

# Raising Arkansas' Minimum Wage to \$11 Would Benefit Workers and Small Businesses

*Issue 5 would boost the incomes of an estimated 300,000 workers in Arkansas, whose annual earnings would increase by \$1,040 on average. An \$11 minimum wage would benefit small businesses by allowing workers to spend more money locally. Increasing the minimum wage can also reduce expensive employee turnover costs and improve productivity. Moreover, economists overwhelmingly conclude that one can increase the minimum wage without reducing employment. Not surprisingly, polls of business owners and executives reveal widespread support for raising the minimum wage.*

## **An \$11 Minimum Wage Would Increase Consumer Spending**

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Arkansas' minimum wage is currently \$8.50 per hour,<sup>1</sup> which amounts to \$17,680 for year-round, full-time workers. According to Arkansas Advocates for Children & Families, an \$11 minimum wage in Arkansas through Issue 5 would benefit an estimated 300,000 workers (25 percent of the state's workforce).<sup>2</sup> On average, their annual earnings would increase by a cumulative \$1,040 by 2021,<sup>3</sup> which would total over \$455 million across the state.<sup>4</sup> Raising the minimum wage will therefore put significantly more money in the pockets of workers in Arkansas who are, out of necessity, likely to spend it, and Arkansas small businesses stand to benefit from this expected increase in consumer spending.

## **An \$11 Minimum Wage Would Reduce Employee Turnover and Increase Productivity**

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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, for example, while the turnover rate in the leisure and hospitality industry was 73.8 percent.<sup>5</sup> The turnover rate for retail trade was 53 percent in 2017.<sup>6</sup> 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."<sup>7</sup>

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."<sup>8</sup>

Moreover, as a 2015 report highlighted, higher wages “motivate employees to work harder;” “attract more capable and productive workers;” “enhance quality and customer service;” and “reduce disciplinary problems and absenteeism.”<sup>9</sup>

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

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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 by economists at the Universities of Massachusetts, North Carolina, and California.<sup>10</sup> 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.<sup>11</sup> Consistent with a growing line of similar research, the study found no adverse employment effects in the data, and it found no evidence that higher minimum wages harmed states’ competitiveness by pushing businesses across state lines.<sup>12</sup>

In a 2013 report, 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.<sup>13</sup> Those meta-studies conclude that “the minimum wage has little or no discernible effect on the employment prospects of low-wage workers.”<sup>14</sup> A 2017 study examined state minimum wages from 1979 to 2016 and compared the number of jobs in various wage categories prior to and following a minimum wage increase.<sup>15</sup> It also found that jobs were not adversely impacted. 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.”<sup>16</sup>

## **Businesses Support Raising the Minimum Wage**

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Polls show that business owners and executives support raising the minimum wage at the state and federal level. A 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.<sup>17</sup> A different 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.<sup>18</sup>

## **Conclusion**

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Raising the minimum wage would lift the incomes of working Arkansans and broadly benefit businesses with increases in consumer spending. Raising the minimum wage can also bring cost savings through reduced employee turnover, increased productivity and improved customer service. Workers, small businesses, and the broader Arkansas community and economy have much to gain from the gradual wage increase proposed in Issue 5.

## Endnotes

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- <sup>1</sup> Arkansas Department of Labor, Minimum Wage and Overtime, <https://www.labor.arkansas.gov/minimum-wage-and-overtime> (last viewed Sept. 24, 2018).
- <sup>2</sup> Arkansas Advocates for Children & Families, An Arkansas Minimum Wage Increase: How It Works And How It Would Benefit Arkansans And The State (Sept. 2018) at 6, [http://www.aradvocates.org/wp-content/uploads/AACF.miniwage.webfinal.rev\\_9.17.18.pdf](http://www.aradvocates.org/wp-content/uploads/AACF.miniwage.webfinal.rev_9.17.18.pdf).
- <sup>3</sup> *Id.*
- <sup>4</sup> *Id.* at 5.
- <sup>5</sup> U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover, Table 16. Annual total separations rates by industry and region, not seasonally adjusted (Mar. 16, 2018), <https://www.bls.gov/news.release/jolts.t16.htm>.
- <sup>6</sup> *Id.*
- <sup>7</sup> Washington Center for Equitable Growth, Working by the hour: The economic consequences of unpredictable scheduling practices (Sept. 2016) at 8, <http://equitablegrowth.org/research-analysis/working-by-the-hour-the-economic-consequences-of-unpredictable-scheduling-practices/>; Heather Boushey & Sarah Jane Glynn, Center for American Progress, There Are Significant Business Costs in Replacing Employees (Nov. 16, 2012), <https://www.americanprogress.org/issues/economy/reports/2012/11/16/44464/there-are-significant-business-costs-to-replacing-employees/>.
- <sup>8</sup> Lauren Weber, “One Reason Wal-Mart Is Raising Pay: Turnover,” *The Wall Street Journal*, Feb. 19, 2015, <http://blogs.wsj.com/atwork/2015/02/19/one-reason-wal-mart-is-raising-pay-turnover/>. See also Michael Reich et al., Institute of Industrial Relations, University of California, Berkeley, Living Wage Policies at San Francisco Airport: Impacts on Worker and Businesses (Nov. 2003), <http://irle.berkeley.edu/files/2003/Living-Wage-Policies-at-San-Francisco-Airport.pdf>; Amanda Gallear, UC Berkeley Labor Center, The Impact of Wages and Turnover on Security and Safety in Airports: A Review of the Literature (Oct. 18, 2017), <http://laborcenter.berkeley.edu/the-impact-of-wages-and-turnover-on-security-and-safety-in-airports/>.
- <sup>9</sup> Justin Wolfers & Jan Zilinsky, PIIIE Briefing 15-2, Higher Wages for Low-Income Workers Lead to Higher Productivity (2015) at 6, <https://piie.com/publications/briefings/piieb15-2.pdf>.
- <sup>10</sup> Arindrajit Dube et al., “Minimum Wage Effects across State Borders: Estimates Using Contiguous Counties” *The Review of Economics and Statistics* (Nov. 2010), 92(4): 945–64.
- <sup>11</sup> *Id.*
- <sup>12</sup> *Id.*
- <sup>13</sup> John Schmitt, Center for Economic and Policy Research, Why Does the Minimum Wage Have No Discernible Effect on Employment? (Feb. 2013), <http://cepr.net/documents/publications/min-wage-2013-02.pdf>.
- <sup>14</sup> *Id.* at 22.
- <sup>15</sup> Doruk Cengiz et al., “The Effect of Minimum Wages on the Total Number of Jobs: Evidence from the United States Using a Bunching Estimator,” *Society of Labor Economists* (Apr. 2017), <http://www.sole-jole.org/17722.pdf>. (Updated Dec. 2017 version can be accessed from the American Economic Association, <https://www.aeaweb.org/conference/2018/preliminary/1530>).
- <sup>16</sup> Fiscal Policy Institute, States with Minimum Wages above the Federal Level Have Had Faster Small Business and Retail Job Growth (Mar. 2006) at 3, <http://www.fiscalpolicy.org/FPISmallBusinessMinWage.pdf>.
- <sup>17</sup> The Council of State Chambers commissioned the survey. The Council of State Chambers is a “small, non-political umbrella organization that coordinate messaging across the dozens of groups that make up its membership.” Lydia DePillis, “Leaked documents show strong business support for raising the minimum wage,” *The Washington Post*, Apr. 4, 2016, [https://www.washingtonpost.com/news/wonk/wp/2016/04/04/leaked-documents-show-strong-business-support-for-raising-the-minimum-wage/?utm\\_term=.acd9a7cc573c](https://www.washingtonpost.com/news/wonk/wp/2016/04/04/leaked-documents-show-strong-business-support-for-raising-the-minimum-wage/?utm_term=.acd9a7cc573c).
- <sup>18</sup> Small Business Majority, Small Businesses Support Raising the Minimum Wage to \$12 (July 29, 2015), <http://www.smallbusinessmajority.org/sites/default/files/research-reports/072915-National-Minimum-Wage-Poll.pdf>.