Testimony before the Mayor's Working Group on Jobs, Wages and Benefits

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November 9, 2016

Good evening and thank you for the invitation to participate in today's hearing. My name is David Madland and I am a Senior Fellow at the Center for American Progress Action Fund. The Center is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans, through bold, progressive ideas, as well as strong leadership and concerted action.

As you all may know, American workers are not benefiting much from their contributions to their firms' profits and the country's economic growth. Economic output per person has nearly doubled over the past four decades, but the vast majority of these gains have gone to those at the very top.[1] Wages for the typical private-sector worker, adjusted for inflation, are still about where they were in the 1970s, even as inequality and corporate profits are at near record levels.[2]

The basic outlines of these problems are well-known, but the specific facts are still shocking. In 1973, the typical CEO of the top publicly traded companies made around $1.1 million, or about 22 times what the typical worker made.[3] Today, the average CEO makes $15.5 million, or about 275 times what the typical worker makes.[4] CEO pay increases have been astronomical, but others near the top have also seen sharp income gains—with incomes for the richest 1 percent more than tripling over the past four decades.[5] In stark contrast, incomes for the bottom 90 percent have grown by just more than 2 percent in that same time span.[6] Not surprisingly, the share of the nation's total income that the middle class receives is about as low as it has ever been, and the share of income going to the top 1 percent is approaching record heights.[7] The U.S. economy has become much more productive over recent decades, but most workers have not received much, if any, of these gains.[8]

And Washington DC is even more unequal than most states across the nation. In DC, the average family in the top 1 percent makes more than 24 times more than the average family in the bottom 99 percent – the 11th highest ratio in the country if ranked with the states.[9] A DC worker at the 10th wage percentile earns $11.49/hour. A DC worker at the 90th percentile earns $72.98 per hour – over six times as much.[10] This is a higher wage disparity than any U.S. state. DC households in the bottom quintile by income saw a large boost in incomes in 2015 as the minimum wage ticked upwards, growing 23 percent from 2014, but the average household income in the bottom quintile is still just $11,486.[11]

Strengthening and Growing the Middle Class

A wide range of reforms are necessary to strengthen and grow the middle class including improvements in education, a stronger safety net, tighter labor markets, as well as high workplace standards and strong unions.

Some of the testimony in previous hearings has focused on educational attainment, strengthening the safety net, and full employment. As important as these policy goals are, they are not a substitute for raising workplace standards and strengthening worker voice; rather, they are complements.

Education is of course vitally important for a productive economy and for the development of human potential, but boosting college graduation rates is no panacea for the wage crisis America faces. First, it would take a very long time to significantly increase educational levels so that most of the population had anywhere close to a college degree. Broad educational gains tend to come from younger generations gaining more education and replacing older ones rather than a big uptick in adult education, which means that any societywide wage benefits from increased educational attainment are likely to take generations to work their way through the system.[12] Further, even if by magic all workers immediately gained a college degree or the equivalent level of workforce training, a huge share of jobs—from home health aides to waiters, janitors, bus drivers, and crane operators—would not actually require such high levels of education, strongly suggesting that big wage gains would be unlikely for large swaths of the population.

Most damning is the fact that in recent years, and especially since the Great Recession, even workers with a college degree are seeing very little wage growth.[13] Wages for young college graduates are less than what they were in 2001 in real terms.[14] Even workers with advanced degrees have, on average, seen their real wages barely grow since the Great Recession.[15] As Lawrence Summers, Harvard economist, former chief economic advisor to President Barack Obama, and CAP Distinguished Senior Fellow and his co-authors Brad Hershbein and Melissa Kearney explain, "increasing the share of working-age men that have college degrees will do very little to decrease the overall level of earnings inequality."[16]

Similarly, government redistribution, increasing taxes on the very rich, and raising benefits for the poor and middle class is something that we need to do, but it is not a stand-alone solution. Social welfare programs play a key role in making a just and efficient society and need to be made more robust. Most every advanced country does more to reduce inequality through their safety nets than the United States does, and we can learn from their efforts.[17] But addressing stagnant wages primarily through government redistribution does not seem particularly desirable. There is a dignity in earning a living wage that is hard to replace.

Moreover, the ability for governments to undertake significant redistributive programs is contingent on a strong labor movement. Unions and their members provide the political support necessary for progressive taxation and spending.[18] Finally, a redistribution-only plan would have a hard time achieving the necessary scale. As a thought experiment, consider the cost of boosting middle-class market incomes to where they would be if they had grown with productivity over the past 25 years. This would require redistributing about 70 percent of after-tax incomes of those in the top 5 percent of U.S. households to the bottom 80 percent.[19] This thought experiment should make it clear that a redistribution-only strategy would be very costly and likely to create a host of problems. As Anthony Atkinson, a professor at the London School of Economics, explains, "Today's high level of inequality can be effectively reduced only by tackling inequality in the marketplace." Doing so, according to Atkinson, would "render less unequal the incomes people receive before government taxes and transfers."[20] Therefore, we should make the market work for most people and "pre-distribute" incomes through wages, not just redistribute incomes after the fact.

Full employment is also a goal that policymakers should pursue because it means that more people have jobs and workers have greater ability to negotiate for higher pay. Since 1979, however, the labor market has only been tight enough to raise wages for most workers just 30 percent of the time.[21] Workers should not have to wait for such a rare event to get a raise. Further, as Robert Gordon, an economist at Northwestern University, argues in his book *The Rise and Fall of American Growth*, one of the greatest productivity booms in U.S. history was due in part to the combination of full employment and union voice.[22] As Gordon explains, productivity growth was much faster between 1930 and 1950 than it has been since. That growth, in part, was because the National Labor Relations Act gave workers a voice to increase their wages and because the demands of World War II helped lead to full employment, which forced firms to innovate and learn by doing to become more efficient. Tight labor markets and worker voice complement each other to raise wages and increase productivity.

In short, education, redistribution and full employment play critical roles in getting where we need to go, but they are not replacements for high standards and worker voice.

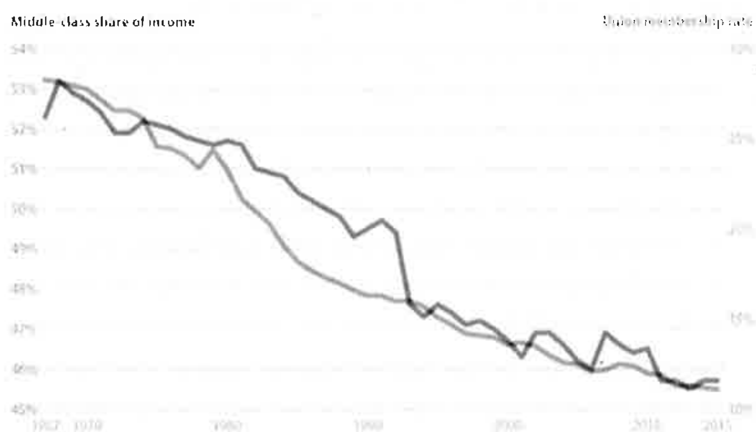
The Importance of Unions to the Middle Class

In the United States today, less than 7 percent of private-sector workers are union members, as low as union density has been since the National Labor Relations Act was passed in 1935 and down from roughly one-third of private-sector workers in the 1950s.[23] This matters to all of us because a strong collective voice for workers increases wages and strengthens the middle class.

Workers in the United States who bargain collectively earn wages that are about 14 percent higher than comparable workers and are significantly more likely to have employer-provided health and retirement benefits.[24] When unions have sufficient density, these gains can also lead to significant wage increases for nonunion members.[25] Much of the sharp decline in the number of people earning middle-class salaries over recent decades—defined as those who make between 67 percent and 200 percent of median earnings—is explained by the decline in union membership.[26] And over U.S. history, there has been a close correlation between the share of the nation's total income going to the middle class and the share of workers who are union members, as can be seen in Figure 1 below. Indeed, about one-third of the increase in male wage inequality in the United States over recent decades is due to the weakening of unions, according to research by Harvard's Bruce Western and Washington University's Jake Rosenfeld.[27]

FIGURE 1

In recent decades, the middle-class share of income has fallen alongside the union membership rate



Countries with stronger unions—such as Canada, Australia, and Sweden—not only have less inequality than the United States but have also been able to deliver significant wage gains for the majority of their populations over the past few decades.[28] Research that compares countries across the world consistently finds that collective voice increases incomes at the middle and bottom of the income distribution and reduces income inequality.[29] Economists David Blanchflower of Dartmouth College and Alex Bryson from University College London examined union wage premiums in 17 countries and found an average union wage bump of roughly 12 percent.[30] And research from the International Monetary Fund finds that among advanced economies, a 10 percentage point increase in union density is associated with a 5 percent decrease in the income share going to the highest earners.[31]

Research even indicates that a stronger collective voice increases economic mobility, helping children born of modest means rise above the economic conditions of their birth.[32] Indeed, American children of noncollege-educated fathers earn 28 percent more if their father was in a labor union compared with children in similar families whose father was not in a labor union.[33] Even children who merely grow up in an area that has higher union density do better than children who were raised in areas without much of a union presence, a finding that holds true when controlling for a wide range of other factors.[34]

Collective voice for workers also helps make democracy work for people of ordinary means by providing a counterbalance to the money and resulting influence of the wealthy few.[35] Worker organizations encourage people to vote, provide civic training for workers, and do the hard behind-the-scenes work necessary to deliver policy reforms that benefit all Americans.[36] Without strong worker organizations, democracy suffers—as the current state of our politics sadly proves true.

What Should D.C. Do?

First, Washington D.C. should set high workplace standards. The city has already taken significant action to raise standards in key areas and these deserve to be applauded. Most important was the decision to raise the minimum wage in stages to $15 an hour. Doing so is an important moral statement and will ensure that hard work pays. The pay increase will help lift thousands of workers and their families out of poverty.[37] It will also have some other positive economic impacts such as increased consumer demand,[38] reduced worker absenteeism and turnover,[39] and reduced taxpayer expenditures on safety net programs.[40] And the evidence from other cities and states that have raised their minimum wage is that it will have very little –if any – negative impact on employment levels.[41]

Going forward, the next major decision about high standards that the City Council is debating is about paid family and medical leave. Guaranteed paid family and medical leave ensures that all workers – not just those fortunate enough to work for the right employer – can afford to take time off to care for themselves or their family in a time of need. Not only does this policy strengthen families and communities but also leads to more direct economic benefits such as higher labor force participation and reduced turnover.[42] A social insurance model is the most appropriate way to implement this policy because it spreads costs and shares risks, and thus makes the policy feasible for all businesses, not just those that are large enough to self-insure.

Second, and I believe most importantly, the city should support workers that want to join together and bargain collectively with their employers. The most important way the city can do so is by creating a level playing field between companies that are unionized and those that are not. A level playing field can help unionized firms compete and facilitate workers organizing.

Ideally, unions help raise wages for all workers in an industry. But when unions are relatively weak, as they are currently, they primarily raise wages for workers at firms that are unionized. This means that unionized firms have higher labor costs than their competitors.

Research shows that unions can boost firms' productivity, especially when there is a collaborative labor-management relationship.[43] But when labor costs are the main cost of doing business, as is the case in most services, the union-productivity increase may not be enough to fully compensate for higher labor costs. This can make it hard for unionized firms to compete against firms that pay their workers much less, particularly for contracts where quality is hard to measure or not a primary concern. These cost differences can also foster an adversarial relationship between workers and management, as management sometimes seeks to avoid unionization to ensure they do not have higher labor costs than their competitors.

To help create a level playing field for unionized firms, the city can do several different things -- such as creating high universal standards like the $15 minimum wage, or even sectoral standards such as the security guard minimum wage that DC passed in 2008.[44] Indeed, sectoral standards can help move towards sectoral-bargaining, which is the best way to conduct collective bargaining because it raises wages for all workers, not just unionized workers, boosts the productivity of the industry, and facilitates collaborative relationships between workers and management.[45]

Washington DC can also support strong prevailing wage standards for all forms of government spending, from contracts, to grants to tax subsidies. Prevailing wage standards support a level playing field by ensuring that workers are paid the industry-standard wage. With prevailing wage standards, competition for government-related work is based on a high-road strategy, rather than by sweating workers through whatever the lowest road company can get away with.

Finally, a third policy area to consider – which combines elements of worker voice and high standards –is inclusive capitalism, which grants workers an ownership stake or a share of profits based on workers' collective performance. Inclusive capitalism holds the potential not only to benefit workers: Research shows that firms and investors also receive tangible benefits from sharing with their workers.[46] A number of companies already have such programs, but government policy can help increase adoption of these programs.[47] Several states, most notably Ohio, help businesses understand how to implement such programs, which can help increase their use. Similarly, several states make their contracting policies favorable to broad-based sharing.

In sum, high standards and a strong voice for workers is the right path for Washington DC.

How the Economy Really Works

Opponents of these kinds of policies rely on some version of trickle-down economics that maintains that weak unions, low wages, and high inequality will increase job creation and boost productivity growth. The reality is that trickle-down economics has failed to deliver. Productivity growth during the nearly four decades period when trickle-down dominated policymaking has been far slower than our rapid post-World War II growth, and the percentage of prime-age American men in the labor market has been falling for decades.[48] Even worse, low labor market participation and weak productivity and gross domestic product growth were problems even before trickle-down policies helped cause the Great Recession and threw the economy into the deep hole from which it is only slowly starting to recover.

While it is theoretically possible that the economy could suffer if wages for workers became too high, the middle class too strong, and inequality too low, we are not at that point. Rather, boosting wages and strengthening and growing the middle class is necessary to get the U.S. economy back on track, as detailed in the recent book *Hollowed Out: Why the Economy Doesn't Work without a Strong Middle Class*.[49] With the middle class so weak, America's economy now resembles a less developed country more than most might like to admit.

Because wages have been stagnant for decades, Americans have had less money in their pockets to buy things, which made the economy reliant on debt-fueled spending and helped fuel the Great Recession. In the years before the financial crash, approximately 8 percent of total demand in the economy was based on extra borrowing by households in the bottom 95 percent of the income distribution—but debt-driven consumer demand was of course unsustainable.[50] And since the Great Recession, demand has been slow to recover, in large part because wages have hardly budged and consumers have been reluctant to take on as much debt.[51] In significant part because of weak demand, the economic recovery has been painfully slow.

Extreme levels of inequality have caused people to feel less connected to one another and thus hesitant to trust others, which makes ordinary business transactions unnecessarily burdensome. People take all sorts of expensive precautions when they do business with people they do not trust. From the rapid increase in the percentage of lawyers and security guards over recent decades, to corporations increasingly focusing on short-term measurable results at the expense of long-term growth, the signs of declining trust and their economic costs are readily apparent.[52] Even worse, the hidden costs of declining trust are possibly even higher, particular if one thinks in terms of business deals not done and innovative ideas not realized.

The quality of American government has also been severely harmed by the weakening of the middle class, which has further weakened the economy. When inequality is at extreme levels, the rich gain political power at the expense of the middle class, government becomes excessively polarized, and the public becomes less civic minded, all of which undermines the government's ability to support a thriving economy. Over the past few decades, the wealthy have used their influence to protect their interests and block competition: The number of special interest tax breaks have more than doubled, while incidents of official government corruption have quadrupled, putting a drag on growth.[53] At the same time, investments in things that propel future economic growth and that the middle class wants, such as roads and bridges, have fallen sharply—or, in the case of higher education, stagnated—even as needs have grown.[54] As the middle class has declined, government has failed to provide the foundations for economic growth.

With the rich pulling so far away from the poor and the middle class, America is failing to take advantage of the talents of too many of its people. The United States has now fallen behind our international competitors on key measures of educational success—from test scores to college graduation rates—in significant part because opportunity for children to develop their talents now hinges far more on parental wealth than it should.[55] On tests of math and reading achievement, children from wealthy families outscore children from middle-class backgrounds by about twice the amount they did in the 1970s.[56] The difference in educational performance between children from middle-class families and those from wealthy families is roughly the size of the black-white achievement gap.[57] America also lags behind other industrialized countries in on-the-job training programs such as apprenticeships, which provide a tuition-free pathway to middle-class employment.[58] And in a very telling example of the economic harms of inequality, the share of entrepreneurs in the U.S. workforce is falling sharply. America has roughly half as many entrepreneurs starting new businesses as it had in the 1970s.[59] People need money to start a business, but unfortunately, over recent decades, most Americans have not had much. Because Americans are struggling financially, too many people are prevented from fulfilling their dreams of becoming entrepreneurs, which reduces the dynamism of our economy and ultimately stymies growth.

The argument that a strong middle class would help the U.S. economy comes not just from liberals such as Nobel Prize-winning economist Joseph Stiglitz but also from the International Monetary Fund and the business economists at Standard and Poor's, or S&P, which downgraded U.S. growth prospects in part because of high inequality.[60] As S&P explained: "Our review of the data, as well as a wealth of research on this matter, leads us to conclude that the current level of income inequality in the U.S. is dampening GDP growth."[61] Indeed, the majority of economists surveyed by the Associated Press on the topic think that high levels of inequality are hurting the economy.[62]

In sum, raising standards and supporting collective bargaining is good not only for the workers that directly benefit, but also for the whole economy.

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[2] Corporate profits are measured as a percentage of gross domestic product. Author's calculation based on data from Bureau of Labor Statistics, "Average Hourly Earnings of Production and Nonsupervisory Employees: Total Private [AHETPI]," retrieved from Federal Reserve Economic Database, available at https://research.stlouisfed.org/fred2/series/AHETPI (last accessed August 2016); Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: All Items [CPIAUCSL]," retrieved from Federal Reserve Economic Database, available at https://research.stlouisfed.org/fred2/series/CPIAUCSL (last accessed August 2016); Bureau of Economic Analysis, "Corporate Profits After Tax (without IVA and CCAdj)/Gross Domestic Product," retrieved from Federal Reserve Economic Database, available at https://research.stlouisfed.org/fred2/graph/?g=cSh (last accessed April 2016); Stone and others, "A Guide to Statistics on Historical Trends in Income Inequality."

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https://www.americanprogress.org/issues/economy/news/2015/09/16/121188/new-census-data-show-that-the-middle-class-is-not-recovering-fast-enough/; updated 2015 data from Piketty and Saez, "Income Inequality in the United States, 1913-1998."

[8] Bivens and Mishel, "Understanding the Historical Divergence Between Productivity and a Typical Worker's Pay."

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[15] Gould, "Wage inequality continued its 35-year rise in 2015."

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Testimony of the American Society of Association Executives ("ASAE")
(represented by Julia Judish, Special Counsel
at Pillsbury Winthrop Shaw Pittman LLP)
For the Mayor's Working Group on Jobs, Wages, and Benefits
November 9, 2016 Public Meeting

Thank you for this opportunity to comment on proposed and existing regulatory requirements affecting the competitive position of employers and employees in the District of Columbia. On behalf of itself and its members, the American Society of Association Executives ("ASAE") urges the Mayor to work with the D.C. Council to enact the Employer Mandate paid family and medical leave bill proposed by the D.C. Chamber of Commerce and a broad coalition of employer groups. A copy of the proposed Employer Mandate bill was distributed to the Mayor and Councilmembers on October 6, 2016, and is attached for your reference. The Employer Mandate bill is better for both D.C. employees and D.C. employers than the payroll tax-based, government administered Universal Paid Leave bill (Bill 21-415) currently under consideration by the Council. Both in manageability of administration and in cost burden to employers, the Employer Mandate model would place D.C. employers at less of a competitive disadvantage compared to employers in surrounding jurisdictions than the Universal Paid Leave bill, while still providing D.C. employees with the guarantee of paid leave for family and medical absences.

1. About ASAE

ASAE is a Washington, D.C.-based membership organization that represents more than 21,000 association executives and industry partners, from more than 10,000 nonprofit organizations across the United State and in more than 50 countries. ASAE members manage nonprofit 501(c)(6) trade and professional associations, individual membership societies, and voluntary organizations. The nonprofit organizations managed by ASAE's members include many 501(c)(3) tax-exempt charities and educational organizations, as well as religiously affiliated organizations, grant making and giving services, social advocacy organizations, and civic and social organizations. ASAE provides resources, education, ideas and advocacy to enhance the power and performance of the association and nonprofit community.

The nonprofit associations that are led by ASAE members range in size from local organizations with tiny budgets and just one or two employees to large national or international membership organizations with thousands of employees and millions of members. According to 2013 Bureau of Labor Statistics ("BLS") data, associations in the Washington, D.C., metropolitan region employ approximately 37,000 employees. The 2014 IRS Business Master File lists 35,661 501(c)(3) organizations and 2,916 501(c)(6) organizations registered in the Washington, D.C. metropolitan area. Examples of large nonprofit membership associations based in Washington, D.C., include AARP, the National Retail Federation, and the YMCA. Examples of small associations in the District that nonetheless do important work include American Academy of Nursing, The National Association of Minority Architects, and the National Association for Bilingual Education. ASAE itself employs approximately 120 employees at its D.C. headquarters office.

ASAE can therefore speak to the concerns of D.C. employers of all sizes. Association employers, like ASAE and the organizations managed by ASAE's members, recognize that their employers are their strength and greatest asset, and associations therefore typically provide generous benefit packages, including paid leave. ASAE is concerned that the 1% payroll tax imposed by the Universal Paid Leave bill would preclude continuation of existing voluntary benefit packages by association employers and would make administration of employee absences and benefits unreasonably difficult by inserting the D.C. government into decisions about and administration of paid leave requests. This would hurt both employers and employees. If that bill is enacted, ASAE predicts that many association employers and other businesses, particularly small businesses, will relocate to Maryland or Virginia rather than contend with a disruptive and costly new regulatory scheme.

2. The Employer Mandate Paid Family and Medical Leave Bill Would Benefit Both Employees and Employers

The Employer Mandate bill would require all covered D.C. employers – small, medium, and large – to provide eight weeks of paid leave per year to eligible employees who experience qualifying events. Qualifying events would include the birth, adoptive placement, or foster placement of a child; leave taken for the employee's own serious physical or mental health condition, or to care for a spouse, partner, or child with a serious health condition. The effective date for large employers would come one year sooner than for small employers (with 1-19 employees) and medium employers (with 20-49 employees), but no employer would be exempt from coverage based on size. The Employer Mandate bill also would require the D.C. government to contract with an insurer to provide a paid leave insurance product to small and medium employers in the District, so these employers would have an affordable way to meet their obligation to ensure paid leave for their employees who need to take family or medical leave. The eight weeks of paid leave in the Employer Mandate bill matches the D.C. government's paid family and medical leave program for its own employees.

The Employer Mandate bill's effectiveness lies in its simplicity. Most D.C. employers already offer a variety of paid leave benefits to their employees, and these benefits, alone or in combination, provide employees with salary continuation for leave taken for a qualifying event. Under the Employer Mandate bill, any of these existing paid leave benefits will count towards the eight-week entitlement for eligible employees with a qualifying event. The only exception is accrued leave under the D.C. Accrued Sick and Safe Leave Act ("ASSLA"), which employees will have the right to access in addition to their eight weeks of paid family or medical leave. No D.C. employer will have to change their existing benefit policies, but they will be required to supplement them, as needed, to guarantee eligible employees with a qualifying event up to the full eight weeks of salary continuation to which they are entitled.

Under the Employer Mandate bill, D.C. employees would have the assurance of a financial safety net and 100% salary continuation for up to eight weeks for any qualifying event. Moreover, the Employer Mandate bill provides this safety net directly from the employer, without requiring employees with a qualifying event to submit an application for benefits to a new bureaucracy and wait several weeks for their application to be processed and the benefit check to be issued. The Employer Mandate bill is also beneficial to the majority of employees who will not have new babies or need for a long medical leave for themselves or their families in any given year. Because the Employer Mandate model preserves existing benefit packages, all D.C. employees can still benefit from their employers' generous paid leave benefits to use for vacation, other commitments that are not covered by the bill, or other personal absences. By contrast, as discussed below, the Universal Paid Leave bill's payroll tax approach will force many employers to slash their existing voluntary benefits packages for D.C. employees in order to fund the paid family and medical leave system.

Importantly for D.C. employers, the Employer Mandate model preserves the existing relationship between employers and employees, without inserting a D.C. government bureaucracy into administration of leave benefits. It is far less disruptive to D.C. employers than the proposed Universal Paid Leave bill, allowing employers flexibility to offer a variety of benefits and to have consistent benefit policies across jurisdictions. It is less costly to D.C. employers than a 1% payroll tax, as supplemental salary continuation benefits would only have to be extended to those eligible employees who actually experience a qualifying event that requires an absence of a longer duration than covered under the employer's existing policies. Based on the paid leave benefit usage levels of D.C. government employees, only an estimated 14% of employees would need the eight weeks of benefits each year. The ease of the administration and the relative cost of the Employer Mandate bill thus is greatly superior to the Universal Paid Leave bill's approach.

3. The Proposed Universal Paid Leave Bill Would Be Harmful to Both D.C. Employees and D.C. Employers

As Chairman Mendelson and other Councilmembers have acknowledged in public hearings on the payroll tax Universal Paid Leave bill, all drafts of that bill currently under consideration have failed to address how the proposed government-administered but employer-funded paid leave program would coordinate with existing paid leave policies offered by employers. All versions of the bill that have been shared publicly provide no credit to employers for the benefits they already provide. The reality is that most employers would not be able to afford to continue offering paid time off, vacation, new parent leave, and short-term disability benefits to their D.C. employees if they are also paying a 1% payroll tax to provide similar paid leave benefits to those employees through a government-administered program. If the Universal Paid Leave bill is enacted in any form similar to its current form, District employees will find that many of their existing benefits disappear. For the majority of D.C. employees who will not experience a qualifying event in a given year, the Universal Paid Leave bill is a losing proposition, as they will see reduced or eliminated benefit packages in order to fund a new system they don't need. Even employees who do experience a qualifying event will be worse off, and they won't have the salary continuation system of the Employer Mandate model. Instead, they will be left to hope that a brand new D.C. government bureaucracy will reliably, promptly, and accurately process and pay their applications for paid leave benefits.

Moreover, whether all qualifying employees will receive their paid leave benefits is an open question under the Universal Paid Leave model. The Council has yet to provide a definitive statement of whether the 1% payroll tax will be sufficient to fund the new bureaucracy and the benefit payments. The D.C. government may also find that it needs to redirect the payroll tax proceeds from the paid leave benefit fund to other priorities. The promise of the Universal Paid Leave bill will be an empty one if there are inadequate funds to cover the benefit payments.

In addition, employers with offices both in the District and in other jurisdictions would be in the uncomfortable position of having to offer different levels of paid leave benefits to their employees, depending on where those employees sit. The Universal Paid Leave bill entails more disruption for employers, and could subject them to long absences by new employees and by key staff of small employers. Any business without a compelling need to locate in D.C. would be prudent to locate across the border in Virginia or Maryland instead to avoid these problems and costs.

GREATER WASHINGTON
Board of Trade

STATEMENT OF

Greater Washington Board of Trade

To The
Working Group on Jobs, Wages, and Benefits (WGJWB)

November 9, 2016

James C. Dinegar
President and CEO

The Board of Trade encourages consideration of ways to ensure that every employee has access to paid time off to care for themselves when needed and others when necessary. From the start, the business community tried to work to craft an approach that was affordable, appropriate, manageable and filled the need. Unfortunately, from the start, our efforts to work together with proponents and the Council were rebuffed, dismissed and disregarded.

The business community responded responsibly to the initial 16-week proposal by first seeking to understand the scope of need (as most employees receive benefits). We also wanted to understand the rush and understand the costs. The Board of Trade independently commissioned economic studies, assessed the benefits to residents and non-residents and calculated the implications to these companies seeking to employ D.C. residents. What was discovered was troubling: that more non-D.C. residents would benefit from D.C. government funds than D.C. residents. Further, D.C. businesses, D.C. workers and D.C. residents would all be at a competitive *disadvantage* versus those in Virginia or Maryland. And we are the ***regional*** business organization saying it.

The business organizations called for a study almost a year ago. Not a stall. It would have been done by now. A study to determine how this program works. The response was “no”, there were no funds to commission a $200,000 study. But there are $20 million to fund District costs?

When business organizations sought to advance an idea to impose a requirement upon employers to provide a minimum of 8 weeks at 100% of pay for qualifying events, we were told "no".

When we recommended a no-cost, no-commitment request for information (RFI) to identify providers of short term disability programs that could underpin the District businesses, we were told "no".

Do not proceed with any proposal that has not been thoroughly researched, reviewed and considered. A week is <u>not</u> adequate <u>or</u> responsible for the complexity and implications of any Universal Leave proposal. For the City Administrator, Council, businesses and other key stakeholders to not have the opportunities for careful consideration is beyond unfortunate - - it is not due process, it is not good governance.

It does not serve the District well. Instead, we implore the Council and the Mayor to stop, consider and assess before proceeding. How has no research been conducted beyond the economic studies we commissioned? This is a significant tax with long-range implications that are better understood by researching the success and challenges associated with existing programs in California, New Jersey, and Rhode Island. Each is also an employee-paid approach. Please understand creating an entirely new, untested approach that burdens employers on top of what they already provide must be better understood. The District and its inhabitants are being placed at a competitive *disadvantage*.

The state of Washington signed their legislation in 2007 and they are still working to figure out funding. So, it is on hold. California enacted theirs in 2002 and it is fully paid for by the employees. New Jersey did this in 2008 and began with a temporary disability insurance program financed jointly. Start there: Get a District-wide temporary disability insurance program in place. It would be a real value to employees, businesses and catapult the District in the region. Start there by issuing the RFI to match-up offers and begin at the beginning - - as several other states have done -- before proceeding to a full-blown Universal Leave taxation program.

This is a big deal being done the wrong way. The District of Columbia residents and businesses deserve better.

Thank you.

I'm here to speak on the subject of the paid family leave program that is being proposed, and which was discussed at the Adams Morgan Partnership BID meeting on 10-18-16. I currently own 3 small businesses, 2 of which are located in Adams Morgan - Perry's located at 1811 Columbia Rd NW since 1984 and Mintwood Place located at 1813 Columbia Rd NW which opened in 2012, as well as Convivial located in Shaw at 801 O St NW since 2015.

We, my fellow business owners and neighbors, are gravely concerned about the method of funding that is being put forth. It puts *all* the burden on the business owner for supporting this program as it goes forth, and no one shares the load with us.

We were told that there was no way to have the City, the employee, or anyone else share this burden with us on an ongoing basis because of jurisdictional issues.

If that is true, then we wouldn't be able to hire workers from MD and VA and pay their state contributions. We reject your premise. You need to figure out a way.

We were told that the RAMW supports this. Now we hear that while they support the goal, they don't support the way the funding is proposed.

Putting this burden on businesses alone, with no sharing of the continued funding with other agencies or the employee is crazy.

This is completely unacceptable.

In addition to all the increasing costs that are levied upon us as business owners, by the City, the insurance companies, the healthcare requirements, and the increased minimum wage, you are now asking us to *support this program by ourselves?*

Our margins in the restaurant industry are razor thin. We cannot bear 1% of our payroll to be shaved off of our bottom line.

And on principal alone, why should we be expected to support this entire program alone?

We firmly reject the premise that this is the only way you can pay for this program.

We support the goal of family leave,

and we are more than willing to ***share*** the costs of paying for it, but to ask us to be the sole funder of a program like this, on an ongoing basis, shows an unbelievable lack of understanding about what we as small business people are facing, and sets us up to be stuck with this as a 'given' in decades to come.

We reject the method of funding that has been chosen for this program and ask the Council to please go back to the drawing board and find a way to make it work as a shared financial obligation—otherwise businesses will continue to leave the City, while new ones, doomed to fail when the expenses catch up to them, take their place.

Testimony
Mayor's Working Group on Jobs, Wages, and Benefits

by Kevin Clinton
Federal City Council
November 9, 2016

My name is Kevin Clinton. I am here on behalf of the Federal City Council. I appreciate the opportunity to speak with you this evening.

The Federal City Council is a civic organization committed to the improvement of the District of Columbia. We believe in the importance of employment policies as a way to create a strong and resilient workforce that enhance the competitiveness of District businesses. Because of this belief, we are interested by both the activities of this working group and the increasing number of proposals before the DC Council to regulate the employment environment.

In our perspective, the most important of the policies under consideration is the effort to adopt a Universal Paid Leave Act that would provide employees working in the District with paid parental, sick or family care leave, administered by a City agency and paid for by a payroll tax on District employers. It is expected that the Chairman of the Council will shortly release a revised bill on this subject for consideration by the Council.

We have come out against the proposals discussed thus far because we think they will cause a loss of District business to surrounding jurisdictions and unfairly burden those employers who remain in the District.

We have been particularly concerned that the proposal would fund benefits to non-District residents who work in and earn substantial income in our City, use City services, but pay no taxes to the District. With a bill estimated to cost $300 to $400 million, we would see a direct transfer of more than $200 million from District businesses to non-residents with this bill.

But we are equally concerned about the level of proposed benefits, the potential incentives to misuse of the leave benefit, the level of taxes on District employers necessary to cover the cost of the new program and its administration, the reliance on employers as the sole financing source for the benefits and the fact that it is not targeted to address the people and conditions where there is the greatest need. The bill far exceeds benefits provided in the small handful of states and cities with their own paid leave program, none of which are in our immediate vicinity.

Which is why we believe that a better option exists in the form of a national program. Our president-elect has endorsed paid family leave as one of the handful of specific issues on his policy platform. Supporting and encouraging the passage of this solution has numerous advantages for the District of Columbia. It is more comprehensive, covering not just workers in

DC, but those who live in DC and work elsewhere, thereby ensuring a level playing field for employees who would benefit regardless of their state of residence or employment.

It will eliminate any competitive disadvantage with other jurisdictions in our region when it comes to the cost of operating a business in the District. It would relieve District employers of bearing the entire burden of paying for the benefits.

A federal solution will reduce the cost of administration and the burden of compliance. The District has already budgeted $20 million to begin studying the creation of an entirely new agency. The full cost of setting up a new agency is unknown but it is not unreasonable to think it would be more than $50 million. In addition, operating the system, which will have to be paid out of taxes collected from businesses, would likely cost $30 million a year. Within a few years, the cost of setting up and running a new paid leave bureaucracy in the District, not even counting the price of benefits paid, would exceed that of building a new high school or making one year of payments into the Housing Production Trust Fund.

Once a paid leave program administered through the city is in place, it will become an entitlement. If the benefits paid under a local program exceed the taxes collected to fund them, the District then would be responsible for covering the gap, weakening our fiscal capacity. Furthermore, under a District program, any risk—whether it is systemic, such as operational weaknesses, or idiosyncratic, such as a strong strain of flu—will be borne by District taxpayers alone whereas under a federal solution, the federal government would bear these risks, providing operational support and loans, as is the case with unemployment insurance.

Lastly, paid family leave benefits may commence more quickly under a federal program than under a separate District program. It will probably take more than two years to build a new IT system from the ground up to manage the new, complex program. Meanwhile, the DC Council proposal requires the District to charge a payroll tax until enough funds have been collected to pay for a full year of the program. This means that businesses will be paying a tax for at least a full year before any benefits are provided. A federal solution could be funded through the unemployment insurance program and be implemented contemporaneously with any new funding source.

By opting for a federal solution we can have paid leave in the District that meets the essential needs of District workers without burdening employers in ways that will impact their competitiveness and discourage their locating in the District. This is the approach that we urge our elected officials to embrace.

Kathy E. Hollinger

Restaurant Association Metropolitan Washington

Mayor's Working Group on Jobs, Wages, and Benefits

November 9, 2016

Good evening Mayor, I am Kathy Hollinger, President and CEO of Restaurant Association Metropolitan Washington (RAMW), the official trade association representing restaurants in DC, MD, and VA.

I am here today on behalf of our 950 plus members, which include restaurant owners and operators, food distributors, and service providers. Restaurants are the backbone of the small business community in DC and the food service industry is a major job creator and economic driver for the District. This year, restaurants account for 9% of employment in the city. While the foodservice industry is the second largest private employer in the District and generates more than $260 million for the city through taxes, profit margins are dangerously thin with the national average clocking in at 4%.

This is precisely why we are so grateful we were given the opportunity to speak to you today, and we hope that today's testimony encourages you to view policy, proposed legislation and regulatory changes through the lens of a small business owner trying to make payroll.

The makeup of restaurants in our city is incredibly unique with 96% of full service restaurants independently owned. This means they operate as small businesses. Our members pride themselves on taking care of their people and employees. When we discussed increasing the minimum wage in 2013, a majority of members reported paying their employees well above the minimum wage and that continues to be the case today. We would also like to reiterate that we supported the minimum wage increase in 2013 and as you know, supported the recent increase to $15.

While restaurant owners and operators want to take care of their people, they also face a delicate balance to maintain a sustainable bottom line while continuing to create jobs. And yes, it is undeniable that the industry continues to expand in the region, but profits do not, and are instead beginning to wane due to increased competition, astronomical rents, higher labor and food costs, and new or amended legislation which results in administrative and financial burdens. Many of these small businesses, while achieving high accolades, are really just treading water trying to stay afloat.

In the past few years alone, new laws have created tremendous pressure on profitability which could halt the growth and wellbeing of an industry that currently provides 61,600 jobs in the city. The Affordable Care Act, increased minimum wage, Sick and Safe Leave Amendment Act, transit subsidies, Styrofoam ban, ban the box, Wage Theft Amendment Act, and the new health code requirements are all examples of recent legislation that impacts business operations.

On multiple occasions we have testified in front of the Council about the unintended consequences of legislative layering where the people who the legislation is meant to help are actually harmed. In recent years, restaurants have absorbed the additional costs resulting from legislative mandates but at some point they will also have to share costs with their employees, which could mean reducing staff size, reducing non required benefits, or reducing the rate of wage increases. There might be an effort to pass these increased costs on to the customer in the form of higher menu prices, but these higher prices will likely not increase revenues, as budgets for dining and entertainment typically remain fixed, meaning patrons will dine out less frequently.

Now also on the docket are the Universal Paid Leave Amendment Act, Wage Theft Clarification Amendment, and while Restrictive Scheduling was tabled for this Council session, it will surely come up next year. In addition, signatures are currently being collected for a ballot initiative which would eliminate the tip credit, in an effort to negate the resolution collectively achieved through working collectively with the Mayor's office, Councilmembers and labor groups.

Because of all of these pressures already on our small businesses, we cannot support the proposed UPL legislation. As was last disclosed, the program would be funded by a 1% tax on payroll, which in theory sounds small but in practice is significant, especially when you consider that profit margins for restaurants average about 4%. Our members would love to get behind a leave program, as they always look for ways to support their employees, however with the cost falling solely on the business community at a 1% payroll tax rate, we cannot support it at this time.

I would like to share an anecdote. RAMW recently held a community meeting with member restaurants and DOES. The goal was to make sure members understood their responsibilities under recent employment legislation. The magnitude of requirements outlined by DOES staff was paralyzing. DOES representatives conceded the agency itself had difficulty digesting and administering the myriad of new requirements mandated by the Council in recent legislation.

Operating a small business is challenging and at times harrowing. We have heard from our members time and time again that the stress of meeting payroll keeps them up at night, and the recent wave of legislation has only increased this anxiety. Owning a restaurant is truly a labor of love, and they are not opened with the sole intention of making it big, but instead to fuel a passion, generate jobs for area residents and a create a gathering place for the community.

Thank you for allowing me to testify today. I am happy to answer any questions you may have.

CONSORTIUM OF UNIVERSITIES
of the Washington Metropolitan Area

1100 H St., NW, Suite 500, Washington, DC 20005 (202) 331-8080

Public Comment Meeting
Mayor's Working Group on Jobs, Wages, and Benefits
November 9, 2016

Testimony of the Consortium of Universities of the Washington Metropolitan Area
Dr. John C. Cavanaugh, President & CEO

Delivered by Sally Kram, Esq.

Deputy Mayor Snowden, Vice-Chair Hawkins, members of the Mayor's Working Group, the Consortium of Universities of the Washington Metropolitan Area is pleased to provide testimony this evening. As you know, the Consortium consists of 17 colleges and universities representing all sectors of nonprofit higher education from community colleges to research universities across the District of Columbia and contiguous counties in Maryland and Virginia. Our total student headcount is approximately 290,000 across programs ranging from specific job skills training through advanced postdoctoral research. Including our affiliated hospitals and medical practices, we are the largest private economic sector in the District, and one of the largest in the region.

The institutions comprising the Consortium both employ tens of thousands of people in nearly every imaginable role and create the educated workforce that it and every other economic sector in the District and region needs. The jobs we create and support pay well and have good benefits. It was from this vantage point that we first proposed the Employer Mandate as an alternative to the Universal Paid Leave bill currently under consideration by the D.C. Council. The Employer Mandate would provide employees of small, medium and large employers with 8 weeks of family and medical leave at 100% wage replacement.

We have been clear during the Council's consideration of universal paid leave that we believe that imposing a payroll tax would be harmful to the District's economy, regardless of how well intentioned and the value of the programs it is intended to pay for whether it be paid FMLA, affordable housing or anything else. . As the Tax Revision Commission noted in its 2014 report, payroll taxes, by definition, suppress employment. They therefore must be carefully considered as to size and purpose. Assessing a 1% payroll tax, which would be the 4th largest tax ever proposed by the District government, would instantly make the District less competitive than its neighbors in attracting and retaining job providers. In addition, this tax would be on top of the District's already generous employment laws which within the past few years have established a higher minimum wage, longer job protections under DC FMLA, and more paid sick and safe leave for DC workers than any other jurisdiction in the region.

Should a payroll tax be imposed, in conjunction with the expanding cost of the District's new employment laws, those companies that can, would very likely move jobs outside the District. Those companies considering locating here would chose to go elsewhere. And those companies that are place-based, such as colleges and universities, would have little choice to respond by either cutting DC jobs, moving jobs out of the District, reducing other benefits, cutting pay, or perhaps all of the above. DC institutions would be at a disadvantage as they seek to attract new faculty and staff to the District.

The District's and the region's economies depend on the success of the Consortium's members to provide a full range of educational and employment opportunities. As demonstrated by our support for the Employer Mandate, we are ready to work together with you to ensure that the District's and the region's economies remain strong, continue to grow, and become more diversified.

Dear Committee Members,

My name is Arianne Bennett and I own the Amsterdam Falafelshop in Adams Morgan, and for years before that, I was an employee in Washington DC.

I strongly support a family leave program in Washington DC, the funding of which is shared between the City, the employee, and the business owner.

Family leave is long overdue in this country. Without such a program, our employees are forced to make choices that reflect the lack of respect that this country has for families. We should all work together to rectify this.

What leaves us cold, as business owners, is that there is only one path that DC sees to solving this problem. That path is placing the entire burden for ongoing funding of the project on the shoulders of the small businesses in Washington DC. How can this even be considered?

Is there no recognition for the immense burden we are already facing with the increase in the minimum wage? Is there no recognition of the immense burden we are facing with increasing insurance costs? Is there no recognition of the immense burden we face in declining revenues with the loss of late night metro? Is there no recognition of the immense contribution we provide to the City as a whole?

We are what people come from around the country to see. When you leverage a burden on all businesses, you leverage that burden on those of us least able to bear it, and who bring you the most important asset you have as a tourist destination. No one comes to DC to visit our local Safeway. But they do come here and make Mintwood and Amsterdam Falafelshop a destination. Gems that they talk about when they go home, and encourage others to visit our City. Business that that make our City rich with hospitality, diversity, and entrepreneurial spirit. Examples to the rest of the country. We are the small independent businesses who exemplify the American Dream.

We operate on razor thin margins, yet we are the life-blood of the City – and you are sucking us dry. Leaving nothing for us to survive on. Leaving us to fail with programs that place undue burdens on us.

And the excuse is that you can't figure out how to fund this on an ongoing basis as a partnership between City, Employer and Employee. You claim that because we are not a State, you can't figure out how to make it work. Well, we say: NO.

We say, go back to the drawing board and figure something out. Stop-gap measures have a way of sticking around in a bad way, so don't do that to us. You were able to figure out how to tax employees who work across our boarders. You were able to figure out how to have payroll deductions for deadbeat dads withdrawn. You can and should figure this out, too.

And so we place the burden back on you. Stop thinking you can dump your failure to figure it out on us. Do the right thing, and get a better plan together. Then bring it up for a vote. Thank you.

I'm here to speak on the subject of the paid family leave program that is being proposed, and which was discussed at the Adams Morgan Partnership BID meeting on 10-18-16. I currently own 3 small businesses, 2 of which are located in Adams Morgan - Perry's located at 1811 Columbia Rd NW since 1984 and Mintwood Place located at 1813 Columbia Rd NW which opened in 2012, as well as Convivial located in Shaw at 801 O St NW since 2015.

We, my fellow business owners and neighbors, are gravely concerned about the method of funding that is being put forth. It puts *all* the burden on the business owner for supporting this program as it goes forth, and no one shares the load with us.

We were told that there was <u>no way</u> to have the City, the employee, or anyone else share this burden with us on an ongoing basis because of jurisdictional issues.

If that is true, then we wouldn't be able to hire workers from MD and VA and pay their state contributions. We reject your premise. You need to figure out a way.

We were told that the RAMW supports this. Now we hear that while they support the goal, they don't support the way the funding is proposed.

Putting this burden on businesses alone, with no sharing of the continued funding with other agencies or the employee is crazy.

This is completely unacceptable.

In addition to all the increasing costs that are levied upon us as business owners, by the City, the insurance companies, the healthcare requirements, and the increased minimum wage, you are now asking us to *support this program by ourselves?*

Our margins in the restaurant industry are razor thin. We cannot bear 1% of our payroll to be shaved off of our bottom line.

And on principal alone, why should we be expected to support this entire program alone?

We firmly reject the premise that this is the only way you can pay for this program.

We support the goal of family leave,

and we are more than willing to ***share*** the costs of paying for it, but to ask us to be the sole funder of a program like this, on an ongoing basis, shows an unbelievable lack of understanding about what we as small business people are facing, and sets us up to be stuck with this as a 'given' in decades to come.

We reject the method of funding that has been chosen for this program and ask the Council to please go back to the drawing board and find a way to make it work as a shared financial obligation—otherwise businesses will continue to leave the City, while new ones, doomed to fail when the expenses catch up to them, take their place.