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CONNECTICUT

TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
BY
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OPPOSING
Governor's Bill No. 32, AN ACT CONCERNING WORKING FAMILIES' WAGES.
BEFORE THE
LABOR & PUBLIC EMPLOYEES COMMITTEE
FEBRUARY 18, 2014

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 Governor's Bill No. 32, which would hurt not only small businesses, but also their current and further potential employees. While this measure is no doubt backed by good intentions, it is bad policy, especially at present. After being forced to absorb the largest tax increase in state history three years ago, *retroactively*, many small businesses will once again be forced to expend additional unanticipated monies from their operating budgets next year and beyond should this legislation pass. With the economy still teetering, and with a recent projection by economists from the University of Connecticut Center for Economic Analysis showing little growth in Connecticut over the next two years, unemployment still high (especially among young and entry-level workers) and small businesses in Connecticut closing their doors every day, and now is the absolute worst time to impose yet another 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. Not only will businesses, and the consumers be negatively affected, but also first-time workers face the biggest risk of being priced out of the job market by a minimum wage hike. In addition, raising Connecticut's minimum wage to $10.10 per hour (from $8.70; a $1.40 or a 14% increase; or from the scheduled increase from 9.00; a $1.10 or an

11% increase) would make the state's rate the highest in the nation, unfortunately giving Connecticut one more dubious mark as a place where it is difficult for businesses to thrive. Furthermore, SB-32 comes on the heels of last year's legislation which increased the wage from 8.25 to 8.70 on January 1, and is scheduled to increase again to $9.00 next January. SB-32 further frustrates small businesses and adds to their uncertainty by once again "changing the rules of the game" for employers by proposing to increase the previously scheduled increase for next January.

Negative Results - Econometric Scoring of Mandated Wage Increases in Other States

Recently, several attempts have been made to quantify the potential economic impact of the implementation of various proposed minimum wage increases in several states. Utilizing the Business Size Insight Module (BSIM), the studies looked at the economic effects of minimum wage legislation on small businesses and their employees. The BSIM is a dynamic, multi-region model based on the well-regard Regional Economic Models, Inc. (REMI) structural economic forecasting and policy analysis model which integrates input-output, computable general equilibrium, econometric, and economic geography methodologies. It has the unique ability to forecast the economic impact of public policy and propose legislation on different categories of U.S. businesses differentiated by employee-size-of-firm. The REMI model is used by a diverse group of clients spanning academia, private consulting firms, local and regional governments, and nonprofits, to name a few categories. A sample of clients include the Massachusetts Institute of Technology, the AARP, the Urban Institute, the Florida legislature, the City of San Francisco, the New York City Economic Development Commission, the University of Connecticut, and the Connecticut Department of Economic and Community Development.

In neighboring New York, a state with a lower minimum wage than Connecticut, a November, 2012 Econometric Scoring of proposed legislation conducted by Michael J. Chow, M.Sc., Senior Data Analyst at the NFIB Research Foundation, showed that depending upon the rate of inflation in future years, enacting legislation that increased the minimum wage to $8.50 (from $7.25; a $1.25 or a 17.2% increase) and provided for future automatic increases could result in nearly 22,000 lost jobs in New York over a ten-year period and a reduction in real output of $2.5 billion. More than 70 percent of the lost jobs would be jobs from the small business sector of the economy.

In neighboring Massachusetts, a July, 2013 Econometric Scoring of proposed legislation conducted by Michael J. Chow, M.Sc., Senior Data Analyst at the NFIB Research Foundation, showed that depending upon the rate of inflation in future years, enacting legislation that increased the minimum wage to $10.00 per hour in 2014 and to $11.00 per hour in 2015 (from $8.00; a $3.00 or a 37.5% increase) and provided for future automatic increases could result in nearly 62,000 lost jobs in Massachusetts over a ten-year period and a reduction in real output of $45 billion over that same period. More than 56 percent of the lost jobs would be jobs from the small business sector of the economy.

In nearby New Jersey, a June, 2013 Econometric Scoring of proposed legislation conducted by Michael J. Chow, M.Sc., Senior Data Analyst at the NFIB Research Foundation, showed that depending upon the rate of inflation in future years, enacting legislation that increased the minimum wage to $8.25 per hour in 2014 (from $7.25; a $1 or a 14% increase) and provided for future automatic increases could result in nearly 31,000 lost jobs in New Jersey over a ten-year period and a reduction in real output of $17.4 billion over that same period. More than 59 percent of the lost jobs would be jobs from the small business sector of the economy.

And most recently, a little further down the east coast but in a state with many similarities to Connecticut, a January 2014 Economic Impact Study of proposed legislation in Maryland conducted by Stephen S. Fuller, PhD of George Mason University along with associate economists from REMI, Inc., showed that depending upon the rate of inflation in future years, enacting legislation that increased the minimum wage to $9.00 per hour, $10.00 per hour, or $12.00 per hour in 2014 (from $7.25; a $1.75 or a 24% increase, a $2.75 or a 40% increase, a $4.75 or a 66% increase, respectively)and provided for future automatic increases would result in 9,514, 11,502, or 16,387 lost jobs, respectively, and generate losses in real personal income totally $630 million, $760 million, and $1.07 billion, respectively, in Maryland by 2020. The report goes on to state (page 2, emphasis added) *"while there may be a strong public appeal to raising the minimum wage, this approval is not based on an understanding of the economic effects of higher minimum wage rates and that these increased costs would impact the general public. Understanding the associated economic costs resulting from legislatively raising minimum wage rates in an open market economy is essential to achieving a policy outcome that is inn the interest of the state's businesses and citizens as they will be the ones who will have to absorb the costs of raising the minimum wage rates of the state's hourly workers."*

Specific Objections to Mandated Wage Increase to $10.10 Per Hour

NFIB opposes the mandated increase in the minimum wage contained in SB-32. 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, 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. This is counter to efforts to reduce poverty and unemployment, which is a significant problem in Connecticut. In fact, a recent report (released January 2013) by the Connecticut Association For Community Action, titled *Meeting the Challenge*, which studied the dynamics of poverty in Connecticut concluded (page 39) that "particularly worrisome has been the contraction in lower wage jobs, which represent a low-income individual or family's best chance to escape poverty and become economically self-sufficient."

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

Additionally:

- Numerous studies and Bureau of Labor Statistics numbers 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 are 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 more 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 and eventually the nation to create entry-level jobs.

- Business's who have a fixed compensation budget will be forced to layoff workers, and might also higher even fewer workers at entry-level jobs.

- Connecticut is already among the worst states in the country for business. The non-partisan Tax Foundation consistently ranks Connecticut among the bottom ten states in the country because of its high taxes. A higher minimum wage is another tax on small business that will discourage job growth.

- Not only will the higher minimum wage hurt small businesses throughout Connecticut, but also product prices may be increased to offset the higher labor costs associated with a mandatory wage increase.

Conclusion

Small business owners provide a direct benefit to the economy. Entrepreneurs risk their capital and other resources to launch and grow businesses and provide jobs to Connecticut citizens. Unfortunately, measures such as the *Governor's Bill No. 32* undermine these efforts by not only adding to the cost of doing business but also creating an economic "chilling effect" that will make it even more difficult for Connecticut's small businesses to succeed. Coming out of one of the worst recessions in history, mandatorily increasing the minimum wage will put an even bigger strain on already struggling small businesses and reduce hiring opportunities in many sectors throughout Connecticut.

Thank you for the opportunity to comment, and NFIB urges lawmakers to *reject* the Governor's Bill No. 32.