

A Higher Minimum Wage Works for Small Businesses

Raising Oregon’s minimum wage to \$15 per hour would give small businesses more of what they need most: customers with money. A higher minimum wage could boost small businesses’ bottom line by putting more money in the pockets of those who are most likely to spend it locally. Research shows that higher minimum wages have not deterred small business job growth. Research also shows that a higher minimum wage increases worker productivity — a benefit for employers, including small business owners.

A higher minimum wage can help boost the bottom line for small businesses

Small businesses need customers, something that a higher minimum wage can deliver. In surveys, small business owners cite “more customers” or “poor sales” as their primary concern.¹ A higher minimum wage puts more money in the pockets of low-wage workers, who pump it directly back in the local economy by purchasing groceries, clothes, school supplies for their kids and other items that small businesses sell.

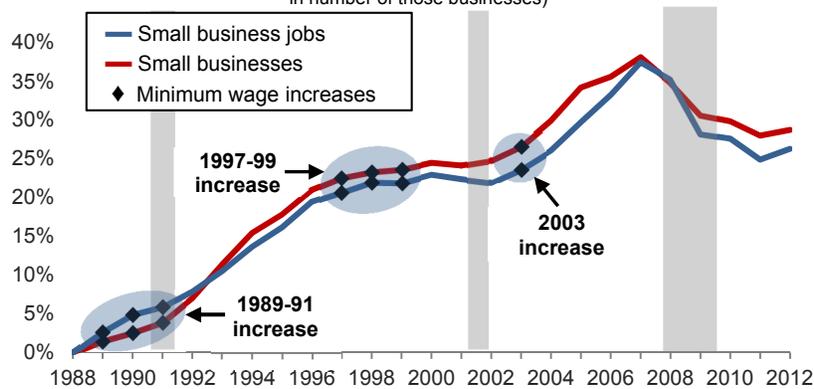
A minimum wage of \$15 per hour would put more money in the pockets of hundreds of thousands of customers. An estimated 589,000 workers would see their wages rise if lawmakers raised the minimum wage to \$15 by 2018.² Some workers already earning above \$15 per hour would also see their wages rise. Over the three years that the increase would be phased in, lower-income workers as a group would gain about \$3.2 billion in added wages.³

A better-paid worker is a better customer for small businesses. The increased sales from those customers can help offset increased labor costs.

Experience shows small businesses do fine with higher minimum wages

Recessions, not wage hikes, hurt small businesses

(1988-2012 percent change in number of jobs in businesses with fewer than 20 employees and in number of those businesses)



Note: Gray bars indicate periods of recession. Blue circles indicate implementation of the past three minimum wage increases. Since 2004, Oregon’s minimum wage is adjusted annually for inflation.
Source: OCPP analysis of Statistics of U.S. Businesses Census data.

Oregon’s experience shows that minimum wage increases do not hold back small business growth.

Between 1988 and 2012, Oregon raised its minimum wage three times, not counting annual inflation adjustments that began in 2004.⁴ Twice, the wage was phased in in three steps. Notably, the three-step increase enacted over two years starting in 1989 saw Oregon’s minimum wage rise by 42 percent.⁵

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During that time, the small business sector showed mostly uninterrupted growth, with contractions seemingly tied to the business cycle, not to minimum wage increases. Indeed, following the 42 percent minimum wage increase fully phased in in 1991, small businesses experienced nearly a decade of uninterrupted growth both in terms of total number and number of jobs. Between 1988 and 2007, right before the start of the Great Recession, businesses with fewer than 20 employees grew by more than a third, as did jobs in those businesses.⁶

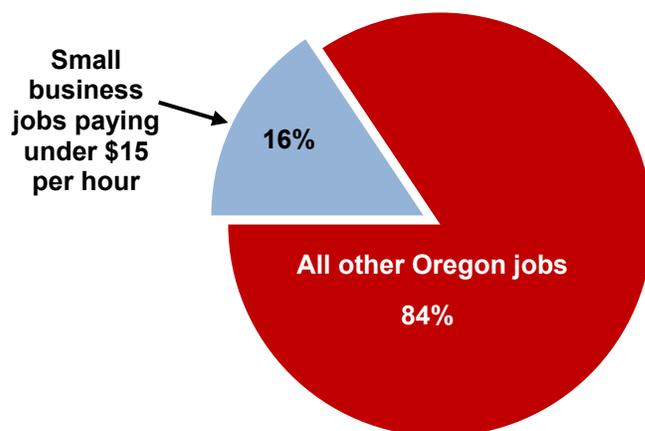
Further evidence that a high minimum wage can go hand-in-hand with strong job growth can be found in the Paychex/IHS Small Business Job Index. On a monthly basis this index tracks the job growth of businesses with less than 50 workers in the nation's 20 most populous states.⁷ In 2014, Washington, the state with the nation's highest minimum wage, topped the monthly list of small business job growth more often than any other state.

Other research shows that a higher minimum wage does not hold back growth in the small business sector. Over a six-year period, the total number of small businesses grew faster in states where the minimum wage was above the federal minimum than in states where the federal minimum wage prevailed.⁸ The better performance associated with a higher minimum wage was also evident in the retail sector, a large employer of low-wage workers. The number of small retail businesses grew in states with a higher minimum wage, while it declined in states that used the lower federal minimum wage.⁹

Small business jobs paying under \$15 account for small share of all Oregon jobs

Relatively few Oregon jobs are in small businesses paying under \$15 per hour

(Share of all Oregon jobs)



Source: OCPP analysis of Oregon Employment Department data.

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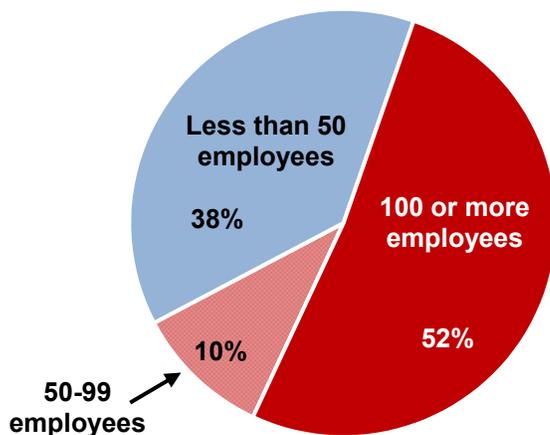
There are about 1.9 million jobs in Oregon. How many of these are small business jobs that pay less than \$15 per hour? Relatively few.

Just how few, of course, depends on how one defines “small business.” There is no universal definition for the term “small business,” though a common definition is businesses that employ fewer than 50 people.¹⁰ Under that definition, there are about 292,000 small business jobs in Oregon that pay less than \$15 an hour.¹¹ That amounts to about 16 percent of all jobs in the state.

Most workers who would receive a wage increase work at larger businesses

Larger businesses account for most jobs paying under \$15 per hour

(Share of Oregon jobs paying under \$15 by employer size)



Source: OCPP analysis of Oregon Employment Department data.

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Of all jobs in the state paying under \$15 per hour, what share corresponds to *larger* businesses? The answer is the majority of such jobs (62 percent), assuming that small businesses are those with less than 50 employees.

Therefore, most workers who would see a wage increase as a result of a \$15 per hour minimum wage in Oregon work at a larger business.

Even when considering only businesses with 100 employees or more, this narrower group of businesses still account for a majority (52 percent) of all Oregon jobs paying under \$15 per hour.

Employers Experience Productivity Gains from a Higher Minimum Wage

Researchers have found that a higher minimum wage yields savings to employers in the form of higher productivity and other efficiencies. A recent report summarized some of the research findings as follows:

- “Higher wages motivate employees to work harder.”
- “Higher wages attract more capable and productive workers.”
- “Higher wages lead to lower turnover, reducing the costs of hiring and training new workers.”
- “Higher wages enhance quality and customer service.”¹²

Oregon small business owners can expect such benefits from a higher state minimum wage.

Conclusion

Overall, small businesses in Oregon could benefit from a higher minimum wage. A higher wage means more money in the pockets of customers. Research and experience show that small businesses can do well in higher minimum wage environments.

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Endnotes

¹ *The State of Main Street: Oregon small business views on state and national public policy*, Main Street Alliance, October 2014; Eric Hoyt, *Poor Sales, Not High Wages, Worry Small Businesses*, Center for Economic and Policy Research, July 10, 2012.

² EPI Analysis of Current Population Survey, Outgoing Rotation Group public use microdata, 2013Q4-2014Q3. The analysis is based on the minimum wage increase proposed in HB 2009.

³ Ibid. This figure includes wage gains for workers directly and indirectly impacted by the minimum wage increase.

⁴ In 1989, the legislature raised Oregon's minimum wage, implemented in three steps, from \$3.35 to \$4.75 by January 1, 1991. A 1996 ballot initiative raised Oregon's minimum wage, implemented in three steps, from \$4.75 to \$6.50 by January 1, 1999. A 2002 ballot initiative raised Oregon's minimum wage from \$6.50 to \$6.90 by January 1, 2003. Since 2004, Oregon's minimum wage is adjusted annually for inflation.

⁵ "There's Oregon Precedent for a Big Minimum Wage Increase," Chuck Sheketoff, Oregon Center for Public Policy, February 2015.

⁶ OCPP analysis of Statistics of U.S. Businesses Census data.

⁷ The index, which provides year-over-year changes and is updated on a monthly basis, is available at <http://www.paychex.com/jobs-index/index.aspx>.

⁸ *States with Minimum Wages above the Federal Level have had Faster Small Business and Retail Job Growth*, Fiscal Policy Institute, March 30, 2006. This study also defined "small business" as a business with fewer than 50 workers. The study examined data from 1998 to 2003.

⁹ Ibid.

¹⁰ See, e.g., ORS 470.050 (26), defining "small business" in part as a "retail or service business employing 50 or fewer persons."

¹¹ OCPP analysis of Oregon Employment Department data.

¹² Justin Wolfers and Jan Zilinsky, *Higher Wages for Low-Income Workers Lead to Higher Productivity*, Peterson Institute for International Economics, January 13, 2015. See also Reich, Michael et. al., *Living wage Policies at the San Francisco Airport: Impacts on Workers and Businesses*, *Industrial Relations*, January 2005, v. 44(1): 106-138; John Schmitt, *Why Does the Minimum Wage Have No Discernible Effect on Employment*, February 2013. For more on employee retention see Dube, Arindrajit et. al., "The Economic Effects of a Citywide Minimum Wage." *Industrial and Labor Relations Review* 60(4), 2007: 522-543. For more on the cost of employee turnover see, Heather Boushey and Sarah Jane Glynn, "There are Significant Business Costs to Replacement Employees," Center for American Progress, 2012.

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