Testimony of Eric Blackledge on Senate Bill 1532A

Consequences of an Artificially High Barrier Wage

What you are considering in SB 1532A is <u>not</u> a $13.50 or $14.75 minimum employee cost in six years. That is only the starting cost for a business employer.

To that you must add –

- 7.65% Social Security and Medicare Taxes
- Workers Compensation Insurance of 1.35% state average, but often higher
- Oregon paid sick leave of 1.3%
- Health insurance for employers with more than 50 FTE. $475/mo. or $2.74/hr., full time

For a mid-size business employer that would mean an actual <u>minimum</u> employee cost of about $17.63 to $19.01 per hour in 2022, not including hiring costs, training costs, paid vacation, or other benefit costs. Unfortunately, that is more than the potential business productivity of many low skill Oregon workers is worth to an employer.

What you are really considering is <u>not</u> a normal minimum wage, it is really an artificially high <u>Barrier Wage</u> employment threshold increasing at 8.5% per year. A Barrier Wage that high will lock out an increasing percentage of Oregon's population from participation in the legal work force.

An open competitive labor market rewards those with higher skills and higher productivity with better jobs and better incomes, but still provides some lower wage employment opportunities for less skilled individuals, younger people just entering the work force, the disabled, and those unable to work full time.

Having a basic "Minimum Wage" set at about the average <u>market based</u> wage rate for entry level workers and indexed for inflation is a good public policy to protect workers from being taken advantage of, without significantly affecting employment opportunity and labor market participation rates. However, legislating a Barrier Wage level significantly above market rates is bad for low skill workers, bad for Oregon's economy and bad for Oregon Governments.

The current economy and Oregon's 9th highest in the nation minimum wage level is already locking out a significant number of less competitive low skill workers. The true under-employment rate is still over 10% and much higher for some population groups. The overall US labor force participation rate has dropped to only 62.6%.

Our country used to be the world largest producer of manufactured goods and equipment for export around the world. Now, we live in a much more competitive world, with few trade barriers and a huge US negative trade deficit. Domestic manufacturers must compete with countries around the world that have dramatically lower wage rates. Even with increased technology and automation, labor is still a significant part of the production cost of many products. Domestic producers, who can no longer compete, either shift their production overseas, or go out of business. In either case the higher cost domestic production jobs continue to disappear.

There is also increased competition for the remaining domestic "consumption economy" jobs. The US puts no limits on its population birth rate, has relatively open immigration policies with weak enforcement of illegal foreign workers, and puts no barriers on movement of workers from one state to another.

You may not have observed it, if you are not an employer of entry level workers, but there have also been major changes in the work ethic and productivity of the workforce. Many of today's entry level workers seem not as interested in work, have low job skills, low productivity, and higher turn-over rates. Even with increased use of technology, the Bureau of Labor Statistics reports the economic productivity of the average US worker increased only 1.2% per year from 2007 to 2015, the lowest rate since the 1970s. You can also see the effect some of these societal changes in Oregon's abysmally low High School graduation rate.

Workers don't just compete for jobs with other workers. Their biggest competitor today is technology. Automation and computerization have already grown rapidly in all types of businesses from robotics in manufacturing, to ATMs, order entry web apps, order entry kiosks, and self-checkout lines, even in what we used to think of as personal service businesses. In response to increasing labor costs, such as mandated health insurance costs, even more automation such as fully automated fast food kitchens are being developed. If we can now produce self-driving cars, technology can probably automate all but the lowest value physical labor jobs.

Some people say if businesses are forced to pay higher labor costs they can simply pass on the cost in higher prices, but is not always possible or logical. Listed corporation revenues and profits have been flat or declining over the last two years. Economists currently predict that only 1/3 of business sectors can increase prices without reducing profitability due to elasticity of demand and increased competition. To control future costs, employers will replace an employee with technology whenever it becomes cost effective, and once consumers adapt to the change, that job elimination will be <u>permanent</u>.

Workers also compete with consumers who can simply save money by doing something themselves rather than hiring expensive workers. The elasticity of demand based on price is particularly high for non-deductible personal consumption and services that people have to pay for with after tax dollars, because it raises the effective cost by 25% or more. Higher wage level service workers have already seen the impact of the do-it-yourself economy. Many of the remaining service jobs such as landscaping, food service, travel services, property maintenance, local agriculture and child care, employ large numbers of lower skill workers, and would see the greatest job losses from increased minimum labor costs.

Who loses from an above market Barrier Wage requirement?

> Low skill citizens who want to work, and need income, but don't have the skills to justify the minimum Barrier wage, will lose. If people do not have the skill value to get legal employment they will be forced to turn to the underground casual labor market as "independent contractors" paid by the task. Without employer income reporting, and with mostly cash compensation, they often can avoid paying State and Federal taxes on the income, but will also lose normal "employee" protections such as workers compensation and wage and hour rules. As a last resort they may also turn to illegal activity to survive, with both personal consequences and public costs.

> Non-profits and charities who usually can't "raise prices", and probably have no alternative but reducing staffing and services, will lose. Non-profits often have semi-volunteer employees who are willing to work for a lower salary because of the organization's charitable purpose, but would not be able to with a higher Barrier Wage.

> Schools and local governments that face revenue limitations from state property tax laws and from voters in budget elections, will lose. Even governments employ many lower income workers for some job classifications. They are already facing cost pressures from increased PERS rates as a result of prior legislatures not considering long-term consequences of legislation. Many school districts and local governments will have no option to reducing staff in non-critical service areas and reducing public service levels.

> The State government, which will face both direct and indirect budget impacts, will lose. The State will face the same direct personnel cost increases for lower paid staff in some agencies as other governments. **The major cost impact, however, will come from the on-going cost of providing public services to an increasing percentage of the state's population who cannot find regular employment because the increasing Barrier Wage exceeds their employment value.** State costs could grow rapidly for state support programs for food, housing, healthcare, children's services and unemployment compensation. If more unemployed have to turn to illegal activity, public safety costs will also increase.

These cost increases will come not just from current Oregon residents. If Oregon adopts minimum wage levels that are significantly higher than the Federal level or most other states, low skill workers across the country will hear about it. In addition to our mild climate and no sales tax, the proposed increases may attract low skill workers from other states. Unfortunately, they probably won't realize that there are few jobs available at that rate, until after they have moved here and added to our unemployed population. Increased migration will also flood the low skill labor pool, making it harder for existing residents to compete for any available jobs.

To compound the State's budget problems, the same kind of business closures, relocations and job losses that have occurred internationally can also happen between states. Traded sector businesses that do not have to operate in Oregon, and need lower wage workers, will move their operations to lower cost states or countries. New traded sector businesses will also be harder to recruit to Oregon, resulting in declining tax revenues both from the businesses, and the lost jobs. With Oregon's income tax structure, the increased taxes from a small number of higher salary minimum wage workers will not offset the revenue loss from decreased employment, decreased business activity, and more people avoiding taxes in a cash economy.

> Oregon Taxpayers, who will get lower levels of personal service both from private businesses and from all levels of government as low skill support workers are eliminated, will lose. Taxpayers will also face increasing pressure for tax and fee increases as the quality of government services provided with existing revenue declines.

> Private Businesses who will be directly impacted, at least in the short run, will lose. In the long-run most businesses will survive by changing their business models to reduce services whose cost exceeds their business value. Adaptations may include lower service or self-service models, longer wait times, increased use of technology, "no-tipping pricing", on-line sales, or where possible, higher prices. For traded sector businesses with significant numbers of lower wage workers, they may simply move their operations, jobs, and tax payments, to other states or nations.

Some businesses who are unable to adapt to higher personnel costs may fail, but that is the consequence of ignoring the realities of the economic market place.

Adopting a significantly above-market-level Barrier Wage rate as proposed by SB 1532 eventually benefits no one.

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