

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

MEMORANDUM

TO: Members, House Committee on Small Business, Subcommittee on Oversight, Investigations, and Regulations
FROM: Rep. Dean Phillips, Chairman
RE: Subcommittee Hearing: “Perspectives from Main Street: Raising the Wage”
DATE: February 24, 2021

The Committee on Small Business, Subcommittee on Oversight, Investigations, and Regulations will hold a hybrid hearing entitled “Perspectives from Main Street: Raising the Wage.” This hearing is scheduled for **Wednesday, February 24, 2021, at 10:00 A.M. in Room 2360, Rayburn House Office Building and via the WebEx platform (information to be provided).**

The federal minimum wage has not risen from \$7.25 since 2009, marking the longest period without an increase since its creation in 1938. Meanwhile, the value of the minimum wage has eroded, and lower-income workers and families have struggled to keep up with the increasing cost of living. As a result, Congress is starting to explore ways to increase the wage and how it will impact workers and small businesses alike. The hearing will give Members the opportunity to hear from stakeholders about the challenges and benefits of raising the minimum wage.

Witnesses

- Dr. Heidi Shierholz, Ph.D., Senior Economist and Director of Policy, Economic Policy Institute, Washington, D.C.
- Mr. John Puckett, Owner, Punch Pizza, St. Paul, MN
- Ms. Rebecca Hamilton, Co-CEO, W.S. Badger Company, Gilsum, NH
- Ms. Rachel Greszler, Research Fellow in Economics, Budget, and Entitlements, The Heritage Foundation, Washington, D.C.

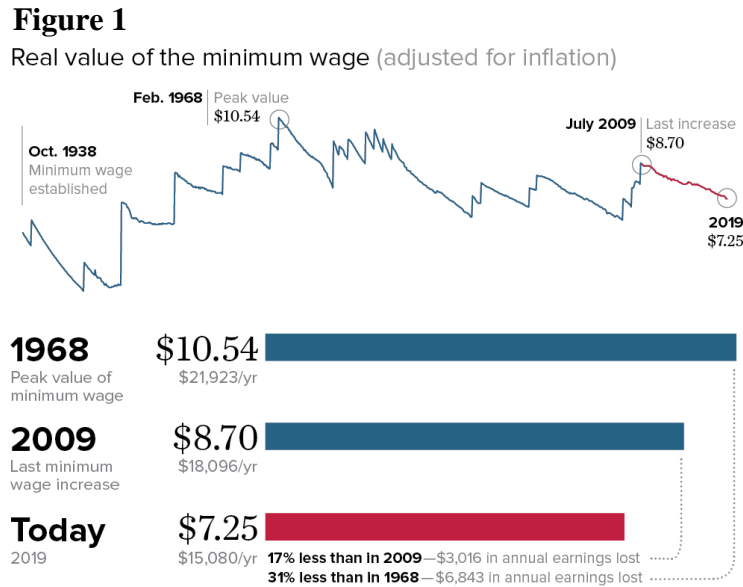
Background

The federal minimum wage provisions are contained within the Fair Labor Standards Act (FLSA) of 1938 that require employers to provide a minimum hourly wage to all nonexempt workers. It has been raised 22 times since 1938, most recently in 2007 when it was raised from \$6.55 to \$7.25 per hour by 2009.¹ While the minimum wage can vary state by state, or even city by city, these rates can only be higher than the federal minimum wage. Five states have not adopted a minimum

¹ David H. Bradley, CONG. RESEARCH SERV., R43089, *The Federal Minimum Wage: In Brief* (2021)

wage: Alabama Louisiana, Mississippi, South Carolina, and Tennessee, and two states, Georgia and Wyoming, have a minimum wage below the federal minimum wage. All seven of these states must comply with the \$7.25 minimum wage set by the federal government.

The original intent of the minimum wage was to stabilize the post-depression economy and protect the workers in the labor force by creating a minimum standard of living to protect their health and well-being. Unfortunately, and despite being raised over the years, the cost of living has vastly exceeded the minimum wage provided by the FLSA. **Figure 1** below demonstrates this erosion over time.



Note: All values are in June 2019 dollars, adjusted using the CPI-U-RS.
Source: EPI Analysis of historical minimum wage data in the FLSA and amendments

The rising cost of living alongside a long and unequal recovery over last decade led policymakers to discuss raising the federal minimum wage to a living wage. One current proposal, the Raise the Wage Act, would raise the federal minimum wage from \$7.25 to \$15 by 2025, index future increases in the minimum wage to median wage growth to prevent erosion overtime, phase out the subminimum wage for tipped workers, guarantee teen workers are paid at least minimum wage, and end subminimum wage for workers with disabilities.²

Proponents of this legislation contend that it will increase consumption, leading to more job creation, and a decrease in poverty and reliance on social assistance programs. Opponents of the bill argue that it will burden small business owners with increased labor costs, resulting in layoffs, inflation, and automation.

² HOUSE ED. AND LABOR CMTE., *Raise the Wage Fact Sheet*, 2020. <https://edlabor.house.gov/imo/media/doc/2021-01-26%20Raise%20the%20Wage%20Act%20Fact%20Sheet.pdf>

Impact on Small Businesses

Small businesses represent 99 percent of all private sector employers and many will be either directly or indirectly impacted by raising the minimum wage. Some small business-owners have expressed concerns that this will either cause a reduction in profits or a reduction in workforce. Many small businesses operate on thin margins in the best of times and are concerned that the Raise the Wage Act could put them out of business. According to a survey by CNBC/SurveyMonkey, 20 percent of small business owners could be forced to lay off workers to comply with the minimum wage increase.³ Concerns have also been raised about the timing, given the impact the COVID-19 pandemic is having on small businesses.⁴ However, it must also be noted that the proposed raise in the minimum wage would be enacted over the span of five years.

On the other hand, studies have shown that small firms will benefit from an increased minimum wage. Low-wage workers tend to spend larger proportions of their paychecks back into their local communities.⁵ The Federal Reserve of Chicago determined that low-wage worker households spent an additional \$2,800 in the year after a \$1-per-hour increase to the minimum wage.⁶ More money in the pockets of consumers can act as a tide that will lift all boats – workers, businesses, and communities alike.

Employee turnover is one of the largest concerns of small firms, particularly those in the food service industry. According to a report published by the Center for American Progress, it costs 16 percent of a low-wage employee's salary to replace that worker.⁷ Increasing the minimum wage has been shown to decrease employee turnover among many firms, which reduces the costly practice of hiring and training new employees and stabilizes these businesses over time.⁸ Data from tens of thousands of small businesses across the U.S. shows that employees making \$7.25 an hour have a 70 percent chance of leaving within a year.⁹ The same data indicates that \$15 drops this number down to 41 percent.¹⁰

³ Samantha Subin, *\$15 Minimum Wage Will Result in Layoffs, One-Third of Small Business Owners Say: Survey*, CNBC, Feb. 10, 2021. <https://www.cnbc.com/2021/02/10/one-third-of-small-businesses-say-15-minimum-wage-means-layoffs.html>

⁴ Rachel Greszler, *Now Would Be A Terrible Time To Raise the Minimum Wage*, HERITAGE FOUNDATION, Jul. 16, 2020. <https://www.heritage.org/jobs-and-labor/commentary/now-would-be-terrible-time-raise-the-minimum-wage>

⁵ Greg Rolaski, *What McDonald's Shows about the Minimum Wage*, NPR, Feb. 16, 2021.

<https://www.npr.org/sections/money/2021/02/16/967333964/what-mcdonalds-shows-about-the-minimum-wage#:~:text=Paying%20above%20the%20minimum%20wage,worker%20wages%20by%20about%207%25>.

⁶ Aaronson, D. Agarwal, S., & French, E., *The Spending and Debt Responses to Minimum Wage Increases*, THE FEDERAL RESERVE BANK OF CHICAGO, Feb. 8, 2011.

⁷ Heather Boushey and Sarah Glynn, *There are Significant Business Costs to Replacing Employees*, CENTER FOR AMERICAN PROGRESS, Nov. 16, 2012. <https://www.americanprogress.org/issues/economy/reports/2012/11/16/44464/there-are-significant-business-costs-to-replacing-employees/>

⁸ Dube, A., Lester, T., & Reich, M., *Minimum Wage Shocks, Employment Flows, and Labor Market Frictions*. UC BERKELEY: INSTITUTE FOR RESEARCH ON LABOR AND EMPLOYMENT, April 2012.

<https://escholarship.org/uc/item/76p927ks#page-2>

⁹ Matthew Castillon, *70% of Workers are Likely to Quit at Current \$7.25 Federal Minimum Wage in Brutal Turnover Cycle*, CNBC, Sep. 25, 2019.

¹⁰ *Id.*

Finally, studies have also shown that a minimum wage increase can boost morale and increase productivity, as well as decrease absenteeism, of lower-wage workers.¹¹ Employees care more about holding onto their jobs when they are paid more, which has been validated in two recent studies: one on department store clerks and one on nursing home employees.¹² The nursing home study, conducted by economist Krista Ruffini, at the Minnesota Federal Reserve, analyzed hundreds of increases in the minimum wage from 1990 to 2017. She compared neighboring counties that suddenly had minimum wage differences and found (1) little change in employment levels in nursing homes, and; (2) a ten percent increase in the minimum wage reduced nursing home deaths by about 3 percent or 15,000 each year.¹³ The other study on department store employees also found no drop in profits as well as increased productivity from employees in places where the minimum wage was higher.¹⁴

Broader Economic Impacts

Since 1968, the value of the minimum wage compared to inflation has been gradually eroding. This decline of purchasing power has led low-wage workers to work longer hours to achieve the same standard of living that was considered bare minimum 50 years ago. This has happened while the U.S. has achieved significant gains in labor productivity due to increased automation and technical capabilities. In fact, had the minimum wage been indexed to productivity rather than inflation or median wages, it would stand at \$22.19 by 2024.¹⁵ Raising the minimum wage to \$15 by 2025 would surpass the previous inflation-adjusted high point set in 1968 and begin to allow even the lowest paid workers in America to once again achieve the gains made of the rest of the economy. There are a number of different impacts this would have on the economy – many would be positive, and others could be negative. This hearing would consider these impacts described below.

Employment

The recent CBO report on the budgetary effects of the Raise the Wage Act of 2021 predict employment would be reduced by 1.4 million workers, or 0.9 percent on average over the next decade.¹⁶ This is based on the theory that an increased minimum wage will result in increased

¹¹ Seema Jayachandran, *How a Raise for Workers Can Be A Win For Everybody*, NY TIMES, June 18, 2020. <https://www.nytimes.com/2020/06/18/business/coronavirus-minimum-wage-increase.html#:~:text=The%20new%20research%20shows%20that,businesses%20offering%20higher%2Dquality%20service.&text=Moreover%2C%20because%20companies%20are%20getting,necessarily%20lead%20to%20fewer%20jobs.>

¹² *Id.*

¹³ Krista Ruffini, *Better Workplace Conditions for Long-Term Eldercare Staff are Key to Promoting Resident Safety Amid the Coronavirus Pandemic*, WASHINGTON CENTER FOR EQUITABLE GROWTH, June 4, 2020. <https://equitablegrowth.org/better-workplace-conditions-for-long-term-eldercare-staff-are-key-to-promoting-resident-safety-amid-the-coronavirus-pandemic/>

¹⁴ *Supra* note 11

¹⁵ David Cooper, *Raising the Federal Minimum Wage to \$15 by 2024 would lift pay for nearly 40 Million Workers*, EPI, Feb. 5, 2019. <https://www.epi.org/publication/raising-the-federal-minimum-wage-to-15-by-2024-would-lift-pay-for-nearly-40-million-workers/>

¹⁶ CBO, *The Budgetary Effects of the Raise the Wage Act of 2021*, Feb. 2021, <https://www.cbo.gov/system/files/2021-02/56975-Minimum-Wage.pdf>

operating costs for many businesses that employ minimum wage workers. As a result, they must cut the number of employees so they can afford to pay a \$15 hourly wage. However, the relationship between the minimum wage and employment is one of the most studied subjects in the field of economics, with several studies reaching different conclusions. The overwhelming conclusion of the literature shows that a modest increase in the minimum wage has little to no effect on overall employment.¹⁷

The CBO report also acknowledges that, because most of the gains of a higher minimum wage would go to lower-income families, it would boost aggregate demand in the short term. Since lower-income families spend a larger proportion of any additional income on goods and services than higher-income families, the boost in demand would reduce the drop in employment.¹⁸

Reduction in Poverty, Income Inequality, and the Racial Pay Gap

According to CBO, this bill would raise the wages of nearly 27 million Americans and lead to a 10-year increase in wages of \$333 billion for the low-wage workforce. Moreover, it would also lift nearly a million people out of poverty.¹⁹

Income inequality has been expanding in the United States for decades. As shown in **Figure 2** below, higher income workers have been taking home a larger percentage of U.S. aggregate income, while the percentage of income taken home by the middle class has been reduced substantially. This has been exacerbated by the COVID-19 pandemic, which disproportionately affected women, minority, and low-wage workers. Increasing the minimum wage would disproportionately benefit low-wage earners, who have seen much smaller increases in wages over the past half-century.

¹⁷ Wolfson, Paul J. and Belman, Dale, *15 Years of Research on U.S. Employment and the Minimum Wage*, TUCK SCHOOL OF BUSINESS WORKING PAPER NO. 2705499, December 10, 2016. <https://ssrn.com/abstract=2705499>

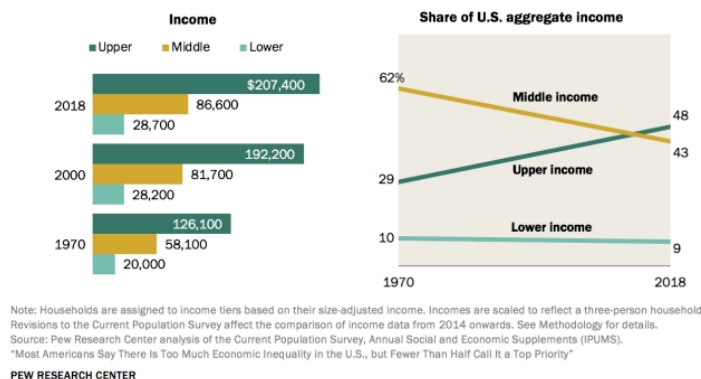
¹⁸ *Supra* note 16

¹⁹ Bivens, Cooper, Shierholz, and Zipperer, *CBO Analysis Confirms that a \$15 Minimum Wage Raises Earnings of Low-Wage Workers, Reduces Inequality, and Has Significant and Direct Fiscal Effects*, EPI, Feb 8, 2021. <https://www.epi.org/blog/cbo-analysis-confirms-that-a-15-minimum-wage-raises-earnings-of-low-wage-workers-reduces-inequality-and-has-significant-and-direct-fiscal-effects-large-progressive-redistribution-of-income-caused/>

Figure 2.

The gaps in income between upper-income and middle- and lower-income households are rising, and the share held by middle-income households is falling

Median household income, in 2018 dollars, and share of U.S. aggregate household income, by income tier



The Raise the Wage Act would disproportionately benefit workers of color as well. According to the Economic Policy Institute, workers of color would benefit from a \$15 minimum wage at significantly higher rates.²⁰ Nearly 40 percent of black workers and 34 percent of Hispanic workers would receive a pay increase from this bill.²¹

Inflation

Many business owners and consumers across America fear that a large increase in the minimum wage would result in higher prices for goods and services. They argue that the need to pay workers more would cause business-owners to hike prices to pay for wage increases. However, in papers analyzing this relationship, economists have found only minimal price increases resulting from minimum wage increases. In fact, MacDonald and Nilsson (2016) find that price elasticity compared to minimum wage changes is smaller than previously thought.²² Furthermore, they find that small minimum wage increases do not result in higher prices and might actually result in lower ones. On the other hand, large, one-time, minimum wage increases do result in increased prices.

The CBO Report also outlines that the effect on prices would largely be concentrated on goods and services whose production relies on lower-wage work, such as food prepared in restaurants.²³ Studies have shown these price increases would not equal the raises given to low-wage workers. So, the minimum wage increase would still result in a net raise.²⁴ For instance, in the case of McDonald's, the cost of a minimum wage increase is passed onto consumers in the form of higher

²⁰ *Supra* note 15

²¹ *Id.*

²² MacDonald, Daniel and Eric Nilsson. *The Effects of Increasing the Minimum Wage on Prices: Analyzing Policy Design and Context*, UPJOHN INSTITUTE WORKING PAPER 16-260. June 2016.

https://research.upjohn.org/up_workingpapers/260/

²³ *Supra* note 16

²⁴ Ashenfelter, Orley and Stepan Jurajda. *Wages, Minimum Wages, and Price Pass-Throughs: The Case of McDonald's Restaurants*. PRINCETON UNIVERSITY, DEPT. OF ECONOMICS. Working Paper 646. Jan. 2021.

<http://arks.princeton.edu/ark:/88435/dsp01sb397c318>

Big Mac prices, however it is at a much lower rate. A study out of Princeton found that a 10 percent increase in the minimum wage resulted in a 1.4 percent increase in the price of a Big Mac.²⁵

Conclusion

Raising the minimum wage would have broad implications for the economy and on the state of America's small businesses. While some business owners fear that it could lead to increased labor costs and potential layoffs, others see benefit in the increased productivity, workforce retention, and overall demand their businesses could see if it is passed. This hearing provides members the opportunity to hear from small firms and economists regarding the potential impacts of the Raise the Wage Act.

²⁵ *Id.*