

MEMORANDUM

From: Ed Cox, Chairman, NY Republican State Committee

Date: January 19, 2016

Re: Governor Cuomo's Proposed \$15 Minimum Wage

As a leader of the opposition in this very blue state, a part of my job is to analyze state politics and policies and to express an opinion on issues impacting the state and its people. The Republican Party is the party of the small businesses which produce most of the state's jobs and of the state's taxpayers who bear the highest tax burden of any in the United States.

Summary

Because the minimum wage is so tied into elements of supplemental assistance for working people, the general and competitive condition of an economy and inflation/deflation forces, well managed governments raise the minimum wage in careful increments and measure the impacts before doing additional increases. Once set, minimum wages are not reduced. Over the last decade New York's minimum wage almost doubled while inflation increased only 25%.

However, as the "progressives" (Mayor de Blasio) and socialists (Senator Sanders) have gained traction in his party, Governor Cuomo has embarked on a rash political drive to be the first Governor to measure up to 1199 SEIU's "Fight for \$15" slogan. In doing so, he is exposing the New York economy, already among the least business friendly, to huge potential damage and the loss of hundreds of thousands of jobs, especially if other states, such as nearby Pennsylvania with a \$7.25 minimum wage, don't follow suit.

Small main street businesses will raise prices (hurting citizens on fixed incomes), lay off workers or close their doors. Businesses relying on unskilled workers will move to other states or abroad. New York citizens hit hardest will be the most vulnerable -- unskilled labor and young potential workers looking for that important first job, including inner city minority youths whose unemployment rate is already over 20%.

General

Over the last decade New York's minimum wage almost doubled to \$9 while inflation grew by only 25%. Governor Cuomo's proposed hourly minimum wage increase, from the present \$9 to \$15 in steps over three years for New York City (the "City") and over five and one-half years for the rest of the state, is a 67% increase in New York's minimum wage which is already one of the highest of any state. At \$9, it is surpassed only by eight states, led by Massachusetts and California at \$10, as of January 1 of this year.

As of today, \$15 would be not only the highest in U.S. history, even accounting for inflation, but the highest in the history of the 34 OECD countries. By comparison the nearby states of New Jersey, Connecticut and Pennsylvania have minimum wages of \$8.38, \$9.60 and \$7.25, respectively, and the federal minimum wage is \$7.25 with only 29 states setting a minimum wage above \$7.25.

While certain cities (Los Angeles, San Francisco and Seattle) have adopted \$15, others (Tacoma and Portland, Maine) by referendum rejected \$15 after seeing the immediate impact on businesses and jobs in those cities.

In approximate numbers, the increase to \$15 will increase the wages of 1,600,000 workers (20% of New York's 8,000,000 workforce) directly and the wages of another 1,600,000 workers, who earn more than \$15, indirectly. By comparison, the January 1 increase to a \$9 minimum wage impacts only 800,000 workers directly and another 900,000 indirectly.

The Governor's \$15 proposal would be a government mandated direct \$16 billion new burden on New York's businesses which employ unskilled workers with an indirect impact of possibly the same magnitude pursuant to contract mandates and pressure on wage scales from more skilled workers. As a government mandate this burden is the equivalent of more than \$16 billion of new taxes which would be a huge new tax on these particular New York businesses even by New York standards.

The Governor's increase will have a dramatic impact on New York's economy and jobs and particularly on the state's unskilled workers; on inner city minority youths who have the highest rates of unemployment; on Upstate's small businesses, farms and jobs; on local governments and school districts; and on taxpayer supported and other non-profit organizations servicing the public.

Hundreds of thousands of New Yorkers will lose their jobs; businesses will increase prices, lay off workers, automate, move operations to other states (just across the border Pennsylvania has a \$7.25 minimum wage) or abroad or just close their doors if they can't move.

The Governor's full throated arguments for increasing the minimum wage are "no one who works full time should be forced to live in poverty" and "businesses are stealing from taxpayers" in a "tax scam" because low-wage workers have access to a taxpayer funded economic safety net -- a safety net that goes away gradually as they acquire job skills and rise from the minimum wage. These arguments are both contradictory and wrong. And the Governor's frequent rhetorical claim that present minimum wage earners "have to choose between paying for food or paying the rent" is also wrong.

A family of four with one minimum wage salary earns \$19,000 a year in salary but does not "live in poverty" (the relevant poverty line is \$24,000) because the family also gets

supplemental untaxed income from the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) programs, the Supplemental Nutrition Assistance Program (SNAP) and Medicaid and other government programs bringing the family's total untaxed income to more than \$40,000 a year.

And that family does not have to choose between "paying for food or paying the rent" since the SNAP amounts are specifically for sufficient food and make specific allowance for higher rents.

Neither are these government supplements "tax scams" but they are forty year old (EITC) and fifty year old (Medicaid and "food stamps," the SNAP predecessor program) bipartisan approved federal programs.

The EITC program in particular has just been strengthened and confirmed in the Obama/Ryan budget agreement as a valuable federal program to bring unskilled workers, in an increasingly global market for unskilled workers, into the workforce, while ensuring incomes sufficient for American level decent living conditions.

Ironically, the EITC and SNAP programs, which the Governor calls "tax scams" and would be replaced in large part by his "Mario Cuomo Social Justice Wage" of \$15, were enthusiastically embraced by Mario Cuomo.

As various groups have raised the huge damage that will be done to New York's businesses and economy by his proposal, the Governor has replied with quickly concocted band-aids: tax credits for big businesses (rejected by the Business Council as not addressing the specific damage), \$300 million of tax benefits for small businesses and programs for minority youths, all of which don't address what will be a huge job killer for, especially young, unskilled labor.

Since the mandated additional burden is calibrated in accordance with the number of lesser skilled workers in each business and that number varies by industry and even by company, general tax credits or benefits are blunt help, and even if they could be made precise, very costly instruments of relief.

In harsh brief, while well intended to help low income workers, this is an action driven by the Governor's politics with very little consideration of its complicated and major impacts on New York jobs, its economy and businesses, programs for unskilled and young workers, the property tax cap, the Medicaid spending cap, etc.

The Politics of "Fight for \$15" and the Governor's proposal

In response to a "Fight for \$15" campaign lead by 1199 SEIU ("SEIU") and supported by other unions and "progressive" organizations, three major cities, Seattle, San Francisco

and Los Angeles, have recently enacted minimum wages of \$15 an hour phased in over several years. Several states, including California and Massachusetts, are also considering an increase to \$15.

SEIU and other unions benefit from a higher minimum wage that drives up their wage scales, discourages lesser skilled workers from becoming competitive in their job markets and acts as a rallying cry.

SEIU representatives have publicly stated that \$15 is a compromise from their desired \$22 based on a theory of productivity gains over the last forty years. The Governor once called a \$13 minimum wage proposed by Mayor de Blasio a "non-starter," but over the last year he has taken a number of actions to preordain a \$15 increase.

In July of 2015, in a long time unprecedented action which is now under a strong legal challenge by the Gibson Dunn law firm, a state wage board appointed by the Governor imposed a phased in \$15 minimum wage on national fast food chains exempting local chains with less than 30 locations.

In September, with a then budding presidential candidate Biden by his side and to an audience of SEIU members, Cuomo proposed his statewide \$15 minimum wage and drove a large personal political stake in the ground by calling \$15 the "Mario Cuomo Social Justice Wage" after his recently deceased father. Subsequently, he has unilaterally raised the minimum wage for state workers to a phased in \$15, has prevailed on several Upstate mayors to follow suit for their municipal workers and prevailed on SUNY and CUNY to go to \$15.

To put the politics in perspective, Andrew Cuomo served as a cabinet member in the administration of President Clinton, a centrist Democrat who had been chairman of the centrist Democratic Leadership Council (the "DLC") and a proponent of welfare reform, middle class tax cuts, NAFTA, deregulation and an historic 1993 expansion of EITC for the working poor. To the great frustration of Republicans, in 2010 Cuomo campaigned as a fiscal conservative who as governor eliminated a \$10 billion budget deficit, disciplined the government employee unions (while placating SEIU in his Medicaid redesign), enacted the Republican conceived property tax cap, claimed to cut taxes for all including the wealthy, supported charter schools and attempted to impose real evaluations on teachers.

All of which helped him get reelected In 2014 and avoid replacement by a Republican governor which happened to more purely liberal Democratic administrations in the very blue states of Illinois, Massachusetts and Maryland in 2014.

But the Democratic Party has lurched leftward nationally under President Obama, and the DLC dissolved in 2011. In New York de Blasio was elected Mayor of the City in 2013, and the Governor in his 2014 campaign could not get more than 60% of the

primary vote of his own Party against a far left underfunded unknown and had to rely on de Blasio and certain (subsequently unkept) promises to get the nomination of the Working Families Party.

In addition, the Governor's job approval was under 40% in 2015, and he must be aware that in 2018 he will have the historic difficulties of running for a third term and a fourth Democratic term (in 2006, 2010 and 2014 Spitzer and Cuomo won with declining percentages of 69%, 63% and 54%, respectively). The chances of a tough Democratic primary, a Working Families Party rival or the enmity of SEIU, the most feared union statewide, are lessened by joining in his best full throated style the SEIU's "Fight for \$15" band wagon and by being the first Governor in the nation to pass a \$15 minimum wage. Cuomo likes to make big political splashes on major policies valued by his Party such as gun control after the Sandy Hook massacre and gay marriage.

For these reasons, while done with good but very shallow intentions for New York's low income workers, it's his politics, and not considerations of good policy, that drive the Governor's huge push for a minimum wage with \$15 attached to it. Driven by the SEIU's "Fight for \$15" slogan, the Governor is making rash public policy mistakes which will have terrible and bad consequences for New York and its people.

Public Policy Analysis

The Governor's proposal also raises complicated questions about the safety net, which are best dealt with--and are presently being dealt with--at the national level by Speaker Ryan with his comprehensive anti-poverty plans that reform the system to more effectively aid struggling American workers. It just doesn't make sense for New York to act on its own with an increase this big and before the federal government acts, which is the primary architect of the national safety net. This proposal will have an adverse effect on productive benefits, such as the EITC, which is discussed in more detail below.

We all want New Yorkers to make more money, but that laudable goal must be met with a sober assessment of the consequences of any policy that impacts our economy. Overall our state ranks 49th out of 50th in business friendliness. We have the highest taxes, the worst regulatory climate, the second highest energy costs and the most people leaving any state. While states like Florida, Texas and North Carolina are growing, New York is losing its people and their talent, revenue and capital to states with less burdens and more opportunity. The people who will be harmed the most from this proposal are less skilled and young labor, our small businesses and the mom-and-pop shops on our Main Streets and in our neighborhoods. Big business will be able to sustain the increase or relocate, but the small home town entrepreneurs, who are the heart and soul of our economy and whose businesses contribute greatly to the fabric of our communities and our quality of life, will be faced with several bad options of cutting jobs, raising prices or shutting their doors.

It makes no sense to put in essence an additional tax (and especially a state tax) of a \$16 billion plus on businesses calibrated according to the size of their unskilled workforce when businesses with unskilled workers are having to compete in a global economy chocked full of very cheap unskilled and hungry workers and when workforce participation is at all time lows and unskilled, particularly young and inner city young, worker unemployment, underemployment and workforce dropouts are at all time highs,

Governor Cuomo's Claims vs. Reality for Workers

While most minimum wage workers are not the breadwinners for their families, those who are for a family of four with a \$9 minimum wage salary have nearly a \$19,000 a year gross income for a normal 40 hour week and receive governmental benefits, including federal (\$6,000) and state (\$2,000) cash EITC, federal cash CTC (\$2,000) and federal SNAP (formerly "food stamps") food and cash assistance (\$6,000) that bring equivalent income, most of which is untaxed benefits, to well over \$30,000 per year, and if the value of Medicaid and other free New York health insurance, housing and other benefits are included, to well over \$40,000 a year. The poverty line in New York is \$24,000 for a family of four and \$12,000 for a single individual; \$40,000 is considered the start of a middle class income.

These benefits have had bipartisan support as effective tools to engage workforce participation primarily for unskilled workers while ensuring decent living conditions. With workforce participation at all time lows and unskilled, particularly young and inner city young, worker unemployment and underemployment at all time highs, this is not the time to increase the minimum wage so long as a decent safety net which encourages work is in place.

The EITC was championed by Governor Mario Cuomo among others and many liberal voices such as Warren Buffet argue for a raise in the EITC rather than the minimum wage to combat income inequality.

Workers will actually net less income than they expect because of, and low income workers as well as folks on fixed incomes will also be the hardest hit by, increased prices for goods and services as a result of the additional burden of a 67% wage increase on businesses. And in general a family of four breadwinner will only get half of the additional \$12,000 in increased minimum wages (from \$9 to \$15 is annually from \$19,000 to \$31,000) since his (mostly federal) EITC and SNAP benefits will be reduced by approximately \$6,000 most of which will go to the federal government.

Local governments, school districts and government supported and other non-profits, and the people who rely on their services, will also be negatively impacted when they are forced to make budget cuts and kill services to accommodate the increased costs. Since these governments and related organizations rely on revenues mostly from property taxes, the need for their services will add to the pressures to break the (now very low

because of low inflation) property tax cap -- one of the Governor's singular accomplishments in a state afflicted by the highest property taxes in the Nation. SEIU President Gresham has suggested that the impact of a \$15 minimum wage on his union work force in the healthcare industry would force the Governor to bust through his self imposed 4% annual cap on Medicaid spending which, as a cap on the largest budget expenditure element, is an important budget balancing factor.

Job losses

Small businesses in New York operate on thin profit margins. Many are also grappling with the new costs of Obamacare mandates and as of January 1 paying more for a minimum wage increase already passed by the legislature.

An analysis by the Empire Center for Public Policy estimated that boosting the minimum wage to \$15 would cause anywhere from 200,000 to 588,800 jobs losses, with a particular focus on Upstate New York and its small businesses.

The added costs to employers doesn't stop with just minimum wage workers. It drives the entire wage scale up, since more higher-skilled workers presently getting \$15 will feel entitled to more than less-skilled workers making the same pay. Eventually, the whole wage scale of New York companies will get reset at higher, and less competitive, levels compared to other states and the world.

Jobs that can be automated, will be. In San Francisco where the \$15 minimum wage already took effect, fast food restaurants such as McDonalds have replaced front line employees with machines to take orders and distribute food. Big box stores such as Target are moving to self-checkout lines where only one employee oversees the entire operation. In France, which now has one of the highest minimum wages in the world at \$12, all fast food outlets have ordering tablets replacing front line workers.

Entry level positions are critical to young people and others who lack job skills to enter the workforce. Less jobs means less opportunity for those individuals to get the fundamental job training they need to work their way up the job ladder.

Inner-city populations, especially minority young whose unemployment rates are the highest, will be hit the hardest.

In an attempt to cover the flaws in his hastily announced proposal, the Governor mentioned "offsetting" tax credits at a meeting of the Business Council, which is nothing more than a red-herring because tax credits can't help a small business that operates on thin margins (you need a profit to take a tax credit) and when fully implemented, the \$15 wage would impose at least \$16 billion in increased payroll costs on New York employers, a cost increase that would be impossible to offset through tax credits, tax cuts or other reforms. It also doesn't address the issue of competitiveness. The Governor has proposed \$300 million of tax benefits for small businesses (deemed

"window dressing" by small business representatives) and has mentioned general "tax cuts" to the tune of \$2 billion which again don't address the precision or amounts of what is essentially a huge business tax on unskilled labor.

Consumer Impact

A 67% minimum wage increase will force businesses to raise their prices for goods and services in addition to cutting and automating jobs. Folks on fixed incomes, particularly the elderly on social security, will be the hardest hit. Studies estimate, and the market in San Francisco is bearing this out, that prices will increase approximately 15% to 20% as a result.

Many consumers will be forced to abandon local shops in favor of big box stores which can more easily handle the costs and take advantage of the Governor's proposed tax credits and benefits.

Public Opinion

While polls and news headlines on the public's opinion show majority support for an increased minimum wage, polls show public resistance to \$15, and when polling questions drill down and discuss the consequences, public opinion shifts dramatically against a \$15 minimum wage.

For example, one poll asked respondents whether they would still support that policy if it would cause some less-skilled employees to lose their jobs. Here, the results flipped: 57 percent of New Yorkers said they would oppose a \$15 minimum wage in this case. And when asked how they would feel about a \$15 minimum if it would cause some small businesses to close, 67 percent opposed the policy.

Most importantly, after seeing the negative impacts in San Francisco, the Tacoma, Washington, and Portland, Maine, voters rejected a \$15 minimum wage.

In closing, while a \$15 minimum wage sounds appealing, the real-life effects on New Yorkers will be far less desirable, even catastrophic for many parts of the state. A 67% increase will be the final straw for many businesses. There are many steps the Governor and Legislature can take that will grow our economy and spur more and better-paying jobs for New Yorkers. When New Yorkers are given the opportunity to learn more about this issue, they will agree that while this policy is good-intentioned, it is politically driven and wrong for our state and its people.

Sources:

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Crains Forum on the \$15 minimum wage.

Long Island Association paper re: lost jobs from \$15 minimum wage

Analyses by the Fiscal Policy Institute.

Empire Center testimony at State Senate Labor Committee hearing.

Business Council testimony at State Senate Labor Committee hearing.

SEIU President Gresham testimony at State Senate Labor Committee hearing.