



# Small Businesses Get a Boost From a \$15 Minimum Wage

By Caius Z. Willingham | February 25, 2021

The coronavirus pandemic pulled the rug out from under working families seemingly overnight. In total, nine months into the pandemic, the number of unemployed workers reached more than 10.7 million, leaving countless families hungry.<sup>1</sup> In October 2020, more than 1 in 10 households with school-age children were experiencing food insecurity.<sup>2</sup> Though the initial relief provided by the weekly federal supplement of state unemployment insurance, expanded access to unemployment insurance, and the \$1,200 direct payments kept some families afloat temporarily—with 18 million people boosted out of poverty in April—a total of 8 million people sunk below the poverty level from May to September 2020.<sup>3</sup>

But even before the mass unemployment resulting from the deadly public health crisis, the economy faced a major structural problem: The federal minimum wage was last raised in 2009. Since then, the rising cost of living has eroded the value of the minimum wage by more than 17 percent.<sup>4</sup> The disparity between the minimum wage and the current cost of living is so large that there is not a single U.S. state in which a minimum wage worker can afford to rent a two-bedroom home.<sup>5</sup> This chasm is even starker for tipped workers, who make \$2.13 per hour, and workers with disabilities, who earn just \$3.34 per hour.<sup>6</sup> The result is an economy that does not work. Before the pandemic hit, 140 million people already lived near or below the poverty line.<sup>7</sup>

For the United States to achieve a meaningful economic recovery that lifts up all families, Congress must raise the federal minimum wage to \$15 per hour, including for tipped workers and workers with disabilities. Raising the minimum wage would benefit small businesses and the economy at large. While critics of a fair wage argue that a \$15 minimum wage would put a heavy burden on small businesses, economic literature demonstrates that these concerns are not borne out by the facts.

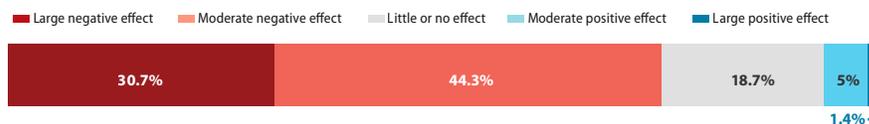
Small businesses across the country are in dire need of assistance to weather the remainder of the pandemic and rebound during the recovery. The number of small businesses currently operating is down almost 34 percent compared with January 2020.<sup>8</sup> Almost one-third of small businesses surveyed by the U.S. Census Bureau in early January 2021 reported that the pandemic has had a “large negative effect”

on their operations.<sup>9</sup> Small businesses are a crucial part of the U.S. economy, employing about one-third of the workforce, according to the most recent available data.<sup>10</sup> As a result, small businesses are a crucial part of the recovery and need meaningful federal aid to rebuild.

The Paycheck Protection Program (PPP), which extended loans to businesses to keep their employees on the payroll, was quickly exhausted by the onslaught of entrepreneurs and business owners seeking assistance, leaving some out in the cold—particularly Black business owners.<sup>11</sup> The stress that small business owners face is real, prompting some business groups to lobby for delaying the implementation of several state and local minimum wage increases.<sup>12</sup> However, its direct financial support to small businesses and entrepreneurs—not shortchanging workers—that is going to help them weather this storm. Figure 1 displays data from the U.S. Census Bureau’s survey of small-business owners, illustrating the acute pain felt by small businesses and entrepreneurs across the country.

**FIGURE 1**  
**The coronavirus pandemic has hit businesses hard**

The effect of the coronavirus pandemic on small businesses



Source: U.S. Census Bureau, "Small Business Pulse Survey," available at <https://portal.census.gov/pulse/data/> (last accessed February 2021).

Policymakers need not choose between a \$15 minimum wage and small-business recovery. Research shows that these ends are not at odds. Minimum wage increases during recessions are not uncommon. (see Figure 2) Indeed, the minimum wage was first adopted during the Great Depression, when mass unemployment suppressed wages far below subsistence levels and the necessity of a federal wage floor became painfully evident. In fact, a \$15 minimum wage, combined with further federal relief for small businesses, will benefit small and medium-sized enterprises in the long run. Economic literature has found that increases in worker productivity, reductions in turnover, and aggregate increases in consumer spending offset a large portion of the increased payroll costs.<sup>13</sup>

FIGURE 2

## Congress has raised the minimum wage during both recessions and periods of economic growth

Real federal minimum wage indexed to 2010 dollars, 1968–2019



Sources: Federal Reserve Bank of St. Louis, "What Dates Are Used for the U.S. Recession Bars?," available at <https://fredhelp.stlouisfed.org/fred-data/understanding-the-data/recession-bars/> (last accessed February 2021); Federal Reserve Bank of St. Louis, "Consumer Price Index for All Urban Consumers," available at <https://fred.stlouisfed.org/series/CPIAUCSL#0> (last accessed February 2021); Federal Reserve Bank of St. Louis, "Federal Minimum Wage Rate under the Federal Fair Labor Standards Act," available at <https://fred.stlouisfed.org/series/STTMINWGFG> (last accessed February 2021); CPI Inflation Calculator, "2010 CPI and Inflation Rate for the United States," available at <https://cpiinflationcalculator.com/2010-cpi-inflation-united-states/> (last accessed February 2021).

## Raising the minimum wage will provide much-needed relief to American workers

American workers desperately need—and deserve—a raise to at least \$15 per hour. The current federal minimum wage is simply not enough to cover living expenses, even for a full-time worker. If the minimum wage had been adjusted automatically to reflect increases in productivity over the past 80 years, the minimum wage would now be more than \$20 per hour.<sup>14</sup> Raising the federal minimum wage incrementally to \$15 by 2025 would increase the income of 32 million workers.<sup>15</sup> Furthermore, establishing automatic increases to this wage tied to growth in median wages would ensure that all workers benefit from a growing economy, as well as provide a critical dampener on economic inequality.<sup>16</sup>

Not only would a minimum wage increase benefit millions of workers—it would also make the economy more equitable and drive growth. The workers who would benefit the most would be Black or African American, Hispanic or Latino, and Asian workers, who—thanks to a long legacy of deeply embedded structural racism—are more likely to work low-wage jobs.<sup>17</sup> Women, who on average make just 82 cents for every \$1 the average man makes, would also receive a significant leap forward. As a result, minimum wage increases can help shrink the racial and gender wage gaps.<sup>18</sup> Moreover, many of these workers serve on the front lines of the battle against the coronavirus, working in grocery stores, nursing homes, and hospitals. These workers deserve a significant raise for the health risk they assume in supplying essential services.

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## Small businesses will benefit from a \$15 minimum wage

Small businesses can reap several benefits from a higher minimum wage that may offset the increased payroll costs. A survey from CNBC found that a majority of small businesses can absorb the rise in labor costs resulting from increases in state and local minimum wages in January 2021.<sup>19</sup> A growing number of business owners have recognized the benefits of paying a fair wage, paying living wages to their employees, and even supporting a national wage increase. Businesses represented by Business for a Fair Minimum Wage welcomed the wage increases that went into effect in several states at the beginning of 2021, stating in a press release, “Businesses depend on customers who make enough to buy what they are selling, from food to car repairs. Minimum wage increases will go right back into local economies, helping workers and businesses get through the pandemic and economic crisis.”<sup>20</sup>

### Increased demand is good for local economies

One of the reasons that large job losses do not tend to accompany increases in the minimum wage is that the increase in low-wage workers’ incomes generates increased spending in the local economy. The workers who would receive this wage increase are more likely to spend it than high-earning households—injecting local economies with a wave of consumer spending—to the benefit of local businesses.<sup>21</sup> The Economic Policy Institute found that raising the minimum wage to \$15 per hour could increase a worker’s annual salary by \$5,100, which would likely go toward daily necessities.<sup>22</sup> A study by the Federal Reserve Bank of Chicago estimates that a \$1 raise for a minimum wage worker translates to an additional \$2,080 in consumer spending by their household over the course of a year.<sup>23</sup>

One of the first types of spending to increase when workers get raises is dining—an effect that will provide some relief to the struggling restaurant industry.<sup>24</sup> The increase of spending by low-income workers on household necessities and other consumer goods will help juice the economy and boost the revenue of small businesses. As David Cooper of the Economic Policy Institute aptly puts it, “The number one problem for businesses right now isn’t excessive labor costs, it’s a lack of demand.”<sup>25</sup>

### Small businesses that pay living wages reap significant benefits

In addition to enjoying higher consumer demand, small businesses that adopt living wages benefit from a more productive workforce with fewer incidental payroll costs.<sup>26</sup>

Quite simply, employees that make a fair wage are able and willing to work harder. When workers experience less economic anxiety, they are better able to focus on their tasks. Moreover, better pay is related to better health outcomes, meaning workers take fewer sick days. It also means that employees are more invested in their work and are less likely to be late, miss a shift, or have other disciplinary problems.<sup>27</sup> In total, worker productivity and the quality of service increases,

potentially allowing a firm to increase its prices to compensate for the higher pay.<sup>28</sup> For example, a study of nursing home staff performance after a minimum wage increase showed a significant increase in the quality of care received by residents.<sup>29</sup>

In addition to higher productivity from individual workers, small businesses benefit from lower staff turnover.<sup>30</sup> The time and money needed to recruit, interview, and train a new employee eats up significant resources. By some estimates, it costs about one-fifth of a worker's annual salary to replace them, and low-wage jobs such as retail and food service are among those with the highest turnover rates.<sup>31</sup> In the long term, raising the minimum wage will likely bring cost savings to small businesses that find it easier to retain employees after the wage increase.

### Raising the wage would not significantly increase unemployment levels

An exhaustive body of economic research has demonstrated that minimum wage increases do not substantially increase unemployment.<sup>32</sup> The most recent round of minimum wage increases was largely absorbed by small businesses that found other ways to cut costs and increase revenue. Before the pandemic, more than half of small business owners surveyed by CNBC in 2020 responded that the minimum wage increases in the states in which they operated would have no impact on their businesses.<sup>33</sup> The Raise the Wage Act would phase in the increase in the minimum wage to \$15 by 2025, providing businesses with ample time to adjust their balance sheets accordingly. A recent study by the University of California, Berkeley, found that even sharp increases in minimum wages in low-wage areas do not result in significant job losses.<sup>34</sup>

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## Conclusion

The bottom line is that increased demand, boosted worker productivity, and reduced employee turnover balance out the increased labor costs for businesses of raising the minimum wage. The way to help struggling small businesses is not suppressing wages—it is speedily handling the pandemic and increasing federal assistance for distressed small enterprises. By raising the minimum wage to \$15 per hour, Congress would ensure a faster, more equitable, and more sustainable economic recovery for all.

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