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Testimony of

Christopher Carlozzi, State Director, National Federation of Independent Business
In Opposition to House Bill Nos. 7172, 7531, and 7579
Relating to Labor and Labor Relations - Minimum Wage
Before the House Committee on Labor
March 27, 2024

Chairman Corvese and Members of the House Committee on Labor:

My name is Christopher Carlozzi. I am the Rhode Island Director of the National Federation of Independent Business (NFIB). A non-profit, non-partisan organization, NFIB is the nation's and Rhode Island's largest small business advocacy group. In Rhode Island, NFIB represents hundreds of small and independent business owners involved in all types of industry, including manufacturing, retail, wholesale, service, and agriculture. The average NFIB member has five employees and annual gross revenues of about $450,000. In short, NFIB represents the small Main Street business owners from across the state. On behalf of those small and independent business employers in Rhode Island, I urge you to oppose House Bill Nos. 7172, 7531, and 7579, relating to the state minimum wage.

In the NFIB Research Foundation's February 2024 Small Business Optimism Index, 37% of business owners reported job openings that they could not fill. Employers also reported 35% have increased compensation with an additional 19% of employers planning to raise wages in the next three months. Business owners raising compensation have been a consistent trend over the past few years as employers attempted to combat labor shortages. While employers reported raising wages, they've also indicated rising labor costs are being passed along to consumers. To combat the supply chain disruptions, labor shortages, higher priced materials, and prolonged inflation, 21% of small business owners still report having to raise consumer prices for goods and services. As it becomes more expensive to operate a business the higher costs cannot be absorbed by employers, many that experienced a major drop in revenue due to pandemic-related shutdowns and the aftermath, so those costs are passed along to Rhode Island residents. Labor costs factor into these higher prices.

It is always important to note that small businesses struggle the most when attempting to manage the cost impact of minimum wage increases. Unlike their big box store competitors, small businesses with a single location cannot spread higher labor costs across multiple, lower cost states. In the midst of a pandemic where the state ordered their businesses closed and restricted their operations, Rhode Island employers faced two separate wage increases. In fact, the last wage hike legislation to $15 per hour has not yet been fully implemented and House Bill No. 7579 seeks to set the wage at a whopping $20 per hour, the highest in the nation. Although many businesses are already paying more than the state minimum wage, setting the base wage at $20 will further drive-up operating costs, and in a vicious cycle, result in even higher prices for Rhode Island consumers.

Hospitality is often described as the backbone of Rhode Island's economy, employing countless residents yet House Bill No. 7531 seeks to eliminate the tipped wage. This industry was ravaged by the pandemic and will require intense rebuilding over an extended period of time. Lawmakers should be seeking ways to help grow or retain hospitality jobs, not destroy them. The same could be said for the retail and tourism industries, as both sectors experienced reductions in their workforce during the COVID-19 crisis. Perhaps Rhode Island should heed a warning from events that transpired in Maine where the tipped wage for waitstaff was eliminated via ballot initiative. The increased minimum wage for servers led to customer confusion and fewer tips for many in the restaurant industry. As a result, restaurant workers flooded Maine legislative hearing rooms demanding the reinstatement of the tip credit to restore gratuities along with the higher take-home pay waiters and waitresses enjoyed before their so-called pay increase. Maine elected officials obliged, re-instated the tipped wage, and corrected this egregious error for an appreciative server community.

Prior to the pandemic, states like California showed that eliminating or scaling back the tip credit leads to major issues for the restaurant industry. Due to the higher labor costs, restaurants have increased prices, reduced staff, and hours, with some eateries ending up closing their doors for good. Many restaurants were forced to transition from full-service models to quick service in order to deal with rising wages. The New York Times reported that service staff is being replaced, requiring customers to pick up meals and bus tables as a way to avoid raising menu prices. Unfortunately, even before COVID began impacting small businesses, San Francisco already experienced a high restaurant closure rate. Researchers at Harvard University Business School and Mathematica Policy Research released a 2017 study concluding minimum wage increases can play a role in restaurant closures arguing that with every dollar increase in the minimum wage for moderately-priced, median-rated restaurants, there is a 14% increase in the likelihood of closure. The impact of a rising minimum wage on New York City's full-service restaurant industry was devastating. A 2018 survey showed 36 percent of restaurants had eliminated jobs, imagine what those numbers will look like now. One dramatic example of job loss in reaction to the increasing New York minimum wage revolved around a chain store franchisee who cut his restaurant staff of 3,000 workers dramatically.

Even before the pandemic, studies demonstrate higher minimum wages eliminate entry level positions, making it especially difficult for young people and those lacking work experience to enter the workforce. A 2018 report on the decreasing number of teens in the workforce by George Washington University's Mercatus Center, shows higher minimum wages significantly contribute to higher teen unemployment. The research determined higher minimum wages meant fewer job opportunities for young and inexperienced workers. Rhode Island desperately needs a fully effective teen/training wage to encourage youth employment as the minimum wage rises and prices younger and inexperienced workers from the workforce. That is why NFIB opposes House Bill No. 7172 modifying the state's already limited training wage.

Rhode Island is currently the only state left in the nation demanding time-and-a-half pay for retail workers on Sundays and holidays since Massachusetts fully phased out this remnant blue law on January 1, 2023. If a $20 minimum wage is passed, Rhode Island will be a major outlier, requiring businesses to pay $30.00 per hour on Sundays and holidays. The unintended consequences of this policy may lead to small employers not opening on Sundays, while their big box competitors remain operating. When a consumer discovers a Main Street business' doors are closed on Sundays, and opts to instead frequent a large chain store, it becomes increasingly difficult for that small business to regain that customer. It will lead to fewer hours available for workers as many small businesses opt to keep their doors closed on those days.

I strongly urge this Committee to oppose House Bill Nos. 7172, 7531, and 7579, which will all have a severely negative impact on struggling Rhode Island small businesses. We ask lawmakers to instead concentrate on policies that will lead to economic growth and result in job creation to present more Rhode Islanders with economic opportunities during these trying times. Thank you.