Over the course of the last year the Connecticut Low Wage Employer Advisory Board has deliberated on a number of issues but chose to focus on the issue of raising Connecticut’s minimum wage. After a year of testimony, public hearings, and discussion, the majority of Board members voted to in favor of increasing our state’s minimum wage from its current level of $9.60 to $15 over a period of several years. This decision was communicated in a document titled “Connecticut Low Wage Employer Advisory Board Report and Recommendation”. The Executive Summary for that report states that raising the minimum wage to $15 per hour will:

1) “boost the incomes of hundreds of thousands of Connecticut families”
2) bring “many benefits to its residents, taxpayers, and businesses”
3) “help address the strikingly high levels of poverty”
4) “ensure that Connecticut’s low-wage earners…can support themselves and their families”
5) “help to curtail the state’s spending on public assistance programs for low-wage working families”

While I heartily support these goals, I do not necessarily believe that raising the minimum wage by 50 percent will help low wage workers get there. I also believe that an increase of this magnitude will be detrimental not only to low wage workers, but also to small businesses, job creation, and to Connecticut’s economic environment and fiscal health overall. In light of that, I have taken this opportunity offered by the Board’s Chairman to share some of my concerns.

Prior research

During our discussions, a number of research studies were presented documenting the pros and cons of raising the minimum wage. The Majority Report minimizes the cons while highlighting the pros stating that:

“...the weight of credible economic research found that raising the minimum wage...has benefits across the economic spectrum...not only for workers and their families but also for businesses, taxpayers, and government.”

In fact, there is and has been a robust and ongoing scholarly debate on both sides of the minimum wage issue. To claim that only the studies that support increasing the minimum wage are “credible” is misleading at best. To provide a more balanced perspective, I will cite various studies and sources that highlight some of the risks associated with raising the minimum wage in this rebuttal. I will also present my concerns under five categories 1) effects on those living in poverty, 2) effects on low wage workers, 3) effects on employers with a particular focus on small
businesses, 4) effects on Connecticut’s economy overall, and 5) effects on Connecticut’s fiscal well-being.

**Effects on those living in poverty**

The Majority Report provides a number of statistics on poverty, noting that in 2010, 21 percent of our state’s citizens were living at or near the federal poverty level (p. 9). The $15 per hour minimum wage is proposed as a potential solution to rising poverty levels. Previous studies have shown, however, that raising the minimum wage is not a particularly effective tool for reducing poverty, because the majority of those who benefit are not poor or living in poor households (Neumark, 2015).

To illustrate this point, one study examined the effect of state and federal minimum wage increases between 2003 and 2007 and found no effect on state poverty rates (Sabia & Burkhauser, 2010). The same study found that only 15.8 percent of those individuals experiencing income gains lived in poor households. Similarly, a second study using 2011-2014 data found that only 18 percent of income gains from a minimum wage increase went to poor families, while 32 percent went to families with incomes at least three times the poverty level (Lundstrom, 2014).

Stanford’s Thomas MaCurdy found that a higher minimum wage benefits only one in four poor families (MaCurdy, 2015). Conversely, he noted that all low income families help pay for the increase through higher prices, meaning that three out of four poor families are net losers. Based on his findings, MaCurdy concluded that raising the minimum wage acts as a value-added tax and produces income transfer outcomes that “sharply contradict portraying an increase in the minimum wage as an antipoverty initiative.” (p. 497).

What are the implications of these findings? That raising the minimum wage benefits a small percentage of households living in poverty, while all households living in poverty will have to help pay for the increase through higher prices.

**Effects on workers and the job market**

The Majority Report contends that increasing the minimum wage to $15 per hour will have “...net positive effects on Connecticut employment levels, in addition to bringing significant benefits for workers on the lower rungs of the economic spectrum....” (p. 11).

A considerable body of research, some done by leading scholars in the field of labor economics, has found that minimum wage increases create adverse labor demand effects that redistribute rather than increase earnings among low skilled individuals. In other words, some low wage earners will earn more due to the increase, but others will lose their jobs (Clemens & Wither, 2014; Sabia & Nguyen, 2015).

The Majority Report assumes that employers will either absorb the cost of higher wages or pass them on to customers in the form of higher prices. Although employers may use both of these strategies, they will be forced to use others including reducing hours, reducing benefits, and reducing jobs as well. A November 2015 survey of 555 U.S. economists conducted by the
Employment Policies Institute (Fowler & Smith, 2015) found that 79 percent believe that increasing the minimum wage to $15 per hour would lead employers to reduce their number of employees, while 71 percent responded that it would lead to reductions in employee benefits. In Seattle, which actually voted to increase the minimum wage to $15 over a period of years, a team of researchers at the University of Washington conducted a survey to assess potential impacts before the initial increase to $11 per hour went into effect. In response, thirty percent of business owners indicated that they planned to reduce their number of employees. One might reasonably assume that the percentage will be higher when the full increase to $15 per hour takes effect.

The Majority Report also assumes that the rising tide of higher minimum wages will lift all boats for low wage workers. Unfortunately, I think it is more likely that some workers will fall off the boat entirely and will do so with not much in the way of a life preserver. Prior research consistently documents the adverse effects of higher minimum wages on some categories of workers, specifically workers with lower skill levels and teens. In 2007, a “study of studies” on raising the minimum wage found that, out of 33 studies, 28 found negative employment effects (Neumark & Wascher, 2007). The authors also found that in those studies focusing on the least skilled workers, negative employment effects were particularly strong.

University of California Irvine’s labor economist David Neumark (cited above) has studied and written on this issue for a number of years and contends that higher wages will cause employers to seek out higher skilled rather than lower skilled workers (Neumark, 2015). To put it in plain terms, whereas an employer might give a questionable job candidate a chance for $9.60 per hour, he will be less willing to do so for $15 per hour. At that price, he will be looking for someone who is equipped with the skills required and is ready, willing, and able to work without the issues and behaviors that are often encountered in workers who have had a marginal attachment to the labor market.

Consistent with Neumark’s work, Clemens and Wither (2014) studied the effect of federal minimum wage increases from $5.15 and $7.25 per hour that occurred between 2007 and 2009. Their findings revealed significant reductions in the level of employment for low-skilled workers. Contrary to expectations, they also found that low income workers experienced wage decreases in those states experiencing the greatest wage increases due to the higher federal standard. This occurred because a greater number of individuals worked without pay, possibly in hopes of securing permanent employment.

In a recent study, two researchers from the National Bureau of Economic Research and MIT (Meer & West, 2015) used three different data sets to model the effect of minimum wage increases on employment. Their findings revealed that raising the minimum wage reduced job growth over a period of years rather than in the near term. This stands to reason given that employers, faced with higher labor costs, will need some time to determine strategies for managing those costs. They’re not simply going to fire a bunch of people on the day the minimum wage increase goes into effect. Meer and West conclude:

“We show results from three administrative data sets that consistently indicate negative effects of the minimum wage on job growth. Our results are robust to a number of specifications, and
we find that the minimum wage reduces employment over a longer period of time than has been previously examined in the literature.” (p. 22)

Effect on employers

The Majority Report largely assumes that if the minimum wage is increased by 50 percent, low wage workers will be better off, and not much else will change. The general sense is that this increase will raise employer costs by a small amount, and that these cost increases can be either absorbed or passed on to customers in the form of higher prices. I believe these assumptions are unrealistic both individually and collectively. Let me explain why.

First, the Majority Report assumes that if minimum wage workers get a 50 percent pay increase, other workers will congratulate them on their good fortune and leave it at that. I think it is much more likely that wage increases of this magnitude will ripple through the entire food chain and that higher wage workers will also feel that it is only “fair”, “just”, and “moral” to give them wage and salary increases comparable to those granted to low wage employees. Thus, raising the minimum wage to $15 has the potential to increase labor costs significantly. The Majority Report does not address this possibility at all.

Second, some of the industries that are most heavily populated with low wage workers are highly labor-intensive including child care, health care, restaurants, and retail. Many of these industries operate on narrow margins and, in the case of restaurants and retail, are highly competitive. In light of that, it is not realistic to assume that employers in these industries can simply absorb the cost increase or, alternatively, pass it on to consumers. I discussed this with the owner of a small family restaurant whose response was “Do you really think I’ll be able to get away with charging $25 for a sandwich?” The Majority Report assumes that cost increases to employers will be small, and that their effects will be minimized because they will be spread over time. I do not agree with this assumption and would have liked to see more input from members of the small business community in particular.

Third, if a business is to survive over time, it has to make sure that its expenses are lower than its revenues. Although there may be seasonal or even annual exceptions to this rule, companies that are unable to generate revenues in excess of costs over time are not sustainable. Thus, if labor costs in the form of minimum wages increase by 50 percent, employers will look for ways to reduce other costs. The most likely candidates, as noted above, are employee working hours, benefits, and jobs. The Majority Report assumes that most workers will keep all three. I do not agree with this assumption, but rather believe that minimum wage workers as well as non-minimum wage workers will experience losses in one or more of these categories. Let me explain why I believe this to be true.

Some companies with a relatively small number of minimum wage workers will simply choose to eliminate those jobs rather than deal with the ill will that giving raises to some but not to others will generate. Under this scenario, duties performed by the minimum wage workers will be eliminated, outsourced, automated, or rolled into the responsibilities of higher wage workers who will be asked to “do more with less”.

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Other companies may decide that they don’t really need their current number of full-time employees, some of whom are eligible for employee benefits, at the rate of $15 per hour. This will accelerate the trend of greater reliance on part-time workers, most of whom do not receive employee benefits.

Another possible strategy would be to offset wage increases with benefit reductions. This is a strategy that would negatively affect all workers, most of whom would not get a corresponding wage increase. The same holds true for a strategy of increasing prices to absorb wage increases. All workers would have to pay these higher prices, but the majority would not receive wage increases.

To summarize, remember the quote: “If you like your health care plan, you can keep it”? We all know how that one turned out, and I believe that raising the minimum wage to $15 per hour will have a similar outcome. The Majority Report assumes low wage workers will gain higher incomes while other variables in the equation remain essentially unchanged. I believe that there is the potential for a lot of things to change, and to change in directions that we won’t like.

**Effects on Connecticut’s economy**

Currently, Connecticut is one of the most high cost and highly taxed states in the country for both businesses and individuals. In recent years, we have also carefully cultivated the image of being one of the least business friendly. Raising the minimum wage will cement that image, and in doing so will discourage businesses for launching, locating, or expanding here. Yes, it’s a lovely state and the fall leaves are beautiful, but there are other lovely states, including some in New England, where the cost of living and operating a business is much more reasonable.

Economist Don Klepper-Smith of DataCore Partners gave a presentation on the Connecticut economy to the Hartford Area Business Economists on October 11, 2016. In that presentation he forecasted that Connecticut’s economy will grow by only 1 percent to 1.5 percent in both 2016 and 2017, well below our long-term average and below the anticipated growth rate for the United States overall. Klepper-Smith further noted that Connecticut ranked 43rd among the states for job growth in 2015, lower than any of our New England neighbors. Similarly, Connecticut has the worst job recovery rate among the New England states from the “Great Recession” having recovered only 81.1 percent of jobs lost to date. In comparison, Massachusetts has recovered 273.2 percent of its jobs and New Hampshire has recovered 161.8 percent. Given our excruciatingly slow level or job creation, or in the case of the last 4 months, job losses, is this really the time for us to be taking measures to further antagonize the business community and discourage job creation?

As I indicated at the beginning of this rebuttal, I am particularly concerned about the effect of a $15 minimum wage on small businesses and new firms. Small firms are important to our state, because they are the primary engine of net new job growth. The MetroHartford Progress Points Report (July 2016) reported that jobs in small and locally-owned firms grew by 23 percent from 1995 to 2013 compared to a 10 percent decline in large and non-resident employers. Many of these small firms operate on tight budgets and do not have the organizational slack to absorb the higher costs that would be imposed by a $15 per hour minimum wage. Similarly, most small
firms compete against other local firms or against large firms that enjoy economies of scale, and are thus unable to simply raise prices to cover higher labor costs. In light of that, a cost increase of this magnitude will discourage new firms from launching and existing firms from expanding. Similarly, it will hasten the closure of struggling firms that are just getting started or going through a period of financial stress.

**Effects on Connecticut’s fiscal health**

A major appeal of the $15 minimum wage is the claim that it will allow the State of Connecticut to reduce spending on public assistance programs. According to the Majority Report, state spending directed toward working families for these programs totals approximately $486 million. As we face a projected budget deficit of $1.3 billion in the coming fiscal year, this is indeed a beguiling carrot to have dangled in front of us. Before we start spending those as yet unclaimed dollars however, we should consider some of the potential fiscal impacts of a $15 minimum wage. These include:

1) The costs associated with job losses and long term employment for minimum wage workers with low skill levels.
2) Additional financial aid for college students since research shows that teens are also negatively affected by higher minimum wages (Neumark et al., 2014).
3) Higher costs for minimum wage workers or minimum wage contract workers employed by the state.
4) Likely higher costs (including higher pension costs) for non-minimum wage state workers who will demand higher wages through their unions.
5) Higher costs for goods and services purchased by the state.
6) Lower employment for parents who can no longer afford the cost of child care.
7) Higher admissions to residential facilities for elderly and handicapped individuals who can no longer afford the cost of home health care.
8) Continued outmigration of state residents due to higher costs. According to the MetroHartford’s Progress Points Report, outmigration from 2012 to 2014 led to a net loss of taxpayer income of $912 billion for the region.
9) Over time, continued slow growth in jobs which will exacerbate our difficulties in attracting highly educated, highly skilled, and young workers. This is another major challenge highlighted by the MetroHartford’s Progress Points Report.

To summarize, raising the minimum wage to $15 per hour at this time represents an enormous gamble for the State of Connecticut. The Majority Report assures us that the beneficial effects of the increase will far outweigh the few, if any, negative effects. In this rebuttal report I have attempted to highlight some of the risks, many of which are supported by a strong body of prior research and the perspectives of experts in this field.

**Where does this leave us?**

In this rebuttal, I do not want to minimize the challenges and struggles of low wage workers and their families. I also heard testimony and read letters from hard-working individuals, many of them single parents, who juggle multiple jobs and responsibilities in an effort to keep their heads
above water in an expensive state like Connecticut. As I have pointed out in this response, raising the minimum wage by 50 percent is a short term solution that will not necessarily solve their problems. In fact, it will make the problems of those who lose their jobs, hours, or benefits a whole lot worse.

I believe that the best defense in an increasingly uncertain job market is a strong offense, and that comes through education, training, skills, and opportunity. These are long term solutions that will benefit individuals throughout their working lives. Within the context of the Low Wage Employer Advisory Board, several of us proposed longer term solutions that would equip workers in our state with the tools that will allow them to compete. These include:

1) Increased opportunities for educational innovation and choice at the K-12 level.
2) Earlier exposure to career options, companies, and members of the business community, i.e. grade 6-7 vs. high school.
3) Increased focus on vocational education to provide opportunities in high demand fields.
4) Revamp apprenticeship programs to ensure that they are focused on getting workers into high demand fields.
5) Closer links between community colleges and business to develop curricula, internships, and job opportunities. Some community colleges are already doing this very effectively.
6) Closer links between universities and the business community to ensure that college graduates will have both skills and career opportunities.
7) Enhanced job counseling linked to skills training and job opportunities for low wage and unemployed workers.
8) Increase options for accessible, safe, and affordable child care that will allow low wage parents to participate in career counseling, training, and job placement.

As noted above, these are longer term solutions that do not have the political appeal of doling out wage increases. They do, however, have the effect of putting more power and control into the hands of low wage workers themselves rather than into the hands of government which may be able to guarantee a minimum wage level but can’t necessarily guarantee a job to go with it.

**Conclusion**

The Majority Report proposes raising the state’s minimum wage to $15 on the grounds that this is the silver bullet that will reduce poverty, raise incomes for low wage workers, increase employment and economic growth, and reduce state spending. In this rebuttal, I argue that it will do none of these things. Alternatively, I contend that raising the minimum wage by 50 percent will have a negative effect on employment and job creation, particularly in small firms that provide the majority of net new jobs. Increasing the minimum wage by 50 percent will also increase costs for all workers, most of whom will not get a wage increase, and will solidify Connecticut’s reputation as a high cost and business-unfriendly state. Further, raising the minimum wage will do nothing to address the real needs of low wage workers for better educational, training, and employment opportunities that would allow them to support themselves and their families with dignity.
In light of the concerns I have expressed in this rebuttal, I urge the Connecticut State Legislature to reject the Board’s recommendation to increase Connecticut’s minimum wage to $15 per hour. Alternatively, I urge our legislators to seek longer term and more sustainable solutions that will address the needs of our low wage workers.

Respectfully submitted,

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The following members of the Connecticut Low Wage Employer Advisory Board acknowledge and agree with the above rebuttal to the Board’s majority opinion.

Paul Lavoie, Vice President, Sales, Marketing and Human Resources, ETTER Engineering
Michael H. Seid, Managing Director, MSA Worldwide

References:


