



*Submitted Testimony*

## **NEW YORK STATE LEGISLATURE**

### **Senate Finance Committee Assembly Ways & Means Committee**

Senator Catherine Young, Chair  
Assembly Member Herman Farrell, Chair

### **HEARINGS ON THE 2016-17 EXECUTIVE BUDGET PROPOSAL: WORKFORCE DEVELOPMENT**

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Good morning chairs Young and Farrell and members of the fiscal committees. My name is Michael Kink, and I serve as the Executive Director of the Strong Economy for All Coalition. Thank you for the opportunity to present testimony today.

Strong Economy for All is a labor-community coalition working on issues of economic fairness, jobs, income inequality and effective government policies to promote broad prosperity.

We are made up of some of New York's most engaged and effective unions and community organizations, including SEIU Locals 1199 and 32BJ; the United Federation of Teachers, New York State United Teachers and the Professional Staff Congress of CUNY, NYSUT; the Retail, Wholesale and Department Store Union and the Communication Workers of America; the New York City Central Labor Council, the Municipal Labor Committee and the state AFL-CIO; and community groups including the Coalition for the Homeless, Citizen Action of New York, Make the Road New York, New York Communities for Change and the Alliance for Quality Education.

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Strong for All was established to fight for policies and programs that will address New York's worst-in-the-nation income inequality, and we'd like to say clearly and directly that boosting the paychecks of 180,000 fast food workers throughout New York with a \$15 base minimum wage for the sector will fight poverty and reduce inequality.

I will focus my testimony today on three key points:

- Need for action on low wages to boost the New York economy;
- The positive impact of higher wages on jobs and economic growth in other parts of the country;
- Ability of low-wage industries to transition away from poverty-level wages to livable wages.

## **GOVERNOR CUOMO'S \$15 WAGE PLAN WILL ADDRESS THE BIGGEST PROBLEM IN THE AMERICAN ECONOMY: LACK OF WAGE GROWTH**

The constitutional and statutory tools created to help New Yorkers during the depths of the Great Depression have proved powerful and effective in the decades since; and they may be more necessary than ever today.

According to UC Berkeley economist Emmanuel Saez, ninety-five percent of all income gains since the start of the recovery have accrued to the top 1 percent of U.S. households.<sup>1</sup>

Lack of wage growth is, according to leading economists, the biggest problem in the American economy – for fairness, certainly, but also for growth and broader prosperity.

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Bloomberg News said, “When it comes to U.S. economic growth, wages may never have been this important.”

The link between earnings and consumer spending has been tighter in this expansion than in any other since records began in the 1960s, according to calculations by Tom Porcelli, chief U.S. economist at RBC Capital Markets LLC in New York.

Wages have become even more critical as households, still shaken after being caught with too much debt when the recession hit, remain unwilling or unable to tap home equity or let credit-card balances balloon to buy that new television or dishwasher. By not overextending themselves again, Americans are only spending as much as their incomes will allow, meaning that **70 percent of the economy is riding on how fast pay rises.**

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<sup>1</sup> <http://eml.berkeley.edu/~saez/saez-UStopincomes-2012.pdf>

“In an environment where credit is not being used in a material way, the fate of wages matters,” Porcelli said. “They’re doing all of the driving from a consumption perspective.”<sup>2</sup>

Reporting on a recent jobs report, the New York Times said, “One consistently dark patch in the recovery has been the sluggish growth of wages. It suggests that the economy is still far from returning to its potential and is a big factor behind the sense among many Americans that the recovery has largely left them behind.”<sup>3</sup>

Market Watch reports, “Many economists are mystified by sluggish wages...”

The U.S. probably cannot reach or exceed 3% annual growth in gross domestic product unless wages pick up, giving consumers more money to spend. Consumer spending accounts for more than two-thirds of U.S. economic activity.”<sup>4</sup>

According to the Economic Policy Institute, workers’ share of profits and productivity has not recovered since the economic collapse in 2008.

Slow wage growth is a key sign of how far the U.S. economy remains from a full recovery. On some fronts, the economy is steadily healing from the Great Recession. The unemployment rate is down, and the pace of monthly job growth is reversing some of the damage inflicted by the downturn. But the economy remains far from fully recovered.

A crucial measure of how far from full recovery the economy remains is the growth of nominal wages (wages unadjusted for inflation). Nominal wage growth since the recovery officially began in mid-2009 has been low and flat.

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<sup>2</sup> <http://www.bloomberg.com/news/articles/2015-03-20/wages-haven-t-been-this-crucial-to-u-s-economy-in-half-century>

<sup>3</sup> <http://www.nytimes.com/2015/03/07/business/economy/jobs-report-unemployment-february.html>

<sup>4</sup> <http://www.marketwatch.com/story/worker-wage-growth-still-weak-despite-hiring-surge-2015-05-08>

This isn't surprising — the weak labor market of the last seven years has put enormous downward pressure on wages. And this remains true even as a jobs recovery has consistently forged ahead in recent years.<sup>5</sup>

The Economist reports, "Inflation-adjusted wages for typical workers are stagnant. In fact, they have barely grown in the past five years; average hourly earnings rose 2% year-on-year in February of 2015: about the same as in February of 2010."<sup>6</sup>

And finally, the McKinsey & Company "Outlook for Global Growth in 2015" says that stagnant wages are a key hurdle that must be overcome for the United States economy to grow.

The **US economy** has momentum from stronger-than-expected growth at the end of 2014. Consumer sentiment and trade activity increased, the unemployment rate fell to 5.6 percent in January, and financial markets benefited from upbeat investor sentiment. However, retail sales dipped in December, and real wages continued to stagnate. The US economy has overcome a number of hurdles to see its way clear to a deeper and stronger recovery: the range of growth forecasts exceeds 3 percent for 2015.<sup>7</sup>

It's very clear: for the American economy to hit full stride, wages have to rise. Wage growth isn't bad for the economy – it's good for the economy, it's actually essential for economic growth.

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A \$15 minimum wage will provide a shot of growth for local economies around the state – New York City Comptroller Scott Stringer testified in New York City that the recent fast-food \$15 wage ruling will give the City economy a \$1.3-billion-a-year boost. A

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<sup>5</sup> <http://www.epi.org/nominal-wage-tracker/>

<sup>6</sup> <http://www.economist.com/blogs/economist-explains/2015/04/economist-explains-12>

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[http://www.mckinsey.com/insights/economic\\_studies/the\\_outlook\\_for\\_global\\_growth\\_in\\_2015](http://www.mckinsey.com/insights/economic_studies/the_outlook_for_global_growth_in_2015)

statewide \$15 wage will give multi-million dollar boosts to other local economies around the state.

## **AREAS WITH HIGHER MINIMUM WAGES SEE MORE JOB GROWTH**

Business leader Nick Hanauer testified before you in New York City and said: “the fundamental law of capitalism is: when workers have more money, businesses have more customers, and need to hire more workers. In places where wages are high, business is good, particularly for restaurants.”

It’s a fact: in San Jose, San Francisco, SeaTac and Seattle, higher wages have led to faster economic growth and more jobs, not less, as our colleagues at the National Economic Law Project have testified:

**SAN JOSE SEES FAST JOB GROWTH:** In San Jose, *The Wall Street Journal* reported, “Fast-food hiring in the region accelerated once the higher wage was in place. By early this year, the pace of employment gains in the San Jose area beat the improvement in the entire state of California.”<sup>8</sup>

**SAN FRANCISCO JOBS GROW 17%:** In San Francisco, a University of California study found, as reported by *Bloomberg Business*, that after the city phased in what was at the time the highest minimum wage in the nation, “[a]mong food-service workers, who are more likely to be affected by minimum-wage laws, employment grew 17.7 percent in San Francisco, faster than either of the other [neighboring] Bay Area counties.”<sup>9</sup>

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<sup>8</sup> Eric Morath, “What Happened to Fast-Food Workers When San Jose Raised the Minimum Wage? Hold the Layoffs”, *Wall Street Journal* (April 9, 2014).

<sup>9</sup> *Bloomberg Business*, “San Francisco’s Higher Minimum Wage Hasn’t Hurt the Economy,” (Jan. 22, 2014), available at <http://www.bloomberg.com/bw/articles/2014-01-22/san-franciscos-higher-minimum-wage-hasnt-hurt-the-economy>. Michael Reich, Ken Jacobs & Miranda Dietz (eds.), *When Mandates Work: Raising Labor Standards at the Local Level*, Univ. of Calif. Press (2014), at 31, available at <http://irle.berkeley.edu/publications/when-mandates-work/>; “S.F. praised as model for U.S. on increasing minimum wage,” *SF Gate* (January 28, 2014),

SEATAC SEES HIRINGS, NOT FIRINGS: In SeaTac, Washington, *The Puget Sound Business Journal* reported, “none of these dire warnings [of business closures or job cuts] have come to pass.” *The Washington Post* reported that a major hotel that predicted it would have to lay workers off instead decided to expand.<sup>10</sup>

SEATTLE SEES MORE FOOD SERVICE BUSINESSES: In Seattle, the number of food service businesses increased in the first month after the higher minimum wage took effect, continuing its growth trend of recent years.<sup>11</sup> After phase-in of Seattle’s new \$15 minimum wage, the unemployment rate hit an eight-year low of 3.6% this past August. Business owners who had publicly opposed the \$15 minimum wage are now in the process of expanding operations, and news reports have heralded their thriving restaurant industry as evidence.

The facts on the ground in other cities and states – facts that must be part of the record as the Legislature considers these issues – demonstrate that higher wages, stronger economic growth and more jobs go together, period.

## **INDUSTRY TRANSITION TO \$15 WAGE COULD BE SMOOTH AND PROFITABLE**

And as the National Employment Law Institute has testified, the low-wage industries can and will transition to higher wages without significant disruption or diminution in profits.

In addition to the evidence from other regions of the U.S. that have successfully phased in minimum wages of up to \$15, economic modeling by University of Massachusetts researchers

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available at <http://www.sfgate.com/politics/article/S-F-praised-as-model-for-U-S-on-increasing-5183378.php>

<sup>10</sup> <http://www.bizjournals.com/seattle/blog/2014/12/once-controversial-15-an-hour-minimum-wage-now-a.html>; [http://www.washingtonpost.com/opinions/dana-milbank-no-calamity-yet-as-seatac-wash-adjusts-to-15-minimum-wage/2014/09/05/d12ba922-3503-11e4-9e92-0899b306bbea\\_story.html](http://www.washingtonpost.com/opinions/dana-milbank-no-calamity-yet-as-seatac-wash-adjusts-to-15-minimum-wage/2014/09/05/d12ba922-3503-11e4-9e92-0899b306bbea_story.html)

<sup>11</sup> <http://www.ritholtz.com/blog/2015/04/a-pizza-place-closes-in-seattle/>



provides a road map for how New York's fast food industry could manageably transition to a \$15 minimum wage.<sup>12</sup>

The UMass study indicates that this transition could be achieved without any reduction in employment and with only modest price adjustments – and without necessarily any reduction in profits.

According to this study, a combination of increased revenue from the fast food industry's projected 2.5 percent annual growth in sales, increased revenue from modest 3% annual price adjustments, and significant savings from the reduced employee turnover that higher paying fast food employers are likely to see, could fully cover the cost of a \$15 minimum wage for fast food workers nationally. This would translate to just a 12 cent annual increase in the price of a Big Mac.

Moreover, this model does not assume any reduction in franchisor or franchisee profit levels. Any such reductions would further smooth the transition and reduce the other identified impacts.

Moreover, it is worth highlighting that the transition would be even easier in New York than this national modeling indicates, since fast food wages are currently slightly higher in New York than nationally, and sales are stronger.

A \$15 minimum wage for fast food in New York will reduce poverty, help families, boost the state and local economies and can be accomplished smoothly and profitably by the sector.

The Strong Economy for All Coalition recommends that the Legislature approve Governor Cuomo's plan for a transition to a \$15 an hour statewide minimum wage to provide a necessary adjustment to worker wages and a beneficial bump to the New York economy.

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<sup>12</sup> Robert Pollin and Jeannette Wicks-Lim, "A \$15 U.S. Minimum Wage: How the Fast-Food Industry Could Adjust Without Shedding Jobs," University of Massachusetts Amherst Political Economy Research Institute Working Paper Series Number 373 (2015).

