BRIEF 4

Monitoring THE Minimum Wage

MAY 2018

The *Monitoring the Minimum Wage* brief series is produced by The Workforce Field Building Hub (The Hub), a signature initiative of New York City-based Workforce Professionals Training Institute. This project provides resources gleaned from economic research and insights from local businesses and community-based organizations designed to help workforce practitioners and their public and philanthropic funders respond to the opportunities and challenges posed by the increasing minimum wage. This brief was prepared by Stacy Woodruff, Director of The Hub, and Hub Senior Fellow Dr. James Parrott, a long-time NYC labor market analyst and policy expert who also serves as Director of Economic and Fiscal Policy at the Center for New York City Affairs at The New School.

BRIEF 4:

How Are Businesses Adapting to the Increasing Minimum Wage?

by Stacy Woodruff and James Parrott

Businesses and workers experience a minimum wage change differently, and alter their behavior accordingly. The second brief in the *Monitoring the Minimum Wage* series summarized research on what is likely to happen as the minimum wage rises, and noted the research on what is predicted to happen in New York State. In the early stages, businesses might see reduced turnover and improved worker morale, but many businesses that hire a lot of lower-paid workers have to seriously adapt their operations to accommodate the rising minimum wage level. Some businesses might have to raise prices a little, and eventually some, particularly those whose customers include many low-wage households, will see increased sales as those households see their incomes rise.

But in a period when inflation has generally been low, sudden increases in the cost of one of the inputs essential to business operations, such as labor, can be a real challenge. As noted in earlier issues, we are in the midst of a period when the statutory minimum wage in New York City and New York State is rising steadily and in New York City will effectively double over the five-year period from the end of 2013 to the end of 2018.[1]

So how are businesses adapting to the minimum wage increase? Throughout the fall of 2017 and into early 2018, we interviewed leaders from two dozen businesses in New York City. In a city with more than 200,000 businesses, this group is far from a representative sample, but it does include businesses varying in size and ones relying heavily on low-wage workers. These conversations revealed many common themes, challenges and questions. This brief highlights several of those themes and potential implications for workforce development organizations tasked with addressing the shifting talent needs of local businesses.

Monitoring the Minimum Wage Business Stakeholders

The Field Building Hub conducted interviews and focus groups with 21 businesses from the food & beverage, manufacturing, retail, and technology industries in the fall of 2017. To identify and recruit businesses, we worked with Best for NYC; ITAC; Long Island City Partnership; and the Manhattan Chamber of Commerce; as well as Hub Advisory Committee member, David Bolotsky, Founder and CEO of Uncommon Goods. We also spoke with Shawna Trager and Abby Marquand from the New York Alliance for Careers in Healthcare, and Allison Cook and Jodi Sturgeon from Paraprofessional Healthcare Institute about the unique circumstances impacting entry-level workers in healthcare; see the Text Box on page 7 for more information. Finally, the brief includes insights shared by business representative panelists at a February 2018 event co-hosted by the Field Building Hub and the New School Center for NYC Affairs.

Competition on the Rise

Previous briefs in the *Monitoring the Minimum Wage* series noted that New York City's economy has been flourishing of late—the number of jobs has risen fairly steadily since 2010 across many industries, and wages and household incomes have been increasing for most New Yorkers in a manner that hasn't been seen in years. And since unemployment remains at a record low level—in the low-four percent range—that means businesses have to compete for workers. In addition, the number of businesses in many industries with high concentrations of workers affected by the minimum wage increase has risen faster than in other industries. As the table on page 3 shows, the number of businesses in five industries with high concentrations of minimum wage jobs grew by 13 percent from 2013 to 2017, nearly twice as great as the growth in the number of businesses in all other private sector industries.

[1]See *Monitoring the Minimum Wage* Brief 1 for the wage increase schedule.

TABLE 1: Number of establishments, NYC private, for-profit industries with high shares of minimum wage workers

Industry	% of workers affected by minimum wage increase*	2013	2017	Change from 2013-2017	% change from 2013-2017
Food service & drinking places	79.5%	19,784	23,114	3,330	16.8%
Personal services	80.5%	10,825	11,995	1,180	10.9%
Administrative services	47.5%	9,626	10,649	1,023	10.6%
Transportation & warehousing	44.6%	4,691	5,090	399	8.5%
Food manufacturing	64.8%	1,086	1,137	51	4.7%
Subtotal, these industries	*65.1%*	*46,002*	*51,985*	*5,983*	***13.0%***
Other industries	32.5%	204,333	218,456	14,123	**6.9%**

*Share of workforce affected by minimum wage increase from David Cooper, Raising the New York State minimum wage to $15 by July 2021 would lift wages for 3.2 million workers, Economy Policy Institute, Jan. 2016.

Source: NYS Department of Labor, Quarterly Census of Employment and Wages, accessed Mar. 28, 2018.

Thus, the minimum wage is rising at a time when the city's lower-paying businesses are competing for workers due to low unemployment *and* facing a more competitive environment due to the growth in the number of businesses fueled by a prospering local economy.

How Are Businesses Adapting?

The minimum wage is one of many increasing costs

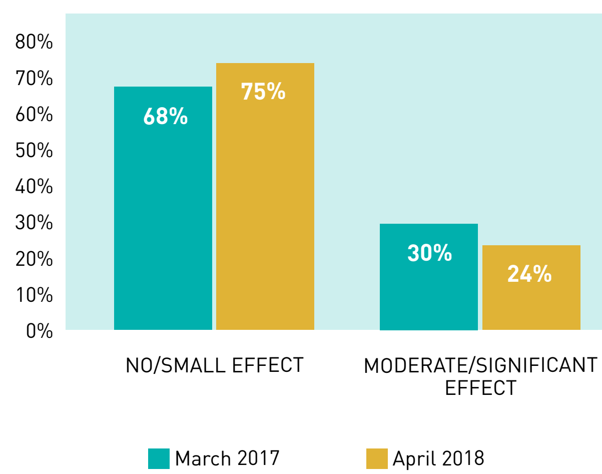
The cost of doing business includes wages, materials, real estate, regulatory compliance, and taxes, among other categories. The average cost of labor, or wages, across all industries is 22 percent, though that figure varies by industry. In food manufacturing, for example, labor costs average nearly 11 percent of total operating costs, but in restaurants, labor costs are almost 31 percent of total costs. Yet, since in every business some proportion of workers are paid above the minimum wage, and since labor costs are a fraction of total costs, total operating costs will rise much less than the increase in the minimum wage. University of California labor economist Michael Reich and colleagues estimated that by the time the minimum wage is fully implemented in New York, total operating costs will rise by 7 percent for restaurants but less than one percent for food manufacturers.

Still, among the businesses we spoke with, the increasing cost of labor due to the rising minimum wage registered as one of the most significant, at least in theory (see Text Box, below). One business representative remarked, "I've never experienced a cost increase of this magnitude from any other source of cost." Businesses varied in their ability to absorb wage increases; while a few of the businesses producing manufactured goods discussed how they could slightly boost the cost of products to consumers, nearly all those in food service felt they had limited ability to raise prices due to heightened competition. Not surprisingly, the rising cost of real estate—whether for lease or purchase—was mentioned by many of the businesses interviewed. Commercial rents as a business operating cost have been high in New York City for at least the past twenty years or more, but the sustained strength of the local expansion and extensive redevelopment throughout many of New York's neighborhoods have put added pressure on businesses in recent years.

Minimum Wage Increase Impact on Compensation Decisions

What is the impact of the minimum wage increase on the compensation of workers? The Federal Reserve Bank of New York included a supplemental set of questions pertaining to the minimum wage increase in the March 2017 and April 2018 Business Leaders Survey and Empire State Manufacturing Survey. Three-quarters of businesses surveyed responded that the most recent increase had little or no impact on compensation decisions in April 2018, compared to two-thirds of businesses responding in March 2017. Among these businesses, however, the average proportion of workers earning the minimum wage is 6.2 percent; three-quarters of those surveyed reported that no employees earn the minimum wage.

CHART 1: Has the recent increase in the minimum wage, effective January 1, had any effect on your business's decision about compensation and employment?



Source: Federal Reserve Bank of New York Monthly Business Leaders Survey. April, 2018. Accessed April 20, 2018

[2]Michael Reich, Sylvia Allegretto, Ken Jacobs and Claire Montialoux, *The Effects of a $15 Minimum Wage in New York State*, University of California at Berkeley, Institute on Labor and Employment, March 2016.

Reassessing business practices to become more efficient

An almost universal observation from the business owners and managers who were interviewed was that the aggressive schedule for increasing the minimum wage had forced them to focus on efficiency and how they could adapt their operations to adjust to the significantly higher wage levels—though strategies considered or pursued vary. They were forced to rethink how they used their workers; how to reorganize their work flow and their use of technology to increase the productivity of every hour of labor; how they might save on expenses; and whether they would be able to raise the prices they charged their customers without reducing the quantity of goods or services they sold.

Businesses discussed multiple ways in which they had already or were planning to alter business practices to accommodate the increased minimum wage. Examples of these strategies include:

- *Changing their product offerings*, such as higher-valued products or services;
- *Diversifying business functions*, for example by expanding into catering services (for a restaurant);
- *Automation* of some processes, though most mentioning this option made clear that automating functions would not be easy, swift to implement, or inexpensive;
- *Reducing hours*, or eliminating overtime;
- *Paring down the workforce* by holding off on making new hires or by not replacing employees that leave; and
- *Raising prices*, though each business varied in its ability to "hide" the cost of the minimum wage increase in its product before impacting demand.

In addition to changes in business practices, some of those interviewed did speak about efforts to reevaluate current job descriptions, recruitment strategies, and investments in retaining and supporting employees.

Business responses: Raising prices

It appears that one of the ways the city's restaurants have been responding to the minimum wage increase is by slightly increasing their prices, as suggested might be the case in the Berkeley model described in Brief 2. Over the past four years the consumer price index (CPI) for restaurant meals in the New York City metro area have been rising about 3.25 percent annually, about 1.75 percent faster than the overall CPI. This is in contrast to the four prior years, before the increase in the minimum wage, when restaurants prices increased at the same pace as the overall CPI.

Analysis of Bureau of Labor Statistics Consumer Price Index data by James Parrott, The New School Center for New York City Affairs, April 2018.

Wage compression—what to do about those earning $15 to $20 per hour?

Several employers expressed concern about the impact on the morale of workers currently earning $15, $16, or even $20 per hour, often workers with longer tenures or in more senior roles than the direct beneficiaries of the rising minimum wage. Business representatives interviewed mentioned this conundrum in nearly every interview, using terms such as "cascading effect" or "wage compression". This is a very real phenomenon.

[3] Jesse Rothstein and Diane Schanzenbach, "What Does the Seattle Experience Teach Us About Minimum Wages?" Econofact, August 7, 2017; and Arindrajit Dube, "Minimum Wage and Job Loss: One Alarming Seattle Study Is Not the Last Word," The New York Times, July 20, 2017.

Many employers described a zero sum situation in which wages will increase for those earning below $15 per hour in compliance with the law, leaving little or no capacity to raise wages for those currently earning slightly more than the minimum. While increased wages for those benefiting from the legislated minimum is expected to boost morale, they worry about the commitment of those not benefiting from an automatic wage increase.

Management challenges increase with each additional step-up in the minimum wage

A common refrain throughout interviews held that the increase from $11 to $13 per hour—the rate increase that took place on December 31, 2017 for businesses with 11 or more employees—would pose some challenges or require some adjustments. Some businesses began the ramp up in advance of the official increase, determining on their own timeline how to incorporate the additional cost of labor into the business model. Additionally, businesses felt that by proactively raising the minimum wage before it was required, they would recruit a higher caliber candidate in terms of work experience, production and turnover.

The increase from $13 to $15 per hour at the end of 2018, however, feels like uncharted territory. Multiple businesses cited calculations of how much it will cost to implement wage increases for those employees currently earning less than $15 per hour—much less any adjustments necessitated by wage compression. One food service business estimates the annual cost of increasing wages for approximately 60 employees, one-third of the workforce, at half a million dollars.

The special challenges facing nonprofit employers

Nonprofit employers and service providers dependent on government reimbursements face a different set of challenges than for-profit businesses competing with other businesses. Nonprofits that provide public human services, such as foster care services, depend on the revenue they receive under government contracts to cover their costs. Since their services are largely labor-intensive and often involve work caring for young children or senior citizens, there are limits to the use of equipment and technology to increase productivity. Nonprofit service providers don't sell their services so they cannot adjust their prices. Their workers are covered by the minimum wage increases so these organizations rely on city, state and federal governments to increase the amounts in their contracts to enable them to pay higher wages.

New York City is in the process of adjusting its human services contracts with nonprofits in response to the minimum wage increases. The State has adjusted Medicaid reimbursement rates for home health aides and direct care providers, and authorized a modest wage increase for state human services contracts in the recently enacted FY 2019 state budget. However, some smaller nonprofits with low-wage service or advocacy staff not assigned to government contracts may be reliant on philanthropy to help cover increased labor costs.

And then there's healthcare

The healthcare industry includes a fair number of occupations paying entry-level wages just above the minimum wage—including pharmacy aides and technicians, medical assistants, and dental assistants—but the number of positions is relatively small. However, home care aides constitute the largest category of workers in healthcare, and the occupations—including home health and personal care aides—pay, with few exceptions, the minimum wage regardless of experience. More than 200,000 home care aides currently work in New York City[4], and the number of openings each year averages over 11,000, far greater than in any other single occupation.[5] The position is held in large part by females of color, many of whom are foreign born. Home care aides provide personal assistance and health care support to older adults and people with disabilities in home and community-based settings.[6]

Many healthcare services are covered through third party payer systems, such as private insurance, Medicare, and Medicaid, the main source of payment for home care services.[7] States establish reimbursement rates through the Medicaid Managed Long Term Care program, which are intended to cover wages and benefits paid to home care aides, as well as administrative fees paid to the Managed Care Organizations (MCO) that coordinate home care aide services. Though the rates have increased annually to account for the increasing minimum wage in New York State, they still barely covers costs and provide little to no leeway to pay more than the minimum wage due to the previous rate inadequacies.

With razor thin margins, how are home care agencies adjusting behavior? Many are taking a closer look at scheduling practices for potential cost saving, for example, by closely managing schedules to avoid paying overtime and reducing the distance and time between appointments since home care agencies are required to compensate home health aides for travel time. Others are exploring the use of technology such as tablets to transmit reports and even remote monitoring options for some populations. The savings, however, from use of these technologies are more likely to accrue to hospitals than to home care agencies. Home care aides, in response, commonly work for more than one agency as a strategy for increasing hours worked and wages earned.

Continued advocacy for reimbursement rates—at the federal and state levels—more reflective of the full costs of healthcare service provision will be needed. Advocacy efforts focused on two strategies to address the issue are emerging: 1) establishing a higher reimbursement rate to plans for clients requiring more intensive or continuous care; and 2) calling on the state to set higher baseline reimbursement rates inclusive of the full cost of care, including home care aide wages and benefits.

[4] New York State Department of Labor, Occupational Wages, New York City. https://labor.ny.gov/stats/lswage2.asp

[5] New York State Department of Labor, Short-Term Occupational Employment Projections (2016-2018), New York City. https://labor.ny.gov/stats/lsproj.shtm.

[6] PHI. 2017. *U.S. Home Care Workers: Key Facts*. https://phinational.org/wp-content/uploads/2017/09/phi_homecare_factsheet_2017_0.pdf

[7] The Veterans Administration and some long-term care insurance also cover some home health aide services.

The Workforce Field Building Hub (The Hub) is a New York City-wide resource that brings together key leaders from across the interdisciplinary and diverse New York City and national workforce community to identify common issues and solutions to build the field of workforce development. For more information, visit http://thehub.workforceprofessionals.org

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Conclusion

Local companies are constantly adjusting business practices to accommodate changes in the cost of doing business, the increasing minimum wage being one of those factors. The businesses we spoke with pointed to current and likely future efforts to make operations and staffing more efficient—changes that will impact low income workers in ways small and large. The unprecedented rate of increase in the minimum wage will require continued monitoring of how businesses are reacting to the change; without such touch points, policy makers in New York State and New York City will lack the information needed to develop strategies and adjust policies when and if the increases lead to unanticipated or negative outcomes. Furthermore, such monitoring is critical for shaping how workforce development providers prepare job seekers for employment.

The Workforce Field Building Hub would like to acknowledge Sandy DeShong, who conducted most of the business interviews and focus groups that informed this brief.

The next issue of *Monitoring the Minimum Wage* will take a closer look at how the increases are affecting job quality.