Compensating for low wages

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A proposal to redefine low wage employers' obligations to their workers could raise up to $190 million a year in new revenue for Connecticut to help pay for public assistance programs, according to a new study by a group of UConn researchers.

The study released Wednesday by the labor-backed Jobs With Justice Education Fund, examines the economic costs and benefits of a bill before the Connecticut legislature that would levy a $1 fee on companies with more than 500 employees, for each hour a worker making less than $15 an hour works in a quarter.

In their analysis of the so-called "Low Wage Employer Fee," the UConn research team reported the proposal would increase jobs, revenue, and Gross Domestic Product (GDP) for the state of Connecticut and thus help reimburse the state for public assistance it provides to many low wage workers.

"We estimate the number of low wage hours (that is hours worked at firms with 500 or more employees who are paid at $15 an hour or less) in Connecticut in 2014 to be approximately 188,592,170 persons. Assessed on each of these hours worked, the $1 per hour fee would therefore generate an additional $188,592,170 in revenue for the state annually," the study authors report.

The collected fees would flow into the state's general fund and be disbursed to four state agencies: the Department of Social Services; the Department of Developmental Services; the Office of Early Childhood;

and the Department of Labor, for its role administering the new levy. The study authors note that an advisory board will determine the allocation of revenue among these agencies.

Stagnating wages are a problem not only for low wage workers who cannot make ends meet but also for governments, which finance the mounting costs of public assistance programs many of these workers rely on, says Louise Simmons, professor of social work at UConn and lead author of the report.

The proposed statute, "An Act Concerning the Recoupment of State Costs Attributable to Low Wage Employers (SB 1044)," seeks to address the growing disparity between the low wages paid by some of the nation's largest corporations such as Walmart and McDonalds, and what taxpayers must pay to cover what most Americans consider essential living costs, she says.

"Employers whose strategies impose costs on society must recognize the squeeze this puts on government spending that could otherwise support programs favoring broad economic development," Simmons notes. "It is quite revealing that some of these employers engage in food drives for their employees, and that these employees must turn to food assistance programs to meet their families' needs. Many low wage employees need several jobs just to keep their heads above water."

In their analysis, the UConn researchers examine a range of options that companies might adopt to address the quarterly fee collections. The report's key findings are based on three possible scenarios that companies would be likely to pursue: absorb the fee in ways that would reduce profits; pass the full cost along to consumers in higher prices; or adopt a mix of these two approaches.

Depending on the scenario, the study found that net state employment would increase by an estimated 538 to 1,388 jobs; the state's GDP would increase by an estimated $92.4 million to $130.57 million per year; and net state revenues from the fee would range from $183 million to $189.7 million per year.

Depending on the scenario, the study found that net state employment would increase by an estimated 538 to 1,388 jobs by using money raised by the fee to hire new state employees to provide services. In their analysis, the study's authors argue that increasing the number of jobs in the state would in turn increase the amount of consumer spending and taxes paid in Connecticut, increasing the state's GDP by an estimated $92.4 million to $130.57 million per year; and that net state revenues from the fee would range from $183 million to $189.7 million per year.

Even if the companies affected by the fee increase their prices, the impact is likely to be minimal, the study reports, noting that the firms' Connecticut sales amounted to $383 billion in 2013, of which the estimated $188 million to be collected by the $1 fee represents 0.049 percent.

Increasingly, hidden costs of low wage work in America are being borne by taxpayers, says UConn economist and co-author Stanley McMillen. He cites studies estimating that state and federal governments now spend more than $150 billion a year on antipoverty programs such as Medicaid, food stamps, and low-earner tax credits. Connecticut is among a handful of states currently considering ways to recover public funds from low wage employers, he said.

"While the fee may seem like a distortionary tax on low wage worker hours, it actually attempts to correct a market failure in which firms with market power in the low-skilled labor market push down wages and encourage their low wage workers to seek public assistance," McMillen says. "Viewed as a corrective tax, the fee should encourage firms to rethink their wage structures on the one hand and help the public sector deliver enhanced services to the low wage population on the other."

Provided by University of Connecticut

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