NFIB
The Voice of Small Business®

CONNECTICUT

TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
BY
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OPPOSING
HB-5291, AA INCREASING THE MINIMUM WAGE, REMOVING THE MINIMUM WAGE TIP CREDIT, AND INCREASING PENALTIES FOR FAILURE TO PAY THE MINIMUM WAGE
BEFORE THE
LABOR & PUBLIC EMPLOYEES COMMITTEE
FEBRUARY 28, 2012

A non-profit, non-partisan organization founded in 1943, NFIB is Connecticut's and the nation's leading small-business association. In Connecticut, NFIB represents thousands of members and their employees. NFIB membership is scattered across the state and ranges from sophisticated high technology enterprises to "Main Street" small businesses to single-person "Mom & Pop" shops that operate in traditional ways. NFIB's mission is "To promote and protect the right of its members to own, operate, and grow their businesses." On behalf of those small- and independent- job-providers in Connecticut, I offer the following comments:

Overview

NFIB/Connecticut strongly opposes HB-5291, which would hurt not only small businesses, but also their workers. While this measure is no doubt backed by good intentions, it is bad policy at anytime, and especially at present. After being forced to absorb the largest tax increase in state history last year, *retroactively*, many small businesses will once again be *forced to expend additional unanticipated monies in this year's operating budget* should this legislation pass. With the economy still teetering, unemployment still high (especially among young and entry-level workers) and small businesses in Connecticut closing their doors every day, now is the absolute worst time to impose a government mandated wage increase which further interferes with the free market economic principles that small business owners and their employees need to grow and thrive in their businesses. Furthermore, NFIB/Connecticut also objects to mandating automatic future wage increases based upon indexing. Such a proposal is bad public policy that only serves to increase unemployment among certain demographics of workers and fails to benefit the intended workforce. While there is a small minority of states (10) that do have indexed minimum wages, procedurally those policies all came about via ballot initiative, with the exception of one state (VT); the only state to have actually passed automatic indexing through the legislative process.

Objections to mandated wage increase

NFIB opposes any mandated increase in the minimum wage. It is small business, not big corporations that have to absorb the cost of mandatory wage increases because most minimum-wage jobs are offered by small businesses.

Mandatory wage increases have not been proven to reduce poverty or narrow the income gap. Most importantly, however, this legislation would put a stranglehold on Connecticut's top job creators: small businesses. The overwhelming majority of economists continue to affirm the job-killing nature of mandatory wage increases. Mandatory minimum-wage increases end up reducing employment levels for those people with the lowest skills.

Small-business owners oppose the wage hike because it would leave them with fewer choices in how they compensate their employees and when they decide to hire new ones. Wage hikes historically have had a negative impact on certain industries that offer the most entry-level jobs--including restaurants, grocery, and retail stores--many of which are run by small-business owners.

Additionally:

- Studies show that most employers already pay higher than the minimum wage. Those small businesses that pay the minimum wage can't afford to pay more. They're on the bubble, and a higher minimum wage will hurt those very small businesses that are struggling most.
- Studies also show that minimum wage hikes around the country have resulted in higher unemployment among workers with the lowest skills and the least experience. Raising the wage makes entry-level jobs more attractive to better qualified candidates. So the working poor and young workers, are the people who are hurt most by a higher minimum wage.
- Connecticut already has the highest minimum wage on the East Coast except for Vermont. The current proposal would make Connecticut the most expensive state in the East to create entry level jobs.
- Only 5 states on the East Coast require a higher wage than the federal standard. If HB-5291 passes, Connecticut's minimum wage will be $1.25 higher (or 17 percent) than it is anywhere from Hartford to Tallahassee.
- Connecticut is already among the worst states in the country for business. The non-partisan Tax Foundation ranks Connecticut 46th in the country because of its high taxes. A higher minimum wage is another tax on small business that will discourage job growth

Objections to automatic future wage increases based upon indexing

- Indexing increases rates of unemployment, particularly for younger workers. When you set minimum wage levels higher than many inexperienced young people are worth, they don't get hired. Workers under the age of 25 make up about half of the

4.4 million workers who earn at or below the minimum wage. Studies have found that few of the benefits from the minimum wage go to the poor. Minimum wage workers are often teenagers, not the single earners in a household portrayed by the legislation's proponents.

- There is a general consensus that forced wage hikes lead employers of entry-level workers to eliminate jobs or reduce hours. Even if jobs are not cut, companies respond to higher labor costs by shifting their hiring focus to skilled employees or more capital-intensive production, leaving the least skilled workers out of the labor market. One study has found that a 10 percent hike in the minimum wage increases unemployment by 6 percent among single mothers without a high school diploma.
- Oregon, often trumpeted as an indexing success story, now faces tough times. The state has seen consistent job losses with total unemployment rates surpassing most of the country. Since indexing has been in place, Oregon has experienced an average unemployment rate of 6.6 percent—well above the 5.3 percent average for non-indexed states.
- In Washington, teen unemployment (a typical marker for the health of the entry-level job market) skyrocketed by 58 percent after the state implemented indexing, which is 24 percent higher than the average for non-indexed states (During the same time period, the national teen unemployment rate went from 14 percent to 18.8 percent, meaning Washington's teen unemployment rate was over 1.5 times the national average).
- Studies have found that minimum wage legislation prolongs welfare mothers' time on government assistance.
- An increase in the minimum wage largely results in a redistribution of income among low-income families, with some gaining as a result of the higher minimum wage and others losing as a result of the diminished employment opportunities or reduced hours, and some likelihood that, on net, poor or low-income families are made worse off. There is no evidence showing that the families that gain are disproportionately those to which we might want to redistribute income (poor households with children).
- Indexing ignores the data demonstrating that it doesn't take long for minimum wage earners to enjoy substantial wage growth. The population of minimum wage workers is constantly in flux as entry-level employees gain experience and qualify for better jobs. The majority of this year's minimum wage earners will soon be promoted or move on to jobs with better pay, and a new set of unskilled workers will immediately replenish their ranks.
- An employer who has 20 employees making minimum wage will see a $10,000 annual increase in wage costs for every 25 cents the minimum pay is raised.
- The effects of the minimum wage on company bottom lines can cause a rise in consumer prices. If small businesses are faced with an increase in the minimum wage, they will need to find a way to absorb those extra costs and preserve their profit margins by raising prices to the customers.
- A rise in the minimum wage can force nonprofits to spend more for labor to maintain the current level of services.

- An increase in the U.S. minimum wage will force American small businesses to raise their prices on the international market. When foreign labor is less expensive than U.S. labor, it is difficult for small businesses to compete with international companies that import products into the United States.

Conclusion

As small businesses, we provide a direct benefit to the economy. As entrepreneurs, we risk our capital and other resources to launch and grow our business and provide jobs to Connecticut citizens. Unfortunately, measures such as HB-5291 undermine these efforts by not only adding to the cost of doing business but also creating an economic "chilling effect" that makes it difficult for Connecticut's small businesses to succeed.

Thank you for the opportunity to comment, and NFIB urges lawmakers to *reject* HB-5291.