



Central Vermont Chamber of Commerce

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Statement Before
Vermont General Assembly
Minimum Wage Study Committee
Presented by
William D. Moore
Central Vermont Chamber of Commerce
October 2, 2017

RE: MINIMUM WAGE AND THE “BENEFITS CLIFF”

Chairman Sirotkin, Representative Head, Honorable Members of the Minimum Wage Study Committee:

My name is William D. Moore. I am the President and CEO of the Central Vermont Chamber of Commerce. The Central Vermont Chamber of Commerce is the largest business organization serving Washington County and a portion of Orange County. Our diverse membership consists of some of the largest businesses in Vermont as well sole proprietorships. Virtually every sector of Vermont's economy is represented in our membership.

Thank you for the opportunity to be before you today to discuss issues concerning Minimum Wage increases and the “Benefits Cliff.”

In 2014, the business community agreed to a stepped increase in the Minimum Wage from \$8.73 an hour, (nearly a dollar above the federal minimum) to \$9.60 in 2016, \$10.00 in 2017 and \$10.50 in 2018. The agreement also called for indexing the Minimum Wage, beginning in 2019.

These increases were agreed to by all parties interested in workers' wages and enacted by the General Assembly. One of the primary reasons for the agreement was to allow businesses to plan and prepare for increases and, by indexing increases annually, to avoid the constant battles over increasing the Minimum Wage. It was a compromise, an agreement that is working and has been working for three years.

Minimum Wage jobs are generally those at the entry level. They are intended to be short-term until the employee gains the necessary skills and experience to take on more responsibility. More experience and responsibility leads to better jobs which leads to increased

wages. The Minimum Wage was not created to provide a permanent wage. The Minimum Wage was in fact created to ensure that workers during The Great Depression were not exploited.

We are wary of increases in the Minimum Wage beyond those that were adopted by the General Assembly in 2014.

We believe that market forces should determine the Minimum Wage, not artificial increases imposed by the legislature. In fact, the market is already driving the wages earned by Vermont's workers. In 2016, only 10% of all Vermont workers earned less than \$10.45 per hour, at a time when the Minimum Wage was \$9.60 per hour.¹

A study by the U.S. Department of Labor showed that the Median Hourly Wage across all occupations in 2016 was \$18.23 per hour while the Mean Hourly Wage stood at \$22.90.²

Today, unemployment in Vermont is at record lows. Employers are already voluntarily offering higher wages to attract and retain workers. Just last week, Target announced an across-the-board increase nationwide.

According to a 2016 study by the Heritage Foundation, "Starting wages of \$15.00 per hour mean full-time employees must create at least \$38,700 a year in value for their employers (including wages, employer payroll taxes, and Affordable Care Act mandated penalties). Such a high hurdle would make it much harder for less-experienced and less-skilled workers to find full-time jobs. Many of these workers are not yet productive enough to create that much value for their employers and businesses will not hire them at a loss.

"Consequently, many businesses might respond to a \$15 mandate by eliminating positions, cutting hours, and looking for new ways to implement labor-saving technology³." The same report indicates that by 2021, the proportion of wage and salary workers directly affected by a \$15.00 Minimum Wage could actually cost the state approximately 11,000 full-time equivalent jobs.

The state, as an employer, will not be immune to the effects of a \$15.00 Minimum Wage.

How will the proposed increases in the Minimum Wage affect the state budget? How many state jobs are at the Minimum Wage level? Raising the Minimum Wage to \$15.00 will add an additional payroll expense of approximately \$3.60 per employee to the state's costs, just as it will to private employers. How many state employees are currently paid between the Minimum Wage and the proposed Minimum Wage? Those employees will also expect an increase, just as in the private sector. What will be the result of the upward pressure on those currently earning \$15.00 per hour? How much of an increase can they anticipate receiving? Surely the state will have to address these issues, just as the private sector will.

¹ Vermont Department of Labor *Vermont Wage Distribution 2004 – 2016 Occupational Employment and Statistics Survey* April 4, 2017

² U.S. Department of Labor, Bureau of Labor Statistics *Occupational Employment Statistics* March 31, 2017

³ The Heritage Foundation *Issue Brief #4601 on Jobs* August 17, 2016

We are concerned about the upward pressure on wages that increasing the Minimum Wage will have on the cost of doing business in Vermont. We are concerned that simply increasing the Minimum Wage does not increase workers' productivity. We are concerned that the increase will in fact negatively impact the productivity of current employees who do not see their own wages increase commensurate to the increase in the Minimum Wage.

We are also concerned about the inflationary impact that increasing the Minimum Wage will have on the costs of goods and services sold in Vermont. Businesses will not absorb the increases and consumers will feel the burden of increased prices.

Already, a significant study that has been conducted looking at all sectors of Seattle's economy (where the minimum wage is \$13 per hour) is showing a huge negative impact on low-wage workers due to their working significantly fewer hours because of the increased Minimum Wage.⁴ The study found that for every percent increase in hourly wages, low-wage workers saw hours reduced by three percent. The result was a loss of roughly \$125 per month due to working fewer hours. This does not portend well for a Minimum Wage of \$15 per hour. Some estimates that I have seen put the wage loss at that level to be approximately \$171 per month.

It is time to take a different approach to raising wages.

Automatically increasing wages does not address the core issue. What can be done to improve skills, that will create a workforce that possesses the necessary tools to move away from low wage jobs?

We need to be creating a workplace that is assured the productivity commensurate to the increases in the Minimum Wage.

Education and training are the keys to success. We must be educating students to be prepared for the jobs of the twenty-first century. Moving students who may not be college-bound into technical training and apprenticeships is vital. Strengthening the Community College of Vermont (CCV) and Vermont Technical College (VTC) will present better opportunities for those looking for high paying careers.

Improving access to vocational/technical education at the secondary level is critical, and it requires untangling a complex network of funding and administration that has become a barrier to providing what students and employers need.

Vocational/technical education at the secondary level needs to become a more accepted strategy for many students. Ironically, it is often parent expectations that stand in the way of a child getting a vocational/technical education. We must educate parents about the value of a vocational/technical education, and of the earnings opportunity and career tracks found in those occupations.

⁴ National Bureau of Economic Research Working Paper Series *Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle* June 2017

Students should be exposed to vocational/technical options in at least the 10th grade . . . earlier, if possible. Now it is offered only to juniors and seniors. These things are all related.

When was the last time that the state took a hard look the money being spent on its workforce training and re-training programs? What are the real outcomes? Are those who are in workforce training programs really preparing for the jobs that are out there? Are those who successfully complete those programs still employed after three, six and twelve months? If not, why not? Are programs available for re-training that will give potential employees the ability to meet employers' needs? Do the training programs really produce successful outcomes? If not, why not and what can be done to improve outcomes?

There are good paying jobs going for the asking across Vermont today. Employers that I have spoken with tell me that those jobs are not being filled because the applicants are not meeting the necessary job requirements.

Increasing the Minimum Wage to \$15.00 per hour is a lofty goal, but it does not solve the problem. Increasing the Minimum Wage can stifle job growth, and even limit employers' ability to create new jobs.

Better education, the right training and re-training of the workforce for today's and tomorrow's jobs will help to ensure a Minimum Wage greater than \$15.00 per hour.

We are very mindful of the effects of the "Benefits Cliff" and recognize that it presents significant challenges to lower-wage workers. The Benefits Cliff is known to have created situations where employees have turned down increases or requested to work fewer hours for fear of losing state-provided benefits. This is a real problem that has been created, the result of "The Law of Unintended Consequences."

Should benefits be reduced by an amount proportionate to increases in the minimum wage? Should income thresholds to qualify for benefits be increased? What is an appropriate level of benefits to be offered? What is the overall effect on those who are receiving benefits? What is the overall effect on the state budget? Does the amount of benefits offered create a system of dependency, a system wherein earners consciously turn down higher paying jobs in order to keep the benefits that they currently receive?

These are important questions that this Study Committee must address. The Central Vermont Chamber of Commerce stands ready to assist the Study Committee in any way that is appropriate to completing the statutory charge.

Thank you for the opportunity to be before you today. I will be happy to respond to any questions that you might have.