

## Analysis of HB17-1001

By Kristine McLaughlin

House Bill 17-1001 would require that all employers provide any employee with a child in primary or secondary school with up to 18 hours of paid time off for the purpose of attending their child's academic activities. It is true that employees are in a poor position to bargain with their employers over their working hours, so the government may be justified in intervening on behalf of the employee. This bill, however, would not benefit any employee. Precisely because employees are in such a poor bargaining position, this bill would just bias employers against parents. The only way to grant parents more paid time off or working hour flexibility is to grant all employees those same benefits. This is not bad. Since all employees are in poor bargaining positions, the government should work to correct distortions in the labor market as a whole anyway.

In a typical market interaction a good will be produced at a socially efficient level and sold for a socially efficient price without any government interference because suppliers will naturally make less of a good as the price goes down and consumers will naturally pay more for a good as the availability goes down. If the consumers collectively decided that they wouldn't pay that much, the supplier would choose to make less and the scarcity of the good would drive the price back up.

This is not the case in the labor market. Employees at a company are suppliers of labor. They sell labor to their employers for a wage. However, employees do not have the same power that a typical supplier has to control the quantity of the good they produce. Because employees are typically obligated to work forty hours a week every week and because of the many difficulties associated with finding a new job, the amount of labor that an employee will supply does not respond very much to changes in their wage. Imagine that when someone went to buy

an apple she knew that vendor had to sell a set number of apples regardless of how much he<sup>1</sup> was paid for them. That person could choose to give him dime for an apple that she would be willing to pay a dollar for. This imbalance in market power pushes wages below what is socially optimal.

Historically, governments have tried to correct this by creating further market imperfections. Governments have set minimum wages or maximum working hours, trying to push the market to socially efficient levels by choice. It is possible that this is economically beneficial. In 1956, economists Richard Lipsey and Kelvin Lancaster developed the Theory of the Second Best.<sup>2</sup> It states that when there is a market imperfection that cannot be removed, creating more market imperfections could create a more efficient outcome. In this instance, the limited competition in the labor market creates imperfections that could be countered with methods that create more imperfections, like wage setting. So the government does have economic justification to interfere with the labor market.

However, unlike minimum wages or maximum working hour laws, this bill only affects a specific set of workers and thus will create larger market imperfections that will encourage employers to discriminate against that set of workers. The bill's goal is to allow parents to attend their child's academic activity without affecting their wages. In other words, the bill is attempting to allow employees who are parents to supply less labor for the same price.

However, since the government cannot know how many parents a firm would choose to hire or what it would choose to pay them absent the bill, the bill will not accomplish this. Instead,

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<sup>1</sup> Pronouns determined with a coin flip

<sup>2</sup> Lipsey, R.G., and Kelvin Lancaster. "The General Theory of Second Best." *The Review of Economic Studies* 24, no. 1 (1956): 11-32.

[http://lib.cufe.edu.cn/upload\\_files/other/4\\_20140523031928\\_38\\_The%20General%20Theory%20of%20the%20Second%20Best.pdf](http://lib.cufe.edu.cn/upload_files/other/4_20140523031928_38_The%20General%20Theory%20of%20the%20Second%20Best.pdf).

a company will take the cost of the lost time out of the wages of any employee who use this law and simply choose not to reveal how they determined the employee's worth.

In addition, it seems likely that mothers are more likely to take advantage of this law than fathers, since mothers are more likely to attend their child's academic event currently.<sup>3</sup> Thus, this bill would make hiring women more costly. It is harder for a company to take this cost out of a mother's wage because there are laws against paying a woman less than her male counterpart. So instead, a company may choose not to hire mothers at all and instead hire cheaper male substitutes. There are laws against not hiring a woman based on her gender, however, this law has been historically harder to enforce.<sup>4</sup>

If the Assembly wants to provide employees with time off to attend their children's academic events it would have to require that employers provide all of their employees with time off for any purpose to minimize distortions to the labor market. If employers are required to give both parents and non-parents more paid time off it will make it easier parents who need that flexibility if they are going to work at all to enter the job market because it won't distort the relative cost of hiring parents or non-parents.

The risk is that it will raise the cost of hiring employees which will affect the overall employment rate. However, The US Travel Association and the Oxford Economic Department<sup>5</sup> found that wages are far enough below the the employee's added value to the company that 6

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<sup>3</sup> Nord, Christine Winqvist, and Jerry West. "Fathers' and Mothers' Involvement in Their Children's Schools by Family Type and Resident Status." *U.S. Department of Education Office of Education Research and Improvement*, May 2001. <https://nces.ed.gov/pubs2001/2001032.pdf>.

<sup>4</sup> Mounts, Benjamin. "Equal Employment Opportunity Commission Issues Enforcement Guidance on Retaliation." *The National Law Review*, January 10, 2007. <http://www.natlawreview.com/article/equal-employment-opportunity-commission-issues-enforcement-guidance-retaliation>.

<sup>5</sup> "An Assessment of Paid Time Off in the U.S.: Implications for employees, companies, and the economy." *Oxford Economics*, February 1, 2014. Accessed April 25, 2017. <http://www.oxfordeconomics.com/my-oxford/projects/280061>.

hours paid leave per leave per month will not affect the number of employees a company with over 51 workers will choose to hire.

In fact, the same study also found that employees who are guaranteed up to 28 days off a year are more productive than their counterparts who take the traditional 14 days off a year. This bill is attempting to force companies to provide more paid time off but this research suggests that, since companies would benefit from more paid time off, it should happen independent of government intervention. The fact that it hasn't mat mean that American companies are unaware of this research or unconvinced by it. So the state may help push the market towards more optimal paid leave hours simply by distributing the research already done or conducting more firm-specific research. If they still fail to adjust, it is possible that some American cultural stigma is keeping us from reaching optimal levels of paid time off and the government may be justified in requiring more paid time off.

Paid time off is not the only way to increase working hour flexibility, however. Telecommuting technology is making it easier for companies to diverge from the typical nine to five workings hours. Some companies like Uber pay by the hour and have no hour requirement at all. Per hour wages adjust automatically as demand for work goes up, encouraging workers to work when it is most profitable for them and for the company. Several companies who hire coders, who can typically work alone and from any location, set deadlines for when codes need to be submitted but do not set any working hours. Telecommuting is particularly easy for coders. Around 70% do most of their work away from the office. Averaging across all US markets, as of 2010, about 4.3% of employees spend most of their time and 20% spend some time working from home. These numbers are rising.<sup>6</sup> This allows workers to plan their day in their private

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<sup>6</sup> "Corralling the Yahoos: Technology allows millions of people to work from home. A big tech firm is trying to stop them." *The Economist*, March 2, 2013. Accessed April 27, 2017. <http://www.economist.com/news/business/21572804-technology-allows-millions-people-work-home-big-tech-firm-trying-stop>.

optimal way. This is especially beneficial for parents for whom the nine to five working hours may be especially suboptimal.

Additionally, this technology could widen the number of job options within a city. If telecommuting can even marginally decrease commute time that could make it substantially easier to change jobs, correcting the market power imbalance I discussed earlier without disrupting the market. Rather than relying on the Theory of the Second Best, the state could thus help correct the imperfections in the labor market by encouraging investment in telecommuting technology.

In addition to encouraging more paid leave time and investing in telecommuting technology, there are other steps that could balance bargaining within the labor market. The Assembly could consider granting, not just people who have been fired but people who have quit unemployment insurance to give them more time to find and field job offers. They could require companies to publish more information about their working hours and wages, so employees have a more complete understanding of the job market. This could directly remove the labor market imperfection rather than trying to balance it with further imperfections. However, House Bill 17-1001 would not balance the market at all. It would just hurt the wages and employability of parents.

## Works Cited

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