of Massachusetts-Amherst economist who's one of the country's best-known proponents of raising the minimum wage:

...means tested public assistance programs [such as food stamps or housing assistance] are not tied to work, and we should not expect them to lower wages. Let's take food stamps, which are available to eligible families whether or not a family member works or not. Indeed, when people are not working, they are more likely to be eligible for food stamps since their family incomes will be lower. Therefore, SNAP is likely to raise, and not lower a worker's reservation wages—the fallback position if she loses her job. This will tend to contract labor supply (or improve a worker's bargaining position), **putting an upward pressure on the wage.**<sup>xvi</sup>

It's also worth noting that these programs have been supported for many years by progressive policymakers as a better-targeted means to help the poor. Thanks to the Earned Income Tax Credit, a single parent in Connecticut with two children has a base hourly wage of nearly \$13 an hour before any other benefits are accounted for.

We should proudly embrace programs like this that supplement employees' incomes without putting their jobs at risk.

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<sup>i</sup> Source: Bureau of Labor Statistics

<sup>ii</sup> Available here: <http://www.frbsf.org/economic-research/publications/economic-letter/2015/december/effects-of-minimum-wage-on-employment/>

<sup>iii</sup> <https://www.epionline.org/studies/survey-of-us-economists-on-a-15-federal-minimum-wage/>

<sup>iv</sup> <http://www.brookings.edu/research/opinions/2015/07/15-dollar-minimum-wage-harm-economy-holzer>

<sup>v</sup> <http://www.wsj.com/articles/joe-biden-and-the-15-question-1442013455>

<sup>vi</sup> [http://www.pressdisplay.com/pressdisplay/iphone/homepage.aspx#\\_articlef1fcc83b-dbd7-4e6c-addf-022fa4b6b001/waarticlef1fcc83b-dbd7-4e6c-addf-022fa4b6b001/f1fcc83b-dbd7-4e6c-addf-022fa4b6b001//true](http://www.pressdisplay.com/pressdisplay/iphone/homepage.aspx#_articlef1fcc83b-dbd7-4e6c-addf-022fa4b6b001/waarticlef1fcc83b-dbd7-4e6c-addf-022fa4b6b001/f1fcc83b-dbd7-4e6c-addf-022fa4b6b001//true)

<sup>vii</sup> <http://www.berkeleyside.com/2016/01/28/mokka-to-close-minimum-wage-rises-a-major-factor/>

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- <sup>viii</sup> <http://www.uticaod.com/article/20160320/OPINION/160319409>
- <sup>ix</sup> <http://www.wgrz.com/news/local/east-aurora/east-aurora-restaurant-closes-and-owner-blames-minimum-wage-increase/62065998>
- <sup>x</sup> <http://www.ebudget.ca.gov/FullBudgetSummary.pdf>
- <sup>xixi</sup> <http://freebeacon.com/issues/california-dems-move-hike-income-thresholds-wage-hike/>
- <sup>xii</sup> <http://www.sacbee.com/news/politics-government/the-state-worker/article70139177.html>
- <sup>xiii</sup> <https://www.epionline.org/studies/the-effects-of-minimum-wage-increases-on-means-tested-government-assistance/>
- <sup>xiv</sup> <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44995-MinimumWage.pdf>
- <sup>xv</sup> <https://www.epionline.org/studies/the-non-working-poor-and-a-15-minimum-wage/>
- <sup>xvi</sup> <https://arindube.com/2015/04/19/public-assistance-private-subsidies-and-low-wage-jobs/>