



Seattle's Coming \$15 Minimum Wage

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In the city of Seattle, Washington, Joe Salvatore runs The Recycling Depot, a recycling business employing about 20 people. Not far away, Bobby Denovski is eking out a living at Padrino's Pizza and Pasta with a handful of employees, and Remo Borracchini is busy running an Italian Bakery. The story is the same across Washington State and across the nation: Businesses are fighting every day to service customers, treat employees well, and simply stay open.

Unfortunately in the city of Seattle, it is about to get much more difficult for business owners to continue the fight. Pushed forward primarily by socialist city councilwoman Kshama Sawant, the first phase of a new minimum wage law went into effect on April 1, 2015, and the law will eventually bring all businesses to a \$15 minimum wage, more than double the current federal minimum wage of \$7.25 an hour.

The law is a graduated system with different pay scales and timelines for businesses above and below 500 employees. For businesses with 501 employees or more, the April 1, 2015 minimum wage was set at \$11 an hour. For the next two years, on January 1 of each year, the wage increases, rising from the current \$11 per hour to \$13, reaching \$15 an hour on January 1, 2018. For companies paying at least \$1.50 per hour toward a silver level medical benefits plan, the minimum wage goes to \$12.50 on January 1 of 2016, then \$13.50 in 2017, and finally \$15 an hour in January of 2018. As stated on Seattle's website seattle.gov, "Once Seattle's minimum wage reaches \$15.00/hour, payments toward medical benefits no longer impact employees' minimum wage."

On April 1, 2015, small-business wages were set at \$11 an hour as well. For companies at or below the 500-employee mark, the \$15 minimum wage is set to be phased in over the course of the next decade. Again, counting medical benefits and other factors such as tips, the total compensation varies. By the year 2021, the minimum wage will be \$15 with tips and health insurance factored in, and in 2025, small businesses must meet the \$15 minimum wage without credit for tips or insurance.

President Obama has repeatedly urged Congress to raise the federal minimum wage from \$7.25 an hour to \$10.10 an hour. For this reason it would behoove those across the nation to pay special attention to the city of Seattle. Seattle is tucked away in the northwestern corner of the nation; however, as the city squeezes its businesses for more and more money, it may become ground zero for the minimum wage fight.

Reasons for the Law

Since being first enacted in 1928, the idea of a “minimum wage” has been sold as a law that will benefit the poorest sectors of our society. According to Cornell Law School, “The minimum wage was designed to create a minimum standard of living to protect the health and well-being of employees.” Likewise, from the city of Seattle’s own website we find, “Citywide minimum wage laws offer local governments a powerful tool for helping low-income workers and families in their communities. Such measures also have significant impact on businesses and how they operate.” Minimum wage advocates have held that it is possible to set a minimum pay scale and have no ill effect on jobs.

Operating under the assumption that simply raising the minimum wage will guarantee said wage, the people pushing for the \$15 minimum wage claim that it has the power to lift the poor to that “new standard of living.” Is this true? Will it indeed lift the needy in our communities to another level, or is it a false assumption, one that will cause irreparable damage to business and industry?

Asking the Businesses

Several business owners in Seattle were kind enough to give their own opinions of Seattle’s minimum wage law and explain how it will have a negative impact not only on their businesses, but on those people it was designed to help.

Walter McLaughlin has been in Small Business Administration (SBA) lending for 27 years. He won the Washington State Financial Services Champion award in 2005. Concerning the minimum wage law in Seattle, McLaughlin said in an e-mail statement:

In economics, there is a principal called “zero sum gain” in which an increase is offset by a loss of equal amount. When a small business (and per the SBA’s size standards, over 99% of U.S. companies qualify as small) sees its operating costs increase, it has three options: 1) absorb the cost, 2) raise prices or 3) lower expenses. Since businesses don’t operate with the intention of losing money, the irony of a drastic increase in the minimum wage is that in order for employers to adjust, the net effect may be higher inflation and unemployment, disproportionately hurting the very same group the \$15 minimum wage was intended to help.

McLaughlin lays out three ways in which the new Seattle minimum wage law will play out as it’s implemented: a loss to the business owner (absorb the cost), a cost to the general public (raise prices), or a reduction in expenses (possible job loss).

A Loss to the Business Owner

For those people who have never run a business, the absorption of the additional cost may seem to be the easiest and most straightforward solution to the requirement to pay employees more. But contrary to what those who have never had the experience of sitting down with a company's balance sheets might think, all business owners are not jet-setting CEOs with profits just flowing in.

At The Recycling Depot, general manager Joe Salvatore stated, "What these people don't take into consideration is that when you raise the wage, you're raising the Labor and Industries Insurance cost because that amount is affected by the wages. I have already talked to several small businesses in the area and there's not a single one who is making tons and tons of money where they're just going to be able to absorb these costs."

In other words, while the absorption of minor costs may be a normal and constant part of running a business, the bottom line is a major factor. At Padrino's Pizza and Pasta, Bobby Denovski echoed Salvatore's sentiment: "We aren't a large company with huge profits. As a small business the cost of labor is one of the main factors. Fifteen dollars an hour, that's a lot of money to ask from a small business." When asked what effect he could foresee the escalating minimum wage law having on his business, Denovski commented, "It could put us all out looking for jobs. We have a couple more years paying on the loan for our restaurant. If we end up paying this \$15 an hour, we are honestly in danger of losing it."

Likewise, The Recycling Depot, as a metals recycling business, is subject to sometimes-dramatic market fluctuations. Metal values can skyrocket, allowing ample room to treat employees well, and values can plummet, leaving the business struggling to survive. Said Salvatore of the times when the market is up, "We do take care of our employees during those times. We give bonuses and things like that. However what about the lean times? This is going to have a dramatic effect on us during the lean times. You can't just start taking the pay away."

A Cost to the General Public

If costs cannot be simply absorbed by the company, another option is to raise the price of the product. Bobby Denovski stated, "The only thing I can do is to raise the prices. I worry that the demand for pizza in the community will not support the prices we will have to go to when the wages go up." How much is a pizza worth to those in his community? How about a gallon of milk? Those claiming the minimum wage will have no ill effect on the community should be asking themselves these questions, because at some point most small business owners such as Denovski must find a way to recoup these costs.

Referring again to fluctuating values in the metals market, Salvatore stated, "We're very dependent on the global prices of metals. When the metal values drop, we're making less money

and our margins shrink. During times like this there are a lot of businesses just trying to stay afloat.” And so he is forced to try to pass on the costs in another manner.

As a metals recycling business, The Recycling Depot purchases metals from other businesses and from the general public, then sells those metals based on current market prices. Because Salvatore has no control over the sale price (dictated by global supply and demand), the only thing he can do is to drop the prices he is paying the public for those metals, illustrating the second point (a cost to the public) in another light.

Lower Expenses

Absent the ability to absorb the higher wages or pass on the costs to someone else, a third way to compensate is to lower expenses. On the surface this sounds harmless enough. However, it often means the disappearance of jobs.

At Borracchini’s Bakery in Seattle, a business that has been open for 94 years, Remo Borracchini has a long history of hiring youth. “I myself have probably hired 1,500 young people over the years. I have had people come here as teenagers and stay here as much as 25 years, so they came and learned a trade,” said Borracchini.

He has brought in high-school students who have never worked a job and started them washing pots and pans, stocking shelves, and mopping floors. While the wages many of these new hires make is not a large sum, Borracchini sees a bigger picture:

It’s not that we’re just looking for cheap labor. It’s the understanding that you’re doing something for these young people other than sending them out to wander aimlessly through the neighborhoods. You see, I do believe we have a responsibility to our young people. There used to be internships throughout industry. Now that has changed. They used to go into places like print shops, or bakeries and come to begin learning a trade; that was their reimbursement, they were learning something that would benefit them throughout their life. Now they’ve passed a law saying they have to be paid a wage. So what happens? If you’re going to have to pay someone who doesn’t know anything, you might as well pay someone who already knows something.

Continued Borracchini,

Businesses like McDonald’s, they built their empire not on a philosophy of it being a high paying job, but to take kids who have never worked before, teach them a little bit about work ethic and how to perform, and they move on to better opportunities when they have shown they have a bit of ability. You’ll begin to see the order screens in every type of McDonald’s scenario. Look at the jobs they’re eliminating right there. Kids who would be learning to show up for work on time, learning how to interact with the public, how to have a bit of work ethic.

Salvatore echoed Borracchini, stating that in order to recoup labor costs, jobs would almost certainly be cut, “at least cutting hours back if not completely doing away with jobs. The well is not bottomless.”

At Padrino’s, a clearly concerned Denovski stated, “Right now it’s [the minimum wage] at \$11 an hour and it is already difficult for me and my partner to keep the bills paid and the employees paid. They’re going to be raising that expense up to \$15, but none of our other costs will be going down. I honestly don’t know what we’re going to do.”

Salvatore then commented on a worst-case scenario, “Eventually we have to tighten the ropes, and then what happens when there’s nothing left in the reserve?” Indeed, what does happen? What happens to the low-skill workers looking for a job? Where will the teenager or young adult go for training when McDonald’s has automated order screens? As Borracchini said, “It is the internship and low-skill jobs which will be cut. We will have sent them back out onto the street.”

Help or Harm?

Seattle businesses obviously view the new minimum wage law with quite a bit of trepidation. It is easy to see why. These companies will have to find a way to recuperate the costs one way or another. No matter how it ends up happening, it will be a detriment to the community and the city.

In “The Tax & Budget Bulletin” by The Cato Institute dated March 2014, Joseph J. Sabia, associate professor of economics at San Diego State University, explains how a minimum wage affects the poor’s standard of living and employment opportunities:

The bulletin concludes that minimum wage increases almost always fail to meet proponents’ policy objectives and often hurt precisely the vulnerable populations that advocates wish to help. The weight of the science suggests that policymakers should abandon higher minimum wages as an antiquated anti-poverty tool. Minimum wages deter employment and are poorly targeted to those in need.

His words echo the business owners quoted here. Says Borracchini, “I can sympathize with someone who is trying to raise a family. Fifteen dollars is not a lot of money. It’s very difficult. However, there is an element of society who through laws like this are being denied a great privilege. The opportunity to learn how to work.”

The bottom line is that the minimum wage law was supposedly created to help the poor and needy in our society. However, it is the low-skill and poor who will feel the effect first and foremost, and who will find it much more difficult to acquire the job skills needed to raise the value of their labor to or above the minimum wage.

As voices cry ever louder for an increased federal minimum wage, the stories of small businesses across the nation need to be brought into the spotlight — businesses reaching out to unskilled

youth willing to put in time training. Companies managing a tight bottom line can't handle the extra expense of yet another increase in wages.

The heart of our nation does not lie within the halls of Congress but rather in the bakeries, pizza shops, recycling centers, and myriad other small businesses. It is not in the backroom deals between politicians where the effects of these laws will be felt, but rather in the checking accounts of struggling businesses.