

August 14, 2007

Honorable Robert E. Belfanti, Jr.
Chairman
House Labor Relations Committee
Room 30 East Wing
Harrisburg, PA 17120-2107

Dear Bob:

On behalf of the Pennsylvania Chamber of Business and Industry and its more than 24,000 members and customers, thank you for the invitation to participate in the House Labor Relations Committee's upcoming hearing on House Bill 1680 which would provide for an annual cost-of-living increase in Pennsylvania's minimum wage. With regrets, please accept these comments in lieu of our attendance.

As we all know, Pennsylvania increased its minimum wage last year from \$5.15 per hour to \$7.15 per hour by Act 112 of 2006 (Senate Bill 1090), making the Commonwealth one of numerous states to exceed the federal minimum wage standard. This increase, or "small business tax," will cause the loss of over 10,000 jobs, costing those workers over \$87 million in income and raising the labor costs to Pennsylvania businesses by over \$263 million.

This effort was contrary to the Chamber's policy of seeking employment laws and regulations that are consistent with other states and allow for flexibility in the marketplace rather than government-imposed mandates. To that end, the Chamber opposes additional measures, such as House Bill 1680, which would provide for an annual cost-of-living increase in the minimum wage at the state level.

During the debate over Act 112, the Chamber repeatedly said that, in addition to destroying jobs and having a "ripple" effect on the economy, any attempts to increase the state's minimum wage will cause employers to consider a number of options that can be taken to offset the pay increase. In addition to reducing the size of their workforce or not hiring as many additional workers, employers could also reduce the number of hours worked by some of their employees. Employers may also respond to an increase in the minimum wage in ways that do not involve adjusting employment levels or hours. For example, some employers might reduce training, health care coverage, or fringe benefits or may not add new benefits to attract and retain workers.

However, supporters of having the government, not the private market, determine wage rates frequently touted that there had been no solid evidence supporting these claims. Yet as

predicted by many business groups, Pennsylvania employers are reacting to the recent increase in the state's minimum wage by hiring fewer unskilled workers, not hiring new employees and even reducing the number of people they employ. The hike in the minimum wage, intended to help lower paid workers, is actually having the effect of reducing job opportunities for unskilled labor.

According to the Lincoln Institute's spring 2007 Keystone Business Climate Survey, 27% of the businesses surveyed said they decided not to hire teen or inexperienced workers as a result of the minimum wage increase. Another 26% said they were now not hiring new employees. Twelve percent of the respondents said they cancelled or postponed expansion plans due to the inability to afford the new government mandated wage, six percent said they cut their hours of operation, and another two percent had to actually lay off employees due to the minimum wage hike.

Specifically, just ask the roughly 70 Kennywood Park employees who were laid off as a result of the recent increase in the state's minimum wage. The southwestern Pennsylvania amusement park was forced to lay off these workers – largely high school and college students – and raise ticket prices, to make up for increased labor costs. Another 20 workers were laid off at a nearby Idlewild Park. Other examples include the following:

- The fitness chain store operator in the Lehigh Valley who laid off 100 part-time workers;
- The central Pennsylvania business that reduced its work force by three “marginal” workers; will attempt to automate additional work and will consider a reduction in health-care benefits;
- The central Pennsylvania business that runs an apprenticeship program for engine repair had to reduce available opportunities to just one;
- The large multi-state food retailer that will raise prices to consumers to cover additional costs;
- The eastern Pennsylvania-based retailer that cut hours back in its stores and still surrendered profits;
- The western Pennsylvania manufacturer that laid off two employees, and;
- The business owner with a young family who must now work 10 to 15 more hours a week at his pizza shop because he cannot afford the financial hit of the increased minimum wage.

As you can see, the arguments we made during the debate were not philosophical as some indicated. Rather, they were practical concerns that both employers and consumers had but government did not understand. When the price of a good or service increases, consumers who cannot absorb the increase outright either limit their purchasing; find a way to fit the higher cost into their budget; or stop purchasing that good or service altogether. It's no

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different for employers faced with higher costs of running a business, in this case, added labor costs. Impacted employers unable to absorb the wage hikes that went into effect in January and July had little choice but to pass the cost on to consumers; reduce hours or benefits for employees; lay off workers; or freeze hiring. More may be forced to do the same should a proposal like House Bill 1680 be enacted.


The philosophy that Pennsylvania can mandate itself into prosperity is flawed because it fails to recognize that the money to pay for government mandates, such as artificial wage rates, has to come from somewhere. When those mandates fall on job creators, the options for paying for them are limited. Are there Pennsylvanians who benefited from the minimum wage increase? No doubt. But either directly or indirectly, many Pennsylvania consumers and workers were and still could be negatively impacted by the government's refusal to let the market and competition for workers dictate wage rates.

Pennsylvania cannot mandate itself into prosperity. Economic prosperity does not come from government mandates, but rather from a free market within an environment of, among other things, limited and efficient regulation and balanced labor laws. Pennsylvanians will be best served in the long-term if elected officials recognize government's true role. Without employers, there are no jobs. If Pennsylvania truly wants to help people, it should reduce the barriers and mandates placed on employers that inhibit job creation.

We hope that the General Assembly realizes Act 112's negative impact on the business climate and will think twice about advancing similar measures, such as House Bill 1680, that would further damage Pennsylvania's ability to attract and retain job creators by further escalating the costs of doing business.

Again, thank you for the opportunity to submit our comments.

Sincerely,

A handwritten signature in black ink that reads "Brian Kelly". The signature is written in a cursive, slightly slanted style.

Brian W. Kelly
Director, Government Affairs