Cleveland State University
Maxine Goodman Levin College of Urban Affairs

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

Prepared for:
Ohioans to Protect Jobs

Prepared by:
The Urban Center
Maxine Goodman Levin College of Urban Affairs
Cleveland State University

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UUP
The Ohio Urban University Program
2121 Euclid Avenue Cleveland, Ohio 44115
http://urban.csuohio.edu

This report was researched and prepared by the staff of The Urban Center, Maxine Goodman Levin College of Urban Affairs, Cleveland State University. Project management and oversight was provided by Edward (Ned) Hill, Ph.D., Interim Dean, Levin College and Vice President for Economic Development, Cleveland State; and Daila Shimek, Project Manager, Center for Public Management, Levin College. Principal authors were Edward (Ned) Hill, Ph.D., Interim Dean, Levin College and Vice President for Economic Development, Cleveland State; Christopher Spence, Doctoral Student, New York University Wagner School of Public Service; Daila Shimek, Project Manager, Center for Public Management, Levin College; Joel Elvery, Ph.D., Assistant Professor of Urban Studies, Levin College; Ryan Foster, Graduate Research Assistant, Center for Public Management, Levin College; and Ziona Austrian, Ph.D., Director, Center for Economic Development, Levin College. Additional research, and analysis was provided by Claudette Robey, Assistant Director, The Urban Center and Center for Public Management, Levin College; Kevin O'Brien, Director, Center for Public Management, Levin College; and Holly Cooper Whisman, Graduate Research Assistant, Center for Public Management, Levin College.

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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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 impacted existing negotiated labor agreements;
- It would have caused 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.

- 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.

INTRODUCTION

Can legislation that mandates paid sick and family-care leave be good for both employees and employers? Providing paid sick leave to workers is justified in economic terms if it produces a net benefit for workers and their employers. For example, a net benefit may result if the legislation results in higher workplace productivity by preventing the spread of contagious disease among co-workers or by enabling workers to obtain early medical treatment and return to work at full capacity rather than suffering from sickness for a prolonged period. On the other hand, if it imposes a disproportionate cost on either firms or workers, then it may not be justified in economic terms. For example, if a large administrative burden from instituting a paid sick leave policy is placed on firms, or if lost wages and workplace productivity resulting from workers being absent while on paid sick leave causes firms to lose business, then the cost is borne disproportionately by firms and laid-off workers. Another example of a consequence of expanded sick leave rights is attendance becoming harder for employers to predict, possibly resulting in interruptions in either production or service quality that harms the company's business prospects. In reality, there may be both beneficial and costly aspects to legislation which mandates the provision of paid sick and family care leave.

Research Design

The Urban Center undertook five distinct research tasks as the means of assessing the likely impact of mandated paid sick and family-care leave on Ohio's economy. Each of these activities produced reasons to question the desirability of enacting a paid sick and family-care leave mandate. The Urban Center staff undertook: (1) a review of the existing academic and consulting literature on the labor market impacts of sick days and similar benefits; (2) estimated the number of establishments, firms, and jobs in Ohio that could be effected if a mandated paid sick leave initiative, which would apply to employers with 25 or more employees, were approved; (3) conducted a benefit-cost analysis of the mandated paid sick leave that was proposed in Ohio; (4) conducted a series of focus groups throughout the state of Ohio to understand the reactions of the business community to mandated paid sick and family care leave; and (5) conducted a poll of the members of the Ohio Manufacturers Association on the likely operating impacts of mandated paid sick and family care leave. Each of these research elements is included this report or in its appendices. The research findings are summarized in the sections of the report. We begin with economic impacts, move to the managerial impacts, and finish with the economic development impacts.

The appendices to this report are featured in a separate document as an addendum. The appendices include supporting documents and information, definitions, and references, as well as the full bodies of research on the sections summarized in this report.

ECONOMIC IMPACTS

Who is Covered?

The paid sick and family-care leave mandate that was proposed in Ohio is similar to other bills and proposals that have been introduced in other states and in a few cities. The proposal would have required that all companies operating in the state of Ohio who employ at least 25 employees be mandated to provide at least seven days per year of paid sick or family care leave to employees who worked at least 30 hours a week. The leave could have been taken in increments of an hour or "in the smallest increment that the employer's payroll system uses to account for absences or use of other leave." The initiative would have covered part-time employees as well, those who work less than 30 hours a week or 1,560 hours a year, who would be provided with sick and family-care leave benefits on a "pro-rata" basis, that is the amount of leave would be proportioned on the number of hours worked.

In 2007, there were nearly 203,000 companies in Ohio with 5.2 million jobs and total payroll of $53.7 billion. Of this number, 12.7 percent of these companies employed 25 or more people and would have been affected by the initiative; these companies accounted for nearly 82 percent of the state's jobs and 85.5 percent of payroll. We estimate that 55.4 percent of all Ohio job holders currently have rights to paid sick leave. If passed, the initiative would have covered an additional 1.6 million jobs, leaving 608,000 positions, or 12.2 percent of the jobs in the state, uncovered. Appendix D provides full details of our estimates of the numbers of establishments and employees that would have been affected by the paid sick and family-care leave proposal.

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There are nearly 12,000 companies in Ohio with between 25 and 49 employees and almost 14,000 companies with employment of 50 or more. The reason this distinction in employment size is important is that companies with at least 50 employees within a 75-mile radius are covered under the federal Family Medical Leave Act (FMLA) and are more likely to have the administrative machinery in place to account for sick and family care leave. However, the federal legislation mandates the availability of *unpaid* sick and family-care leave. If the proposed paid sick and family-care leave mandate were to have become law, companies covered under FMLA in Ohio would have had to offer at least seven days of *paid* sick and family-leave. Further, under the legislation that was proposed in Ohio, the accounting for paid sick leave would have expanded the geography of FMLA coverage so that 75-mile radius for inclusion under the federal law would have become statewide. In other words, the paid sick and family-care leave mandate introduced in Ohio would have resulted in additional wage and salary costs to companies that do not offer paid sick and family care leave under the federal FMLA. The 12,000 smaller companies would have had to institute paid sick and family care leave under the Ohio proposal, thereby incurring the financial cost of paying for leave. These companies would also have to change their accounting and record keeping systems and incur additional administrative costs.

To estimate the number of jobs that are not covered by paid sick and/or family-care leave policies by industry, we used national coverage statistics that were provided in a report written by Policy Matters Ohio. We estimate that 1.6 million jobs in the state of Ohio are not covered by paid sick leave. This is nearly 31 percent of all jobs in the state. We caution that there are more jobs than people employed in the state of Ohio because a number of people in the state hold more than one job. We also note that our estimates include both full-time and part-time jobs.

Manufacturing, Accommodation and Food Services, Retail Trade, Health Care and Social Assistance, and Administration and Support Services are the industries in Ohio with the most employees without paid sick leave who work in establishments with 25 or more employees. We estimate that manufacturing has about 331,000 uncovered jobs; Accommodations and Food Services an estimated 220,000; Retail Trade 208,000; Health Care and Social Assistance 180,000; and Administration and Support (dominated by back office service centers, call centers, and temporary employment agencies) 168,000 uncovered positions. The next two largest industries are Educational Services, with 134,000 estimated uncovered positions, and Construction with nearly 80,000.

The unionized construction industry presents a special challenge for the implementation of mandated sick leave.

The unionized construction industry presents a special challenge for the implementation of state-mandated paid sick and family-care leave legislation. If not directly addressed, it would either push construction costs higher than the market can bear for firms that use a unionized workforce or result in a shift away from the use of unionized construction labor. In the unionized sector of the construction industry, the trades unions provide benefits to their members through health and welfare funds. Members receive portions of their hourly pay for sick leave, disability, vacation, and retirement, which is then managed by the union. Employers, in effect, contract with union hiring halls for their workers, even if the union members are long-term “core” members of the contractor’s team, and even if they are jobsite foremen.

The problem facing employers and unions lies in determining which party provides and pays for the leave. We are uncertain if the status of the union member would switch from being a contractor to being an employee of the construction company. If the union member is a contractor to the construction firm, does the union become the “employer” and provide the benefit through its health and wellness fund, or do employers pay for the benefit? If workers become employees, then does the construction company have to provide paid sick and family care leave? If the construction company provides leave, is the union member’s wage reduced to pay for the benefit and does money move from the union’s welfare fund to the company to pay for the mandated benefit? Another wickedly difficult issue exists in the way that workplace discipline over tardiness is handled. Is lateness the province of the union that may provide the late benefit or is it part of management’s rights in controlling the workplace? Similar complications exist among industrial union members who are covered by national contracts that do not comply with a proposed paid sick or family-care leave mandate.

The large numbers of uncovered (those without paid sick or family care leave) manufacturing workers led us to conduct additional research on the manufacturing sector of Ohio’s economy for several reasons. First, manufacturing is the largest sector affected. Second, the manufacturing and back-office operations are both part of the state’s economic base and the most susceptible to inter-state competition for facilities location. The other heavily affected sectors of the economy are predominantly local-population serving and directly or indirectly dependent on the incomes of those employed in the base of the economy for their business.

Will there be a major impact on manufacturing? Today, a majority of manufacturing workers in the state of Ohio may not be covered by formal paid sick and family leave policies. Our estimates indicate that as many as 42.6 percent of the manufacturing workforce may not have paid sick and family care leave and are employed by companies with more than 25 employees. Another 5.4 percent of manufacturing jobs are not covered by these policies but are in companies with less than 25 employees. These figures do not account for those who work in manufacturing operations in the state of Ohio and are paid by temporary employment agencies.

These estimates of the number of jobs that would have been covered by the proposed paid sick and family leave benefit do not separate the number of positions into full-time or part-time jobs. We do not have the data to make that separation. We do not know how many of these positions are currently filled by someone who is moonlighting and where the position is secondary employment. We also do not know how many of these positions are filled by teen workers or those who are voluntarily working part-time.

> *Those who would lose the most from the mandate are those denied work because employment has moved, jobs were not created, or in cases where full-time work displaces part-time work.*

All of these dimensions of the employment puzzle are important in understanding the trade-offs involved in implementing a state mandated paid sick and family-care leave benefit. In the end, the economics of the issue would benefit those who are currently working and do not have paid sick or family care leave, be they full-time, part-time, head of household or working teen. Those who would lose the most from the issue are those denied work because employment has moved, jobs were not created, or in cases where full-time work displaces part-time work.

DO THE BENEFITS OUTWEIGH THE COSTS?

As previously noted, paid sick and family-care leave mandates present both costs and benefits, but who benefits, who pays, and what is the bottom line? This section reviews and critiques two studies conducted in Ohio that estimates costs and benefits associated with paid sick and family-care leave mandates that were proposed in Ohio. Following the summary and critique is a summary of our own cost-benefit analysis. This section also reviews relevant literature to help provide context for the projected effects of the policy.

Mandatory Paid Sick Leave Would Impose a Net Cost in Ohio

Two studies estimated the costs and benefits from mandating sick and family leave benefits in Ohio, and they reached vastly different conclusions: a report by Policy Matters Ohio finds a positive net return for firms and workers in the state, whereas the National Federation of Independent Business (NFIB) Research Foundation concludes that there would be significant costs to the economy.[1] Our analysis finds that both of these studies have limitations and that a realistic conclusion is that in the short run there would be a net cost in Ohio, although to a much smaller degree than what the NFIB analysis finds.

> *Two prominent studies examining the net outcome question [mandated paid sick and family leave] in Ohio draw vastly different conclusions… Our analysis finds that both these studies have limitations.*

Policy Matters Ohio

In October 2007, Policy Matters Ohio released the report “A healthy standard: Paid sick days in Ohio.” The report concludes that the benefits to firms from the proposed act outweigh the costs, estimating that the average annual net gain is $128.55 per worker who would be newly covered by the act or a total gain of over $200 million for the 1.6 million workers who would be newly covered. According to the analysis, benefits of the proposed policy would include disease containment, faster recuperation among sick workers, increased productivity because of improved worker health, reduced turnover, and reduced use of short-term nursing care. Costs included in the Policy Matters Ohio analysis include lost wages for new users of paid sick leave policies and administrative expenses incurred to operate sick leave accountability systems.

The Policy Matters Report, in our view, underestimates the costs that would result from the proposed paid sick leave legislation. Most notably, the analysis omits the

[1] Hanauer, 2007 and Phillips, 2008

value of lost output because of increased worker absences. When employees are absent from work, the cost to firms includes the value of lost wages *plus* the value of lost output. Policy Matters Ohio assumes that the lost productivity from absent workers is made up by fill-in or overtime workers, but as is shown in the literature below, this is not the case. This omission is included in our analysis. Additionally, our analysis tweaks some of the other costs and benefits included in the Policy Matters Ohio report as they may have been undercounted or over-counted, in some instances.

National Federation of Independent Businesses

In July 2008, the National Federation of Independent Businesses Research Foundation released the report "Ohio's Proposed Healthy Families Act: Economic and Small Business Effects." The report concludes that employers would pay $1.17 billion if this policy was implemented, resulting in losses of 75,000 jobs and $9.4 billion in lost sales over the next five years. The study included costs for lost wages for new users of paid sick leave policies, management costs, and administrative costs. It also included a discussion of costs due to increased usage of overtime and temporary workers, but these estimated costs are not included in the final tally.

The NFIB report, however, does not incorporate any of the benefits that would likely result from the policy such as reduction in the spread of contagious disease, productivity gains resulting from worker health improvements, faster illness recuperation among sick workers, and reduced turnover. The result is that this report overstates the net costs of the proposed paid sick leave legislation.

The Urban Center's Benefit/Cost Analysis

The Urban Center's analysis concludes that there would be a net cost associated with the proposed paid sick leave legislation.

The Urban Center's cost benefit analysis uses the framework established in the Policy Matters Ohio report and looks at the short run impacts of the proposed legislation. It does not include longer term negative effects that result from Ohio losing investment to bordering states as companies seek to avoid the mandates. Our conclusion is that there would be a net cost associated with the proposed paid sick leave legislation 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 gain paid sick leave if the proposed legislation were passed; 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. The full analysis can be found in Appendix G.

An Operating Cost Analysis

As a complement to the benefit/cost analysis, The Urban Center estimated what the increased cost of operations would be using the assumptions developed in the benefit/cost analysis. In this exercise, the operating costs are estimated but the benefit to the firm from reduced turnover and improved attendance from better health outcomes are not included.

- **Administrative cost**: The Hanauer (2007) report uses an administrative cost to the firm of two percent of the wage bill for implementing the paid sick leave benefits, based on the cost of managing Temporary Disability Insurance. This is a fixed cost for the firm. In focus groups conducted under this project, employers report that they expect the administrative burden to be high and will place pressure to cut costs in other areas.

- **Straight-time cost**: Providing seven paid sick days on a base of 51 work weeks in the course of a year, assuming that the company provides five vacation days increases straight-time costs by a maximum of 2.7 percent of wages. If the firm provides 10 vacation days the cost increases to 2.8 percent.

- **Replacement cost**: Assuming that the worker is replaced by another worker who is earning time and a half (a 50 percent labor premium) and the worker operates at 60 percent efficiency (that is 40 percent of the value of production is lost), then the combination of additional labor cost and forgone output makes the replacement labor 90 percent more expensive for the firm than the missing worker. This adds another 2.4 percent to 2.5 percent to the cost of the mandate. This figure takes the straight-time cost and multiplies it by 90 percent.

- **Total cost**: The maximum cost to the firm is found by adding together the administrative cost, the straight-time cost, and the replacement cost. If all of the company's workers take full advantage of the benefit, the added cost burden to the company is between 7.1 percent and 7.3 percent of the firm's current wage bill. If the average employee takes half of the allowable paid sick days, the increased operating costs would be between 4.6 percent and 4.7 percent of the total wage bill.[2] A range of increased labor costs of between 4.6 percent and 7.1 percent is material.

[2] The administrative cost is fixed. This is added to half of the straight-time cost and half of the replacement cost.

- **Operating cost savings:** Offsetting these costs are two sources of operating cost savings. The first is lower turnover and the second is improved worker productivity that comes from peace of mind, from recovering from illness more quickly, and from not spreading disease. The literature that is reviewed below and in the appendix where the full benefit/cost analysis is presented casts doubt on the estimates provided by advocates for mandated sick and family leave on the extent to which turnover will be diminished due to the imposition of this employer mandate.

Literature Review

In examining the literature, several themes emerged. First, not everyone will be affected equally by paid sick and family-care leave mandates. Second, the short-term and long-term costs, benefits, and other impacts associated with paid sick and family-care leave mandates will be quite different. Third, there may be unintended consequences resulting from the sick and family-care leave mandates that are unforeseen by stakeholders in the policy debate. The literature offers support to the conclusion that costs incurred would likely outweigh benefits from providing paid sick and family care leave.

Paid Versus Unpaid Leave

The legislation proposed in Ohio would have required employers with 25 or more employees to accrue at least seven days of paid sick and family care leave per year for each employee working 30 or more hours per week and a pro-rated number of paid sick days for employees working less than 30 hours per week. To interpret the beneficial and costly aspects of providing paid sick leave to these workers, it is necessary to tackle three important concepts– absenteeism, presenteeism, and turnover. Absenteeism occurs when workers miss work time; presenteeism occurs when workers are present but they work with decreased efficiency because they are either sick or are distracted by family problems; and turnover occurs when workers either voluntarily or involuntarily leave their jobs.

Absenteeism and Paid Sick Leave Abuse

If paid sick and family care leave is mandated, businesses would incur new costs due to an increase in the incidences of absenteeism and sick leave policy abuse among workers. These costs would be partially mitigated by the reduction of contagious diseases in the workplace and faster illness recovery times among workers, but the net result would be a cost to firms.

Some amount of absenteeism is expected in the workplace. Even workers who do not have paid sick leave or paid vacation miss work on occasion due to illness, transportation problems, family matters, and for many other reasons. Estimates are that workers average about 4.6 missed days per year due to illness or other health-related factors with workers without paid sick leave benefits taking as many as 2.5 fewer sick days than workers with paid sick leave.[3,4] The cost of absenteeism to employers is large, running upwards of $74 billion annually for U.S. companies by at least one estimate.[5]

Estimates are that workers average about 4.6 missed days per year due to illness or other health-related factors with workers without paid sick leave benefits taking as many as 2.5 fewer sick days than workers with paid sick leave.

When workers with paid sick leave benefits are absent, firms incur costs for:

- Wages paid during their absence
- Lost productivity during the absence or reduced productivity from fill-in or temporary workers with less proficient skills
- Overtime expenses from having to compensate co-workers to make up lost productivity
- Losses from when one employee's absence negatively affects the productivity of co-workers (i.e. the absent employee creates a bottleneck, slowing the work of co-workers).

A 2006 report estimates that the cost to a firm of a missed day is, on average, 61 percent more than the absent individual's wage, again a number that varies for individuals depending on the nature of his or her occupation and responsibilities.[6]

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Workers use sick leave for a variety of purposes. Some sick leave policies would consider the use of sick leave to care for a sick child as legitimate; whereas others would considered this as an abuse of company policies. Survey-based research indicates that up to two-thirds of workers calling in sick at the last minute are not actually ill;

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[3] Lucas, Schiller, and Benson, 2004
[4] Hanauer, 2007
[5] Nicholson et al, 2005
[6] Nicholson et al, 2006

rather, they take absences to deal with family issues, personal needs, stress, and out of a sense of entitlement – some of these reasons may be considered illegitimate under the legislation that was proposed for Ohio.[7] Furthermore, workers who have paid sick leave benefits tend to be absent more on Mondays, Fridays, and around holidays, which would suggest that sick leave abuse is taking place.[8]

Taking sick leave serves a good purpose when it reduces the spread of contagious diseases and increases a worker's speed in recuperating from sickness. Researchers have found that early medical interventions can shorten the duration of absences due to illness, something that a paid sick leave policy may help facilitate. In a study of sexually transmitted disease cases, Sun Life Financial, a health insurance provider, found that when employees of their client companies received early medical intervention they returned to work 20 percent faster than a comparison group.[9] Additionally, absenteeism among co-workers can increase as an illness spreads in the workplace and overall time off can increase if the spread of contagious illnesses is not controlled.[10] Thus, when a sick worker stays home, he or she may reduce the risk of passing on contagious diseases, thereby preventing co-worker absences.[11]

Given this tradeoff, the issue of whether sick leave policies would increase or decrease absenteeism overall is an empirical matter. In European countries, where paid sick leave policies are prevalent and much more generous to workers than what is proposed in Ohio, evaluations show that as sick leave policies become more liberal, absenteeism increases.[12] In some European countries, some workers have averaged as many as 25 days of sick leave per year when policy permitted.[13] In the U.S., workers who took time off under the Family Medical Leave Act (FMLA), an act that allows workers to take up to 12 weeks of unpaid leave for personal medical reasons or to care for sick family members, reported that they returned to work earlier because their leave was unpaid and they needed the income.[14] This suggests that if time off had been compensated

A reasonable conclusion that can be drawn from the European and FMLA experiences is that despite the mitigating effects of paid sick leave on the spread of contagious diseases and the reduced recuperation time resulting from time off from work, workers on average would incur more absences in Ohio if mandated sick and family leave is made law.

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[7] CCH, 2007
[8] Winkler, 1980
[9] "Early Intervention Can Speed Employees Back to Work", 2001.
[10] Skatun 2003
[11] Li et al, 1996
[12] Henreksson and Persson, 2004
[13] Ibid
[14] Waldfogel, 2001

under this act, absence durations would have been longer. Thus, a reasonable conclusion that can be drawn from the European and FMLA experiences is that despite the mitigating effects of paid sick leave on the spread of contagious diseases and the reduced recuperation time resulting from time off from work, workers on average would incur more absences if paid sick and family care leave is mandated.

Showing up to Work Sick—Presenteeism

Presenteeism, or the act of being present at work while sick, is a widespread occurrence for which the cost, by some estimates, eclipses that of absenteeism. Recently, the American Productivity Audit, a survey of nearly 29,000 workers, found that during one two-week span approximately 38 percent of respondents reported lost productive time on the job due to sickness.[15] A 2005 AdvancePCS study of lost workplace productivity reported that workers who are sick on the job cause more lost productivity (72 percent) than workers who miss work due to illness (28 percent).[16]

The negative effects on workplace productivity of working while ill derive from many factors including physical injuries and limitations, chronic health conditions such as obesity and heart disease, mental illnesses such as depression, temporary distractions from outside the workplace, or temporary illnesses such as the flu. The effect of paid sick leave policies on presenteeism is an empirical matter and there is little directly corresponding evaluative research upon which to draw conclusions. Evidence indicates that healthcare interventions can improve presenteeism-related productivity losses resulting from health issues.[17] While it is likely that the provision of paid sick leave would not greatly impact productivity losses due to chronic physical or mental illnesses, to the extent that paid sick leave enables workers to obtain healthcare or to recuperate from illnesses, it may reduce presenteeism. Furthermore, any increases in absenteeism resulting from mandated paid sick leave likely would reduce the incidence of presenteeism because the two have an inverse relationship.[18]

[15] Schulz and Edington, 2007
[16] Cited by Levin-Epstein, 2005
[17] Hemp, 2004
[18] Caverley et al, 2007

Turnover

It is likely that mandating paid sick leave will decrease some turnover in the labor market. The questions are: by how much and at what cost? In 2007, the turnover rate for all industry sectors in the U.S. averaged 39.6 percent — unchanged compared to 2006— with approximately 54.6 million workers leaving their jobs and 57.8 million workers getting new jobs.[19] Costs from turnover include lost productivity while the departing worker's position is unfilled, search costs to find a new worker, costs for training a new worker, and lost productivity during the time it takes the new worker to become proficient at his or her new job.

It is likely that mandating paid sick leave will decrease some turnover in the labor market. The questions are: by how much and at what cost?

Lowering turnover does benefit firms and is socially desirable, but getting the turnover rate down to zero is also undesirable. Turnover is a natural occurrence in the labor market and, while it imposes costs on firms, it is also a beneficial process for both worker and employer that produces better workplace matches where new workers replace those that would be better suited for other jobs.

Workers voluntarily leave their jobs for any number of reasons. They may see better opportunities elsewhere, or they may become dissatisfied with their current position due to compensation, benefits, promotional possibilities, boredom, or the work environment. Mandated paid sick leave can decrease turnover by removing one source of workplace dissatisfaction for those workers that highly value paid sick leave as a portion of their total compensation.[20] When workers violate absenteeism policies, they have a higher likelihood of being released involuntarily. Some portion of absenteeism policy offenders have incurred absences because they needed to take care of a sick child or and elderly parent.[21] The paid sick and family-care leave legislation that was proposed in Ohio would have enabled some workers to care for their children or parents on occasion without violating firm policies, thus reducing some portion of involuntary turnover.

However, it would be a mistake to assume that paid sick leave would uniformly reduce turnover at all firms. As noted previously, turnover results from a variety of reasons with total compensation and the need to care for sick family members being only two. Firms that experience a large portion of turnover due to other reasons would not likely see a large decrease as a result of this employer mandate. For example,

[19] Higher wages and more fringe benefits are both associated with lower turnover rates. (Ibid)
[20] Dale-Olsen, 2006
[21] Browne and Kennelly, 1999 and Dodson, Manuel, and Bravo 2002

nursing aides, an occupation with a notoriously high turnover rate, are known to turnover for many reasons including high stress, long shifts, large caseloads, lack of career ladder opportunities or ongoing training, and lack of autonomy in making very basic patient care decisions in addition to low wages and poor benefits.[22] Improving sick leave benefits may stem some nursing aid turnover, but it would not resolve all of these issues. Thus, assumptions about the effect of paid sick leave on turnover must be considered in the context of other reasons for turnover among specific occupations.

[22] White et al, 2003

HOW LABOR MARKETS WORK: WHO WILL PAY FOR THE SICK AND FAMILY-CARE LEAVE BENEFIT?

Advocates for mandated paid sick and family-care leave policies have presented an extremely optimistic notion of how the sick and family-care leave benefits would be paid. The assumption is that employers would dig into their pockets and come up with the money, assuming that profits exist to bear the increased costs and that employers cannot avoid the added costs. This is a simplistic chain of reasoning, which does not correspond with reality, especially in a state with weak demand for unskilled and semi-skilled labor.

Employers consider their entire labor costs when they set compensation levels. They estimate mandated labor costs of employment taxes, unemployment insurance, and workers' compensation insurance; then they add in benefit costs that are part of the compensation package—vacation time, sick time, retirement pay, and health care insurance. Simply put, if one portion of total wage cost goes up, then other parts of total wage costs have to either go down or are held constant until inflation erodes the real added cost. The imposition of paid sick and family care leave would eventually be paid for by the workers themselves as their wages are held down, or are not increased with inflation, or other parts of the benefit package would be reduced.

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Will All Workers Bear the Cost Equally?

Here the answer is no. The ability of employers to pass the cost back to groups of workers depends on the supply and demand conditions for particular occupations. In the case of Ohio, where there is weak demand for unskilled and semi-skilled labor and at a time when inflation is picking up, the full cost of paid sick and family care leave would be passed back to the lowest paid workers in the state within a two-year time period. Studies have shown that the cost to firms of increasing benefits is passed on to workers in the form of lower wages or lower other benefits.[23] A study of benefits and compensation in upstate New York reveals that entry-level wages are most affected when benefit policies are instituted. Firms that employ workers near the minimum wage threshold may have less flexibility to reduce wages and thus may bear a majority of the costs themselves and face pressure to layoff workers or pass the burden on to

[23] Eberts and Stone, 1985; Gruber and Krueger, 1991; and Heywood, Siebert, and Wei, 2007

consumers in the form of higher prices.[24]

One of the so-called "mysteries" of the economic performance of the past decade is why the average pay of workers has not increased despite dramatic increases in productivity. Economic theory leads to the expectation that wages, or earnings, will increase with productivity, yet this linkage appears to have either weakened or been broken over the past decade. Why has this occurred? There are three reasons: increased benefits costs—particularly of health care insurance, technology,[25] and decreased power of unions attributed to geographic competition.[26]

Major parts of the total cost of labor have increased, particularly the cost of paying for employer-provided health care insurance, and these increased costs have been eating up productivity gains. As employers pay higher benefits, they hold down increases in other parts of their total compensation package to help pay the added cost. The result is that the productivity gains do not appear in the paychecks of workers—it goes to health care providers. Increased health care insurance costs have a peculiar, and negative, impact on the hiring decisions of companies. First, the cost of health care insurance is the same for all full-time employees; it is what economists call a quasi-fixed cost because it does not vary with hours worked or with output, and it is incurred when a person becomes a full-time employee. This means that in percentage terms, health care insurance is a higher share of the total compensation package for lower-paid and lower-skilled workers than for higher-paid and higher-skilled workers. In response, employers have done three things. They use overtime and a combination of part-time and temporary workers instead of adding full-time workers to their payrolls. Second, they have been aggressive in attempting to hold down the wage cost of low skilled

[24] Baughman, DiNardi, and Holtz-Eakin, 2003

[25] When increased productivity is attributed to technology or the introduction of more efficient equipment, such as machinery and information-technology products, part of the return from productivity goes to pay for the equipment. Also, when sophisticated equipment is introduced in a production process it often requires a more highly skilled person to operate or control the process, and fewer people are employed. As an example think about the changes in back office operations over the past 30 years where digitization with information and telecommunications technology have vastly increased productivity and also vastly increased the number of locations where a back office operation can be established.

[26] Unions have become weaker due to decreased transportation costs and to improved information technology and telecommunications, and in a real sense due to the fall of communism. US industry is no longer confined to the Northeast and Midwest and can locate in the southeastern US or outside of the nation. Also, increased trade, the introduction of foreign name brands into the US marketplace, and the invention of highly efficient retail channels with global supply chains all ensure that US consumers will not pay a premium for a US union-made product. Wage premiums in excess of productivity that US unions were once able to obtain for their semi-skilled or unskilled members in the private sector are not sustainable and have been eroded. Therefore, some of the observed break between productivity gains and wages reflects labor markets working and retarding historic wage premiums.

workers. Third, they have an incentive to replace lower-skilled employees with equipment.

How do these observations apply to the understanding the impact of proposed mandated paid sick and family-care leave days for employees? There are several implications.

Those who are prone to sickness, are older, or have child or elder care responsibilities would value the benefit. However, those who are younger, healthier, have support systems in place to respond to health or family emergencies, or benefit from informal leave policies at their place of employment may prefer higher wages or other benefits.

Those who are younger or healthier may prefer higher wages or other benefits [than paid sick leave].

Advocates for mandated sick leave suggest that companies providing paid time off for any reason that conforms to the initiative (seven paid days of leave that can be applied to sick or family care leave after a year on the job and that the time can be used in increments of an hour or less) would have complied with Ohio's proposed legislation. (The ambiguities in the language of the act are discussed in Appendix B .) Many companies provide five vacation days or five days of Paid Time Off (PTO) that individuals can use subject to rules from their human resource departments. The Ohio initiative would have forced the expansion of the benefit to seven days, and there was concern that the time would have to be used for sick or family care leave. Individual employees may prefer to use the time for vacation. In fact, one of the reasons people with flexible PTO programs work while sick is to save their days for vacation.

Paradox of Employment: Short-run Effects Versus Long-run Effects

The Urban Center's research team reasons that paid sick and family-care leave mandates would have very different employment effects in the near term than over a longer period. In the near term, the initiative may very well increase employment. However, over the longer run, as companies make investment decisions, mandated sick leave would be a deterrent to investing in Ohio locations and employment would either fall or not grow as quickly as it would have if the initiative were defeated.

In the short-run, employment may actually increase… in the long run … employment would drop.

In the short-run, employment may actually increase as employers build surge workforces to cover the expected increases in absent workers, especially in employment situations where a missing worker may shut down or severely hinder a production process. Good examples exist in manufacturing, retail and food service, call centers, and warehousing where lean production processes and just-in-time service or production is critical to customer satisfaction and business success. However, the expectation is that these surge or contingent workers would, more often than not, be supplied by a temporary employment agency.

The long-term or long-run employment effects would be quite different—employment would either drop or depart from trend growth in the negative direction. Those firms that are investigating facility expansions or new locations would have increased reason to locate outside of Ohio. Facility locations are driven by the logic of the balance sheet and, for routine operations, the location decision would be driven by the lowest operating cost. For most activities, there are a number of equally advantaged locations in Ohio and in its surrounding states, especially Kentucky, Indiana, and Tennessee. In all likelihood, the additional costs imposed by the initiative, coupled with higher administrative costs and increased risk to production scheduling, would cause employers to favor locations in Ohio's bordering states. These higher costs would either have to be offset by incentive packages or would result in a drop in the real cost of commercial and industrial land in the state. Even then, the investments would be made in Ohio's bordering states.

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MANAGERIAL IMPACTS

Mandating paid sick leave would have significant negative impacts on the manner in which small- to mid-sized companies function. This type of mandate would also impose significant, yet hard to quantify, administrative and implementation demands on these same firms. We begin by discussing impacts on all firms and then we discuss the problems that firms relying on interdependent production teams would face.

Administrative Burden

As with any new policy, a paid sick and family-care leave mandate may require additional administration. Under such a mandate, employers would likely be required to keep records for a specified time period documenting hours worked and paid sick leave taken by employees. If workers are able to take time off in small increments, this could present additional administrative challenges. The onus for administration changes would likely be disproportionately heavy for those employers that do not currently have paid sick leave systems in place for their employees.

One estimate, based on previous experiences with Temporary Disability Insurance, is that the cost for administering the sick leave policy would be approximately two percent of wages.[27] In focus groups conducted under this project, employers reported that they expect the administrative burden to be high; this would place pressure to cut costs in other areas.[28] Industries with the highest percentages of workers without paid sick leave benefits would likely bear the highest administrative burdens to implement the policy. These industries include manufacturing, health care, and administrative and support services.

Disincentive to Employ and Incentive to Create Phantom Companies

> *Because the paid sick and family leave provisions of the proposed Ohio legislation began with the hiring of a company's 25th employee and that increases the cost not only of the new hire but all of the previous hires, the firm would have a disincentive to expand.*

A paid sick leave mandate would introduce a "notch" in a small company's employment schedule that could hinder its expansion and hiring plans. For example, if paid sick or family-care leave mandates begin with the hiring of a company's 25th employee, then it increases the cost not only of the new hire but all of the previous hires. The firm would have an incentive to avoid

[27] Hanauer, 2007

[28] For more information on focus groups see the final section of this report

expanding to avoid all of the costs associated with the 25th hire. Firms would either use overtime to pick up the work that would have been done by the 25th employee, or in extreme cases, establish new companies in units of 24 employees to handle the expansion.

Complicating the Management of Worker Absences

The paid sick and family-care leave mandate proposed in Ohio would have given employees considerable flexibility in notifying their employers of absences and verifying that they are sick. The proposed legislation would have required employees to make "reasonable efforts" to provide advanced notice to their employers of an impending absence, and employers would have been able to ask for verification of illness, but only if sick leave were taken for three consecutive days. These provisions would have enabled sick leave abuse, thereby creating a challenge for employers in managing workplace productivity levels and possibly leading to adverse effects for workers in the long-run as their companies become less competitive.

Employers use a number of strategies to deal with unforeseen sick leave absences. These include preventative strategies that seek to stem sick leave abuse:

- Limits on allowable sick time,
- Disciplinary action when abuse is discovered,
- Verification of illness,
- Buy back policies to reward employees for unused sick leave,
- Payment of less than 100 percent wage compensation for absent time (gaining popularity in Europe), and
- Paid Time Off (PTO) policies that do not differentiate between vacation and sick leave.

There are also a variety of health and wellness programs that employers use to reduce illness among their employees such as providing flu shots, discounted gym memberships, and other programs. Given the expectation that the availability of paid sick leave would increase the incidence of absenteeism among previously uncovered workers, it can be anticipated that employers would undertake some of these same measures to reduce the incidence of absenteeism.

The requirement in the proposal made in Ohio that employers wait three days before seeking validation of sickness from absent employees constrains employers' abilities to police sick leave abuse.

Ohio's proposal required that employers wait three days before seeking validation of sickness from absent employees. This would have constrained employers' abilities to police sick leave abuse.

To compensate for lost productivity due to absenteeism, employers frequently implement strategies that include:

- Having an extra buffer of employees on hand based on the assumption that some portion of workers will be absent each day,
- Relying on temporary agencies to provide fill-in workers, and
- Providing overtime for workers that are present.

Should absenteeism increase as a result of a paid sick leave mandate, it can be expected that employers would need to increase their buffer employment or overtime provision, or become increasingly reliant on temporary staffing agencies. Increases in buffer employment or overtime provisions represent a cost to employers. Increasing reliance on temporary staffing agencies is a consequence of a paid sick and family-care leave mandate that is counter to the expressed intent of the proposed Ohio law— to improve job quality for workers.

Taking Away Management Rights, Increasing Operating Risk, and Threatening Corporate Culture

Employers in Ohio expressed concern that a state-imposed paid sick and family-care leave mandate would increase their operating costs and have a negative affect on their profitability and their ability to compete with companies located outside of the state. A nationwide paid sick leave mandate would likely have the same effect on competitiveness of companies in the U.S. compared with those in countries not mandating paid sick and family-care leave.

Inhibiting Progressive Human Resource Management

A paid sick leave and family-care mandate may prescribe a method for managing attendance that conflicts with best practices in the field. Most companies are moving from adversarial, rule-based attendance systems to no-fault systems where employees have incentives to show up for work and to show up on time. The goal of a no-fault attendance policy is to reward good attendance and to dismiss employees with poor attendance patterns. An example of such a system is given on the human resource page about.com under "Attendance and Attendance Policy".[29]

Attendance and good work behaviors are encouraged and supported by no-fault attendance policies. Under these policies, employees have paid time off (PTO) that they can use for medical or personal reasons and some pool vacation time under the PTO umbrella. For example, a worker may get 10 days of PTO rather than five days of sick leave and five days of vacation. The wisdom of the PTO practice is that it removes the incentive for workers to abuse sick leave by placing the onus of balancing vacation versus sick time on the shoulders of workers. While the legal community may debate the interpretation of PTO versus paid sick leave under a mandated sick leave proposal, a negative consequence would occur if the mandate drives companies to adopt policies that are not in alignment with best practices in the field, and thus enable sick leave abuse.

Mandated paid sick and family care leave is a direct threat to these systems and to managements' rights to manage their workforce and workplaces under two of its provisions. The first is that (PTO) systems need to change if they do not provide the minimum number (this would have been seven days in Ohio) of PTO days. In Ohio, companies were concerned that those providing five days, including vacation time, would need to boost the number of PTO days that they provide and make all of the time available for sick and family care leave.[30]

The second provision is the most troubling for management. The Ohio initiative prohibited employers from using "paid sick leave taken … as a negative factor in an employment action, such as hiring, promotion, or a disciplinary action, or …counting the use of paid sick leave under a no-fault attendance policy."

Incentive to Sue

The incentives to undertake legal action are large and the risk exposure to companies is difficult to calculate.

The mandated sick leave proposal that was made in Ohio had within its provisions strong incentives to sue and incentives that would have encouraged filing contingency lawsuits. Any employee can file and the damages awarded would be calculated for all effected employees. Damages would be "equal to the amount of any wages, salaries,

[29] "Attendance and attendance policy definitions" on about.com or directly at http://humanresources.about.com/cs/glossary of terms/l/bldefattend.htm
[30] There was also concern that under the proposed law that employees would use up their PTO time for vacation and then insist on their 7 days of sick time. This a legal question that needs resolution.

employment benefits, or other compensation denied or lost…" Interest for the lost compensation would be assessed and the amount of total damages would be tripled. In addition, the employer is liable for "reasonable attorney fees" and the employee may receive "equitable relief" including employment, reinstatement, or promotion. The incentives to undertake legal action are large and the risk exposure to companies is difficult to calculate; it is, however, far from trivial.

The cumulative impact of these portions of Ohio's mandated paid sick and family-care leave proposal is best summed in the words of one human resource professional interviewed: "Let the games begin!" The fear was that the proposed system would have stimulated chronic lateness, especially in work settings where time keeping systems are set at 15-minute or six-minute intervals. A secondary concern was that these provisions would be highly disruptive in workplaces where a culture of teamwork is encouraged. The third concern was that the imposition of the mandate would stimulate expensive and disruptive legal proceedings that increase the risk of operating a business in Ohio.

What Have We Learned from the European Experience?

Experiences in Europe indicate that even in places where paid sick leave policies are well established, they present managerial challenges for employers. In the last decade, Denmark, Norway, the United Kingdom, and the Netherlands have all pursued national efforts to reduce sick leave absences through a variety of means such as (1) requiring companies to hire occupational health specialists; (2) tightening the rules regarding allowable uses for sick leave and requirements for workers to verify illnesses, especially in cases of long-term absences; (3) in cases of national administration, pushing the administrative burden down to the local or firm level; and (4) introducing compensation schemes that do not pay workers for the first day or two of sick leave taken thereby placing the cost of missed time on the shoulders of workers.[31] In every country, the issue of illness verification is contentious with regard to concerns about individual privacy. In some countries it is illegal for firms to ask employees to verify that their absences are health related, making it very difficult to police sick leave abuse.

The result of these challenges with sick leave policies in Europe is that absenteeism rates are much higher than in the United States.

The result of these challenges with sick leave policies in Europe is that absenteeism rates are much higher than in the United States. Furthermore, companies that experience higher rates of absenteeism incur more costs including productivity

[31] Whitaker, 2001

losses and the need to maintain larger pools of temporary or overtime workers.[32]

In addition to managerial challenges, there is evidence of the impact of sick leave policies on competitiveness in Europe, where falling labor utilization is blamed, in part, for lackluster growth performance in some countries. Sick leave policies are cited, to some extent, as a cause of falling labor utilization rates.[33,34] Sweden, for example, has experienced slow growth relative to other countries in Europe, a trend that has been attributable to low labor utilization caused in part by extremely liberal sick leave policies. However, any negative competitiveness effects in Ohio would be far from those experienced in Sweden which experiences absenteeism rates over six percent, a far higher rate than what would have been possible under the proposed seven paid sick and family care provision proposed in Ohio.[35]

[32] Berman and Larson, 1994
[33] OECD, 2003
[34] Lusinyan and Bonato, 2007
[35] Barmby et al, 2002

SPECIAL CONCERNS OF OHIO'S MANUFACTURERS AND OTHERS THAT USE TEAM PRODUCTION SYSTEMS

Manufactures have special concerns over the implementation of mandated paid sick and family-care leave policies due to the highly integrated nature of manufacturing production processes. Modern manufacturing is based on concepts of lean production and teamwork. This means that chronic lateness and patterns of Monday and Friday absences can wreak havoc, not only with production schedules, but also with the dynamics of the work team and the culture of the company. Additionally, the increase in operating costs that would be triggered by having a stand-by or "surge" labor force would be a negative factor in assessing the competitiveness of production sites in Ohio. The concern is only increased when the lower levels of productivity of surge workers are factored into the equation.

Modern manufacturing is a highly disciplined work environment where management's job is to minimize production risk and supply chain risk. Plant-based experts that were interviewed highlighted both sources of risk in their reactions to the prospect of mandated paid sick and family care leave. The first is the impact that increased unpredictability of both workforce size and product quality would have on the company's output. The second is supply chain-risk. Original equipment manufacturers (OEMs) and companies that integrate parts from long and complicated supply chains have voiced concern, not over their ability to manage the mandate, but over the ability of small- and mid-sized Tier III suppliers to manage the repercussions from a paid sick and family-care leave mandate. Their concern is over supply chain disruptions from undelivered parts and subassemblies caused by absenteeism in the plants of suppliers, or parts and subassemblies that do not meet quality standards.

It makes one think back to the 1960s and 1970s when the common wisdom was to "never buy a car made on a Monday or Friday." Were a paid sick and family-care leave mandate enacted along the lines proposed in Ohio, we would have to worry about when the parts were made.

Survey of Ohio Manufacturers

Earlier in this report (page 11), we discuss the economic impact of proposed mandated sick leave and the impact to manufacturers. Through our research and focus group discussions, we discovered that the manufacturing sector would be the largest industry impacted should the proposed mandates be enacted. Because of this, we chose to poll the membership of the Ohio Manufacturers Association (OMA), a statewide organization that focuses on issues impacting manufacturers, on how they anticipate their business operations would be impacted by the passage of the initiative.

The majority of the companies responding to the survey employ less than 100 individuals and offer some type of paid sick leave or paid leave. Those companies not offering paid sick leave indicated that offering this type of benefit would not reduce employee turnover within their companies. For those companies that offer paid sick leave, the responses were evenly divided among whether offering the benefit would or would not reduce turnover. The majority of the companies responding also indicated that their annual employee turnover rate was less than ten percent.

If the sick leave mandate were enacted, the companies stated that they would incur additional expenses to administer the mandated legislation. Furthermore, companies indicated that they would not consider Ohio when relocating or expanding if the initiative were enacted. Details of the survey are found in Appendix K.

ECONOMIC DEVELOPMENT IMPACTS

The costs imposed on firms by paid sick and family-care mandates would likely have placed Ohio at a competitive disadvantage with other states without similar mandates. Competitiveness can be operationalized as the collective attributes of a state's business environment that enable (or hinder) its firms to produce and sell goods and services at a higher rate of return than firms in other states. Any burden borne by Ohio firms as a result of this type of mandate would reduce the return on the production of goods and services, and although it may not have induced any firms to leave the state, it may have created an incentive for firms to locate or expand in other states. The costs of administration, lost productivity due to increased absenteeism, and the need to increase buffer employment or temporary staffing would represent competitive disadvantages to Ohio businesses that have been derived from this proposed paid sick and family-care leave mandate. To compensate for the cost disadvantage with other states, the cost of economic development incentives or other abatements would have needed to be increased relative to other states in order to encourage business relocation or expansion in Ohio.

To compensate for the cost disadvantage with other states, the cost of economic development incentives or other abatements would need to increase relative to other states in order to encourage business relocation or expansion in Ohio.

Policy Activity in Competitor States

Legislative proposals for guaranteed employer paid sick days are likely to become increasingly common in the legislative branches of local, state, and federal governments. There are no ballot initiatives in the competitor states surrounding Ohio slated for the fall 2008 election but many states have them under various stages of consideration.

Similar to legislation that was proposed in Ohio, proposals in other states seek to provide employees with guaranteed employer-paid sick days in which to care for themselves or a family member. While only two jurisdictions in the nation have legally mandated paid sick days (Washington, D.C. and San Francisco), 19 states and three additional cities have considered such legislation, including Ohio.[36] The state legislatures are at different stages of the process, with the majority of legislatures addressing the proposed bill in committee. A few state legislatures (Colorado, Michigan, North Carolina) are just beginning the process; other states (Alaska, Maine, Madison, Wisconsin) are reviving a previously rejected proposal, and a few states

[36] National Partnership for Women and Families: Local Campaigns

(Vermont, West Virginia) have let the proposed bill all but dissolve. The various proposals are similar; mandating an hourly accrual schedule equaling anywhere from 6.5 to nine paid sick days annually for full-time employees. The majority of statewide proposals also provide differing requirements based on the size of the employer, providing smaller employers a lesser burden.[37] Efforts in the states surrounding Ohio are described below:

- Pennsylvania – In 2007, a bill proposing mandatory paid sick days for employees was introduced in the Pennsylvania legislature and was referred to the House Labor Relations Committee. The bill remains in committee and no further action has been taken.[38] If enacted it would require that all employees be provided with one hour of paid sick time for every 35 hours worked, with a maximum of 65 hours. For employers of less than 15 people, the bill only requires that employees receive one hour of paid sick leave for every 70 hours worked.[39]

- Philadelphia, Pennsylvania – Philadelphia City Councilman Darrell L. Clarke proposed legislation requiring employers within the city of Philadelphia to provide paid sick days to its employees. The bill has yet to be considered, but is on the docket for consideration during the fall of 2008. The proposed bill requires that all employers provide one hour of paid sick time for every 30 hours worked, with a maximum total of 72 hours (nine days) per year. The bill provides separate provisions for smaller businesses mandating that employers only be required to provide 40 total hours of paid sick time.[40]

- West Virginia – A similar act was introduced in the West Virginia legislature in February 2008 and was then referred to the House Judiciary Committee. No further action was taken on the bill before the 2008 legislative session ended. The bill specifically calls for all businesses with more than 25 employees to allow workers to accrue up to seven paid sick days per year.[41]

- Michigan – No legislation has been presented. However, legislation is expected to be introduced by the end of 2008. The specifics of this legislation have not been released.[42]

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[37] Ibid
[38] Ibid
[39] Ibid
[40] Ibid
[41] Ibid
[42] Ibid

- Indiana and Kentucky – No paid sick days initiatives have been proposed in these states.

Evidence of an Effect on Competitiveness

Concerns about the business climate can influence how footloose companies make location and expansion decisions. Ohio seeks to propagate the perception that it has a friendly environment for businesses. The passage of a mandatory paid sick leave law would have hindered this perception. Comments received in the focus groups conducted in this study demonstrate that this type of mandate is perceived by many employers to be unfriendly to businesses.

Summary

There are both beneficial and costly aspects to mandating employer-paid sick and family care leave. However, it is likely that costs outweigh the benefits for firms, and unintended consequences may adversely affect workers and the state's competitive position. In a competitive economic environment that has seen firms and jobs leave, creating a disadvantage for the state would worsen the outflow of economic assets.