FEDCAP SOLUTION SERIES
BUSINESS IN THE 21ST CENTURY

The Minimum Wage Increase:
Costs, Benefits and Complexities

A JOB MAKES A DIFFERENCE

Solution Series is a project of Fedcap's Community Impact Institute

A LETTER FROM FEDCAP'S PRESIDENT & CEO

Dear Friends,

Welcome to Fedcap's 8th Solutions Series—established to explore current market realities and issues of critical importance to our business partners.

The topic for this event—the Cost, Benefits and Complexities around Raising the Minimum Wage—has inspired vigorous debate since the first national minimum wage was instituted in 1938.

Proponents and opponents of raising the minimum wage disagree about fundamental questions such as how will it impact employment and jobs creation; will it help lift workers out of poverty; what is the profile of the average minimum wage worker; what is the impact on disadvantaged workers; and will it hurt small businesses?

Fedcap has designed this Solution Series drawing on the evidence and experiences of businesses and economists nationwide to create a forum in which a wide range of ideas and perspectives are shared and heard.

As in the past, this event is intended to start the discussion. We will continue it through blogs, information sharing and additional discussion forums.

We look forward to continuing the conversation in the weeks and months ahead.

Sincerely,

Christine McMahon
President and CEO, Fedcap

HISTORY AND BACKGROUND OF THE MINIMUM WAGE

Prior to the 1930s, the United States had no national minimum wage. In 1933, at the height of the Great Depression, a component of President Franklin D. Roosevelt's National Industrial Recovery Act (NIRA) engaged employers to voluntarily set a minimum weekly wage of $12 to $15 for 6.3 million employees.

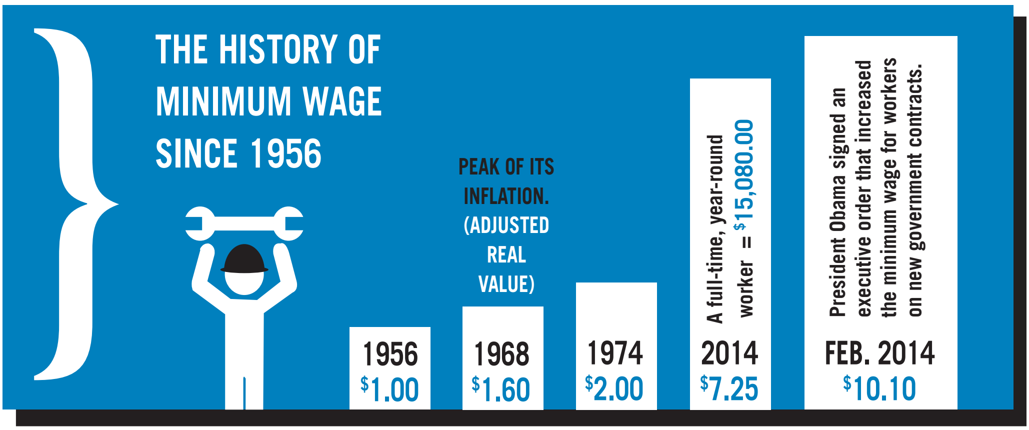
After the Supreme Court invalidated the NIRA and other legislation to raise wages and improve working conditions, the Court in 1937 upheld the State of Washington's minimum wage. The following year, House and Senate versions of what would become the Fair Labor Standards Act of 1938 (FLSA) were subject to vigorous debate. Opponents warned of a "tyrannical industrial dictatorship" that amounted to "socialist planning." How, they asked, could business "find any time left to provide jobs if we are to persist in loading upon it these everlastingly multiplying governmental mandates and delivering it to the mercies of multiplying and hampering Federal bureaucracy?"

Proponents of the bill stressed the need to fulfill the President's promise to correct conditions under which "one-third of the population" were "ill-nourished, ill-clad, and ill- housed." They said minimum wages would "underpin the whole wage structure...at a point from which collective bargaining could take over."

The FLSA of 1938, signed into law by President Roosevelt, banned child labor, set the maximum workweek at 44 hours and established a nationwide minimum wage of 25 cents per hour ($4.13 in today's dollars).

Originally, the FLSA covered only about 38 percent of the labor force, mostly in the manufacturing, mining, and transportation industries. Over the years, Congress has significantly expanded the coverage and increased the minimum wage rate. The air transport industry was added in 1947, followed by retail trade in 1961. The construction industry, public schools, farms, laundries, and nursing homes were added in 1966, and coverage was extended to state and local government employees in 1974. Currently, the FLSA covers about 85 percent of the labor force.

Since 1938 the minimum wage has been raised 22 times by 12 presidents.



The Minimum Wage Increase Act, signed into law by President Clinton in 1996, allowed states for the first time to raise their own minimum wage above the federal minimum. As of August 1, 2014, 23 states and Washington D.C. have established minimum wages above the federal minimum wage.

CURRENT ENVIRONMENT—NOT A SIMPLE ISSUE

The debate about raising the minimum wage is taking place at federal, state and municipal levels across the country. While some suggest that the issue is simple—that one is either for or against it—there are social and economic implications that should be considered in any discussion of this topic.

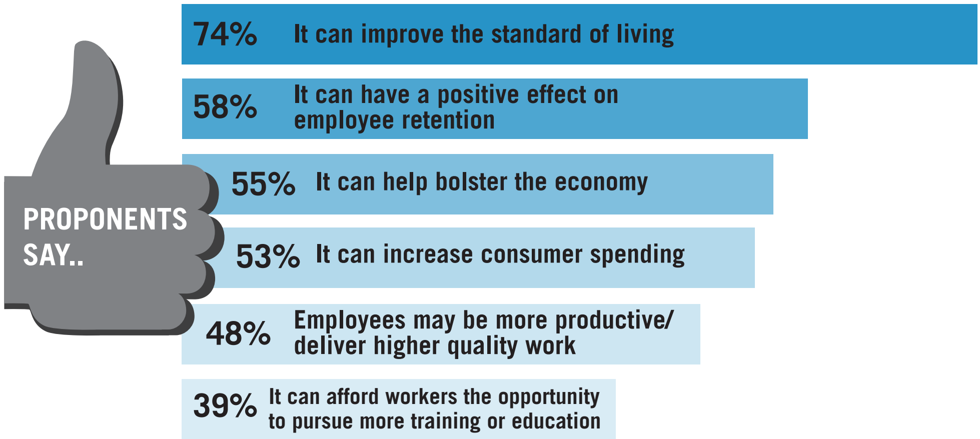
Dr. James Khan, economist and Economics Department Chair for Yeshiva University in New York City suggests that the issue is too complex for a broad one size fits all approach when a scalpel-like approach is required.

"This issue has many layers and demands a nuanced, thoughtful approach embedding flexibility and common sense. For example, there are countries we could study that have successfully implemented a tiered minimum wage, taking into consideration the wage requirements of cohorts in the workforce. Australia for example, has implemented a minimum wage tiered by age, so that young people are paid less than older individuals who bring greater productivity to the workplace."

Business opinion on this issue is evolving in a way that reflects its complexities.

A wide spectrum of business supports increasing the minimum wage.

Recent national polls conducted by Harris, Gallup and CNN Money found that over 60 percent of employers—of all sizes and across industry sectors—believe that the most important reason to increase the minimum wage is to improve the standard of living for workers. A majority say a higher minimum wage helps the economy by increasing consumer spending power, and helps them retain employees.



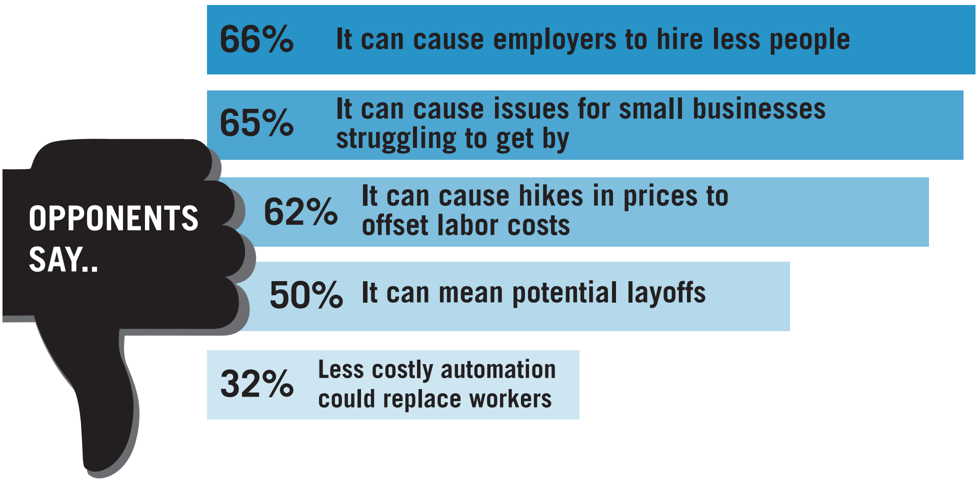
Data indeed suggests that for some businesses, a higher minimum wage results in increased retention and significant reduction in HR costs. A UC Berkeley study of the effect of a wage increase for workers at the San Francisco Airport found that annual turnover among security screeners plunged from 95 percent to 19 percent when their hourly wage rose from $6.45 to $10 per hour. In this case and others, reduced turnover yields significant savings for employers by reducing recruitment, re-training and re-staffing costs.

A SAMPLING OF BUSINESSES GOING BEYOND MINIMUM WAGE:

- **Ben & Jerry's:** Entry level workers earn $16.29 per hour
- **Brooklyn Brine:** Factory workers start at $16.00 per hour.
- **Shake Shack:** starting salary of $10.00 per hour.
- **Costco:** Starting salary of $11.50 per hour.
- **Starbucks:** All of Starbucks' 200,000 employees make more than the current federal minimum wage.
- **Gap Inc.:** Starting salary of $9.00 in June 2014, and $10.00 in June 2015.
- **Trader Joe's:** Starting salary of $13.29.

Raising the minimum wage also reflects a certain set of beliefs. A number of CEOs of large companies are speaking out in favor of raising the minimum wage, including Craig Jelinek, CEO of Costco, and Howard Schultz, CEO of Starbucks. "For a large organization like Starbucks, it gets to how they see their role as an employer and their values about the ways in which employees ought to be treated," said Matthew Bidwell, Associate Professor of Management at the Wharton School. "The living wage argument is emotionally powerful. It says that people's labor should be worth something. If you are working full-time, you should not be in poverty. Our societal values are such that you should earn a decent wage."

Employers in the surveys who do not support a minimum wage increase cite several reasons related to negative effects it may have on their business.



Trade associations that represent business are expressing significant opposition.

In an April 2014 letter to Congress opposing a higher minimum wage, the National Retail Federation, the world's largest retail trade association said: "The minimum wage was designed to have young people get into the marketplace to get started. A higher minimum wage eliminates entry-level positions that provide unskilled employees the opportunity to gain experience.

Raising the standard of living for low-skilled, low-wage workers is a valid goal, but policymakers have other tools—such as increasing the earned income tax credit, fixing the tax code, education improvements, immigration reform, transportation funding, and strong trade alliances—that will aid in achieving that goal without creating more unemployment."

The American Hotel & Lodging Association (AH&LA), which includes many major hotel chains, plans to fight state-by-state what it deems "extreme" minimum wage legislation. In outlining its 2014 lobbying agenda, the trade group said it plans to "educate Congress and the public on the job-killing effects of living wage hikes and the proven track record of upward mobility in the lodging industry."

Testifying on behalf of the National Restaurant Association before the U.S. Senate, Melvin Sickler, a multi-unit franchisee of the Auntie Anne's Pretzels and Cinnabon brands, said: "The restaurant industry is dominated by small businesses. Increases in food and labor costs can have a dramatic impact on a restaurant's bottom line. A mandatory wage increase could further restrict opportunities for young and less-skilled individuals."

To offset higher employee wages, small businesses may need to raise their prices on the goods and services they sell. This can lead to decreased sales, decreased revenue and lower profits. With less money to spend, small-business owners may have to decrease or eliminate capital improvements, marketing, new hires, bonuses, debt service and production. All of these cutbacks in spending can have adverse effects, such as fewer customers, because of decreased advertising; increased interest payments; and inability to attract or retain salaried employees.

A February 2014 report by the nonpartisan Congressional Budget Office (CBO) further emphasized the complexities and discussed the merits to both sides of the issue. Raising the federal minimum wage to $10.10 an hour by 2016, as President Obama has proposed, would put more money in the pockets of the 16.5 million people who earn less than $10.10 an hour, about 15 percent of the nation's workforce. About 900,000 of those people would earn a big enough increase to rise about the federal poverty threshold, and as many as 8 million workers whose earnings hover above the minimum wage level could also benefit.

The CBO report also said that a higher minimum wage would lead to the loss of 500,000 jobs, about 0.3 percent of the labor force. The CBO acknowledged that its calculation is an estimate and said actual job losses could range from "very slight" to as many as 1 million positions.

Minimum-wage workers are sometimes thought of primarily as teenagers from non-poor families who are working part time, but that is not the case.

Of the 5.5 million workers who earned within 25 cents of the minimum wage in 2013, three-quarters were at least 20 years old and two-fifths worked full time. Their median family income was about $30,000.

Congressional Budget Office

WHO EARNS THE MINIMUM WAGE AND WHAT DOES IT BUY?

Contrary to stereotypes, low-wage workers whose pay scales are affected by the minimum wage are overwhelmingly adults, many supporting families. Adults over the age of 20 make up 88 percent of all workers who would receive a raise if the federal minimum wage were raised to $10.10 per hour, according to an analysis of Census data by the Economic Policy Institute. Job losses during the recent Great Recession hit higher-wage sectors like construction, manufacturing and finance hard, while new job growth has been concentrated disproportionately in low-wage industries. Fully 58 percent of all jobs created in the post-recession were low-wage occupations, according to a 2012 report by the National Employment Law Project. This is not a short-term trend—six of the top ten growth occupations projected by the U.S. Bureau of Labor Statistics for the next decade are low-wage sectors, including home health aides, customer service representatives, food preparation and service workers, personal and home care aides, retail salespersons, and office clerks.

There is no doubt that capturing the complexity of raising the minimum wage is difficult. Sylvia Fuerstenberg, executive director of a large Seattle-based nonprofit and a leader in social justice, states "I've lost many nights of sleep considering this issue. The question is, how can we build a more just and equitable community without bankrupting the organizations that help our most vulnerable citizens?"

"If the minimum wage increased to $15 today, my agency alone would immediately need almost $500,000 to cover the increase. That's money no one is offering — not the state, county or city. Some have talked about creating exemptions for nonprofits and small businesses. While it is good that alternatives are being discussed, nonprofits may not actually benefit from an exemption. It may result in an exodus of trained employees leaving the field in search of higher-paying jobs.

Raising the minimum wage is an emotional issue. Although I only speak for my agency, let me be clear: We cannot achieve shared prosperity by passing a plan that risks putting nonprofits out of business, leaving vulnerable citizens without support. I would support raising the minimum wage to $15 carefully and in stages, while taking into account factors that determine whether a business or nonprofit keeps its valued employees, or even stays in business."

PERSPECTIVES ON RAISING

Bad for the Economy: An increase in the minimum wage will result in job loss. The CBO suggests that at least 500,000 jobs will be lost. When it becomes more expensive for business to hire workers, they hire fewer workers. This will result in job loss for thousands which will depress consumer spending.

Hurts New Workers: Minimum wage jobs are entry-level positions for workers with limited education who lack the experience to command higher pay. According to one study, once workers gain these skills, they become more productive and quickly earn raises. Over two-thirds of workers starting out at the minimum wage earn more than that a year later. By not increasing the minimum wage, businesses can afford entry level positions, letting new hires to gain experience, become more productive and ultimately command higher pay.

Bad for Disadvantaged Workers: The minimum wage especially hurts the job prospects for disadvantaged and impoverished workers. Higher minimum wages encourage employers to replace less-skilled workers with more productive employees. It also negatively impacts businesses willingness to take risks on employees with barriers (such as individuals with developmental/physical disabilities) due to the cost of labor and the need for immediate, high productivity.

Bad for Business: Many business advocacy groups including The National Federation of Independent Business and the National Small Business Association oppose raising the minimum wage. (Washington Post) “Raising the minimum wage will kill jobs and stifle economic output,” said Ashley Fingarson, Manager of Legislative Affairs for (NFIB).

The primary responsibility of large publicly traded companies is to their shareholders. Simply suggesting that “they can afford it” misses the bigger picture and undermines the free market, which drives the economy and raises the standard of living for everyone.

Depresses Future Wages and Tax Revenue: One study found that an increase in the minimum wage could have a negative effect on subsequent wage growth if firms cut back on job training. Firms may also respond to higher starting wages by flattening the wage profile for workers in subsequent years, shifting the cost of the minimum wage hike back to their workers.

THE MINIMUM WAGE

Boosts the Economy: Minimum wage increases stimulate the economy by increasing consumer spending, which drives 70 percent of the U.S. economy. A minimum wage increase puts money into the pockets of low-income consumers, who spend it at local businesses. Over nearly two decades, studies of employment levels before and after minimum wage increases—across states, counties, metropolitan areas, and commuting zones—have found that minimum wage increases did not lead to job losses.

Helps New Workers: Today's low-wage workers whose pay scales are affected by the minimum wage are overwhelmingly adults, many supporting families. Adults over the age of 20 make up 88 percent of all workers who would receive a raise if the federal minimum wage were raised to $10.10 per hour. This would help 900,000 people rise out of poverty.

Good for Disadvantaged Workers: In 2014, over 600 economists signed a letter stating that raising the minimum wage to $10.10 by 2016 and indexing it to inflation, would directly provide higher wages for close to 17 million workers, and likely lead to wage increases for another 11 million workers whose wages are just above the minimum. The vast majority of employees who would benefit are adults in working families, disproportionately women, who work at least 20 hours a week and depend on these earnings to make ends meet.

Good for Business: Studies reflect that raising wages reduces costly employee turnover and increases productivity. When the minimum wage goes up, employers can enjoy the benefits of paying higher wages without being placed at a competitive disadvantage, since all companies in their field are required to do the same. Proponents say that instead of forcing businesses to cut staff, raising wages forces them to become more efficient. A 2012 report by the National Employment Law Project found that two-thirds of all low-wage workers are employed by large companies and that the vast majority of these employers are earning strong profits and can afford higher wages.

Reduces government spending: Over $250 billion in annual social welfare spending goes to working-poor households via government programs such as Food Stamps, EITC checks, and Medicaid. As wages rise for millions of workers and they become ineligible for these programs, taxpayers save tens of billions of dollars each year by transforming millions of net tax recipients into net tax payers.

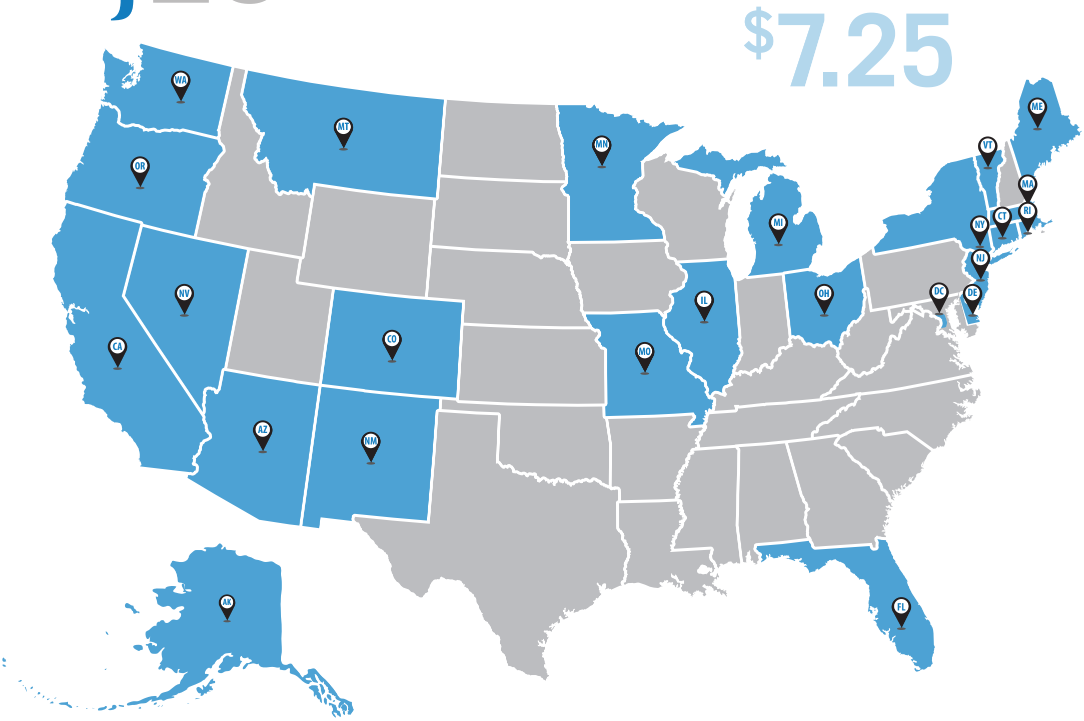
SIGNIFICANT STATE ACTIVITY

There is a tremendous amount of "minimum wage" activity throughout the country.

- Eleven states—Arizona, Colorado, Florida, Missouri, Montana, Nevada, Ohio, Oregon, Vermont, and Washington—now index the minimum wage to inflation.
- In November 2013, New Jersey became the 20th state to establish a minimum wage higher than the federal minimum as voters there overwhelmingly approved a ballot question that raised the hourly rate to $8.25.
- In 2014, eleven states—Connecticut, Delaware, Hawaii, Maryland, Massachusetts, Michigan, Minnesota, Rhode Island, Vermont, West Virginia and Washington, D.C.—enacted minimum wage increases.
- Thirty-eight states introduced minimum wage bills in 2014.
- In March 2014, 87 percent of Chicago voters in a non-binding referendum supported raising the City's minimum wage to $15.
- In June 2014, Seattle Mayor Ed Murray signed an ordinance raising Seattle's minimum wage to $15 per hour, the highest in the nation. The new wage will be implemented in phases, and is slated to be in full effect by 2021.
- In New York State, the minimum wage was increased to $8.00 per hour on December 31, 2013. It will rise to $8.75 per hour by the end of 2014, and $9.00 per hour by the end of 2015. Gov. Cuomo supports a proposal to raise the

state minimum to $10.10 and let localities boost their own wages by up to 30% on top of that—meaning New York City could raise its rate to a high of $13.13. In September 2014, New York City Mayor Bill de Blasio signed an executive order that expands the City's Living Wage law and raises the hourly wage from $11.90 to $13.13. The order applies to workers who do not receive benefits and covers commercial tenants at projects that receive more than $1 million in City subsidy.

23 STATES WHERE THE MINIMUM MAGE IS HIGHER THAN THE FEDERAL MINIMUM WAGE



Alaska, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Illinois, Maine, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nevada, New Jersey, New Mexico, New York, Ohio, Oregon, Rhode Island, Vermont, Washington

Fedcap convened this Solution Series to explore the many complexities of this highly debated issue. We are having conversations about the increase of the minimum wage within our own agency—always seeking to find the right balance in our own way of doing business.

Two of our Senior Vice Presidents shared their perspectives in a recent discussion:

"People with barriers to employment—court-involved, homeless, disadvantaged youth, individuals with physical and intellectual disabilities—have enjoyed high levels of job entry over the past 20 years, in large part due to an entry level minimum wage. There are so many people with barriers in the workforce today at or near the minimum wage who are gaining experience.

The workforce is open to people with barriers because entry-level wages make it affordable for businesses to employ them. Our We-CARE consumers are part of that population of people with barriers. The minimum wage is an entry-level wage—a place to start, not a place to stay. Most workers who start at the minimum wage soon earn more.

People who enter the workforce at any wage level should be applauded for taking the initiative. By engaging in the marketplace, they are establishing their value. No entry level job is a dead end job; we are all more employable employed."

Grant Collins, Sr. Vice president
Fedcap's Workforce Development Practice Area

"As a former small business owner I can speak to the complexities of this issue. I started my company, Ride-Away Corp.—which makes vehicle modifications for people with disabilities—in 1986, and built it up from nothing into a $70 million business with over 200 employees in 10 states. My philosophy was always to pay higher wages than the competition and at the same time I expected more in return. But certainly raises in minimum wage impacted my bottom line.

The challenges for business owners are even more daunting in the wake of the Great Recession. Financial institutions are requiring them to have much greater cash flow in order to remain viable borrowers, making it harder to grow and add jobs. That said, business is all about overcoming challenges. A wage increase is no different than any other cost increase; you find ways to offset it."

Mark Lore, Sr, Vice President
Fedcap's Economic Development Practice Area

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