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The Likely Impact of Mandated Paid Sick and Family-Care Leave on the Economy and Economic Development Prospects of the State of Ohio

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Prepared for:
Ohioans to Protect Jobs

Prepared by:
**The Urban Center
Maxine Goodman Levin College of Urban Affairs
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**The Likely
Impact of
Mandated
Paid Sick and
Family-Care
Leave on the
Economy and
Economic
Development
Prospects of
the State of
Ohio:
Executive
Summary**

UUP

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ABSTRACT: *This report analyzes the potential impact of a proposed paid sick and family care leave legislation on the economy of the state of Ohio, the economic development prospects of the state and on the management of production processes that depend on highly integrate teams. The report also reviews the literature on the effect of mandated paid sick and family care leave on the industrial relations system—workplace performance and worker retention. Our analysis concludes that there would have been a net cost associated with the paid sick leave and family-care initiative proposed in Ohio with a lower bound estimate of \$63.84 annual net cost per newly covered worker and an upper bound estimate of \$260.48 annual net cost per newly covered worker. We estimate that 1.6 million workers would have gained paid sick and family care leave if the proposed initiative were enacted in Ohio; therefore, our lower bound estimate is that the total net cost in Ohio would be \$102.9 million dollars per year and our upper bound estimate is \$420.0 million dollars per year. This estimated range is the minimum impact on the state. It does not include the dynamic, economic development impacts. Our cost benefit analysis looks at the short run impacts and does not include longer-term negative effects that result from Ohio losing investment to border states as companies seek to avoid the mandates.*

Key Words: *State Issue 4, Paid Sick Leave, Healthy Families Act*

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FORWARD

Legislation that would have mandated paid sick and family care leave was originally proposed to Ohio lawmakers in early 2008. A hearing was held in the House Commerce Committee and the Labor Committee; however, the Ohio General Assembly never voted on the proposed legislation. Following this, the Ohio Healthy Families Act Coalition began collecting signatures to place the proposed legislation on the ballot for voters. In November 2008, Ohio voters were to vote on a ballot initiative mandating that employers provide their employees with a minimum number of annual paid sick and family-care leave days. This ballot issue was removed the first week of September by the coalition after a summer of conversation and negotiation led by Ohio's Governor Ted Strickland and Lieutenant Governor Lee Fisher.

This research was conducted in anticipation that the initiative petition would go to the ballot. With its withdrawal, the research team at Cleveland State University's Urban Center took additional time to review its findings in anticipation that advocates for mandated paid sick and family care leave will introduce similar legislation in other states and before the U.S. Congress. We use the law that was proposed by Ohio's Healthy Families Act Coalition as the basis of our analysis.

Political activity around mandated paid sick and family care leave shares many similarities with attempts to impose state and local minimum wages that are much higher than federal minimum wage laws; these are more commonly known as Living Wage laws. In fact, paid sick and family-care leave mandates and Living Wage laws are often included in a set of proposed labor market interventions aimed at reshaping U.S. labor relations that are termed "family-friendly" work practices. These policies in general pose challenges for the operation of flexible labor markets. They envision a future where employers continue to provide the social services for society at a time when economic pressure and the rapidity of economic change argues for making people's social insurance fully portable and freed from the employer—this is especially true for pensions and health insurance.

The disconnect that exists between the image of family-friendly policies and the reality of the workplace is stark. The need for public policy reform is depicted with the image of a working parent, usually of a woman who is a member of the "sandwich" generation, trying to respond to her own needs or the needs of a sick child or parent. The advertising features stories of people who have fallen victim to truly egregious work practices. The reality is that the mandate applies to all workers, not just to the "sandwiched" adult or a person who for some reason does not have the ability to leave

the confines of a truly bad employer and find a job with a good employer. An unintended economic consequence of “family-friendly” policies is that they apply to those who are voluntarily working part-time and to minors and others with no family responsibilities, as well as to the intended demographic group. They are a blunt instrument.

The benefits of mandatory paid sick and family care leave to working adults employed in workplaces without flexible leave are real. However, so are the economic and workplace consequences of mandating leave throughout the entire economy.

- Employing low-wage, low-skilled workers will become more difficult as the low rungs of job ladders for the unskilled and semi-skilled will be cut off from the internal job ladders of companies.
- Employers will try to manage their production risk by shifting more positions to part-time and temporary workers or increasing the use of contract employees, thereby pushing more workers into positions without benefits.
- If a state ventures forth and imposes these mandates on its own, especially a state with weak labor markets for unskilled and semi-skilled workers, the site location markets will penalize it and attracting workplaces with locational choice will become much more difficult.
- Workplaces will be more difficult to manage, especially when compared to work locations in nearby states. A slow migration of business investment out of the state will ensue.

As is true with local Living Wage Laws, the cost of the unintended consequences of mandating sick and family leave policies may very well swamp their benefits. What is also true is that those who benefit from the mandate will not be the same people who will bear the cost.

The public purpose in providing for workplace flexibility and for favoring job growth is an industrial policy. It is a policy that favors job creation over above-market wages and it favors employers and workers crafting industrial relations systems that respond to market forces. We will face a choice between two very different US industrial policies: one which emphasizes job growth and does not impose additional mandates in the workplace versus another which emphasizes often desirable social aspects of the workplace, but at the cost of job growth.

EXECUTIVE SUMMARY

The Urban Center of the Maxine Goodman Levin College of Urban Affairs of Cleveland State University was engaged by Ohioans to Protect Jobs, a nonprofit organization organized under Section 501(c)(4) of the Internal Revenue Code, to analyze a proposal that all employers in Ohio employing 25 or more people provide seven paid sick and family-leave days for all employees working 30 hours or more. The proposal also required that part-time employees be provided similar benefits on a *pro rata* basis. The conclusions reached by the Urban Center research team are that, if passed, the proposed legislation would in all likelihood have the following outcomes:

- It would have been harder to attract and retain business investment in the state of Ohio;
- It would have promoted the perception that Ohio does not have a business-friendly climate;
- Economic development attraction activities would have also been burdened by the fact that business operating costs would be increased when compared to nearby states;
- It would have moved jobs from permanent employers to temporary help agencies;
- It would have increased employment in the near-term but reduced both employment and real earnings over the longer term;
- It would have made Ohio the only state in the nation where time off in some cases qualifying under the Family Medical Leave Act (FMLA) standards, would require compensation;
- It would have increased business operating risks, especially for manufacturers and others with interdependent team-based operations;
- It would have been particularly burdensome, disruptive, and harmful to the state's small- and mid-sized manufacturing establishments;
- It was poorly drafted and would have stimulated expensive and disruptive legal activity;
- It would have increased business risks because the poor drafting was coupled with strong incentives to sue;
- It would have impact existing negotiated labor agreements;
- It would have cause Ohio's employers to move from progressive human resource management techniques to more adversarial techniques;
- It would have produced some benefits in the form the reduced spread of contagious diseases in the workplace, reduced the incidence of sick workers showing up to work, and possibly reduced turnover. However, our research indicates that advocates overestimate the effect on employee turnover.

Likely Impact of Mandated Paid Sick and Family-Care Leave

- It would have benefited people who are currently employed and do not have sick days, but would have been a burden for those attempting to enter the labor market, especially low-skilled workers;
- It would have increased overall worker absences and facilitated abuse of sick leave benefits.

In sum, the proposal to mandate paid sick and family-care leave days would have been bad for Ohio's economy and bad for some of Ohio's workers.