

Minimum Wage

Increasing the federal minimum wage would force small businesses to cut their workforce

Small businesses comprise more than 99.7 percent of all employers, employ more than half of all private sector employees and create 65 percent of all net new jobs. Unfortunately, small businesses are facing increasingly-tough competition from large corporations, expansion of big-box entities, and a fiercely competitive global market.

When it comes to hindering small business competitiveness, an increase to the federal minimum wage is one of the most worrisome for business owners. Minimum wage increases, while perceived to address the nation's problem of the working poor, will actually force small business owners into the difficult choice of reducing hours or layoffs.

According to the Bureau of Labor Statistics (BLS), only three percent of workers in the U.S. are paid minimum wage, and only 1.5 percent are full-time employees. Of that three percent, only 15 percent were charged with supporting a family. Furthermore, the Employment Policies Institute estimates that of all workers aged 30 and above, only 2.8 percent are at the minimum wage level.

A survey compiled by BLS in 2000 stated that 80 percent of people below the poverty line pointed to unemployment or under-employment as the cause for their economic distress—not low wages. So while some in Congress are calling for increased wages, they are not necessarily considering the direct and indirect costs of such a move.

Most small businesses that do pay minimum wage are typically in highly-competitive industries with low profit margins. Of the NSBA members surveyed in a recent minimum wage poll, 73 percent give their minimum-wage employees a raise within five months. A \$2.10 (30 percent) per hour increase for these businesses inevitably would lead to layoffs and a reduction in hours.

Small business would be impacted by myriad indirect costs. An increase in wage for one set of workers can lead to a false sense of entitlement that the wages for all workers should be increased, which is simply not sustainable for many small businesses. If small businesses wish to remain competitive both nationally and globally, they must maintain a strong workforce.

The mid-term elections have prompted lawmakers once again to call for an increase in minimum wage. While traditionally a rallying cry for Democrats, the issue has raised interest and support from the Republicans as well.

Most recently, the House passed legislation that would increase the federal minimum wage from \$5.15 to \$7.25 by June 1, 2009. Republicans have included minimum wage in both House and Senate votes as a way to garner Democratic support on important estate-tax repeal language. The measure failed in the Senate.

NSBA has testified on the issue and urges caution in promulgating any kind of federal mandate on small businesses. An increase to the federal minimum wage could have a very significant, negative impact on small businesses, and in turn, the U.S. economy.