



Wage Wars: Weighing an Increase to Minimum Wage

The data is mixed, but a minimum wage increase may not be as bad for your business as you think.

By Jeremy Quittner | Feb 14, 2013

For Dan Klock, paying his workers more than minimum wage is a no-brainer.

The chief executive of Bridgetown Natural Foods, in Portland, Oregon, Klock thinks it's critical to pay workers a living wage, and provide them with benefits like health care, dental care, and a 401(k).

Not only are his 200 workers likely to stick around longer, he says, they're more productive, and they do a better job, which is important to Klock, whose company provides high-end all-natural food to some of the biggest organic retailers in the country. His employees also have more money to spend, on things like the goods he creates.

"At the end of the day, the people who work here should be able to buy the products we produce," Klock says, echoing one of America's most famed entrepreneurs, Henry Ford.

In his ambitious second term agenda, announced during his State of the Union Address on Tuesday, President Obama raised a proposal that made small business owners sit up and take notice: an increase in the minimum wage to \$9 from its current \$7.25. Nineteen states, including Oregon, already provide a higher minimum wage than the federal minimum.

It's a contentious issue which divides small business owners and advocates--not to mention economists. The data is mixed. For every report that proclaims the negative impacts of a proposed minimum wage increase, another exists showing its benefits. While business owners may, understandably, have a knee-jerk reaction against having to pay more for labor, some who take a longer view may see benefits for their businesses.

"Small business can still thrive with a \$9 minimum wage, which is still not great, but we will be reinvesting in the economy, and this is good for all of us," Klock says.

Oregon requires its businesses to pay \$8.80 an hour, and that is slated to go up to \$8.95 this year. Klock's starting wage is \$9.00, which he expects to increase to \$9.50 later this year.

Although the federal minimum wage has not risen since 2007--and not for a full decade prior--the President's proposal, which also indexes the wage to inflation, riled a lot of small business advocates. They say the increase will put a damper on the nascent recovery, forcing business owners to put off hiring more employees, or in the worst case, force them to start laying off again to make up for lost revenues.

"Any discussion about raising the minimum wage needs to recognize that small employers often have to operate under very slim profit margins," Randy Johnson, senior vice president of labor, immigration, and employee benefits at the U.S. Chamber of Commerce wrote in an email. "An increase has to be shouldered by the employer who may have to spread it out over many employees."

Similarly, the National Federation of Independent Business, in a study released in December, claims a proposed wage increase in New York to \$8.50 from \$7.25 with an index to inflation would cost the state 22,000 jobs and \$2.5 billion in revenue. Governor Andrew Cuomo has made increasing the state minimum wage part of his 2013 agenda.

"It increases the cost of running a business and employment costs and the costs for each new hire, and business owners will need more revenue and sales, and it might limit their ability to create jobs," Holly Wade, a senior policy analyst for NFIB, says.

Plenty of small business owners agree with the Chamber and NFIB and oppose a minimum wage increase. William Pavone, a sole proprietor of Chilly Billy's Ice Cream, says an increase in the minimum wage would make it hard for his business, based in Tonawanda, New York, to continue.

Pavone's operation is seasonal, confined to five months of warmer weather, and Pavone hires one to two workers each summer to scoop ice cream and drive his trucks. They are paid a floor wage of the state minimum \$7.25, with performance incentives to make up to \$10 an hour.

"Every place around here is looking for help and many employees don't want to take minimum wage jobs," says Pavone, who adds bumping up the wage would make it harder to find workers.

Since Pavone operates his business out of two trucks, he worries the minimum wage increase would add to the bite he already feels from the rising costs of fuel, and have to pass along the increase to his customers through higher prices.

Still, many economists and public policy advocates argue that in states where minimum wage is higher than the federal mandate, the economies fare better than in states where businesses stick to the federal minimum wage, which is currently not indexed to inflation and hence forces some workers to live below poverty level.

"There's an emerging consensus that we can't build a recovery on poverty wage jobs, and these are the fastest growing jobs in the economy," says

Paul Sonn, legal co-director for the National Employment Law Project.

In today's dollars, the current federal minimum wage offers 30 percent less purchasing power than it did in 1968, according to NELP. (A handful of states, including Alabama, Arkansas and Minnesota, mandate even less than the federal minimum wage, which was established as part of the Fair Labor Standards Act of 1938 and contained exemptions for some poorer states.)

Advocates also argue that wage increases bolster loyalty to the employer and create more engagement at work, limiting the cost of turnover. Additionally, when low-wage workers are paid more, they tend to immediately spend extra wages locally, says James Parrott, deputy director and chief economist for the Fiscal Policy Institute in New York.

Increasing the minimum wage to \$8.75 in New York State, for example, where there are 1.6 million low-wage workers making \$7.25 an hour, would add \$1 billion more in state revenue, and an additional 7,300 jobs, according a research report released in January by FPI, which contrasts dramatically with NFIB's research.

Even fans of wage hikes acknowledge that they must be done in steps--say, an \$1.00 per hour jump the first year, and 75 cents the second. "We usually think of [implementing] minimum wage increases in reasonable increments, so it's something businesses can adapt to," Parrott says.

In Vermont, where the minimum wage is currently \$8.60 and has been above the federal level and indexed to inflation since 2007, small business owners don't think much about the annual wage increases anymore, says Betsy Bishop, president of the Vermont Chamber of Commerce.

"This has created a level of certainty about wage rates both for employees who know they will be getting this particular wage increase, and for employers, who can plan for the increases," Bishop says.

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