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WIRE-Net Opposes proposed Cleveland Minimum Wage Law SAVING AND CREATING GOOD CLEVELAND JOBS?

Cleveland, Ohio, June 16, 2016 -- WIRE-Net is a manufacturing-based economic development organization whose nearly 400 member companies employ over 20,000 people across greater Cleveland. Over half of WIRE-Net's annual \$2.6 million budget is invested in programs to support growing companies in the city of Cleveland and to help them reinvest in their companies, in their people and in the city.

WIRE-Net's Board of Directors voted on June 15, 2016 to strongly oppose the proposed Cleveland only minimum wage legislation, and urges other Cleveland economic and community development organizations, and all Cleveland elected officials to also strongly oppose the proposal, for reasons stated by John Colm, WIRE-Net President & Executive Director during his testimony at a hearing at City Council on June 16, 2016.

If the law is enacted as written -- without a phase-in period -- it essentially doubles the current minimum wage, while virtually overnight raising the costs of goods produced by Cleveland manufacturers, placing them at competitive disadvantage with every other manufacturer in Ohio and the nation. The cost will be the very jobs the proposal had hoped to enhance.

While the goal of the proposed minimum wage law may be to increase the number of good-paying jobs in Cleveland—a goal which WIRE-Net, its board and members support--a recent survey of our members and stakeholders reveals concerns that the opposite might occur.

Here are the findings of WIRE-Net's survey of Cleveland manufacturers:

- 90% of manufacturers oppose the legislation, with just a few taking no position (mostly because they currently pay well above the \$15/hr. benchmark). The spike in wages is predicted to cause some businesses to leave Cleveland. Others will automate to reduce the need for labor. Those operating with thin profit margins and cannot find cost-saving solutions face the risk of business failures (bankruptcy). No firm voiced support for the proposed law.
- Nearly all of the firms responding pay above Ohio's \$8.10 minimum wage (\$12/hour, plus benefits, was commonly mentioned).
- While the number of employees directly affected (because they are currently paid less than \$15/hour) may be small, the impact for most companies will still be big. This is because manufacturers will be forced to raise pay rates across all their jobs to avoid wage compression (reducing the pay differential customarily awarded to workers with greater skills, experience, and company service).

- Even companies with fewer than 25 employees will be forced to pay higher wages to attract skilled workers. All companies will look harder at automation, or reducing the number of workers, trimming benefits (e.g., health insurance), or make other cuts to offset the cost of rising wages.
- Almost every company said the law would put Cleveland at a geographical disadvantage in attracting and retaining growing companies. Why pay almost 100% more in minimum wage if you can tap into the same labor market at much lower cost by relocating a few miles? Alternatives to remaining in Cleveland under consideration include relocation out of Cleveland and automation as realistic ways for firms to mitigate the new costs of the much higher wage. A third alternative for some companies, is to offshore more production to lower wage countries, like Guatemala or elsewhere. Finally, for companies with production sites both in and outside the city of Cleveland, restricting future employment growth to those non-Cleveland locations is a common-sense response to the proposed law. **All of these responses will have the same impact on the city: fewer manufacturing jobs, and a fast eroding tax base.**
- Even firms whose wages are already above \$15/hour will see higher costs for contracted services (e.g., security, maintenance, contracted accounting, IT and other services). For large organizations, these additional costs can easily run into the 6 figures.
- Minimum wage positions were never intended to be long-term career positions, but opportunities for transitioning our young, entry level workers to begin their working careers, moving on to other positions as their knowledge and expertise increased over their working lives. One additional concern about the proposal is the potential impact on young workers. WIRE-Net and many of our companies, along with the Friends of Max Hayes, work week-after-week to line up first time jobs for Max Hayes High School seniors. If companies are forced to pay \$15/hour for entry level, inexperienced workers, many companies will aim to hire more experienced workers at that rate. Where will young people get experience in Cleveland?

One common misperception among advocates of higher minimum wage laws is that companies can simply raise their prices to cover higher costs of wages. But in the global market in which all manufacturers must compete, this is not possible. Customers of Cleveland manufacturers have options around the globe (e.g., Asia, Latin America, Africa, Eastern Europe) to find more competitive pricing on the products they need.

The 33 firms that responded employ a total of 2671 people in the City of Cleveland and pay an estimated \$2.96 million in Cleveland payroll taxes each year. The average number of employees at these 33 firms is 86 and the median is 29. The largest firms employ several hundred employees, but these firms are overwhelmingly small or medium sized, locally and/or family owned businesses. Several of the firms are contemplating consolidation of operations and the law would be yet one more “push” for these firms to consolidate outside of Cleveland. They are located across the city of Cleveland and operate in a diverse set of industries and markets, including coatings and heat treating, machinery manufacture, metal fabrication, instruments manufacture, and metal machining.

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About WIRE-Net: WIRE-Net is a membership-based, non-profit economic development organization that provides services to manufacturing leaders to strengthen their businesses, create healthy communities and fuel economic growth. WIRE-Net has 389 members that employ over 20,000 people across greater Cleveland. For information, visit www.wire-net.org