

Earned Sick Days Bill Would Promote a Healthier Philadelphia Economy

Testimony of Stephen Herzenberg, Keystone Research Center
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My name is Stephen Herzenberg. I am the Executive Director of the Keystone Research Center and hold a Ph.D. in economics from the Massachusetts Institute of Technology. I appreciate the opportunity to testify before you today on the 2013 Earned Sick Days Bill.

My main goal today is to drive home the *economic* arguments for mandating earned sick days. Requiring employers to provide employees with earned sick days would generate economic benefits of three main types. First, it would reduce costs (“negative externalities”) imposed on other members of the community but not currently taken into account by employers that do not offer earned sick days. Second, it would generate benefits for employers themselves by accelerating worker recovery to full productivity levels, reducing turnover, and improving worker-employer relations. Third, it would generate longer-term benefits for the city by encouraging employers to adopt more enlightened (or “high road”) management approaches associated with higher levels of innovation and productivity growth. At the end of my testimony, I will also briefly summarize the flaws in economic analysis used to argue that earned sick days would have high costs to employers.

Requiring employers other than “mom and pops” to offer earned sick days would, of course, have social benefits. Two of five private-sector workers and four of five low-wage workers have no earned sick days at all, about 210,000 Philadelphians. This includes more than 38,000 that work in health care and social assistance, many in direct contact with children and the elderly. Another more than 36,000 Philadelphians without earned sick days work in restaurant and hotels, jobs that include food preparation.

Economic benefit 1: Lower negative externalities that result from employers not having earned sick days. Economists and policymakers recognize that in making economic decisions businesses may take into account only the costs for which they have to pay. The classic example is pollution: businesses may cause pollution but not consider its costs because they don’t have to pay to clean it up. This imposes a cost—a “negative externality”—on the community. Negative externalities also result when businesses do not offer employees earned sick days. For many workers, taking a day off to care for themselves or their children when illness strikes means losing a day's pay or, worse, losing their jobs. As a result, many sick adults go to work or send their sick children to child care or school. This can impose significant costs on other members of the community not taken into consideration by employers that do not provide earned sick days. Analysis of a 2007 National Health Interview Survey found that providing earned sick days would have positive health results for employees and the public, by controlling the spread of pandemic flu, because workers without earned sick days are more likely to go to work sick with an illness like the flu and are more likely to send a sick child to school than workers who have

paid sick days.¹ Providing paid sick days would also reduce the spread of food borne illnesses from restaurants, healthcare and daycare facilities.

Economic benefit 2: Higher productivity, lower turnover, and improved worker-employer relations. Earned sick days also generate savings and benefits for employers required to provide earned sick days. One benefit is reduced turnover. A lack of earned sick time can lead to workers who don't show up being discharged or lead employees to quit a job. A 1993 study found that having earned sick time reduces voluntary job mobility (quits) by 5.6% for married men and 3.6% for married women.² Worker turnover costs are high for entry-level workers relative to labor costs because the human resource and management staff who oversee recruitment are paid more than the entry-level employees. Based on national estimates and the city's share of national employment, Philadelphia employers hiring and training costs would fall by about \$100 million.³

Paid sick time not only reduces hiring and training costs but also increases worker loyalty, which generates additional productivity benefits. For example, upon returning to their job from earned sick leave, many workers who are not replaced make up for the lost productivity by performing more intensively, or slightly longer hours. While productivity falls off when ill workers come to work, staying home can promote a quicker and fuller recovery.⁴

Some economists may object that if it increases an employer's profits to offer earned sick leave, then the employers would already do it. But economic models founded on all-knowing employers—who calculate to the penny the pros and cons of all possible employment policies and then rationally pick the most profitable one—construct a fantasy world. In the real world, some employers are short-sighted and penny wise and pound foolish. Earned sick days would make them a little less so. This directly benefits these employers while also internalizing some of the negative externalities that result from sick workers coming to the job (or sending their sick children to school or child care).

Economic benefit 3: Promoting high-road business and a high-road city. Economic opponents of earned sick days such as National Federation of Independent Business Chief Economist Charles Dunkleberg take a static view of labor standards focused on short-term costs. His perspective is similar to the view that has fueled opposition to labor standards going back to the first fights about prohibitions on child labor. An alternative view of labor standards was articulated by MIT economist Michael Piore in a well-known article some two decades ago.⁵ Piore points to the role

¹ Rutgers University Center for Women and Work, 2011, A Health Impact Assessment of Paid Sick Days Policy in New Jersey, May, online at <http://smlr.rutgers.edu/smlr/sites/smlr/files/CWW%20Report%20-%20NJ%20HIA%20Summary.pdf>

² Philip Cooper and Alan Monheit, "Does Employment-Related Health Insurance Inhibit Job Mobility?" *Inquiry*, Vol. 30, No. 4, pp. 400-416.

³ Vicky Lovell estimates that paid sick days nationally could reduce employer hiring and training costs by about \$25 billion annually. See Vicky Lovell, *Valuing Good Health: An Estimate of Costs and Savings for the Healthy Families*, Institute for Women's Policy Research, Washington, DC, 2005, online at

<http://www.iwpr.org/publications/pubs/valuing-good-health-an-estimate-of-costs-and-savings-for-the-healthy-families-act-b248> In 2010, employment in Philadelphia equaled 577,000 and unemployment national equaled 139,064,000. Multiplying the Philadelphia share of national employment times \$25 billion yields \$104 million.

⁴ Paul Hemp, "Presenteeism at Work: But Out of It," *Harvard Business Review*, October 2004, reprint R0410B.

⁵ Michael Piore, "Labor Standards and Business Strategies," in Stephen A. Herzenberg and Jorge F. Perez-Lopez (eds), *Labor Standards and Development in the Global Economy* (Washington, D.C.: Bureau of

of labor standards in shaping employer “business strategy” and influencing employers to embrace business strategies that lead to higher levels of service, productivity, and innovation. In today’s Philadelphia, low-cost, low-standard business strategies are likely to translate into low rates of service, quality, and innovation. They are also likely to perpetuate the large numbers of poverty-wage, dead-end jobs in the city. By contrast, higher-standard business strategies offer greater opportunities for increasing economic vitality and improving job opportunities in the city.

Clearly, the conditions that will produce more high-standard businesses are complex. Moreover, support for businesses to adopt high-standard approaches will be at least as important as limits on their ability to perpetuate low-standard ones. Nonetheless, it seems likely that implementing advanced labor standards, including earned sick days, is compatible with efforts to promote innovation in the city and, at best, a way to distinguish the city to forward-looking entrepreneurs and high-skill workers as a 21st century city not a 19th century one. In this regard, it is worth that Price Waterhouse Coopers in 2011 named San Francisco, with its earned sick days law on the books, the 3rd best city globally for business and innovation in the world (online at <http://www.pwc.com/us/en/cities-of-opportunity/2011/pdfdownload.jhtml?checked=B1FD1BB20BD87A9BA6C17171618B79F8>).

A Flawed Estimate of the Cost of Earned Sick Days. The primary study used by opponents of earned sick days in Philadelphia is a critique of the proposed 2011 legislation written by William Dunkleberg, the Chief Economist for the National Federation of Independent Business (NFIB). (The 2011 bill was similar to the current bill except that the current bill also allows domestic violence survivors to use earned sick days for treatment and counseling.) To my knowledge, Dunkleberg’s study has never been formally released, which makes it less subject to public scrutiny. It has been widely circulated to council members and editorial boards. Its claim that earned sick days could cost \$350 million reportedly resurfaced recently in a phone call with the Philadelphia Chamber of Commerce.

Nearly two years ago, Penn State-Abington economist Lonnie Golden and I obtained a copy of the Dunkleberg study and wrote a critique. (A scanned copy of the Dunkleberg original and a copy of the Golden-Herzenberg critique are uploaded to www.keystoneresearch.org.)

Here is a list of the main flaws we found in the Dunkleberg study.

- It contains an elementary mistake that doubles the estimated potential maximum cost of the bill.
- It makes an implausible assumption about how many earned sick days workers will actually take and fails to use readily available data on how much workers actually use paid sick time. (Many workers don’t take all their permitted sick days because they view them as insurance available in cases of more serious illness.)
- It fails to capitalize on arguably the best source of information—actual experience following the implementation of an earned sick days ordinance in San Francisco in February 2007.

International Labor Affairs, U.S. Department of Labor, 1990 (reprinted 1994). Similar arguments are incorporated into more recent writing about environmental standards by Harvard Business School Professor Michael Porter.

- It overstates the adverse effect on jobs by using a questionable methodology that exaggerates the sensitivity of employer demand for labor to the implementation of earned sick days.
- It does not consider cost-saving benefits for employers (noted earlier) that would result from earned sick days.
- It neglects the potential costs of “presenteeism”—low-productivity performance by sick workers on the job—and the cost of the workplace spread of communicable illnesses.
- It includes implausibly high estimates of the cost of compliance with a paid sick days ordinance.

The flaws and limitations of the Dunkleberg study mean it is not a credible basis for evaluating proposed earned sick days in Philadelphia.

Summing up: Perhaps the most powerful evidence for the economic benefits of earned sick days is the support for it among employers in San Francisco who have actually experienced such a legislative requirement: roughly two thirds of employers in every firm-size range were “somewhat” or “very” “supportive” of paid sick days three years after its implementation. Even in the hotel, food services and retail and wholesale trade industries, more than 60 percent of employers are somewhat or very supportive.

In sum, when you do the numbers carefully, it becomes clear that the sky will not fall if Philadelphia adopts an earned sick days bill. In fact, the benefits in the form of lower negative externalities, positive benefits for employers themselves, and encouragement of higher-road employers outweigh the benefits. On economic, social, and public health grounds, earned sick days make sense for the city of Philadelphia.