Testimony on Senate Bill 2 and House Bill 5004 & Governor's Bill 7191 (acts to increase the minimum wage at a uniform level statewide)

Submitted by Scott Shepard, Policy Director

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Good afternoon. My name is Scott Shepard. I am the Policy & Research Director for the Yankee Institute for Public Policy, Connecticut's free-market think tank. I submit this note in opposition to **Senate Bill 2**, **House Bill 5004** & **Governor's Bill 7191**.

Minimum wage increases help some employees while hurting others, and they hurt some employers – especially small employers that rely on relatively unskilled capital – far more than others. They also hurt some *communities* – particular small and rural communities – much more than others. *If there is to be a minimum-wage increase in Connecticut in 2019, it should be a slow and steady increase in the* permissible *minimum wage that allows municipalities to remain where they are or to increase up to that permissible minimum-wage cap***.** Only this sort of structure will allow local communities to set optimal wage levels for themselves. Thus, we oppose **Senate Bill 2**, **House Bill 5004** and **Governor's Bill 7191**, and propose in their stead the alternative described below.

There is no question that a minimum-wage increase is an unalloyed positive good for some people: those who (a) are making less than the new minimum-wage; (b) remain employed after the minimum-wage hike; (c) see no cut-back in the hours they are asked to work; and (d) don't find themselves burdened with extra work responsibilities as a result of cutbacks made to their co-workers' schedules as a result of the wage rise.

As this analysis suggests, though, minimum-wage hikes also do a variety of harms to unluckier minimum-wage workers, some of whom will find themselves unemployed, while others have their hours cut back or end up working harder with less support in order to make up for the additional pay.

This conclusion is proven out by the most basic economic theory: if something costs more, people will buy less of it. A minimum-wage increase makes low-wage labor cost more. Employers respond by paying for less of it – cutting low-wage jobs and hours worked. Real-time evidence for this conclusion has flowed in from states and localities that have already raised their minimum wages in the notorious Fight for Fifteen. Fast-food restaurants in these areas are leading the push toward automated ordering kiosks that will drastically reduce the need for staff. Amazon is even developing convenience and grocery stores that will have essentially no staff at all. Higher minimum wages will accelerate these processes.

The negative effects of minimum-wage hikes don't stop with unfortunate low-wage workers. When they lose their jobs, they not only stop paying taxes, but they start taking tax revenues, in the form of support services, to get by unless they are lucky enough to get another job right away. But, as we've just seen, the jobs of the sort they were doing before have just become much scarcer as a result of the minimum-wage increase. This raises the likelihood that they will increase their draw on public resources for a longer time. This is a classic double-whammy to the public treasury – which, in Connecticut, can hardly be stretched any further.

The bad effects keep rippling out. At the margin, a minimum-wage increase forces some struggling businesses to close. This hurts not just the workers let go, but the business owner, who will presumably then have to go into the labor market and compete with other workers for income. The lost business also means lost tax revenues, which hurts government at all levels, and decreases the funds available to support those who rely on government largesse.

Business closings also hurt whole neighborhoods on two fronts: first by cutting the number of services offered locally and conveniently to the people of that neighborhood, and second – unless the business is quickly replaced in the same location by some other enterprise – by leaving a vacant storefront. Vacancy begets vacancy, and can threaten a neighborhood's integrity.

Thus, then, if we are to have a minimum-wage increase, we must all work together to make sure that the boost is designed to have as few of these negative effects as possible. Here are some vital, but relatively easy, steps that the new government can take to do this.

• A long phase-in. The first way to do that is to phase it in slowly. A 50 percent increase in wages in just a couple of years is too fast. Imagine how you would cope if your mortgage went up by 50 percent over three or four years. Labor costs play at least as prominent a role in the budgets of particularly small and entry-level businesses.

• Offset the financial loss to businesses. Second, we must look for ways to cushion the effects that the wage rise will have on business costs. One way to do that would be to cut taxes, fees and regulations that fall most heavily on businesses that hire the most low-wage workers.

• Reduce regulatory burdens on businesses. Another important way to mitigate the negative effects of a minimum-wage increase would be to assign a task force to find badly constructed, over-broad or other inappropriate regulations to repeal or reform as a way to cut the costs borne by businesses. The more these regulatory costs are reduced, the more money businesses have on hand to pay the statutorily increased wages without cutting workers or hours or going out of business. This is an absolute benefit to all parties. In order to ensure that this regulatory reform process proceeds efficiently, increases to the minimum-wage cap should be predicated on the task force having implemented offsetting regulatory cuts of broadly equal value to the cost of the next incremental increase of the wage cap.

• Local option. Finally, but perhaps most importantly, *the minimum-wage increase should not take the form of a statewide mandate, but instead should be designed as a local-option to increase the minimum wage in each locality up to a certain specified cap.*

The local option is vital. The cost of living in Tolland is lower than it is in Fairfield. The businesses in Greenwich can, on average, afford to pay a higher minimum wage than can those in Washington Depot. City wages are generally higher than rural wages. And the people who have the best grasp on how much a municipality's businesses can afford are the people in that municipality.

Let us, then, not force the same minimum-wage hike on every municipality in the state, but grant each municipality the local option to raise the minimum wage in its jurisdiction up to a slowly increasing cap. This will allow local people with the best local knowledge to contour any increases to the real circumstances of their communities. This will mitigate the bad effects of a minimum-wage increase that have been discussed above. Most importantly, it will keep a statewide increase from crushing poorer and rural communities, crushing their economies under labor rates designed for wealthier areas and for cities.

Connecticut has been growing much slower than the rest of New England and most of the rest of the country for a decade and more. We cannot risk a labor-cost increase that will crush many sectors of the state's economy still further. No one will benefit from that. If there is to be a minimum-wage increase, let's make sure that Connecticut can afford it.