

\$15 Minimum Wage: How Have SMBs Been Affected?

Business.com by Adam Uzialko
June 17, 2020

The minimum wage is a divisive topic amongst entrepreneurs. Many feel that paying their employees a living wage is not just an ethical thing to do but also makes good business sense. Many others are concerned about whether they could shoulder the expense of boosted wages.

5 From a public policy perspective, it is important to balance the concerns of small business owners with the economic health of the city, state or nation in question. That means understanding how a minimum wage increase could affect small and midsize businesses (SMBs), and how to implement increases so as not to shock the local economy.

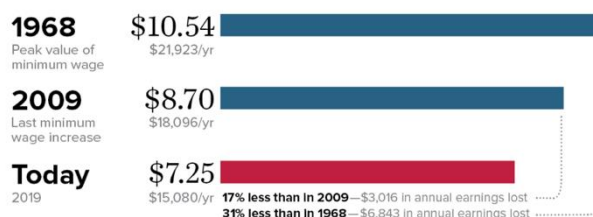
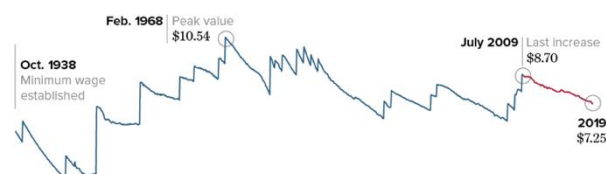
What is the federal minimum wage?

10 Introduced in 1938 as part of the Fair Labor Standards Act, the federal minimum wage provides a threshold below which wages cannot legally drop – with some notable exceptions, such as jobs that generate tips alongside an hourly wage.

15 The current federal minimum wage is \$7.25 per hour. The last time it was increased was July 24, 2009, when it increased from \$6.55 for all covered, nonexempt workers to \$7.25. Nearly 11 years have passed since then, which is the longest period of time without an increase in the federal minimum wage since its creation in 1938.

After the longest period in history without an increase, the federal minimum wage today is worth 17% less than 10 years ago—and 31% less than in 1968

Real value of the minimum wage (adjusted for inflation)



Tracking the value of the federal minimum wage against inflation

20 It is not just the nominal minimum wage that matters, but also its purchasing power against the contemporary cost of living. While the federal minimum wage has increased from 25 cents per hour in 1938 to \$7.25 per hour today, it is not indexed to inflation. Therefore, over time, the real value of the minimum wage has declined substantially.

25 Since 2009, when the federal minimum wage was last raised, the value has dropped by 17% due to inflation. Inflation is the decline in purchasing power of a dollar, which is expressed by an increase in costs of living, including housing, transportation, utilities and necessary goods like groceries. Since 1968, when the federal minimum wage was \$1.60 per hour – or at its peak value of \$10.54 per hour in 2019 dollars – the value of the minimum wage has declined by more than 30%.

Tipped minimum wage

30 The tipped minimum wage is distinct from the hourly minimum wage. Tipped workers, such as servers in a restaurant, are not covered by the same minimum wage as hourly workers. Instead, their employers are only required to pay the federal tipped minimum wage, which currently stands at \$2.13 per hour, according to the U.S. Department of Labor.

Minimum wage at the state and city level

35 In addition to the federal minimum wage, many states and cities have their own minimum wage laws and ordinances by which businesses in their jurisdiction must abide. While the federal minimum wage hasn't budged in more than a decade, losing value year over year, many of these states and cities have continued to raise their minimum wages, some to as much as \$15 per hour (and even higher in some local communities). [...]

What do minimum wage increases mean for small business?

40 If you operate a business in a state or city that has increased its minimum wage, you will have to begin paying your employees that rate or face fines, the threat of lawsuit, or even criminal prosecution for repeated and willful violations of minimum wage laws. The same is true for violations of the federal minimum wage if you operate a business in a state with no minimum wage or a lower minimum wage than the federal threshold.

45 Naturally, this mandatory upward pressure on wages represents an additional expense for small business owners. Oftentimes, this means finding ways to cut other expenses, boost revenue or both. In the short term, minimum wage increases could lead to measures like price hikes, negotiations with suppliers or even a need for a working capital loan. In extreme cases, small businesses might need to institute furloughs or even layoffs. [...]

Minimum wage increases could mean increased consumer spending

50 Research suggests that minimum wage increases are not the killer of jobs and businesses that some claim. A 2019 study on the minimum wage by UC Berkeley economists Anna Godoey and Michael Reich found that minimum wage increases to \$15 per hour through 2024 would reduce poverty levels and put more disposable income in the hands of working-class people.

55 "The results of our research show that we can raise pay to \$15, even in low-cost states," Godoey said in a statement. "The data show that the minimum wage has positive effects, especially in areas where the highest proportion of workers received minimum wage increases. We also found reduced household and child poverty in such counties."

60 More disposable income for low-wage households generally leads to more spending within the local economy. A report from the Federal Reserve Bank of Chicago demonstrated that a \$1 hourly increase in the minimum wage could boost consumer spending amongst households with minimum wage workers by as much as \$2,080 per household annually. Many of those dollars are likely to flow to small and midsize businesses within those households' local communities.

Do minimum wage increases kill jobs?

65 A common argument against minimum wage increases is that they will result in the loss of jobs. However, historic research suggests the opposite could be true. In one study, economists David Card and Alan B. Krueger examined a 1992 minimum wage hike in New Jersey and compared how the restaurant industry (often considered to be the most impacted by minimum wage increases) fared against similar establishments in neighboring Pennsylvania. Not only did New Jersey's fast-food employment grow, it outpaced Pennsylvania's by 13% that year. [...]

Minimum wage hikes aren't all bad for small business

70 While any increase in expenses, especially a government-mandated one like the minimum wage, means some uncomfortable adjustments for small businesses, increases in the minimum wage could have beneficial midterm and long-term effects for local and regional economies. When working people have more money to spend, they tend to purchase goods and services from small and midsize businesses in their communities. Moreover, there is significant evidence that
75 minimum wage increases do not kill jobs in the long term, but ultimately contribute to broader economic growth and an increase in job opportunities. However, minimum wage increases will likely prompt small and midsize businesses to take short-term measures to boost revenues and cut expenses. [...]