Economic Policy Institute

Strong wage standards are especially important for heightened-security job sites

Testimony in support of HB685, the Secure Maryland Wage Act of 2021

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Mr. Chairman, members of the committee, thank you for considering this testimony. My name is David Cooper. I am a senior analyst at the Economic Policy Institute (EPI). EPI is a nonpartisan, nonprofit research organization created in 1986 to include the needs of low- and middle-income workers in economic policy discussions. EPI researches, develops, and advocates for public policies that help ensure the economy provides opportunity and fair rewards for all working Americans.

Establishing higher minimum wage and benefit standards for heightened security locations in Maryland is a smart and important policy for maintaining the safe and effective operation of the state's primary transportation and shipping hubs. It will be particularly helpful as the region recovers from the COVID-19 pandemic. By establishing a higher wage floor for covered workers at Baltimore–Washington Thurgood Marshall Airport (BWI), Pennsylvania Station (Penn Station), and the Port of Baltimore, HB685—the Secure Maryland Wage Act—would set standards that would help contracted service providers attract and retain a skilled workforce, cut down on costly and potentially dangerous turnover, and help ensure the smooth operation of critical pieces of regional and national infrastructure. Strong wage standards, such as those proposed in HB685, will be increasingly important as the labor market recovers from the economic impacts of the pandemic.

A large body of research has shown that raising wages generally, and setting high minimum wage standards specifically, leads to meaningful reductions in employee turnover or "churn" among affected workers. Extensive additional research documents the links between higher wages and improved productivity.

One reason higher minimum wages reduce turnover is that, after a raise, workers stay at their current job longer, as they are less likely to search for and find higher-paying jobs. A second reason is that, after a minimum wage increase, it becomes more cost-effective for employers to invest in their current employees rather than lay them off and hire new, untrained workers.

The most comprehensive analysis of the turnover-reducing effects of higher minimum wages—by professors Arindrajit Dube, T. William Lester, and Michael Reich, published in the *Journal of Labor Economics* in 2016—finds strong evidence for both of these channels (Dube, Lester, and Reich 2016). Using nearly 200 minimum wage changes resulting from state and federal minimum wage increases, the study finds that raising the minimum wage significantly reduces worker turnover. Employees with the sharpest reductions in turnover are those who would otherwise stay employed at their workplace for only a short amount of time. The study also finds that because wage increases reduce worker turnover, workers become more experienced at their jobs.

These findings have been confirmed by other studies on the minimum wage in the U.S. and elsewhere. For example, San Francisco's adoption of a citywide minimum wage in 2004 led to "substantial increases in job tenure and in the proportion of full-time workers among fast-food restaurants" (Dube, Naidu, and Reich 2007). In their 2015 study of federal minimum wage increases in Georgia and Alabama, Barry T. Hirsch, Bruce E. Kaufman, and Tetyana Zelenska found that one "channel of adjustment" to higher wages is reduced worker turnover (Hirsch, Kaufman, and Zelenska 2015).

These findings regarding reduced turnover and minimum wage increases have also been confirmed by studies of the effect of living wage policies that govern the pay of local government contractors, and by studies of the effects of wage standards at airports. The Los Angeles Living Wage Ordinance, which covers contractors and other companies receiving subsidies or permits through the city, reduced low-wage worker turnover and absenteeism (Fairris 2005). A comprehensive study of the San Francisco International Airport living wage found "dramatically reduced turnover," with the strongest reductions experienced by the firms that raised wages the most to comply with the policy (Reich, Hall, and Jacobs 2005).

Transit and shipping hubs have a particular interest in reducing turnover, as staff face heightened responsibility to ensure safety, security, and efficiency in their work. This responsibility is even more acute now, as many staff are expected to enforce mask requirements and other social distancing measures.

Studies of airport security have noted that high turnover rates are a significant contributor to poor performance by airport security screeners. Two such studies come from the U.S. Government Accountability Office (GAO), formerly the General Accounting Office. In the earlier study, GAO concluded that high turnover among airport screeners has been a long-standing and growing problem that negatively affects performance, and that "a key factor in the rapid turnover is the low wages screeners receive" (GAO 2000). In a later audit of safety on airport runways and ramps, GAO surveyed aviation experts who noted that "high job turnover among ramp employees is also part of the problem" in reducing ramp accidents, and that "poor pay attracts a group of ramp workers that exhibit high turnover rates" (GAO 2007).

Lowering turnover, and thereby increasing worker tenure, leads to higher productivity as workers have time to develop their skills and become more proficient in their jobs. At the same time, studies have also shown that higher wages can lead to additional improvements in productivity, independent of increased tenure. A large body of scholarly research shows that higher wages reduce absenteeism, attract better-performing workers, and motivate employees to work harder and provide better quality service (Wolfers and Zilinsky 2015). Higher wages can also increase the efficiency of managers or owners of firms by acting as a shock that compels managers to identify cost savings or remedy longer-term problems (Hirsch, Kaufman, and Zelenska 2015).

Finally, higher wages also reduce the exposure of workers to financial problems due to poverty and income insecurity that would otherwise depress productivity (Mani et al. 2013). These findings are particularly relevant to the current moment. At a time when most workers are facing increased stress and challenges because of the COVID-19 pandemic—from both its health and financial impacts—measures that provide greater financial security to staff will have an outsized impact on their productivity. Moreover, the hourly wage supplement provided by the bill will grant health benefits to covered workers, helping alleviate one the most common sources of stress among Americans, access to health care—a stressor that has been magnified by the pandemic (American Psychological

Association 2018).

As the pandemic is brought under control and the labor market begins to improve, there will be competition among employers to recruit and retain staff, particularly in the low-wage labor market. At the same time, employers are often reluctant to offer wage raises sufficient to prevent problems with vacancies or recruitment of high-quality workers (Manning 2003; Naidu, Posner, and Weyl 2018). A stronger minimum wage floor helps to solve this problem. By raising wages at the bottom, the minimum wage policy for covered workers at BWI, Penn Station, and the Port of Baltimore will help employers at these locations to reduce turnover for these positions and will also make it easier for employers to recruit for these jobs when necessary.

Relatedly, regularly adjusting the wage floor and providing health benefits—as HB685 would do—would also help reduce churn. Low-wage workers experience significantly higher rates of job churn than higher-wage workers (Cooper, Mishel, and Zipperer 2018). This is not surprising since even small nominal hourly wage increases (from switching jobs) can equal meaningful increases in pay for workers with low total earnings. Yet with predictable pay increases scheduled into the future, and health benefits provided by covered employers, there is less incentive to seek a different job—certainly within each heightened security location, but potentially elsewhere as well, as future pay increases and provision of health benefits at other locations would be less certain.

For jobs performed at transit and shipping hubs, ensuring smooth and efficient operations is particularly important to the broader state, regional, and even national economy. Disruptions of any kind in the movement of people or goods can have long downstream effects, leading to losses and inefficiencies that multiply as they reverberate through supply chains. Thus, measures to improve stability, reduce disruptions, and increase productivity at these locations are smart investments in the long-term health of the economy.

The Secure Maryland Wage Act will improve the operation of three of the state's most critical pieces of infrastructure. The wage increase and health benefits guarantee will help to attract and retain a skilled workforce, reducing the costs and dangers associated with high rates of turnover. Because BWI, Penn Station, and the Port of Baltimore are hubs for commerce throughout the region, raising pay and improving health benefits for workers at these locations should be viewed as an investment in the broader health and security of Maryland's economy—one that will support a stronger post-pandemic recovery. I strongly encourage a favorable report.

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