

February 7, 2017

TO: RI House Committee on Finance
FROM: RI Center for Freedom & Prosperity, Mike Stenhouse
SUBJECT: Article 20 – Minimum Wages

Chairman Abney and House Committee on Finance members: As CEO for the RI Center for Freedom & Prosperity, a non-partisan research and advocacy organization, and with a degree in Economics from Harvard University, I would like to provide some background re. **Article 20**, of the Governor's proposed budget, before your committee today. As a 501-C-3 organization, our Center is not allowed to specifically advise you to support or oppose any piece of legislation. However, we are allowed to discuss our research and perspectives with regard to its underlying premise.

Our Rhode Island Center for Freedom & Prosperity believes that every Rhode Islander who strives to work hard should be able to earn enough income to support themselves and their families. The question, of course, is how employment for those at the bottom of the income ladder can meet that productive goal. Regarding the many proposals you will consider today and this session to raise the minimum wage to \$10.50 or higher, the Center recommends that expansion of Rhode Island's Earned Income Tax Credit (EITC) as a **superior alternative**.

As you may be aware, RI ranked **48th the 2016 Family Prosperity Index (FPI)**, the broadest national research ever conducted on the issue of overall family well-being. One of the FPI's most critical lessons is that when more families have more family members working, family and societal well-being are enhanced. It is not a good tradeoff to see fewer people are working, even if at a slightly higher-wage.

Also according to FPI, when considering ALL (U1-U6) unemployment factors, our Ocean State ranks LAST.

Yet, hiking the minimum wage will cost jobs for many of the people it is intended to help, as it will further weaken Rhode Island's already last place business climate and unemployment problem. Unless you purposefully decide to ignore the accepted economics of supply and demand, higher-priced labor can only lead to LESS of that labor.

MINIMUM WAGE MYTHS. A past research report by our Center showed that the vast majority of people who would receive a raise under a minimum wage hike are not the low-income, minority, or primary family breadwinners that supporters of the hike would like you to believe. Indeed, based on that **2013 report**, of minimum wage workers in the Ocean State:

- **Only 14% were primary breadwinners.** Overall, 80% were white, with 71% as part-time workers, most were teens or were a secondary family income-earner. \$61,000+ was their average family income.

- A major hike could **destroy thousands of jobs** in our state, many of whom would be low-income breadwinners who are most in need of opportunities for upward mobility; and would be a negative drag on the economy.

Not an economic stimulus. It is a false argument that increased minimum-wage mandates are an economic stimulus. If this were true, our state would be performing much better than it is. More to the point, it is a bogus notion that workers spending money is more of stimulus than business owners spending that same money. Further, as business owners will lay off employees or cut back on part-time hours when the minimum wage is raised, this means the total amount of money paid to such workers will be less than advocates imagine.

Makes us LESS competitive: it is also a false notion that a minimum wage hike keeps RI competitive with our neighboring states. In fact, it is a LOWER cost-of-labor that makes a state MORE competitive and more attractive to employers; employers our state desperately needs.

EITC; a WIN-WIN. Conversely, expansion of the EITC tends to be an incentive to work more hours, and as opposed to most other public assistance programs, can put families on a path to economic independence, without risking opportunities for work. Combined with other public assistance programs, more families can rise out of poverty when more family members are working.

Union Benefit? The Center also questions the motives of local labor unions, who are ardent supporters of a minimum wage hike. Unlike unions' stated claims of helping low-income workers, according to a **Wall Street Journal article**, many union workers, who already earn far above the minimum wage, have wage rates that are pegged to the national or state minimum wage í meaning that an increase to the minimum wage may also mean a raise for many of their middle- or high-income members. **I encourage committee members to inquire** of any labor leaders who may testify to disclose whether any of their collective bargaining agreements contain such a provision.

Our Center's Recommendation: Pass EITC expansion and leave Rhode Island's minimum wage where it is. As EITC expansion aids low income families without the risk of job loss and without directly harming small businesses, our Center recommends a pro-family AND pro-growth solution that enhances family income without risking jobs for the very people you are intending to help.

Thank you. If I can be of service, please contact me at mstenhouse@RIFreedom.org or 401.429.6115.