

LET EMPLOYERS DETERMINE WAGES

A mandated increase in the minimum wage to \$12 per hour would impact small and medium-sized businesses more than any other segment of the economy because they offer more entry-level jobs. It is in direct conflict with the need to build a qualified workforce because those who will bear the brunt of the mandate are young people who desperately need starter jobs for an introduction to the world of work. That first job exposes them at an early age to the soft skills which many employers cite as lacking.

PROBLEM: Governor Wolf proposes a minimum wage increase to \$12 per hour starting July 1, 2021. The wage will increase until it reaches \$15 per hour on July 1, 2027. It is hard to imagine worse timing and a more destructive policy for pandemic-battered businesses. The increase is especially difficult in rural areas of Pennsylvania with lower wage levels and very detrimental considering the share of the workforce that will be most impacted.

According to the Independent Fiscal Office (IFO), Pennsylvania is down 472,000 jobs due to the pandemic. The losses were in manufacturing, retail and trade, education, and accommodation and food service industries. By age group, individuals 19-24 make up for 18 percent of the job losses, showing that job losses are concentrated in younger lower wage workers.

....*PA House Commerce Committee Hearing, March 11, 2021, Pennsylvania Legislative Services,*

SOLUTION: Commit to targeted training for young people by giving them entry-level job experience and train others to transition them from lower wage jobs to better paying jobs. They need skills, experience, and education that will make their labor more valuable to an employer.

UNINTENDED CONSEQUENCES of an INCREASE IN THE MINIMUM WAGE

Thoughts from an MBA member with fifty plus employees who manufactures medical equipment etc.

- "It is not the \$7.25 that is the issue, but we have to look at what will change if the bottom increases to \$15 per hour. I start workers at \$17 and within 90 days they are making \$18.50.
- What is going to happen is that the higher base wage makes my company less competitive nationally and globally.
- If a teen can find work at Tastee-Freeze for \$15 per hour, we will need to increase our base wage well above \$20 per hour to attract employees. Higher labor costs will make our business less competitive globally and accelerate automation to compensate.
- Once pay hits \$25 per hour it will push the move to automation significantly; automation becomes very attractive and affordable."

BACKGROUND:

Who earns minimum wage?

- 1.5 percent of all jobs in Pennsylvania are minimum wage jobs.
- Of that group 78 percent do not have kids.
- 55 percent are high school and college aged.
- According to the Independent Fiscal Office half of Pennsylvania's minimum wage workers are between the ages of 16 and 24.

....*PA House Commerce Committee Hearing, March 11, 2021, Pennsylvania Legislative Services*

What are the possible negative impacts of a minimum wage increase to \$12 per hour?

- **Consumers will pay higher prices** because businesses may have no choice but to pass on the costs of increased wages.
- **Employers' profits will be decreased** not only by increased wages, but also by increased costs for workers comp insurance and social security. Lower profit levels mean less dollars to reinvest in business operations.
- **Fulltime employees may have their hours reduced; part-time employees may have reduced or zero hours.**
- **Employee benefits may be reduced.**

- **Potential employees may have fewer opportunities.** From the employers' perspective there is more value in hiring an experienced and trained worker. This will make job hunting more challenging for inexperienced workers, especially part-time high school, and college students.

What will young people, unable to find a job, be missing out on? Hard skills vs. soft skills.

Hard skills can be acquired through Career and Technical Education (CTE) classes, training, and apprenticeships. Soft skills, however, are learned through real world experience on the job. The longer young people remain on the street corner, then the longer they are delayed from gaining that first entry-level job and exposure to critical, basic soft skills.

Basic soft skills may include a work ethic, showing up regularly and on time, understanding the customer, good communication skills, the ability to work with teammates, conscientiousness, a good attitude, staying engaged throughout the workday, using basic manners, and following instructions.

SUPPLY and DEMAND

What is happening nationally as large employers compete for workers?

Larger employers are increasing their wages without a mandate. They are driven by market forces. because competition for new workers is fierce. They want to retain their existing employees and recruit new ones.

- "The country's largest private employer Walmart.... said its targeted raises would increase pay for its hourly U.S. workers to an average above \$15 per hour..."
...**"Walmart to Boost Wages for 425,000 U S Workers,"** *The Wall Street Journal, February 19, 2021 Sarah Nassauer*
- "In August Best Buy, raised its minimum wage to \$15 per hour."
...**"Best Buy gives pandemic-related bonuses to employees amid company lay-offs."** www.cnbc.com
February 23, 2021.
- Costco Wholesale Corp. will pay its US workers at least \$16 per hour March 2021.... The warehouse retail chain's minimum wage has been \$15 per hour, the same as starting wages at Amazon.com and Target Corp...."
...**"Costco to Raise its Minimum Wage,"** *The Wall Street Journal, February 26, 2021, Sarah Nassauer*

Covid-19 has also put pressure on employers, large and small, to increase wages.

"Among Covid-19 's weird effects: despite high unemployment levels, many employers are having trouble hiring enough workers.... For manufacturers, staffing shortages have been caused by factors including a surge in new jobs tied to e-commerce - many of which offer better pay than factory work – and absences caused by Covid or family obligations such as childcare."

- A company in Wisconsin raised the hourly rate for new hires by about 25% to \$17...
- An Ohio company now has entry level positions starting at \$13 and \$15 per hour up from \$10.00 a year ago.
- A company with locations in Massachusetts and Virginia with 1,700 workers was struggling to fill 400 positions. They raised hourly wages which previously ranged from \$13.50 to \$20 by 7.6%

.... Adapted from **"Help Wanted on the Factory Floor,"** *The Wall Street Journal, January 9, 2021, Sharon Terlep, Ben Foldy and Bob Tita*

AUTOMATION and the MINIMUM WAGE

As automation increases some jobs go away especially those for the low-skilled hourly workers.

"Automation has always been most disruptive to the lives of blue-collar workers. But as robots transition from displacing people on the factory floor to displacing them in the service industry, which in the US is many times larger than manufacturing, it could affect the lives of millions of people."

...**"The Reality of Robots Sprints Past Fiction,"** *Wall Street Journal, Christopher Mims, January 23, 2021*

"Total employment is down 10 million jobs from February 2020, predominantly among low wage workers...Research has found that employers respond to a minimum wage in a number of ways...Some will absorb the higher wage. Some will pass it on...The McKinsey Global Institute separately noted robot installation shot up after the 2007-2009 recession and expects a similar rush now. The firm found 68% of executives world-wide accelerated investment in automation and artificial intelligence since the covid-19 outbreak began."

... **"Wage Boost During Pandemic Carries Risks,"** *Wall Street Journal, Greg Ip, Capital Account March 4, 2021*

- Five Below plans to respond to potentially higher labor costs in part by continuing to increase the number of employee assisted self-checkout stations as opposed to traditional check out stations.
- Good Times restaurants Inc in Colorado, with 60 locations, plans to raise some menu prices to offset a higher minimum wage ...and they are also considering investing in technology such as hand-held devices so that customers can do everything- place their own orders and pay their own bills without any staff involved.
- 1-800-Flowers.com, Inc. a floral and gift retailer plans to automate more tasks in its manufacturing and distribution operations to become less reliant on seasonal labor.

... Adapted from "**CFOs lay Plans for Higher Minimum Wage**, Wall Street Journal, Mark Mauer, February 23, 2021

"Rousu explained that this (an increase in the minimum wage to \$12 per hour) would cause a lot of businesses to look for automated technology that could do the work of employees in order to avoid the costs of minimum wage, like fast food kiosks that do the work of cashiers. He noted that it is much cheaper for a large corporation such as McDonald's to order machinery in bulk, reducing the unit cost, while small businesses would have to pay more for the same type of machine in a smaller number. He noted that this advantage could lead some CEOs of big businesses to advocate for raising the minimum wage because it will run smaller competitors out of business."

...**PA House Republican Policy Committee**, Matthew Rousu, Dean, Sigmund Weis School of Business at Susquehanna University, February 24, 2021

For more information:

Eileen Anderson, Director, Government Relations, MBA/SMC

eileenanderson@mbausa.org

412-805-5707