

**SENATE OF PENNSYLVANIA
LABOR & INDUSTRY COMMITTEE**



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Testimony on Minimum Wage Increase

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Good morning, Chairman Scarnati, Chairman Tartaglione, and members of the Senate Labor and Industry Committee. On behalf of the Pennsylvania Chamber of Business and Industry and its more than 9,000 business members, thank you for the opportunity to present and discuss the Chamber's position on increasing the minimum wage.

My name is Henry C. Fader and I am a Partner with the law firm of Pepper Hamilton LLP. I also serve as Chairman of the Chamber's Board of Directors. With me today is Gene Barr, Vice President of Political and Regulatory Affairs for the Chamber.

The Pennsylvania Chamber is the largest business advocacy organization in the Commonwealth and the second largest State Chamber in the nation. We have members in every county. Over three-quarters of our members employ fewer than 100 employees. However, the sum total of people that our members employ is over 50 percent of the private workforce in Pennsylvania.

We spend a significant portion of our time monitoring other states and studying their programs for business attraction and retention. The Chamber is uniquely qualified to communicate what our members tell us will make us more competitive in the ongoing battle for jobs and job opportunities. However, our effectiveness as an organization is dependent upon our ability to partner with you, our political leaders, to turn the tide to make a real difference on important issues.

Our Governor tells us that Pennsylvania continues to rank nationally near the bottom for attractiveness of our business climate. Regulations and taxation are major reasons that we have been losing jobs and population. We must reverse these disturbing trends. Otherwise, the exodus of Pennsylvania's best

and brightest youth to other states will continue because there are not enough opportunities or reasons for them to stay here.

We need a vision of what Pennsylvania can be. We need to reestablish this Commonwealth as a serious competitor for jobs and job opportunities. These goals are embodied in the Chamber's four-point Agenda for Jobs – a plan to grow jobs, from Pennsylvania's job creators, which was developed through extensive outreach to our members and employers across the Commonwealth. Pennsylvania must enact real, effective changes to our business tax structure, ensure health access for employees, continue to reform Pennsylvania's costly legal system and make Pennsylvania's labor laws more cost effective in order to jump-start economic growth and job creation.

In particular, the Chamber supports efforts to bring fairness to our labor laws in order to make Pennsylvania more consistent – and most importantly, more competitive – with other states. In establishing a more friendly business environment, we will make it possible to bring vital, family-supporting jobs to the Commonwealth. However, increasing the minimum wage is counterproductive to this effort.

In general, an increase in the minimum wage would make Pennsylvania one of approximately a dozen states to exceed the federal minimum wage standard. This is contrary to the Chamber's policy of seeking employment laws and regulations that are consistent with other states and allow for flexibility in the marketplace rather than government-imposed mandates. To that end, the Chamber opposes measures such as House Bills 216 and 257 and Senate Bill 369 which would raise the minimum wage at the state level.

Workers earning the minimum wage are a relatively small subset of the total workforce. According to the Pennsylvania Department of Labor & Industry's

Center for Workforce Information & Analysis, minimum wage earners comprise only 1.5 percent of Pennsylvania's total workforce. Large numbers of minimum wage earners are young people primarily those between the ages of 16 and 24. In addition, the U.S. Bureau of Labor Statistics cites that the bulk of minimum wage workers also have a limited education with one-third of all minimum wage workers having less than a high school diploma. Many others are college or high school students working while going to school and are not part of any permanent workforce.

An increase in the minimum wage can be characterized as a "small business tax." Minimum wage advocates imply that mostly large, successful firms employ low-wage workers. Therefore, the only effect of a higher minimum wage will be to reduce business profits. However, the Small Business Administration recently examined the types of businesses employing low-wage workers. Not surprisingly, most of them are small businesses, not large corporate employers. Among all minimum wage workers nationally, 54 percent work in businesses with fewer than 100 employees and two-thirds work in businesses with fewer than 500 employees. Small businesses are the backbone of our economy today and a critical stepping-stone into the labor force for most workers. In addition, as noted by the National Center for Policy Analysis, small businesses create 75 percent of new jobs annually but they are also responsible for most job losses. With so many of them so close to the edge, it often does not take much to push them over, destroying many jobs in the process.

Businesses offer a mix of wages and benefits necessary to attract a qualified workforce. If an increase in the minimum wage is mandated, businesses have a number of options that can be taken to offset the pay increase. In addition to reducing the size of their workforce or not hiring as many additional workers, employers could also reduce the number of hours worked by some of their employees. Employers may also respond to an increase in the minimum wage in

ways that do not involve adjusting employment levels or hours. For example, some employers might reduce training, health care coverage, or fringe benefits or may not add new benefits to attract and retain workers. Regardless of the employer response, raising the minimum wage could take as much as \$80 per week per employee out of employers' pockets for no sound economic purpose.

The economic evidence and demographic data show how a minimum wage increase hurts most those it purports to help. The overwhelming majority of the people who benefit from minimum wage increases are not poor and such efforts undermine attempts to reduce the number of persons on welfare. According to the Employment Policies Institute, only 11 percent of all minimum wage workers in Pennsylvania are single parents or the single earner in a couple with children, and the average family income of employees who would benefit from a minimum wage hike to \$7.00 per hour is nearly \$50,000. In addition, higher mandated wages reduce employment opportunities for the least skilled and cause shifts in the profile of those who get hired as employers favor more highly skilled applicants. And as entry-level unskilled job opportunities disappear, welfare recipients have a more difficult time finding work.

Contrary to supporters' claims, the economic evidence is that minimum wages harm low-wage workers. In 2004, two Duke University economists tested the claim of minimum wage hike proponents that job losses do not follow such artificial wage increases. They found that current minimum wage employees had a higher probability of being unemployed as the result of a minimum wage increase, and that minimum wage increases resulted in decreased job prospects for individuals. This finding is supported by the Federal Reserve Bank of Chicago, which notes that there is a 6 percent job loss for every 10 percent hike in the minimum wage.

In addition, minimum wage increases destroy jobs. A minimum wage increase will raise the incomes of affected workers who continue to be employed after the increase takes effect, but it will also destroy a number of existing jobs and inhibit the creation of new jobs. According to the Heritage Foundation, a 2005 survey found that 71 percent of economists at America's top universities agree that a minimum wage increases unemployment, particularly among the young and unskilled. The economic reality is that unless business productivity increases sufficiently to generate enough revenue to pay the higher minimum wage, affected businesses will have to spread the same amount of money over fewer workers. The net result of minimum wage increases is that the least skilled workers in the labor pool will be the first to lose their jobs. These same workers will also find it more difficult to get and keep a new job. Ironically, one of these reasons why labor unions typically support minimum wage increases is to tip the balance in favor of higher-skilled, and higher-wage, unionized workers. According to former union leader Edward T. Hanley in *Catering Industry Employee*, "the purpose of the minimum wage is to...provide a floor from which we can upgrade your compensation through collective bargaining."

Furthermore, minimum wages are counterproductive for businesses and workers alike because they limit economic freedom. In a competitive labor market, workers are free to take their services elsewhere if they don't like an employer's offer. At the same time, businesses have an incentive to pay competitive wages and benefits if they want to attract quality workers. According to a study by economists at Florida State University and Miami University of Ohio, full-time workers hired at the minimum wage received a median pay increase of 13 percent within their first year. This shows that minimum wage earners, if successful in their job selection, have rapid upward mobility. In addition, according to the U.S. Bureau of Labor Statistics and Employment Policies Institute, about 90 percent of workers hired at minimum wage earn more than the minimum after one year and the average annual wage growth for

minimum wage workers is six times greater than for workers earning more – undermining the claims of minimum wage hike advocates who claim that government-mandated increases are the only way to raise the incomes of low-wage workers. This is simply not the reality that businesses see. If an employee is successful in a new minimum wage position, his or her talent will be recognized by the employer. A government policy that limits the ability of both individual workers and job providers to freely negotiate a wage rate agreeable to both parties creates economic losses that ripple outward and reduce statewide economic growth.

In closing, a minimum wage increase would be a punitive tax on doing business in Pennsylvania, prompting businesses to take the alternatives available to them elsewhere. Absent any other influencing factors, a government-mandated increase in the cost of doing business will have to either be passed along to the consumer or swallowed by the business owner.

Business growth is the source of economic opportunity and advancement for those less fortunate. Reducing taxes, providing affordable health care, and improving our legal environment would do more good than hiking and extending the minimum wage. If Pennsylvania truly wants to help people, it should reduce the barriers and mandates placed on employers that inhibit job creation. An increase in the minimum wage would further damage Pennsylvania's ability to attract and retain job creators by escalating the costs of doing business.

Again, thank you for the opportunity to present our views on this issue. We would be happy to answer any questions at this time.