BUSINESS for a FAIR MINIMUM WAGE

Raising the Minimum Wage to $15 Helps Small Business

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Introduction

We are currently experiencing the longest period without a federal minimum wage increase since it was first enacted in 1938 to help our nation recover from the Great Depression. Business for a Fair Minimum Wage supports raising the federal minimum wage to $15 by 2025, as called for in the Raise the Wage Act of 2021, using the same federal phase-in timeline for businesses of all sizes.

The federal minimum wage was created to provide a strong national wage floor. We oppose any efforts to introduce new complexity and inequity into minimum wage law by setting different federal minimums for small businesses or different areas of the country. This would lock in lower incomes and lower consumer spending in lower-income regions – counter to the purpose of the federal minimum wage. It would hurt small businesses – not help them.

Small businesses using lower minimum wage rates would have a harder time hiring and retaining employees, and see an increase in costly turnover. Lower minimum wages for small businesses would undermine the customer service that helps keep small businesses competitive.

The federal minimum wage was first enacted in 1938 during the Great Depression to put a solid national floor under wages, strengthen businesses and the economy by increasing consumer purchasing power, and foster economic development in lagging regions of the country. It was enacted through the Fair Labor Standards Act, which was designed to eliminate "labor conditions detrimental to the maintenance of the minimum standard of living necessary for health, efficiency and general well-being of workers" and detrimental to fair competition among businesses.

President Franklin Roosevelt called the minimum wage and the larger Fair Labor Standards Act "an essential part of economic recovery." He said, "Without question it starts us toward a better standard of living and increases purchasing power to buy the products of farm and factory."

The federal minimum wage has been stuck since 2009 at $7.25 an hour – just $15,080 a year for full-time work. Today's minimum wage has far less buying power than it had at its peak value in 1968, when it was worth $12.24 in today's dollars.[1] The minimum wage has shrunk in value, rather than grown, despite the economy's significant growth since 1968. Low-wage workers often need public assistance to get by despite working full-time, year-round.

The minimum wage has become a poverty wage instead of an anti-poverty wage. We can't build a shared recovery and strong economy on a minimum wage that's too low to live on.

As Adam Smith, "the father of capitalism," said in *The Wealth of Nations* (1776), "It is but equity... that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labor as to be themselves tolerably well fed, clothed and lodged."

Fair Pay Is Good Business

It's too often forgotten that workers are also customers. Businesses typically have many more customers than employees. Raising the minimum wage is a very efficient way to boost business and the economy because it puts money in the pockets of people who most need to spend it.

Raising the minimum wage pays off for businesses in other ways.[2] Businesses that pay low wages typically have high employee turnover. With increased wages, businesses see:

- Lower employee turnover, which reduces hiring and training costs
- Decreased employee financial stress and increased morale
- Increased productivity
- Lower error and accident rates
- Less product waste
- Better customer service

In the words of **Margot Dorfman, CEO of the U.S. Women's Chamber of Commerce**, "Raising the minimum wage to $15 by 2025 will help small businesses like my members by putting more money in the pockets of customers. Businesses that pay low wages may save on immediate payroll, but they experience the significant expense of higher turnover, low morale and a less productive workforce. Raising the minimum wage is a vital investment in businesses and our economy."

We support a clean Raise the Wage Act without carveouts and different wage tiers because it makes good business and economic sense. Lower minimum wages for small businesses would diminish the consumer spending boost that comes from raising wages and it would not help small businesses – it would hurt them, as we explain below.

Six Reasons a Lower Minimum Wage for Small Business Would Hurt Small Business

1. Most Businesses are Small Businesses

Setting a lower minimum wage for small businesses would set a lower minimum wage for most businesses. As seen in the first table in the appendix, 64% of U.S. business establishments with paid employees have less than 5 employees, 78% have less than 10 employees, 89% have less than 20 employees, 96% have less than 50 employees, and 98% have less than 100 employees. Looking at the Firm level (a firm can consist of one or more establishments), 56% have less than 5 employees, 75% have less than 10 employees, 87% have less than 20 employees, 95% have less than 50 employees, and 97% have less than 100 employees. (See the second table in the appendix).

2. Workers are Also Customers: A Two-Track System Would Undercut the Positive Impact of Increasing the Minimum Wage as it Phases In

Workers are also customers. Businesses typically have many more customers than employees. Minimum wage increases put money in the pockets of people who most need to spend it - boosting sales at local businesses as workers buy goods and services they could not afford before.

A lower minimum wage or longer phase-in timeline for small businesses would reduce the pay gains for workers at small businesses and diminish the consumer spending boost that comes from raising wages. That would hurt workers, businesses and their communities. A regionalized minimum wage would have a similar counterproductive impact.

3. Lower Minimum Wage Will Not Help Small Businesses Compete with Big Businesses

Small businesses are not helped by keeping the minimum wage low. This shortsighted approach actually makes it harder for small businesses to compete with big businesses.

Numerous large employers have already raised their minimum hourly pay to $15. Amazon, Costco, Target and Best Buy, for example, pay a $15 minimum wage now. The federal minimum wage would not reach $15 until 2025, as proposed in the Raise the Wage Act. That phase-in timeline enables businesses to adjust their pay scales in predictable annual increments.

A longer timeline for small businesses is counterproductive.

For small businesses to survive and thrive in competition with large corporations and online companies with increasingly fast delivery, they have to give customers a reason to shop at their store and keep buying from them. And that depends heavily on customer service, which depends heavily on employees. Employees often make the difference between repeat customers and lost customers.

Businesses that are more invested in their employees have employees that are more invested in the business. When workers are paid enough to live on they don't have the continual stress of worrying how they will make rent or afford other basics. They have better morale, are more productive, and are not always looking to leave for livable wages elsewhere. They can afford to stay with the business, learn the business, and deliver good customer service. Engaged, experienced employees develop better understanding of customers and help businesses innovate and keep up with what customers want.

4. A Two-Track System Would Incentivize People to Work for Bigger Businesses Over Smaller

Low pay typically means high turnover. When wages go up, employee turnover goes down. With lower turnover, businesses see reduced hiring and training costs, less product waste, and lower error and accident rates. Businesses benefit from better productivity, product quality and customer service. Lower turnover and increased consumer spending are important factors in offsetting the payroll cost of minimum wage increases.

A two-track system for different-size businesses changes the turnover dynamic. It incentivizes people to work for bigger businesses over smaller business. Shortsighted small businesses that opt to pay the lower minimum wage would have more trouble hiring, see an increase in costly turnover as employees look elsewhere for pay they can live on, and undercut the customer service that keeps customers coming back.

A system of regional minimum wages would also change the turnover dynamic. It would incentivize employees to leave businesses in lower-wage regions for better pay elsewhere and it would incentivize job seekers to work for businesses located in higher-wage regions.

5. A Two-Track System Would Greenlight a Low-Wage Business Model

Some businesses get stuck in their ways with a low-wage model. They keep wages low in the name of staying competitive when it actually distracts them from doing the things that will help make them more competitive.

The government has a vital role to play in setting higher standards like raising the minimum wage that encourage better business practices and strengthen the economy, workforce and tax base. A two-track system would do the opposite.

It would encourage new businesses to follow the low-road, low-wage, high-turnover business model, which will cost them more money and customers in the long run. And it would encourage existing small businesses to keep operating that way. That would make it less likely – not more likely – that existing and new small businesses would survive and grow.

6. Raising the Minimum Wage Helps Small Businesses

Many small businesses pay at least $15 today or are committed to getting there by 2025 or earlier. Gradually increasing the minimum wage will enable lower-wage companies, big and small, to adjust to raises over time – experiencing benefits such as increased consumer spending, lower turnover, cost savings in hiring and training, and better productivity and customer satisfaction as they do.

Ashraf Hijaz, Owner of Beauty & Beyond, based in Montgomery, Alabama, observes, "Lawmakers aren't doing businesses any favors by keeping the minimum wage at $7.25 and keeping more money out of the hands of our customers. Most businesses have a lot more customers than employees. Raising the minimum wage will increase customer spending at all kinds of businesses and be a welcome boost for our economy."

Hundreds of businesses and business organizations have endorsed the 2021 Business for a Fair Minimum Wage Federal Statement supporting raising the minimum wage to $15 by 2025. More business leaders are signing every day.

APPENDIX

Business Establishments by Employment Size Class (2020 First Quarter)

Number of employees per establishment	Fewer than 5	5-9	10-19	20-49	50-99	100-249	250-499	500+
Number of establishments (Total 10,110,704)	6,466,699	1,453,362	1,035,889	726,699	240,429	135,286	34,310	18,030
% of businesses	63.96%	14.37%	10.24%	7.19%	2.38%	1.34%	0.34%	0.18%

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Private sector, 2020 First Quarter, By establishment size class. https://data.bls.gov/cew/apps/data_views/data_views.htm#tab=Tables accessed 2/23/21.

Business Firms by Employment Size Class (2020 First Quarter)*

Number of employees	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999	1,000 or more
Number of Firms	2,936,000	984,000	638,000	427,000	139,000	82,000	26,000	13,000	12,000
% of Firms	55.84%	18.71%	12.13%	8.12%	2.64%	1.56%	0.49%	0.24%	0.22%

Source: U.S. Bureau of Labor Statistics, National Business Employment Dynamics Data by Firm Size Class, Table G. Distribution of private sector firms by employment size class: 1993/Q1 through 2020/Q1, not seasonally adjusted. https://www.bls.gov/web/cewbd/table_g.txt accessed 2/23/21.

* "BLS defines an establishment as an economic unit that produces goods or services, usually at a single location, and engages in one or mainly one activity. BLS identifies establishments by the unemployment insurance and reporting unit numbers. In contrast, a firm is a legal business, either corporate or otherwise, and may consist of one or several establishments. BLS determines the age and size of firms based on establishments with the same owner. BLS uses the employer tax identification numbers (EIN) as a proxy firm identifier to determine the owners of establishments. For single establishments, firm and establishment characteristics are the same."

[1] https://www.bls.gov/data/inflation_calculator.htm

[2] Holly Sklar, **Business and Minimum Wage Research Summary**, Business for a Fair Minimum Wage, January 2021.