Washington Research Council

Special Report

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I-1433: A "Blunt Instrument" Increasing the Minimum Wage and Mandating Paid Sick Leave

Briefly

- I-1433 would increase the state minimum wage to $13.50 over four years.
- It would require businesses statewide to provide paid sick leave to employees.
- One hour of paid sick leave would be earned for every 40 hours worked.
- There would be no limit on the number of hours of leave that could be used in a year.
- There would be no exemptions for either the minimum wage or paid sick leave provisions.
- Washington currently has the eighth highest minimum wage in the nation.
- Many cities and states have increased their minimum wages in recent years.
- Seattle, Tacoma, and SeaTac have their own minimum wage ordinances.
- Five states require paid sick leave.
- Seattle, SeaTac, Tacoma, and Spokane have their own paid sick leave requirements.
- The economic literature shows that increasing the minimum wage results in reduced employment, fewer jobs created, no net poverty reduction, and declines in economic mobility.
- Mandated benefits increase the cost of hiring employees.
- By sector, minimum wage jobs are concentrated in accommodation and food services, retail trade, and agriculture.
- Geographically, they are concentrated in counties in central Washington.
- 32 percent of the total state workforce earns less than $13.50.
- Businesses may respond to higher costs by laying off workers, reducing hours, creating fewer jobs, automating, increasing prices, or moving.
- Employment mandates like an increased minimum wage and paid sick leave, in combination with other business costs, make Washington less competitive with other states and foreign countries.

This November, voters will be asked whether the state should increase the minimum wage to $13.50 over four years and whether all workers should be entitled to paid sick leave. Initiative 1433 is broadly written—there are no exemptions or accommodations for different business sizes. It does not include preemption of local wage and benefit laws, nor is there recognition that the economies of some parts of the state may be less able to absorb the costs. Several business groups in the state have called I-1433 a "blunt instrument" (AWB 2016).

We have written about these issues extensively in "The Long-Lasting, Negative Consequences of the Minimum Wage," "Mandating Paid Sick Leave in Washington," and "By Mandating A Specific Compensation Mix, Labor Policies Take Flexibility Out of the Equation."

I-1433

Minimum wage. Under Initiative 1433, the state minimum wage would increase to $11.00 per hour on Jan. 1, 2017, to $11.50 on Jan. 1, 2018, to $12.00 on Jan. 1, 2019, and to $13.50 on Jan. 1, 2020. Beginning Jan. 1, 2021, the minimum wage would be indexed to inflation. The initiative specifies, "Tips and service charges paid to an employee are in addition to, and may not count towards, the employee's hourly minimum wage."

Paid sick leave. Additionally, I-1433 would require every employer in the state to provide paid sick leave to every employee beginning Jan. 1, 2018. Employees would accrue at least one hour of paid sick leave for every 40 hours worked. They would be able to use their accrued leave on the 90th day after beginning to work for their employer. Also, if an employee is rehired by the same employer within a year of separation, any of the employee's unused sick leave from the prior period would be reinstated.

Employers would have to allow employees to carry over 40 hours of paid sick leave into the next year if they haven't used it. The initiative does not limit the number of hours of paid sick leave that employees could use in a year. As an example, under the initiative, individuals that work 40 hours a week, every week of the year would earn 52 hours of paid sick leave that they could use that year (or carry some of it over into the following year). If they carry over 40 hours from Year 1 to Year 2, and again earn 52 hours in Year 2, they could potentially use 92 hours of paid sick leave in Year 2.

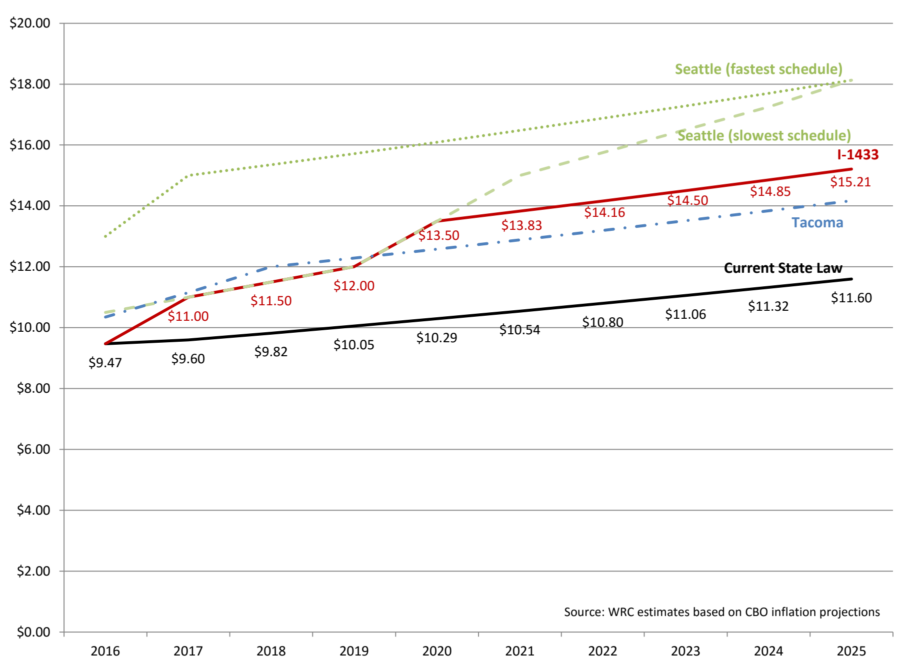
Employees could use paid sick leave to deal with their own or a family member's mental or physical illness, injury, or health condition; when the place of business or child's school is closed by a public official for health reasons; or to seek assistance for domestic violence, sexual assault, or stalking. Employers would be allowed to require verification that the use of paid sick leave is for one of these purposes only when an employee is absent for more than three days. Employers would not be allowed to require employees to find replacement workers to cover their hours when taking paid sick leave. Paid sick leave would be enforced in the same way the minimum wage is currently.

Local governments. I-1433 would not preempt

> *local jurisdictions from enacting additional local fair labor standards that are more favorable to employees, including but not limited to more generous minimum wage or paid sick leave requirements.*

Individual providers. Also, the initiative specifies that the state must pay individual providers in accordance with the minimum wage, paid sick leave, and overtime provisions of RCW Chapter

Chart: Projections of the Minimum Wage



49.46. (That is, they must be paid in accordance with the minimum wage and paid sick leave requirements of I-1433, as well as the minimum wage and overtime requirements that are already state law.)

Individual providers contract with the Department of Social and Health Services to provide personal or respite care to functionally disabled persons. The U.S. Department of Labor issued a new rule in 2013 extending minimum wage and overtime protections to such home care workers; after withstanding a court challenge, it went into effect last year (WHD 2016c). In Washington, individual providers are considered public employees "solely for the purposes of collective bargaining" (RCW 74.39A.270). Under their 2015–17 collective bargaining agreement with the state, a beginning individual provider currently earns $11.75 an hour and will earn $12.00 for the first half of calendar year 2017. Also, individual providers are eligible for "paid time off"—they earn one hour for every 30 hours worked in fiscal year 2017 (capped at 100 hours). (OFM 2015)

Fiscal Impact Statement

The Office of Financial Management (OFM) has estimated the impacts of the initiative on state revenues and expenditures over six years (through fiscal year 2022). The expected impacts are most significant in 2020 and beyond (when the minimum wage increase would be fully phased in). Note that the fiscal impact statement does not assume any disemployment effects from the initiative.

State revenues. OFM estimates that state revenues would increase because "increasing the minimum wage expands the taxable wage base for many employers" (OFM 2016). As a result, unemployment insurance tax collections would increase by $500,000 in fiscal year (FY) 2017 (part of the 2015–17 biennium), $9.0 million in 2017–19, and $39.4 million in 2019–21.

State expenditures. State spending would increase across many state agencies. (Impacts are shown in the table.) Altogether, general fund–state (GFS) spending would be reduced by $5.1 million in 2015–17, $10.4 million in 2017–19, and by $3.0 million in 2019–21. (Although GFS spending would decrease in the early years, it would increase beginning in 2021.) Spending from other funds would increase every year: by $9.5 million in 2015–17, $70.7 million in 2017–19, and $164.2 million in 2019–21.

In the Department of Social and Health Services (DSHS), spending on the Basic Food and Temporary Assistance for Needy Families programs would be reduced in each year, because benefits decrease as income increases. Also, state spending for individual providers would increase beginning in 2020. (As noted above, the current collective bargaining agreement means that there would be no fiscal impact of I-1433 for individual providers until 2020.) In the Health Care Authority (HCA), state spending on Medicaid would decrease as fewer people would be eligible.

Spending for the institutions of higher education would increase in each year, as wages and benefits would increase for students and temporary employees (most employees already earn more in wages and benefits than I-1433 would require). Additionally, OFM notes,

> *The state will incur costs for implementing the change to minimum*

Table: Fiscal Impacts to the State (Dollars in Millions)

	2017	2018	2019	2020	2021	2022	2017-2022
State Revenues							
UI Taxes	$1	$3	$7	$14	$25	$35	$84
State Expenditures							
General Fund-State							
DSHS	($0)	($1)	($1)	$1	$6	$12	$18
HCA	($5)	($6)	($7)	($10)	($10)	($10)	($48)
Higher Education	$1	$2	$2	$4	$5	$5	$19
Compensation	$0	$0	$0	$0	$0	$0	$0
Total GFS	**($5)**	**($5)**	**($5)**	**($4)**	**$1**	**$7**	**($11)**
Other Funds	**$9**	**$26**	**$45**	**$67**	**$97**	**$130**	**$375**
All Funds	**$4**	**$21**	**$39**	**$63**	**$99**	**$138**	**$363**

wage, including increasing pay for those earning less than the minimum wage and the higher cost of employee benefits (such as employer contributions for Social Security) that are based on pay. (OFM 2016)

OFM expects that I-1433 would increase the state's average annual wage. In turn, this would mean increased unemployment benefits (this spending is accounted for within "other funds").

Finally, OFM cannot determine the impacts for local governments, but

the jurisdictions that could experience the greatest expenditure impact from I-1433 are small local governments, such as towns, park districts and library districts. (OFM 2016)

However, OFM does estimate that spending by local school districts would increase by $5.5 million in FY 2022.

Many states have exemptions to their minimum wage laws that are meant to help minimize negative economic impacts.

Minimum Wage Background

The last time a minimum wage initiative was on the statewide ballot in Washington was in 1998, when Initiative 688 increased the minimum wage to $6.50 in 2000 and indexed it to inflation thereafter. I-688 was approved with 66 percent of the vote, and it passed in every county.

Currently, Washington's minimum wage is $9.47, and Washington is one of 11 states that index the minimum wage to inflation, but more states are planning to index in the years ahead. The minimum wage law in Washington applies to employees that are at least 18 years old. Under state law, the Department of Labor and Industries establishes the minimum wage for those under 18 by regulation. Currently, 16- and 17-year-olds must be paid the state minimum wage. Workers younger than 16 must be paid at least 85 percent of the state minimum wage. (WAC 296-125-043, WAC 296-131-117)

Since 2000, Washington's minimum wage has been the highest in the country every year except for 2001 and 2003, when it was second—until 2016. As of July 1, 2016 (when Oregon's minimum wage increased to $9.50 or $9.75 depending on county), Washington's minimum wage is the eighth highest in the nation (behind California, Massachusetts, Alaska, Oregon, Connecticut, Rhode Island, and Vermont). The federal minimum wage is $7.25. (The federal minimum wage prevails in 21 states.)

Some Washington cities have increased their minimum wages above the state level. In 2013, voters in SeaTac increased the minimum wage for certain hospitality, transportation, and airport workers to $15 in 2014, to be indexed to inflation thereafter (WRC 2013). In 2014, the Seattle City Council passed an ordinance increasing the city's minimum wage to $15. Large employers must pay $15 by 2017, large employers that offer medical benefits must pay $15 by 2018, small employers must pay $15 by 2019, and small employers whose employees are tipped or get medical benefits must pay $15 by 2021 (Murray 2016). In 2015, Tacoma voters approved a minimum wage increase to $12 by 2018 (COT 2016).

Many states have exemptions to their minimum wage laws that are meant to help minimize negative economic impacts. These include tip credits, training wages, varied minimum wages depending on business characteristics, and state preemption.

Tip credit. Federal law and 43 states allow for a tip credit. For example, the federal minimum wage is $7.25. The minimum cash wage paid by the employer is $2.13, and the difference ($5.12) may be made up by tips if an employee earns them. Washington and six other states do not have a tip credit, so employers here are responsible for paying the full minimum wage and any tips earned by employees are on top of that. (WHD 2016a)

Training wage. Federal law allows certain individuals to be paid below the minimum wage. For example, those under 20 may be paid $4.25 an hour for the first 90 days they are employed. The U.S. Department of Labor explains,

Legislators in California and New York incorporated several safeguards in their new minimum wage laws.

"Employment at less than the minimum wage is designed to prevent the loss of employment opportunities for these individuals" (DOL 2016). Illinois allows a training wage for individuals of any age in their first 90 days of employment and a teen wage for those under 18 (IDOL 2016). Similarly, Minnesota allows a 90-day training wage for workers under 20 and a youth wage for workers under 18 (MDLI 2016). As noted above, Washington allows a subminimum wage for workers under 16.

Minimum wages dependent on business characteristics. Although most state minimum wage laws apply to all businesses, as of the beginning of the year, four states require larger businesses to pay a higher minimum wage, nine states have no minimum wage for businesses under a certain size, and one state allows a lower minimum wage if the employer offers health insurance (WHD 2016b).

State preemption. Many states preempt local governments from enacting their own wage and benefit laws. For example, in Oregon, local governments have been preempted from enacting minimum wage requirements since 2001 (Oregon Revised Statutes 653.017). This year Idaho enacted legislation preempting local governments from increasing the minimum wage (Banse 2016). Washington does not preempt local wage and benefit laws. When labor policies are set at the local level, the specifics often vary from jurisdiction to jurisdiction. This is administratively burdensome for businesses. Labor policy that is set at the state level has the advantage of providing uniformity and more certainty for employers. (WRC 2016)

Recent Minimum Wage Increases

In recent years many cities and states have increased their minimum wages. As Stateline notes,

> *In the past, states and cities tended to enact minimum wage increases over one or two years. Now, many are incrementally raising workers' pay over as many as six years. Many also are setting different pay rates for small and large businesses, or regions delineated based on their cost of living. Some of the increases include so-called off ramps, which allow states to delay scheduled hikes if there is an economic or budgetary crunch*. (Povich 2016)

Notably, California and New York enacted legislation this year to increase their minimum wages to $15 over time. Unlike I-1433, these are not blanket increases. Instead, legislators in California and New York appear to have been cognizant of the potentially negative impacts on jobs and businesses; they thus incorporated several safeguards.

California's minimum wage will increase to $15 in 2022 and 2023, depending on firm size. Importantly, the law allows the governor to temporarily suspend the increases due to economic or fiscal conditions that cannot support them (CLI 2016).

New York's new law increases the minimum wage to $15 based mainly on geography, with wages in New York City rising to $15 in 2019 and 2020 (depending on firm size); wages in New York City suburbs getting to $15 in 2021; and wages in the rest of the state going to $12.50 in 2021, to be increased by inflation until they reach $15 (NYDOL 2016). New York's law includes a safety valve: It states that from 2019 until all areas of the state reach $15, the state budget office must report on the economy and effect of the minimum wage increases "to determine whether there should be a temporary suspension or delay in any scheduled increases" (Bill No. S06406).

Also this year, Oregon enacted legislation to increase its minimum wage, with varying schedules based on geography. By 2022, the minimum wage will increase to $14.75 in the Portland metropolitan area, $12.50 in nonurban counties, and $13.50 in the rest of the state (BOLI 2016). However, according to the Oregonian, Oregon House Speaker Tina Kotek

There are no exemptions in I-1433, and it applies to all businesses regardless of size.

and Senate Majority Leader Ginny Burdick (both Democrats) said in March that "they'll propose changes to Oregon's new minimum wage law next year, including lower rates for younger workers and trainees" (Kullgren 2016). Additionally, Kotek said she's working

> *to create a policy to cushion businesses along the Idaho border. By the time the law fully takes effect in 2022, wages there will be $5 higher on the Oregon side.* (Kullgren 2016)

Paid Sick Leave Background

Many jurisdictions nationally have enacted paid sick leave laws in one form or another, including five states, one county, and 30 cities (NPWF 2016). The five states are Connecticut (effective Jan. 1, 2012), California (July 1, 2015), Massachusetts (July 1, 2015), Oregon (Jan. 1, 2016), and Vermont (effective Jan. 1, 2017 or 2018, depending on firm size).

Oregon's law (Senate Bill 454 of 2015) exempts independent contractors; participants in work training programs and work-study; railroad workers; and those employed by their parent, spouse or child. The law preempts local governments from enacting their own sick leave requirements.

Of the cities that have enacted paid sick leave, four are in Washington: Seattle (effective Sept. 1, 2012), SeaTac (Jan. 1, 2014), Tacoma (Feb. 1, 2016), and Spokane (Jan. 1, 2017). As with the minimum wage, SeaTac's paid sick leave rules apply only to certain hospitality, transportation, and airport workers. The ordinances in Seattle, Tacoma, and Spokane apply citywide, but they include exemptions. All three exempt work-study students, Tacoma and Spokane exempt independent contractors, and Spokane exempts seasonal and construction workers. All three specify the number of hours of leave that may be used in a year. Seattle and Spokane use firm size to determine certain aspects of the amount of leave. (As noted above, there are no exemptions in I-1433, and it applies to all businesses regardless of size.)

The Economic Impacts of Wage and Benefit Mandates

Minimum wage. In "The Long-Lasting, Negative Consequences of the Minimum Wage," we reviewed the literature on the economic impacts of increased minimum wages (WRC 2015a). There are four overall themes:

- *Reduced employment*. "The preponderance of evidence supports the view that minimum wages reduce the employment of low-wage workers" (Neumark and Wascher 2008). Employment could be reduced either through layoffs or reduced hours.
- *Fewer jobs created*. "The most prominent employment effect of minimum wage laws is a decline in the hiring of new employees" (Meer and West 2012).
- *No net poverty reduction*. "[M]ost economists agree that minimum wages target the poor badly" (Neumark and Wascher 2008). Minimum wages aren't means-tested.
- *Declines in economic mobility*. "Minimum wage increases may thus have made the first rung on the earnings ladder more difficult to reach" (Clemens and Wither 2014).

The Oregon Office of Economic Analysis anticipates some of these impacts in its June economic and revenue forecast:

> *Absent the state's new minimum wage law, passed during the 2016 legislative session, the upward revision to the employment outlook would have been even larger. . . . Our office is not predicting outright job losses, however we are expecting somewhat slower growth. Low-wage workers receiving raises in the near term boost incomes. Over time, however, employers will adjust by increasing worker productivity, possibly via capital for labor substitutions.* (Lehner 2016)

Even economists who support increasing

the minimum wage warn against increasing it by too much—or else "risk undesirable and unintended consequences" (Krueger 2015). Arindrajit Dube has suggested tying the minimum wage to half the local median wage. He writes that it is worth considering the ratio of the minimum wage to the median wage because it shows the wage level that the market can bear (Dube 2014). According to the New York Times, the "rough consensus among economists sympathetic to minimum wage increases" is that if the ratio of the minimum wage to median wage is below 50 percent it is mostly beneficial, 50 to 60 percent may create difficulties, 60 to 70 percent would create serious concerns, and above 70 percent is potentially disruptive (Scheiber and Lovett 2016).

Researchers at the University of Washington have been studying the impacts of Seattle's minimum wage increase. Recently they reported that after the first nine months of the phase-in (with large firms required to pay $11 an hour), the ordinance "somewhat held employment back from what it would have been in the absence of the law" (SMWST 2016). In all, the modest findings so far show that there have already been tradeoffs. Workers who kept their hours saw wages increase, but the researchers also found disemployment effects. Further, the researchers explicitly noted that the results are not

> *likely to be generalizable to other cities nor to the state of Washington . . . . Seattle's strong economy may make it capable of absorbing higher wages for low-wage workers, and this capacity may not be present in other regions.* (SMWST 2016)

Paid sick leave. There is a much more limited economic literature on paid sick leave mandates, since they are relatively new. (San Francisco was the first jurisdiction to require paid sick leave, in 2007.) And most of the existing studies are merely surveys of employers and employees. But, as we have written previously, the surveys show "that paid sick leave mandates are not costless" (WRC 2016). Indeed, if employees take the sick leave they earn under the initiative, employers would potentially have to pay double—for the employee's sick leave and wages for his replacement.

In general, Lawrence Summers found that when employers have to pay for employee leave, the result is lower wages and employment (Summers 1989). And Jonathan Gruber has found that even if benefits mandates are economically efficient, the "argument rests crucially on the ability of wages to adjust freely to reflect employee valuation of the mandated benefit" (Gruber 1994). Of course, I-1433 not only wouldn't allow the minimum wage to adjust down to account for the paid sick leave mandate, it would increase it.

Who Would be Affected by I-1433?

Minimum wage. In 2012, 3.03 percent of full time equivalent jobs in Washington were at the minimum wage. Those minimum wage jobs are concentrated in the accommodation and food services, retail trade, and agricultural sectors (WRC 2014b).

Further, minimum wage jobs are concentrated in counties in central Washington. For example, although only 1.60 percent of King County's jobs were at the minimum wage in 2012, 8.36 percent of Okanogan County's jobs were (WRC 2014a). In June 2016, the unemployment rate in King County was 4.3 percent, but it was much higher in other parts of the state. For example, it was 8.4 percent in Lewis County and 9.8 percent in Ferry County. (ESD 2016)

According to Nickerson & Associates, an economic consulting firm, based on data from the state Employment Services Department, 1.16 million people in the state earn less than $13.50—that's 32 percent of the total state workforce. Additionally, 56 percent of firms in the state would be affected by the minimum wage increase. In the accommodation and food services sector, 94 percent of firms would be affected. In the health care sector, 79 percent of firms would be affected. Additionally, as mentioned above, some economists suggest considering the ratio of the minimum wage to the median wage. Under I-1433, the minimum wage in 2020 would be about 54 percent of the median wage in King and Snohomish counties. It would be worse in every other county—from 60 percent in Kitsap County to 79 percent in Yakima County. This suggests that $13.50 could be too high for the economies of most counties in the state.

Nationally, according to the Bureau of Labor Statistics, for private sector businesses with fewer than 50 workers, wages and salaries account for 73.5 percent of total compensation. For private sector businesses with 500 workers or more, wages and salaries account for 64.9 percent of total compensation. Still, the per-hour cost of wages and salaries is $19.57 for businesses with fewer than 50 workers and $30.39 for businesses with 500 or more workers. (BLS 2016d) These figures suggest that larger businesses would be better able to absorb a minimum wage increase than smaller businesses.

Teenagers would also be affected by a minimum wage increase. The Bureau of Labor Statistics reports that nationally, workers under 25

> *made up about half of those paid the federal minimum wage or less. Among employed teenagers (ages 16 to 19) paid by the hour, about 11 percent earned the minimum wage or less, compared with about 2 percent of workers age 25 and older.* (BLS 2016b)

As we wrote in 2014, "Because younger workers are disproportionally low skilled, the disemployment effects of the minimum wage should be most visible in teenagers" (WRC 2014c). Indeed, in 2013, Washington's overall unemployment rate was 7.0 percent (compared to 7.4 percent nationally). But for those aged 16 to 19, Washington's unemployment rate was 30.6 percent (compared to 22.9 percent nationally). (WRC 2014c)

Although there is significant economic evidence that minimum wage increases have harmful effects overall, it is a tradeoff—the workers who keep their jobs and hours will benefit thanks to the increased earnings.

That said, the extent to which they benefit will be limited as the increased wages impact their marginal tax rates and level of government benefits. According to the Tax Policy Center, for example, if Washington's minimum wage increases from $9.47 to $13.50, a single mother with two children that works full time would have increased earnings of about $700. However, those earnings would be reduced by increased taxes and lower Supplemental Nutrition Assistance Program (SNAP) benefits, meaning that the increase in net income would be less than $300 (Maag and Rueben 2016).

Paid sick leave. According to the Bureau of Labor Statistics, nationally in 2016, 64 percent of private sector workers (and 90 percent of state and local government workers) had access to paid sick leave. There is a large disparity depending on firm size. In private sector businesses that employ 500 or more, 80 percent get paid sick leave. By contrast, in private sector businesses that employ fewer than 50 workers, only 53 percent get paid sick leave. (BLS 2016c) Consequently, the burden of a paid sick leave mandate would fall more heavily on smaller businesses.

Reducing Poverty

A significant driver in the current movement to raise minimum wages around the country is the concern over income inequality and poverty. Last year the American Enterprise Institute and Brookings Institution released "a consensus plan for reducing poverty and restoring the American dream" (AEI/Brookings 2015). The paper stresses the importance of work:

> *Public policies should aim to reduce poverty while also reducing depend-*

> *ency on the government and increasing people's ability to earn their own way and take responsibility for their own futures.* (AEI/Brookings 2015)

Although the paper proposes increasing the federal minimum wage, it acknowledges that

> *because the higher rates impose higher labor costs on employers, standard economic theory predicts that raising the minimum wage should lower employment among the groups most concentrated in low-wage jobs (that is, very young, less-skilled, or part-time workers).* (AEI/Brookings 2015)

Additionally, the AEI/Brookings paper notes that leave mandates "further raise employment costs and could thus discourage hiring" (AEI/Brookings 2015).

As the paper argues, getting low-skilled workers into the workforce is an important factor in reducing poverty. The paper notes that it's "very difficult to improve the earnings of less-educated workers without also improving their skills . . ." (AEI/Brookings 2015). One way to do so (which the paper encourages) is through employer-provided training, which "is often paid for through below-market wages during the training period" (AEI/Brookings 2015).

Further, to address poverty, the paper argues that "barriers to work facing low-skilled men" should be reduced. As an example, the paper suggests that governments should

> *take steps to promote the reentry of ex-offenders into society. Whether people who leave prison avoid recidivism depends most of all on whether they get jobs quickly and work steadily.* (AEI/Brookings 2015)

But when the minimum wage increases, employers are less likely to take a chance on those with few skills or who have been incarcerated. The result is less economic mobility.

Businesses may respond to increased employment costs by laying off workers, reducing hours, creating fewer jobs, increasing prices, or moving.

Business Response to Labor Mandates

I-1433 would make it more expensive to hire workers. As we have written previously, there are many ways businesses may respond to increased employment costs: by laying off workers, reducing hours, creating fewer jobs, increasing prices, or moving.

Labor economist Harry Holzer, who supported increasing the federal minimum wage to $10, warned last year that more extreme minimum wage increases could be problematic. One reason is the potential business response:

> *. . . it might take time for employers of many low-skill workers to learn how to economize on their labor costs, but they will over time, since the incentives to do so are much larger – and that would be bad news for the very low-skill workers the higher minimum wage is designed to help. For instance, fast-food workers might be more easily replaced by robots. Hotels may reduce their tendency to automatically clean the rooms of their guests, and may charge extra for doing so. In the state of New York, fast-food franchises will probably be replaced by other kinds of restaurants and food services. Employers in these industries will also likely demand better education, skills and experience among those whom they hire.* (Holzer 2015)

Indeed, increased labor costs make automation more cost effective for employers. Additionally, if businesses respond by increasing prices, it would negatively impact even those workers that benefit from the higher minimum wage—they are also consumers.

Ultimately, businesses may close or entrepreneurs may simply opt not to start a business in areas that have high overall labor costs. As noted above, small businesses may be disproportionately impacted by I-1433. If startups and other small businesses opt to go elsewhere, employment growth in Washington would suffer. According to the Small Business Administration, "small businesses provide 55% of all jobs and 66% of all net new jobs since the 1970s" (SBA 2016). To be more specific, a study found that startups play a "critical role" in employment growth (Haltiwanger et al. 2010). Further, the idea that small businesses disproportionately create jobs is "entirely attributable" to the fact that "new firms tend to be small" (Haltiwanger et al. 2010).

Holzer also writes that large minimum wage increases "will generate big incentives for employers to move across local borders" (Holzer 2015). As Washington increases the costs of hiring, businesses in cities along the state's borders may be particularly affected. In Idaho, the minimum wage is just $7.25. (Note, though, that going forward the Vancouver area and others along the Oregon border would be less affected, due to Oregon's recent minimum wage law. Under I-1433, the minimum wage in Washington would be lower than that in the Portland area in every year except 2020, when it would be 25 cents higher. The largest disparities would be between Washington and the non-urban Oregon counties along the border in the eastern parts of the two states. There, the I-1433 wage would be higher every year—the disparity would be largest in 2020, when Washington's wage would be $2 higher. Also, Oregon requires paid sick leave.)

Another thing to consider is that many businesses voluntarily offer higher wages than the minimum (and good benefits) as a way to differentiate themselves from other employers and thereby attract and keep the best employees. As the minimum wage increases and benefit mandates are piled on, those employers may be less able to afford to do so.

Comment

Washington has long been in the vanguard of the national movement to increase the minimum wage. If voters approve I-1433, the state will continue to be among the highest minimum wage states (though not the highest, given recent changes in other states).

As noted above, employer groups have called I-1433 a "blunt instrument." Indeed, it includes no exemptions, it doesn't differentiate between firm sizes or locations, it doesn't allow for a training wage for young people or those new to the labor market, there is no tip credit, it doesn't preempt cities from enacting ever higher local minimum wages, and it doesn't take into account the fact that the economy in much of the state may not be able to bear such a high minimum wage (nor does it give the state an opportunity to suspend the increases should the economy falter). By contrast, the minimum wage and paid sick leave mandates that some Washington cities have enacted have included some exemptions or based the requirements on business size.

Further, by mandating paid sick leave, the initiative requires employers to increase compensation over and above the minimum wage increase. By mandating this one specific benefit, the initiative ignores the possibility that employees might prefer higher wages or other types of benefits (like retirement, flexibility, or scholarships) to paid sick leave. The paid sick leave mandate could result in the cancellation of some of those non-mandated benefits.

The AEI/Brookings paper notes that "stronger economic growth would contribute greatly to our goals of reducing poverty and improving mobility" (AEI/Brookings 2015). And, as Kris Johnson of the Association of Washington Business said, "We want to create opportunities for everyone to succeed without jeopardizing job retention and growth, particularly in rural communities" (AWB 2016). But labor mandates like an increased minimum wage and paid sick leave, in combination with other business costs, would make Washington less competitive and would not support opportunity and economic growth in all parts of the state.

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Washington Research Council
520 Pike Street, Suite 1250
Seattle, Washington 98101
206-467-7088
fax: 206-467-6957
researchcouncil.org