



Would Minimum Wage Hike Hurt Small Biz?

David Rosenbaum February 13, 2013

President Barack Obama called for Congress to raise the federal minimum wage to \$9 an hour from the current \$7.25 in Tuesday's State of the Union address as one way to address income inequality. A 2011 study by the Congressional Budget Office concluded that the "distribution of after-tax household income in the United States was substantially more unequal in 2007 than in 1979."

While a \$1.75 increase in hourly pay for the nation's lowest-wage earners would likely have a minimal gross effect on broad inequality, it is widely assumed that raising the minimum wage will affect small businesses to a greater degree than larger ones, although a recent study by the National Employment Law Project found that 66% of low-wage workers are employed by businesses with more than 100 employees.

Nevertheless, smaller businesses, precisely because of their size, are more intimately involved with their workers, and in general live closer to the bottom line. Therefore, the issue of wages touches a more sensitive and tightly stretched cord.

From 1979 to 2007, after-tax income for the 1% of the population with the highest income grew 275%, while the 20% of the population with the lowest saw their after-tax income grow only 18%. The middle-class — the 60% of middle-income earners that was the focus of so much of the President's address (and Florida Sen. Marco Rubio's Republican response) — experienced after-tax income growth of less than 40%.

According to the Bureau of Labor Statistics, in 2011 almost 60% of all wage and salary workers — 73.9 million — were paid at an hourly rate, with 1.7 million earning the federal minimum of \$7.25 an hour. These workers tend to be under 25 years old. Part-time workers (less than 35 hours a week) are more likely than full-time workers to be paid the minimum wage. The highest proportion of minimum-wage earners is employed in the hospitality industry, primarily in restaurants and other food services.

The impact of minimum-wage increases on small business — and the economy in general — has been much debated ever since a federal minimum wage was first established in 1938, even though the federal minimum wage only establishes a floor for individual states. Right now, 18 states and the District of Columbia have a state minimum wage higher than the current \$7.25 federal rate. (Five states have no minimum wage, but employers in those states are required to pay the federal rate.)

A 2006 study by the Fiscal Policy Institute, a nonpartisan research organization, concluded that, historically, increases in the minimum wage benefit small businesses from a "combination of higher productivity through improved worker retention and savings on recruitment and training. There may also

be a 'Henry Ford' effect at work: if you pay workers more, they can buy more, boosting the overall economy, especially among small retail businesses.”

A diametrically opposed point of view was expressed in a 2012 report written by Mark Wilson, a former deputy secretary of the U.S. Department of Labor, issued under the aegis of the Cato Institute, a libertarian think tank. Raising the minimum wage, Wilson argues, hurts low-wage earners by leading employers to cut back on fringe benefits, while also encouraging them to automate those workers out of their jobs.

This sentiment was echoed by a National Federation of Independent Business spokeswoman who said, “If the President thinks that a minimum-wage increase will be paid for by wealthy, big businesses that can afford it, he’s wrong. The cost of a minimum-wage increase would fall on small-business owners.” In a statement released after the State of the Union, the NFIB’s chief economist, William Dunkleberg, wrote: “Raising the cost of labor raises the incentive for employers to find ways to use less labor.” He dismissed studies that point in the other direction as “agenda-driven” research that “defies common sense.”

Not everyone agrees. Betsy Burton has owned The King’s English Bookshop in Salt Lake City, Utah, for 35 years. She employs 25 people and estimates they add up to 11 full-time-equivalent workers. None makes less than \$9 an hour. Burton allows that “it’s hard to make a living in the book business; the margin is pretty bad.” But if Congress raises the minimum wage, “it will hurt the national chains far worse than independent businesses,” she says. “The chain business model is cutting every cost to the bone, including employees. That’s how they fight.”

Burton believes that most independent businesses “think a fair living wage is fine. Businesses that are built on a model that doesn’t include paying a living wage, I think people should ask questions about that.”