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Increasing the Minimum Wage: Rebuttal to NFIB/WRA Anti-minimum Wage Arguments

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"Work should generate income, opportunity, and hope, not poverty."

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The Economic Opportunity Institute prepared this rebuttal in October 1998 in response to the position papers opposing Initiative 688 authored by the National Federation of Independent Business/Washington (NFIB) and the Washington Restaurant Association (WRA). [This rebuttal was prepared in October 1998 and updated in January 2001.]

Issue #1: Members of the NFIB oppose increasing the minimum wage.

- NFIB's own survey figures indicates that over one-third of their members support increasing the minimum wage.[1] These small business owners understand that paying a living wage makes good business sense and builds the communities, the economies, and families' purchasing power where small businesses are located. As stated by restaurant owner Taimi Dunn Gorman, owner of the Clopohon Café in Bellingham, "…offering a decent living wage to workers…goes a long way toward creating a positive work environment." (Whatcom County Business Journal)[2]
- NFIB data also show that a majority (57%) of small businesses don't think that a minimum wage increase "will have an impact on their business in either increased prices, reductions in hours or job opportunities for part-time workers or increasing the hourly rate for non-minimum wage employees."[3]

Issue #2: The minimum wage increase reduces employment and results in reductions in hours or job opportunities for part-time workers.

- This is a blatant misrepresentation of the results of the Minimum Wage Study Commission (MWSC), a congressionally sponsored committee of economists that looked at the economic impact of the minimum wage at the end of the 1970s. The MWSC was clear that the 1-3% disemployment figure applied only to teenagers (less than 30% of minimum wage workers) and that the best estimate was closer to the low end of the estimate for job loss. The MWSC concluded that the employment impact on young adults (ages 20-24) was smaller than that for teenagers. Finally, the MWSC found no evidence that the minimum wage had any effect on adult employment.

- There is no solid data to back up the assertion that "(i)t is likely that…employers…laid off younger… workers and replac(ed) them with…more skilled workers…" in response to the Washington state minimum wage increases in 1989 and 1990. Layoffs which employers attributed to the minimum wage increase represented less than one-half of a percent of total employment in affected firms. Further, one half of all employers reporting layoffs actually increased employment in the same year. Twice as many affected employees reported increases in work hours as those who reported decreases in the 1988–1990 time frame.[4]
- The substitution argument is even more suspect today. Where would these higher-skilled workers come from? Are they currently unemployed? This is highly unlikely, given the low unemployment rate. If small businesses are going to hire skilled workers away from other businesses, then this creates opportunities for the less skilled to slot into the new vacancies. It also gives employers incentives to train workers to fill these slots.

Issue #3:	**Small businesses survive on cash flow and have very narrow profit margins, which are threatened by the minimum wage increase. Small business can either pass on wage increases to consumers or cut back wages and jobs.**

- Both the impacts of the federal minimum wage increase and the increase in Oregon's minimum wage prove that job loss simply **does not occur**. Consider retail business operating costs: labor costs account for approximately 20-25% of the total operating costs. Even if all employees in a firm are working at minimum wage, the minimum wage hike of approximately 10% in 1999 would result in, at the most, an annual 2-2.5% increase in total costs.[5] What will most likely be an extremely small increase in labor costs is countered by increases in productivity, decreased costs for training and recruitment of new employees, and/or a decrease in profits. The possible profit decline is what drives the opposition to the minimum wage increase. "You'll hear a lot of whining, like I'll go out of business," Taimi Dunn Gorman said. "But what it really amounts to is that raising wages might mean one less trip to Hawaii."[6]

Issue #4:	**Increasing the minimum wage will price the low-skilled worker out of the market.**

- Again, this is an assertion that is not backed up by the facts. Paying workers wages below poverty creates its own economic problems. Employee turnover is high, as are the associated costs of recruitment and training. Increasing the minimum wage nudges business toward investing in their workers, with workers becoming more productive and more loyal to the firm, thereby increasing profits.

- It is important to note that in our dynamic market economy, businesses are always trying to increase productivity and mechanize work. But all businesses need workers and they will pay what's necessary to keep them if they add value to the organization. Unfortunately, some businesses pay only what they can get away with, instead of rewarding a person for the true value of his or her work. "Unfortunately, a lot of (restaurant owners) won't pay their employees any more unless they have to – unless the government tells them to," states business owner Taimi Dunn Gorman.[7]

Issue #5:	**The Increase will adversely affect rural eastern Washington.**

- A minimum wage worker in Eastern Washington has as much right to a pay increase as a worker in the Puget Sound area. For low-income communities, the minimum wage increase can generate important additional economic activity. An extra $3000 a year income for a minimum wage worker in Othello, for example, will be spent in local businesses. The greater the proportion of minimum wage workers in a local economy, the bigger and more positive the economic impact of increasing the minimum wage becomes. Minimum wage workers spend a higher proportion of their income on immediate consumption than higher income workers do. In fact, increasing the minimum wage may have a disproportionately ***positive*** impact in rural low-income areas.

- Inflation measures the rate of change of prices. As we live in a national and global economy, inflationary changes originate from global and national decision-making and economic trends and are spread more or less evenly throughout the Washington state economy. Whether you live in Wenatchee or Seattle, energy prices will increase at the same pace. Inflation indicator (CPI-W) is an accurate measure on both sides of the mountains.

Issue #6:	**Increasing the minimum wage will hurt Washington's small business climate.**

- Increasing the minimum wage sends a signal that we encourage businesses that pay their workers a decent wage and discourage businesses which purposely pay poverty wages. A sound business climate needs an educated workforce, high consumption patterns and low levels of poverty, especially for those businesses which rely directly on out-of-pocket consumption expenditures for their sales. Increasing the minimum wage creates a platform for all these elements of business prosperity.

- NFIB claims that the small business climate is tenuous in Washington state. However, the Washington Restaurant Association (WRA) says that Washington is projected to record the highest rate of eating and drinking sales growth among all states this year, with restaurant sales growth projected to increase by 6.2% and regional growth in population, employment, and personal income forecasted to post increases above the national averages in the coming year. The drivers for small business prosperity appear to be in place. (As a final note, WRA states that 58% of consumers worry more about taste than cost when they eat out!)

Issue #7:	**The minimum wage increase makes welfare reform tougher to implement.**

- Increasing the minimum wage encourages retention strategies for keeping employees by paying them better and investing them as partners in production and profitability. This is exactly what welfare reform should be encouraging.

- Small businesses don't hire people moving off welfare as an act of charity. They hire them to help these businesses turn a profit. If they did otherwise, they would go out of business. Increasing the minimum wage nudges all businesses to the high road of productivity, human capital investment, and profitability, which benefit both businesses and welfare recipients.

- Apparently the NFIB wants taxpayers to continue subsidizing low-income working families instead of paying a decent wage for hard-earned work. They suggest "educational opportunities, the earned income tax credit, and other federal programs" as solutions to aiding the working poor. These solutions cost taxpayers money. A minimum wage increase does not.

Issue #8:	**The Washington Restaurant Association (WRA) claims that employees who do make entry–level wages make on average, 30% more within the first year of employment.**

- This assertion doesn't make factual sense. If it did, then there would be no reason for WRA to oppose the minimum wage increase. What a 30% increase in wages means is that within one year of starting at $5.15, a worker would make $6.70 per hour. How is it that there are 13% of Washington State workers who would get an increase as a result of the minimum wage increase? At any given time is there 13% of the work force in an entry-level job for less than one year, every year? With the labor force growing 1-2% per year, the arithmetic couldn't be true. If it is true, that says that entry-level workers' productivity grows very quickly. Raising the minimum wage then represents only a short-term burden on employers because after a year productivity gains outweigh the increase in wages.

Issue #9:	WRA claims that wage hikes tied to inflation will impact the fixed-income elderly.

- In fact, minimum wage workers do not cause inflation. Their share of dollars within the overall Washington economy makes an increase in the minimum wage economically unimportant. Specifically, 13% of workers in Washington State will be affected by the minimum wage initiative. However, as minimum wage workers, their total wage bill is between four and five percent of all wages paid in Washington State. This means that a 3% increase in their wages to catch up with inflation will raise the total wage bill by about one tenth of a percent. Wages typically equal approximately two-thirds of total state domestic product. This means that if the wage hikes are fully passed on in the form of higher prices, it will increase the price of all goods combined which are produced in Washington state by between eight and ten ***hundredths*** of a percent.[8] It is also likely that these wage increases will not be fully passed on, but will instead be partially offset by greater productivity and lower profits. (This possibility explains the opposition of the Restaurant Association.) In this case the costs to consumers would be even less.

- Once you do the math, you see that the inflation argument is a red herring. The minimum wage is not a driver for inflation. Global economic forces and events are. As a sector, energy prices are much more fundamental components for inflation.

- It only makes sense that the lowest paid and some of the hardest working people in Washington state are not driven further into poverty and left behind the rest of us in the event of inflation. Just as there is a societal consensus that cost-of-living adjustments in Social Security are essential for maintaining seniors’ purchasing power, so too is a cost-of-living adjustment for minimum wage workers.

Issue #10:	WRA's central argument is that the minimum wage is a training wage that applies overwhelmingly to teenagers and other young people who live in middle class families.

The reality, evident in the restaurant-industry-funded Employment Policies Institute's study of the minimum wage in Washington state, is that the minimum wage is not a "training wage" for young workers, but rather an important source of income for a group of overwhelmingly adult workers with a significant commitment to work who make a substantial contribution to their families' incomes. Consider:

- More than 70% of minimum wage workers are twenty years old or older.
- Less than 30% live with parents.
- Minimum wage workers average 47 weeks of work per year and 28.7 hours per week.
- The median family income for minimum wage workers is $27, 203. (Source: Employment Policies Institute, 1998, Table 1).

Issue #11:	WRA claims that people should be paid based on their skills.

- That's the point of this initiative. Minimum wage workers are underpaid for the value of their work. In 1968, the value of the minimum wage was one and one-half times greater than it is now. Given that in the past 30 years productivity has increased between 40% and 45%, minimum wage workers are grossly underpaid compared to the value of their labor benchmarked by the 1968 minimum wage. Businesses don't hire workers for charity. They hire workers to help make a product to sell for a profit. If the worker does not add adequate value to the product, he or she is laid off. At the present time, many employers are simply using the minimum wage to underpay their workers. ***That is not right.***

Endnotes

[1] NFIB position paper opposing Initiative 688: "63% of NFIB members oppose increasing the minimum wage."

[2] Jan Rodak, Whatcom County Business Journal, "The Minimum Wage, How does it affect your business?" August 1998.

[3] NFIB position paper opposing Initiative 688: "Forty three percent say that increasing minimum wage will have an impact on their business in either increased prices, reductions in hours or job opportunities for part-time workers or increasing the hourly rate for non-minimum wage employees."

[4] See Northwest Policy Center, "Minimum Wage Study", January 1991, p. 7-8.

[5] 25% x 10% = 2.5%

[6] Whatcom County Business Journal

[7] Whatcom County Business Journal

[8] 4% x 3% x 2/3 = .08%. Similarly, this means that the initial wage adjustments of about 10% in 1999 and 11% in 2000 for the minimum wage, if fully passed on, could result in a three tenths of a percent increase in inflation. The actual number will be much lower, because only a proportion of workers making less than $6.50 an hour will be directly affected by the first year's increase, and each worker's proportional increase will decrease as the person's initial wage diverges from $4.90 an hour.

Related Link(s)

- EOI Economic Security Policy - Minimum Wage

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