

A \$12 Minimum Wage: Broad Benefits for Workers and Small Businesses Across Missouri

Raising Missouri's minimum wage to \$12 an hour by 2023 through Proposition B would bring broad benefits for both workers and businesses.

- *The initiative would boost the incomes of an estimated 677,000 low-wage workers throughout the state, whose annual earnings would increase by \$1,485, on average.*
- *A \$12 minimum wage would benefit small businesses by allowing those 677,000 workers and their families to spend more money locally.*
- *Research and experience also shows that increasing the minimum wage can reduce expensive employee turnover costs and improve productivity.*
- *Economists overwhelmingly conclude that one can increase the minimum wage without reducing employment.*
- *It should not be surprising then that polls of business owners and executives reveal widespread support for raising the minimum wage.*

A \$12 Minimum Wage in Missouri Would Benefit Small Businesses by Increasing Consumer Spending

Missouri's minimum wage is currently \$7.85 per hour,¹ which amounts to \$16,328 for year-round, full-time workers. Under Proposition B, Missouri's minimum wage would gradually increase over five years—first to \$8.60 in 2019 and then by 85 cents a year until it reaches \$12 in 2023.² After 2023, the minimum wage would be adjusted annually for inflation.³

According to the Economic Policy Institute, a \$12 minimum wage in Missouri would benefit an estimated 677,000 workers (24 percent of the state's workforce).⁴ On average, their annual earnings would increase by a cumulative \$1,485 by 2023,⁵ which totals over \$1 billion in additional earnings for all directly and indirectly affected workers.⁶

Raising the minimum wage will put more money in the pockets of the customers of Missouri businesses. Low-wage workers are, out of necessity, most likely to spend any additional money they make. Raising the minimum wage would greatly boost consumer spending as workers and their families buy goods and services from businesses across Missouri.

A \$12 Minimum Wage in Missouri Would Benefit Small Businesses by Reducing Employee Turnover and Increasing Productivity

Low-wage industries are plagued by high turnover rates. The turnover rate in the accommodation and food services industry was 72.5 percent in 2017 while the turnover rate in the leisure and hospitality industry was 73.8 percent, according to the U.S. Bureau of Labor Statistics.⁷ The turnover rate for retail trade was 53 percent in 2017.⁸ For home-aide workers, turnover rates are around 40 to 65 percent per year.⁹ Experts report that it costs an employer “about one-fifth of a worker’s annual salary to replace that worker regardless of the salary paid on the income spectrum.”¹⁰

A report by the Center on Wage and Employment Dynamics explains that turnover costs include “both direct costs for administrative activities associated with departure, recruitment, selection, orientation, and training of workers, and the indirect costs associated with lost sales and lower productivity as new workers learn on the job.”¹¹ The authors noted research estimating “the average turnover cost for hotel front desk employees at \$5,864” and estimating “the replacement cost for an \$8 an hour non-union worker at \$4,199” in the supermarket industry.¹²

As summarized by *The Wall Street Journal*, “[a] large body of research . . . suggests that raising wages leads to lower employee turnover and better customer service, which generally correlate with higher sales and lower expenses,” and “[s]temming turnover, in particular, can save companies a lot of money.”¹³ For example, according to *The Wall Street Journal*, a study of the “impact of living-wage policies implemented at San Francisco’s airport discovered that turnover dropped by about one-third among airport employers,” which helped offset the cost of the pay increase since “employers pay about \$4,275 in turnover costs every time a worker is replaced.”¹⁴

Looking at the homecare sector, a study examining the impact on workforce retention of nearly doubling the wages for homecare workers in San Francisco County over a 52-month period found that “the annual retention rate of new providers rose from 39 percent to 74 percent following significant wage and benefit increases and that a \$1 increase in the wage rate from \$8 an hour . . . would increase retention by 17 percentage points.”¹⁵

A *Harvard Business Review* article discussing the high cost of low wages for companies compared the practices of Costco with Wal-Mart and Sam’s Club. It found that while Costco spent significantly more money on wages and benefits, the company had “unusually low” turnover and, overall, “one of the most loyal and productive workforces in all of retailing.”¹⁶

Research also shows that higher wages are associated with greater employee productivity and performance. As a 2015 Peterson Institute for International Economics report explained, “[e]conomists have long argued that increases in worker pay can lead to improvements in productivity—indeed, that it can actually be profitable to pay workers higher wages.”¹⁷ The authors highlighted voluminous evidence in the economic literature finding that, among other things:

- Higher wages “motivate employees to work harder”
- Higher wages “attract more capable and productive workers”

- Higher wages “enhance quality and customer service”
- Higher wages “reduce disciplinary problems and absenteeism”
- Firms with “higher wages need to devote fewer resources to monitoring”
- Workers “excessively concerned about income security perform less well at work”
- Higher wages “are associated with better health—less illness and more stamina, which enhance worker productivity.”¹⁸

The authors further observe that “[a]ll of these positive effects may interact to yield even larger aggregate effects, as the productivity of one worker often raises the productivity of their coworkers.”¹⁹

Extensive Economic Research Shows that States Can Increase the Minimum Wage Without Negative Employment Effects

More than 25 years of extensive economic research overwhelmingly concludes that states can increase their minimum wage without reducing employment.

In 2010 the prestigious *Review of Economics and Statistics* published the most methodologically sophisticated of a new wave of minimum wage studies, “Minimum Wage Effects Across State Borders,” by economists at the Universities of Massachusetts, North Carolina, and California.²⁰ That study carefully analyzed minimum wage impacts across state borders by comparing employment patterns in more than 250 pairs of neighboring counties in the U.S. that had different minimum wage rates between 1990 and 2006 as the result of being located in states with different minimum wages.²¹ Consistent with a growing line of similar research, the study found no adverse employment effects in the data from the 250 pairs of neighboring counties, and it found no evidence that higher minimum wages harmed states’ competitiveness by pushing businesses across the state line.²²

In a 2013 report, *Why Does the Minimum Wage Have No Discernible Effect on Employment?*, the Center for Economic and Policy Research, in part, spotlighted two meta-studies (studies of studies) analyzing the extensive research conducted since the early 1990s.²³ Those meta-studies conclude that “the minimum wage has little or no discernible effect on the employment prospects of low-wage workers.”²⁴ The report also explored varied means of adjustment that offset minimum wage increases, such as the increased spending power of low-wage workers, increased worker productivity, and “reductions in labor turnover, which yield significant cost savings to employers.”²⁵

A 2017 study examined state minimum wages from 1979 to 2016 and used a different methodology comparing the number of jobs in various wage categories (rather than total employment) prior to and following a minimum wage increase (“bunching method”).²⁶ It also found that jobs were not adversely impacted. The researchers concluded that “on average, the number of missing jobs paying below the new minimum during the five years following implementation closely matches the excess number of jobs paying just above minimum,” and that “[t]his leaves the overall number of low-wage jobs essentially unchanged, while raising average earnings of workers below those thresholds.”²⁷ As Jared Bernstein of the Center on Budget and Policy Priorities put it, “the researchers find that jobs largely just shift from around the old wage to around the new wage.”²⁸

Bernstein looked at employment trends overall and in three low-wage sectors—retail, leisure/hospitality, and food services—among states that raised their minimum wages during 2013–2017 and states that did not raise their minimums. He found that, “[b]oth overall and in the lower-wage sectors, job growth was slightly faster in states that raised their wage floors and unemployment fell a bit more.”²⁹

- Total employment grew 10.1 percent in states with minimum wage increases and 8.2 percent in states with no increases.
- Retail trade employment grew 6 percent in states with increases and 4.9 percent in states with no increases.
- Leisure/hospitality employment grew 16.3 percent in states with minimum wage increases and 14.5 percent in states with no increases.
- Employment in food services (a subset of leisure/hospitality) grew 17.2 percent in states with minimum wage increases and 15.4 percent in states with no increases.³⁰

An earlier report (2006) published by the Fiscal Policy Institute examined state trends for small businesses employing fewer than 50 workers. It found that “employment and payrolls in small businesses grew faster in the states with minimum wages above the federal level.”³¹

Businesses Support Raising the Minimum Wage

Polls show that business owners and executives support raising the minimum wage at the state and federal level. A revealing 2016 survey of 1,000 business executives across the country, conducted by the firm run by Republican pollster Frank Luntz, found that 80 percent of respondents supported raising their state's minimum wage. Only eight percent opposed it. Twelve percent were neutral. The Council of State Chambers commissioned the survey.³²

A nationwide 2015 poll of small business owners found that 60 percent supported raising the federal minimum wage to \$12 per hour by 2020 and then adjusting it annually to keep pace with the cost of living.³³ This poll of small business owners with one to 100 employees also found that only 11 percent of respondents paid their lowest-wage employee the minimum wage; 39 percent paid their lowest-wage employee between minimum wage and \$12 an hour; and half paid above \$12.³⁴ Small Business Majority, which commissioned the poll, observed: “As we have learned in prior polling, small businesses support increasing the minimum wage because it would immediately put more money in the pocket of low-wage workers who will then spend the money on things like housing, food, and gas. This boost in demand for goods and services will help stimulate the economy and help create opportunities.”³⁵

Conclusion

Raising the minimum wage would lift the incomes of working Missourians and broadly benefit businesses with increases in consumer spending. Raising the minimum wage can also bring cost savings through reduced employee turnover and benefits such as increased productivity and improved customer service.

Mary Faucett, the owner of Bambino's in Springfield, and a member of Missouri Business for a Fair Minimum Wage, explained why raising the minimum wage makes good business sense in an op-ed for the *Springfield News-Leader*:

[T]he reality is, the more money people have, the more they spend. And more people spending money on food, diapers or repairs helps businesses across the board. When wages are raised at the bottom, money goes right back into our businesses and the larger community.

That's why we've committed to paying above the minimum wage. We've seen from experience that paying a decent wage has many benefits. It helps us recruit and retain great people, and it significantly cuts down on turnover costs—something that hurts all business owners. . . . When Missouri raises the minimum wage, and all businesses, including the large chains, have to pay a decent wage, it will level the playing field for us little guys and help us grow our business.³⁶

Workers, small businesses, and the broader Missouri community and economy have much to gain from the gradual wage increase that Proposition B would bring to the state.

Endnotes

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¹⁶ Wayne F. Cascio, The High Cost of Low Wages, *Harvard Business Review* (Dec. 2006), <https://hbr.org/2006/12/the-high-cost-of-low-wages>.

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- ³⁶ Mary Faucett, “A fair wage sets the table for small businesses,” *Springfield News-Leader*, May 12, 2018. For more about Missouri business support for raising the state minimum wage, see the Missouri Business for a Fair Minimum Wage Sign-On Statement at <https://www.businessforafairminimumwage.org/Missouri-Sign-On-Statement>, and a growing list of hundreds of Missouri business leaders who have signed the statement at <https://www.businessforafairminimumwage.org/Missouri/Signatories>.

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