

Raising the minimum wage? Study using US tax data finds more gain than pain

April 2 2024



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Most independent businesses can shoulder the added costs of higher minimum wages with new revenues, making only minor employment adjustments, according to [new research](#) from the University of Michigan and Carnegie Mellon University.

The study, which draws on the universe of U.S. tax returns to examine the impacts of minimum wages, debunks concerns that [small businesses](#) are hit hard by minimum [wage](#) increases. Still, the research reveals a bigger impact on the [restaurant industry](#), where some small, less productive restaurants close while higher minimum wages raise worker retention rates at bigger, more productive restaurants—and even raise profits at those surviving businesses.

"For policymakers weighing tools for redistribution, our results show clearly that minimum wages do little harm to independent firms and even benefit some owners while meaningfully increasing both the earnings and employment of young and low-earning workers," said Nirupama Rao, a U-M assistant professor of business administration, business economics and [public policy](#), who co-authored the study with Max Risch from Carnegie Mellon.

"Of course, these gains to workers and owners are financed by consumers, who appear fairly inelastic in their overall demand for the goods and services furnished by independent businesses affected by minimum wage policies," Rao said.

Rao and Risch were able to examine revenue, employment, profits and more following minimum wage increases in six states—thanks to panel data they built that match the universe of U.S. tax returns of independent businesses to the individual income tax returns of each of their workers and owners over a 10-year period. The data compare firms and workers

in the states that raised their minimum wages in 2014 to those in states that didn't.

The bottom line for workers: Higher wage floors ultimately raise the earnings of low-income workers and [young workers](#) most likely to be impacted by the policies by thousands of dollars annually. Further, on average, these workers are no less likely to be employed following the minimum wage increases.

Minimum wage hikes also affect hiring and retention, shuffling the types of workers employed in the [restaurant](#) sector and by different firms. Wage-floor increases boost worker retention as well as reduce hiring. The net impact is a modest reduction of roughly one worker per firm with the cuts nearly wholly concentrated among [part-time](#) teenage workers. These small hiring declines among some restaurants are offset by other firms.

On the firm side, the average independent business in industries such as restaurants and retail is able to accommodate the minimum wage increases through higher revenues. Among restaurants, where low-earning workers make up about 16% of variable costs as opposed to just 6% of [production costs](#) among retailers, wage hikes cause some less productive small restaurants to close.

It's that strong, adverse effect on some small firms that helps explain opposition to minimum wage increases among some small business owners, the researchers say. But they add that at least when it comes to [minimum wage](#) increases of the size states adopted in 2014, policymakers "need not worry about a tradeoff between redistribution and job losses or swaths of distressed independent businesses."

More information: Nirupama Rao et al, [Who's Afraid of the Minimum Wage? Measuring the Impacts on Independent Businesses](#)

[Using Matched U.S. Tax Returns \(2024\)](#)

Provided by University of Michigan

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