



Testimony

Submitted on behalf of the  
Pennsylvania Chamber of Business and Industry

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**Public Hearing to consider the impacts of increasing minimum wage**

Before the:  
**Pennsylvania Senate Labor & Industry Committee**

Presented by:

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Chairwoman Baker, Chairwoman Tartaglione and members of the Committee, my name is Alex Halper and I am Director of Government Affairs for the Pennsylvania Chamber of Business and Industry. The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout the Commonwealth. Thank you for the opportunity to testify on the impacts of raising the minimum wage.

The PA Chamber opposes legislation to impose mandatory pay increases by raising the state minimum wage rate. Following a historically devastating economic recession and unprecedentedly sluggish recovery, it is imperative that lawmakers pursue public policy that encourages job creation and retention and avoids impediments to economic growth. Mandating entry-level wage increases would be contrary to these key principles and have a detrimental impact on both a significant segment of the employer community and, in many cases, the very individuals who are intended to benefit from this policy.

We do not question the positive intentions of those advocating to increase the minimum wage. However, the assumptions upon which proponents base their reasoning and the rhetoric accompanying those assumptions are often misguided.

Proponents will often compare the current minimum wage rate to the rate in previous eras and use the particular comparison that best suits their argument. For example, often cited is the fact that the original minimum wage set by the Congress in 1938 was 50 percent of the National Average Manufacturing Wage. However, according to the United States Department of Labor, the act that imposed the minimum wage requirement and set the rate, which was 25 cents, applied only to certain industries whose combined employment represented only about 20 percent of the labor force.<sup>1</sup> The rate was tied to the average manufacturing wage because the requirement applied to manufacturing and other industries that often employed low-income adults who were the primary breadwinner for the family. This description is a stark contrast to the average minimum-wage earner in Pennsylvania today who, according to the Pennsylvania Department of Labor and Industry, is young, has no children and lives in a middle-class household.<sup>2</sup>

Proponents will also cite the year 1968 and claim that the minimum wage should at least raise be increased to \$10.10 because that is approximately what it would be if it had been increased based on the rate of inflation since 1968. When the focus shifts to inflation, this year becomes the historical reference point because that is the year in

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<sup>1</sup>Grossman, Jonathan. "Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage."  
<http://www.dol.gov/dol/aboutdol/history/flsa1938.htm>

<sup>2</sup> PA Department of Labor and Industry, Center for Workforce Information & Analysis, *Analysis of the Pennsylvania Minimum Wage in 2014*, March 2015.

which the minimum wage hit its inflation-adjusted high point. Other years tell a different story: had minimum wage tracked inflation from 1948, for example, today it would be a little over \$3; or from 1988, it would be \$6.50. Using the first minimum wage rate set in 1938 as the inflation reference point, as advocates do when the comparison suits their argument, the minimum wage should be about \$4 today. The fact is these comparisons to previous eras do not reflect that the industries that most often pay the minimum wage and the demographics of those most often earning the minimum wage, have changed tremendously and continue to evolve.

A standard talking point for proponents is that lawmakers should increase the minimum wage because workers deserve a raise. This seems to imply that, unless the government takes action, those earning the minimum wage never experience a wage increase. In reality, minimum wage is typically a starting or training wage for employees entering the workforce who usually earn commensurate wage increases as they gain experience and skills.

Perhaps most troubling and imprudent is the tendency for proponents to ignore the negative impact that mandatory increases to entry level wages have on employment. To be sure, it seems that few public policy issues have spawned more reports and

studies that produce diametrically different results than minimum wage. A University of California at Irvine economist concluded that 85 percent of minimum wage studies found a negative employment effect on low-skilled workers.<sup>3</sup> Yet both sides will naturally cite studies that back their positions and ultimately policymakers and the public have to decide which are more credible. It is, however, worth taking note when the independent, nonpartisan Congressional Budget Office reports its findings on a particular legislative proposal or enacted policy. According to their Feb. 2014 report, raising the minimum wage to the oft-cited level of \$10.10 would result in approximately 500,000 lost jobs and possibly up to a million lost jobs.<sup>4</sup> Similar studies have been conducted in Pennsylvania and found comparable results.

I believe more compelling than studies is input from our members describing the negative impact of previous wage hikes and how they will be forced to react if another increase to entry-level wages is imposed. Many employers reported adverse impacts in the months following the minimum wage increase in 2006, including a reduction of hours for their employees, planned expansions curtailed or shelved altogether, price increases and positions eliminated. For example, Kennywood Park outside of

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<sup>3</sup> Neumark, David and Washcher, William. "Minimum Wages and Employment." *Foundation and Trends in Microeconomics* Vol. 3, No 1–2 (2007): 164.

<sup>4</sup> Congressional Budget Office. *The Effects of a Minimum Wage Increase on Employment and Family Income*, Feb. 2014.

Pittsburgh had to lay off 70 employees. A chain of fitness stores in the Lehigh Valley had to lay off 100 workers.

As the public has become more aware of the prospect of mandatory wage increases, we have received a considerable amount of feedback from our members, particularly small businesses, who overwhelmingly report that such policies would hurt their business. The following are just a couple examples.

The owner of a campground site in southcentral Pennsylvania reported the following:

After crunching the numbers and accounting for the increased taxes and insurance expenses (all wage based) and expected increase in non-wage based expenses as vendors have to increase their prices, we will: At \$10/hr 20 percent of our staff will be eliminated, our prices will have to increase 10 percent, all capital improvement plans will be scrapped for the next 5 years and services to our customers will be cut (example: food service will be eliminated). After years of growth, the past 5 years have become stagnant. If the wage increase fails to increase business as promised by the administration, we will close within 5 years with the mandated increase in wages. At \$15/hr the business will close that year. There simply will be no way for us to compensate for that size of increase. There certainly is no evidence that business will increase enough to make up the difference. Our closure will eliminate over \$2 million in annual expenditures throughout the community, 18 jobs, our family business and our home will be lost, 20 years of 100 hour work weeks to make sure our employees and vendors always got paid before we did wasted, our hard earned credit worthiness wiped out.

A small manufacturer in northeast Pennsylvania submitted the following message:

I beg you please to NOT allow minimum wage rates to increase as this will have a devastating impact on my business. All plans to hire new employees will immediately halt and business expansion will be prevented...Lawmakers need to realize that taxpayers like myself are already pressed too hard with all the new & hidden tax increases... and with resulting profit margins so thin... we are barely staying afloat. A government-imposed wage hike now would be the straw that breaks our back. Please remember that if the minimum wage is raised to \$10.00/hr, it not only effects wages for new hires, but creates a domino negative effect on current employees. How do you tell someone who has worked 5 years for your company that their pay is now exactly the same as the next untrained, inexperienced 'new hire'? Valuable, loyal employees will demand increases to their wages to put them ahead of new hire pay. So the impact of raising minimum wages really affects all current wages paid by the company.

In Pennsylvania, most people earning minimum wage work in food and drink establishments that on average operate on razor-thin profit margins. Much of the minimum wage workforce is employed by small businesses, which on average, make less than \$50,000 per year.<sup>5</sup> Ignoring concerns raised by employers who will face increased labor costs of anywhere from 40 to 500 percent (as various proposals aim to do) is shortsighted and unfair to the employers and employees who will be impacted.

The unintended negative consequences of mandating an increase to entry-level wages go further and an impact with critical short- and long-term implications is being felt

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<sup>5</sup> Knittel, Matthew, et al. "Methodology to Identify Small Businesses and Their Owners." Department of the Treasury. August 2011.

especially in the city of Philadelphia. An April 6, 2007 article in the Philadelphia Inquirer stated: "One consequence of January's increase in the minimum wage - from \$6.25 to \$7.15 an hour - is the threat it poses to summer jobs for youth. As salaries rise, the number of jobs comes down..."<sup>6</sup> The article went on to explain that, in the summer of 2006, the nonprofit Philadelphia Youth Network facilitated summer jobs for thousands of young people between the ages of 14 and 21. However, with the minimum wage increase making it more difficult for businesses to hire, an estimated 1,100 young people would not be able to find summer jobs.

Ultimately, state Rep. Dwight Evans, D-Phila., was able to secure a sizable earmark to partially address the job shortage. Rep. Evans was quoted saying, "A summer job isn't just about earning spending money, it's about gaining valuable experience in the workforce." Philadelphia Youth Network president Laura Shubilla praised Rep. Evans, describing him as "a man who understands that to build a middle class in the city of Philadelphia we have to get connected to work as soon as possible . . . providing positive opportunities for youth." The article also quotes Ms. Shubilla stating, "Given all the attention to youth violence and the city's burgeoning homicide crisis, this summer isn't a good time to be down 1,000 jobs." Rep. Evans and Ms. Shubilla are both absolutely correct.

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<sup>6</sup> Michael, Matza. "Fighting a Summer Job-Fund Shortage." *Philadelphia Inquirer* 6 April 2007.

Eight years later, youth unemployment remains a serious problem throughout Pennsylvania and the country, and is especially acute in urban centers like Philadelphia where minority youth are experiencing significantly higher unemployment rates.<sup>7</sup> Depending on the time of the year, minority youth unemployment rates range around 30 to 35 percent, which is typically around 10 to 15 percent higher than their white counterparts.

On March 10, 2015, an opinion editorial was posted on philly.com from Richard Greenwald, assistant to Philadelphia Mayor Michael Nutter and the City's Executive Director for youth violence prevention.<sup>8</sup> In the editorial, Mr. Greenwald highlights the disturbing trend of rising minority youth unemployment, the connection to youth crime and violence, and the likelihood that impacted youth have a greater chance of experiencing unemployment and "encounters with the criminal justice system" as adults. Mr. Greenwald is absolutely correct.

Along the same lines, the PA Chamber conducted a workforce-related survey in April 2013 and nearly 3 out of 4 respondents reported difficulty finding qualified applicants to fill open positions. While a lack of applicants with proper training, education and

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<sup>7</sup> <http://www.bls.gov/news.release/empsit.t02.htm>

<sup>8</sup> Greenwald, Richard. "Curb violence by finding jobs for city youths." <http://www.philly.com>. 10 March 2015

adequate skills was apparent, the survey found that 83 percent of companies experience difficulty finding employees that possess sufficient work ethic – i.e. reporting on time, following instructions, performing assignments and being reliable. These attributes are often acquired and honed as youth working part-time and during the summer. Whether the objective is preventing youth violence in Philadelphia, or adequately preparing the workforce of tomorrow, it is clear that creating entry-level jobs and encouraging youth employment is critically important. The obvious question: if this problem already exists and requires concerted attention, to what extent will the problem be exacerbated if government mandates an increase of entry-level wages anywhere from 40 to 500 percent?

While advocates on both sides may never come to an agreement on whether minimum wage is an effective solution, I believe there is agreement on identifying the problem. Governor Wolf, officials within his administration and other minimum wage advocates have said that someone working full-time and raising a family should not have to live in poverty. We agree with this statement; but connecting this premise to minimum wage advocacy is a logical fallacy since we know that 1) most minimum wage earners are young, have no children and live in a middle-class households<sup>9</sup>; 2) the majority of those living below the poverty line cannot benefit

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<sup>9</sup> PA Department of Labor and Industry, Center for Workforce Information & Analysis, *Analysis of the Pennsylvania Minimum Wage in 2014*, March 2015

from a mandatory wage increase because, according to the U.S. Census Bureau, they do not have a job<sup>10</sup>, and 3) many of these workers would actually experience negative employment impacts.<sup>11</sup>

There are simply smarter, more targeted ways to help this population that do not trigger the negative unintended consequences inherent when government imposes mandatory increases to entry-level wages. Effective workforce development and job training programs could be identified and strengthened. Numerous states have enacted state Earned Income Tax Credit (EITC) programs to compliment the federal program. Many economists and businesses leaders have commended the prudence and effectiveness of this approach, which encourages work, targets support and does not harm employment. In a memo to President Bill Clinton, former Secretary of Labor Robert Reich stated “It can be argued that the substitution of a higher minimum wage with a higher EITC would be a positive accomplishment. To be sure, the EITC poses no threat to employment opportunities and can be better targeted to families in need.”<sup>12</sup> More recently, Warren Buffet spoke out in favor of an EITC

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<sup>10</sup> <http://www.census.gov/hhes/www/poverty/data/historical/hstpov25.xls>

<sup>11</sup> Congressional Budget Office, *The Effects of a Minimum Wage Increase on Employment and Family Income*, Feb. 2014.

<sup>12</sup> Department of Labor (2), Secretary of Labor, Memorandum to the President: Reconciliation, the EITC, and the Minimum Wage 20 Jul 1993 5.

approach as an alternative to raising the minimum wage, a policy that he said would leave “a lot more people unemployed.”<sup>13</sup>

We urge lawmakers to work collaboratively with all stakeholders to pursue smart public policy that is in the best interest of the Commonwealth. This may mean acknowledging that approaches conceived in the early 20<sup>th</sup> century may not be as effective and applicable in the 21<sup>st</sup> century. The PA Chamber looks forward to being part of this conversation and helping to chart a new course, rather than continuing a seemingly never-ending cycle of rhetoric.

Again, thank you for the opportunity to testify. I would be happy to answer any questions.

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<sup>13</sup> Gillies, Trent. “Stuff Buffett says: The Oracle speaks on inequality, wages and a 'happy diet'.” <http://www.cnbc.com>. 7 March 2015.