

Even in small businesses, minimum wage hikes don't cause job losses, study finds

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Many small businesses fear that higher minimum wages will force them to lose profits or cut jobs. But new research co-authored at UC Berkeley finds that costs can be passed to customers with little impact on business — and considerable benefit for workers. Credit: Wikimedia Commons

Restaurants, retail stores and other small businesses, long thought to be

vulnerable to increases in the minimum wage, generally do not cut jobs and may actually benefit when governments raise minimum pay, according to a new study co-authored at UC Berkeley.

The prevailing wisdom among many [business owners](#) and policymakers is that when the [minimum wage](#) rises, smaller low-[wage](#) employers suffer more from higher labor costs and are more likely to cut jobs. But the groundbreaking new study, co-authored by Berkeley economist Michael Reich, found that small businesses can pass the costs on to consumers with little negative impact.

"A minimum wage increase doesn't kill jobs," said Reich, chair of UC Berkeley's Center on Wage and Employment Dynamics (CWED). "It kills job vacancies, not jobs. The higher wage makes it easier to recruit workers and retain them. Turnover rates go down. Other research shows that those workers are likely to be a little more productive, as well."

The federal minimum wage has been \$7.25 an hour since 2009, but California and dozens of state and local governments in recent years have raised their minimum to \$15.50 or more.

The new working paper is the first ever to examine the impact of higher minimum wages on small, low-wage businesses, a sector that includes restaurants, grocery and [retail stores](#), and child care operations. It's the second recent study by Reich and co-authors that challenges the conventional wisdom on minimum wages.

A [working paper](#) released last fall and revised in December found that \$15-an-hour and higher minimum wages in California and other states and cities gave employees more financial security without causing their employers to cut jobs. (An updated version of that paper will be released in coming weeks, Reich said.)

Business groups have long warned that teen workers would be the most likely to lose their jobs when employers confronted higher minimum wages. But Reich and his colleagues found that [higher wages](#) often allowed teenage employees to work a little less and study more.

The findings have dramatic implications for public policy: Most obviously, higher wages reduce poverty and financial insecurity. But, Reich said, governments currently spend millions of dollars every year on tax breaks for businesses confronted with government-approved minimum wage hikes. Those expenses may be unnecessary, he said.

Conventional business wisdom lags behind research insights

UC Berkeley is globally influential in the field of labor economics and a leading producer of research on the minimum wage in the U.S. and other countries. Reich has written extensively on the topic.

Such research has been repeatedly verified and now is widely accepted in economics. Still, for opponents, it seems only common sense that when employers face higher wage costs, they will employ fewer workers.

"We worked on this new paper because we continually heard that small businesses are especially vulnerable to higher minimum wages," Reich said in an interview yesterday. "I heard that from a prominent member of the U.S. House of Representatives when I testified at a hearing in 2019. I've heard it from the National Federation of Independent Businesses many, many times. For some people it's a given—but it's not supported by the evidence."

Reich's latest paper, co-authored with Belgian economist Jesse Wursten, carried that inquiry into small, medium and large U.S. businesses that

comprise the low-wage economy. Restaurants, grocery stores and general merchandise stores account for 36% of all minimum-wage employment.

The researchers used state-of-the art statistical methods and 30 years of employer-provided data from the U.S. Census to understand how some 550 changes in state and federal minimum wages between 1990 and 2019 played out in the [labor market](#).

It's counterintuitive, but higher wages benefit almost everyone

When employers hear that minimum wages are going up, Reich explained, they tend to imagine the impact only on their own businesses. They wonder how they can absorb higher costs without cutting staff or losing profit.

"I say to them, 'Look, your industry will respond very differently compared to what your individual firm can do,'" Reich added. "'If everyone in the industry faces the same shocks and costs, not just you, then the market response might be a modest price increase.'"

Indeed, some restaurants pass on the higher costs to consumers—and the small price increases are not enough to drive consumers away, Reich said. The owners benefit further because higher wages mean less turnover, as well as less advertising and training for new workers. In the end, their profits are not harmed.

"The net effect," Reich said, "is a transfer of income from consumers, who are able to pay a bit more, to the workers."

The authors found that among all businesses and workers studied, higher minimum wages led to lower employment only among high school-age

workers in [small businesses](#).

But that cuts two ways, Reich said. While employment in that sector fell, teens overall earned more—so they could work less and study more. The study cites other recent research that, among students of low socio-economic status, a 10% increase in the minimum wage reduces the high school dropout rate by about 10%.

Reich's paper found that the effects are amplified by the growing availability of college financial aid programs that reward high school students for strong academic performance.

So in the market at large, Reich said, there are now more incentives for adolescents to focus on studies.

"Given the many benefits of educational attainment," the authors write, "the long term impact on teens substituting time studying for time working in the labor market should be considered a benefit, not a cost, of minimum wage policies."

More information: [Small Businesses and the Minimum Wage: irle.berkeley.edu/publications ... nd-the-minimum-wage/](https://irle.berkeley.edu/publications...nd-the-minimum-wage/)

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