

Yankee Institute Policy Brief

Tax on Low-wage Jobs: Fewer Jobs, Higher Prices

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\$15 AN HOUR OR PAY A TAX

The lowest wage a person can earn is not the minimum wage – currently \$9.15 an hour in Connecticut. It's zero. That's what people earn when they don't have a job.

Two bills working their way through the Connecticut legislature this year would shrink the number of jobs in this state, at the same time increasing the cost of selling essential items like food, clothing, and diapers. They would also encourage businesses to speed up automation of low-paying jobs.

The legislation – Senate Bill 1044 and House Bill 6791 – would tax businesses \$1 per hour of work for every employee who earns less than \$15 an hour. One bill calls for taxes on businesses with more than 250 employees, the other on businesses with more than 500 employees.

The businesses most likely to be affected by these bills are in the areas of retail, health and education, and the leisure and hospitality industries, because these industries have the most workers who earn the minimum wage or near the minimum wage.

The unions promoting this legislation say that employers who pay their employees less than \$15 an hour “owe” the government money because these employees may rely on government services.

But this argument – which seems to assume that everyone in a low-wage job is the primary breadwinner for a family – is flawed. Many minimum-wage employees do not rely on the government for services because their total household income exceeds the threshold. In addition, punishing employers for offering jobs that follow all of the state's labor laws would be an astonishing precedent – and one that would be extremely damaging to the state's economy.

As one writer put it recently:

Passing a \$15 minimum wage in hopes of reducing taxpayer spending on social programs will backfire when a partial subsidy becomes a 100 percent subsidy after employees start losing their jobs.¹

HIGHER PRICES, HIGHER COST OF LIVING = A NEW TAX

The fiscal notes on the proposed bills project collections of up to \$340 million by levying these taxes. But while businesses will be the ones writing checks to the state, it is the consumers who will ultimately pay for these taxes through higher prices on items like milk, socks, and sandwiches. These higher costs will hurt every consumer in Connecticut, but they will hurt the poorest residents– the people who these bills supposedly help – most of all.

The small number of people who depend on a minimum wage job to support a family are unlikely to see their wages increase because of this legislation. Employers will find it's cheaper to pay the tax instead of increasing their employees' pay – but as the cost of goods and services go up, the poor are the least able to absorb these higher costs.

¹ Saltsman, Michael. “\$15 An Hour: Pain, Not a Gain, For Chicago.” Chicago Tribune. June 5, 2014. http://articles.chicagotribune.com/2014-06-05/opinion/ct-perspec-fifteen-against-0605-20140605_1_wage-hike-minimum-wage-chicago-aldermen

Many of the private businesses affected by this legislation operate with very slim profit margins, so they have little incentive to absorb the fines without raising prices. Target, for example, had a less than 3 percent profit margin in 2014.

There are other large employers in this state who have many employees who are paid the minimum wage, but because they are publicly funded they will not be taxed under these bills. For example, UConn pays some of its employees the current minimum wage, according to job postings. Cities and towns also pay many employees the minimum wage, including lifeguards and after school childcare providers.

The legislation's supporters need to explain the difference in treatment. After all, many of the young workers who earn minimum wage from private companies are also attending school. Lots of families collect a second income through part-time work in the retail or hospitality industries. Why single them and their employers out for a penalty?

This bill also exposes the state to legal risks. Counting the employees of different franchises as members of a single group has broad implications in both contract and constitutional law and could lead to time-consuming, expensive - or even successful - challenges in court.

JOB LOSSES INEVITABLE

The experience of those who have pioneered this sort of legislation is instructive. While several cities – like Seattle, Oakland, and San Francisco – will eventually raise the minimum wage to \$15 an hour, none are there yet. But all three cities have already started raising their minimum wages gradually, with plans to reach \$15 an hour by 2018. As hourly wages increase, the cities are seeing some predictable results.

In Seattle, prices are climbing and several restaurants have already closed.² In Oakland, after the minimum wage was increased, the Salvation Army struggled to maintain its childcare services as wages and costs went up.³ Also in Oakland, many businesses in the city's Chinatown struggle to remain open.⁴

At the heart of this debate over the minimum wage lies an unfounded assumption: that these jobs are required – or even intended – to support entire families over the long term. But in a growing economy, unburdened by excessive taxes and regulations, minimum wage jobs most often are entry-level positions for young, inexperienced workers, and can provide the starting-off point for their future careers. Others work at minimum wage jobs part-time, to supplement a family's household income.

Very few employees stay in minimum wage jobs for an entire career. Rather, these jobs are the first toehold on the ladder of opportunity for young people, immigrants, or others new to – or re-entering – the work force.

² Guppy, Paul. "Seattle's \$15 wage law a factor in restaurant closings." Washington Policy Center, March 11, 2015. <http://www.washingtonpolicy.org/blog/post/seattles-15-wage-law-factor-restaurant-closings>

³ Swan, Rachel. "Oakland minimum-wage hike puts child caregivers in a jam." San Francisco Chronicle, March 15, 2015. <http://www.sfchronicle.com/bayarea/article/Oakland-minimum-wage-hike-puts-child-caregivers-6135815.php>

⁴ Swan, Rachel. "Minimum wage hike hurts Oakland Chinatown." San Francisco Chronicle, March 13, 2015. <http://www.sfchronicle.com/bayarea/article/Minimum-wage-hike-hurts-Oakland-Chinatown-6133798.php>

This legislation threatens to yank away that ladder of opportunity. Fewer of these entry-level jobs are available as the minimum wage goes up. Two professors from University of California San Diego released a peer-reviewed study in November affirming what other researchers have been saying for years – as the minimum wage increases, the number of jobs falls.⁵

Depending on the strength of the larger U.S. job market, Connecticut may still see job growth in the sectors most affected by this legislation. However, if these bills are passed, Connecticut would likely lag behind where it would have otherwise been in job growth..

A FULL EMPLOYMENT PLAN FOR ROBOTS

As wages are pushed higher, industries that must keep prices low to attract consumers will find ways to automate jobs. How long will it be before we see iPads at dining room tables instead of servers? Or self-checkout kiosks at McDonald's drive-thru windows?

McDonald's in Europe has already bought 7,000 touchscreen terminals for its fast-food restaurants in an effort to partly replace cashiers – a sign of things to come in Connecticut if labor costs keep rising.⁶

There is a better way. Of course it is not ideal for a person to try to support his or her family on a minimum wage salary. But rather than punitive measures designed to punish job-creators, we should work to create a state business climate that is conducive to the creation of more jobs. It makes more sense to provide education and training that will prepare low-income employees to advance their careers.

What is best for all of Connecticut's residents is a state that has a thriving and robust economy. This will give employees at every level on the pay scale greater mobility. These two bills will only further exacerbate Connecticut's economic troubles.

⁵ Clemons, Jeffrey and Michael Wither. "The Minimum Wage and the Great Recession: Evidence of Effects on the Employment and Income Trajectories of Low-Skilled Workers." Working paper released Nov. 24, 2014. <http://econweb.ucsd.edu/~mwither/pdfs/Effects%20of%20Min%20Wage%20on%20Wages%20Employment%20and%20Earnings.pdf>

⁶ Economic Policy Journal. "Battling Higher Minimum Wages." May 15, 2014. <http://www.economicpolicyjournal.com/2014/05/battling-higher-minimum-wages-mcdonalds.html>

Appendix: An Explanation of the Legislation and List of Jobs

HB 6791/File No. 365

- Originated in the Labor and Public Employees Committee.
- Affects employers or franchisors with at least 250 employees.
- Does not affect private nonprofit or public entities.
- Money from this bill would go into the General Fund.
- It would be under direction of the Labor Commissioner.
- The bill says employers cannot reduce employees' work hours to avoid paying a fine.
- It says employers cannot fire employees to avoid paying a fine.
- The state expects to collect \$342 million annually.
- Will cost \$20 million for increased Department of Labor staff to regulate and police the fines.
- Will affect 164,400 of the 832,886 employees estimated to work for firms with at least 250 employees.

SB 1044/File No. 344

- Originated in the Human Services Committee.
- Will cost \$ \$19 million for increased Department of Labor staff to regulate and police the fines.
- Private nonprofits and state institutions are exempted.
- Creates a Connecticut Low Wage Employer Advisory Board with 13 members, whose job would be to report to Department of Labor on linkages between low-wage jobs and social service usage.
- The money raised by this bill goes directly to the Departments of Social Services and Development Services and the Office of Early Childhood
- Affects 146,710 employees.
- Exempts employees at parks/camps open less than 6 months a year.

Occupations with over 500 employees whose average hourly salary wage is below \$15 an hour in Connecticut: (from the Bureau of Labor Statistics)

Florists
Recreation Workers
Freight Laborers
Drivers
File Clerks
Bank Tellers
Taxi Drivers
Janitors
Security Guards
Occupational Therapy Aides
Veterinary Assistants
Substitute Teachers
Library Assistants
Farm, fish and forestry occupations

Hairdressers
Personal Care Attendants
Production Workers
Home Health Aides
Packagers
Office and Administrative Support Staff
Food Servers
Stock Clerks
Retail Salespersons
Cooks
Bakers
Personal Care Aides
Laundry/Dry-cleaning workers
Maids and Housekeepers
Food Preparation and Servers
Parking Lot Attendants
Hotel Desk Clerks
Lifeguards
Childcare Workers
Bartenders
Cashiers
Dishwashers
Hostesses
Ushers