Business and Minimum Wage Research Summary

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Selection of studies on the impact of wages on employment, productivity, employee turnover, customer service, spending, prices, profits, health, safety, and more.

Polling/Opinion

Lydia DePillis, Leaked documents show strong business support for raising the minimum wage, Washington Post, April 4, 2016.
The survey commissioned by the Council of State Chambers “of 1,000 business executives across the country was conducted by LuntzGlobal, the firm run by Republican pollster Frank Luntz… (The slide deck is here, and the full questionnaire is here.) Among the most interesting findings: 80 percent of respondents said they supported raising their state's minimum wage, while only eight percent opposed it. ‘That’s where it’s undeniable that they support the increase,’ LuntzGlobal managing director David Merritt told state chamber executives in a webinar describing the results, noting that it squares with other polling they’ve done. ‘And this is universal. If you’re fighting against a minimum wage increase, you’re fighting an uphill battle, because most Americans, even most Republicans, are okay with raising the minimum wage.’”

Julia Rock and Andrew Perez, McDonald’s, Other CEOs Tell Investors $15 Minimum Wage Won’t Hurt Business, Newsweek, April 5, 2021.
“Big restaurant chains are telling investors that a national minimum wage hike wouldn’t be a big deal – even as their corporate lobbying groups in Washington fight plans for a $15 minimum wage.” In fact, California’s law raising the minimum wage to $15 “has actually been good for the diner chain’s business, according to Denny's chief financial officer, Robert Verostek.”

Among all likely voters in New York, 70 percent agree that “increasing the minimum wage will help businesses attract and retain workers, improve productivity and customer service, increase consumer spending, and create a healthy economy.” Moreover, “95 percent say the minimum wage should be at least $15 in order to have a living wage, while 62 percent say the minimum wage should be at least $20 to be a living wage. Sixty-two percent of Democrats, 66 percent of Independents, and 56 percent of Republicans believe a living wage in New York is at least $20.”
https://www.dataforprogress.org/blog/2022/4/28/ny-min-wage
Employment Impact

New York City Comptroller, Selçuk Eren - Senior Economist, Spotlight: Impact of Recent Minimum Wage Increases on NYC Employment, Earnings, and Poverty, New York by the Numbers, No. 69, September 12, 2022

“Between 2013 and 2019, as the minimum wage increased from $7.25 to $15 an hour in New York City, economic growth in industries reliant on minimum wage workers outpaced that of other U.S. cities where the minimum wage did not increase, and that of the U.S. overall.”


“In January 2022 California became the first state with a $15 minimum wage, a remarkable 87.5 percent increase over its $8 level in early 2014. In the same period, 38 California localities raised and indexed their minimum wages above the state level. These increases are considerably larger than those previously studied. Using synthetic control and event study methods, we provide the first causal analyses of the effects of these minimum wage policies – throughout the wage distribution and on the two groups most exposed to the policies: restaurant workers and teens 16 to 19. … We find substantial and ongoing pay increases throughout the treatment period and find no significant disemployment effects, even in relatively low-wage counties.”


Analysis “shows that having higher minimum wages and eliminating subminimum wages has not hindered job growth. Indeed, employment in the predominantly low-wage leisure and hospitality industry has recovered faster in states that guarantee better pay for low-wage workers.”


“We assess the effect of the minimum wage on labor market outcomes such as employment, unemployment, and labor force participation for most workers affected by the policy… We find no indication that minimum wage has a negative effect on the unemployment rate, on the labor force participation, or on the labor market transitions. Furthermore, we detect no employment or participation responses even for sub-groups that are likely to have a high extensive margin labor supply elasticity—such as teens, older workers, or single mothers.”

https://www.nber.org/papers/w28399


“Cities are increasingly setting their own minimum wages, and this trend has accelerated sharply in recent years. While in 2010 there were only three cities with their own minimum wages exceeding the state or federal standard, by 2020 there were 42. … Early evidence suggests that the impact of the policy on wages and employment to date has been broadly similar to the evidence on state and federal-level minimum wage
changes. Overall, city-level minimum wages seem to be able to tailor the policy to local economic environment without imposing substantial distortions in allocation of labor and businesses across locations.”
http://www.aber.org/papers/w27928

“In this paper we examine minimum wage effects in low wage counties, where relative minimum wage ratios reach as high as .82, well beyond the state-based ratios in extant studies. …We find positive wage effects, especially in high impact counties, but do not detect adverse effects on employment, weekly hours or annual weeks worked. We do not find negative employment effects among women, blacks and/or Hispanics. In high impact counties, we find substantial declines in household and child poverty.” (All the states in the sample experience one or more changes to the statutory minimum wage over the 2004-2017 period.)


“In this analysis, we look at counties along both sides of the New York-Pennsylvania border. Since the fourth quarter of 2009, workers in both New York and Pennsylvania have been subject to the federal minimum wage of $7.25 per hour. Over the last five years, though, New York’s minimum wage has gone up. …Specifically, we evaluate the effects on both employment and average weekly earnings in two industries with lots of lower-wage workers: retail trade and leisure & hospitality. … As the minimum wage was raised to levels above $10 per hour, leisure and hospitality employment in New York counties, if anything, increased relative to businesses over the Pennsylvania state line. … Next, we look at retail trade, an industry in which employment has contracted along the New York-Pennsylvania border in recent years. …We detect a pattern similar to that for leisure and hospitality: there appears to be a positive divergence in average wages between the states but no discernible divergence in employment trends.”


“We estimate the effect of minimum wages on low-wage jobs using 138 prominent state-level minimum wage changes between 1979 and 2016 in the United States... We find that the overall number of low-wage jobs remained essentially unchanged over the five years following the increase... We also find no evidence of disemployment when we consider higher levels of minimum wages.”

Lina Moe, James Parrott, Yannet Lathrop, New York City’s $15 Minimum Wage and Restaurant Employment and Earnings, Center for New York City Affairs at The New School and the National Employment Law Project, August 2019
“Compared to 12 large cities around the country that did not have any minimum wage increases from 2013-18, New York City’s restaurants generally have seen stronger job growth. New York City’s experience is
consistent with the latest research focusing on the food services industry in large cities where there have been large minimum wage increases – no negative employment effects and sizable average wage gains for restaurant workers.”


https://irle.berkeley.edu/the-new-wave-of-local-minimum-wage-policies-evidence-from-six-cities/


Spotlights two meta-studies analyzing the extensive research conducted since the early 1990s. They conclude that “the minimum wage has little or no discernible effect on the employment prospects of low-wage workers. The most likely reason for this outcome is that the cost shock of the minimum wage is small relative to most firms’ overall costs and only modest relative to the wages paid to low-wage workers.” The report explores varied means of adjustment by employers such as increased worker productivity and diminished wage gap between lower and higher paid employees. “But, probably the most important channel of adjustment is through reductions in labor turnover, which yield significant cost savings to employers.”

Compared all neighboring counties in the U.S. located on different sides of a state border with different minimum wage levels between 1990 and 2006 and found no adverse employment effects from higher minimum wages.

For an overview of employment research, including additional studies since the 1990s, see:
Holly Sklar, Research Shows Minimum Wage Increases Do Not Cause Job Loss, Business for a Fair Minimum Wage, Updated September 2022.

Productivity, Customer Service and Other Benefits

Good overview of the positive impact of higher wages:
Summarizes research showing:

- Higher wages “motivate employees to work harder.”
- Higher wages “attract more capable and productive workers.”
- Higher wages “lead to lower turnover, reducing the costs of hiring and training new workers.”
- Higher wages “enhance quality and customer service.”
- Higher wages “reduce disciplinary problems and absenteeism.”
- Firms with higher wages “need to devote fewer resources to monitoring.”
- Workers “excessively concerned about income security perform less well at work.”
- Higher wages “are associated with better health – less illness and more stamina, which enhance worker productivity.”
- Higher wages lead to “enhanced reputation with consumers.”

Moreover, “All of these positive effects may interact to yield even larger aggregate effects, as the productivity of one worker often raises the productivity of their coworkers.”


https://equitablegrowth.org/better-workplace-conditions-for-long-term-eldercare-staff-are-key-to-promoting-resident-safety-amid-the-coronavirus-pandemic/


https://jech.bmj.com/content/74/3/219

Retail’s Big Mistake: Slashing Payroll Cuts into Profits, Wharton’s Marshall Fisher, Santiago Gallino and Serguei Netessine discuss their research on the impact of staffing on retailers’ profits. Knowledge@Wharton, Wharton School, February 14, 2019. “It is imperative for retail companies to recognize that employees are the most valuable asset on any sales floor, especially now. Increased competition from online shopping threatens the very existence of many physical stores, so top-shelf service can make the difference between a customer making a purchase or walking out in frustration.”
https://knowledge.wharton.upenn.edu/article/retail-staffing-model/


Kevin Rinz and John Voorheis, The Distributional Effects of Minimum Wages: Evidence from Linked Survey and Administrative Data, U.S. Census Bureau CARRA Working Paper Series Working Paper 2018-02, March 2018. “We find that raising the minimum wage increases earnings growth at the bottom of the distribution, and those effects persist and indeed grow in magnitude over several years. This finding is robust to a variety of specifications, including alternatives commonly used in the literature on employment effects of the minimum wage.”


Jody Heymann, Magda Barrera, Magda Barrera, How businesses can profit from raising compensation at the bottom, Ivey Business Journal, December 2010. Based on their book, Profit at the Bottom of the Ladder: Creating Value by Investing in Your Workforce (Harvard Business Press, 2010). “Our findings very clearly demonstrate that investing in employees at the bottom can be an advantage both in times of economic growth and during a recession.”

Employee Turnover

Annie Mueller, The Cost of Hiring a New Employee, Investopedia, Updated April 8, 2022. “Not every new hire will require the same process, but even an $8/hour employee can end up costing a company around $3,500 in turnover costs, both direct and indirect.”
Kim Parker and Juliana Menasce Horowitz, **Majority of workers who quit a job in 2021 cite low pay, no opportunities for advancement, feeling disrespected**, Pew Research Center, March 9, 2022.

The survey finds the top reasons why Americans quit their jobs in 2021 are low pay (63%), no opportunities for advancement (63%) and feeling disrespected at work (57%).


Kate Bahn and Carmen Sanchez Cumming, **Improving U.S. labor standards and the quality of jobs to reduce the costs of employee turnover to U.S. companies**, Washington Center for Equitable Growth, December 21, 2020.

An analysis of case studies published between 2000 and 2020 found that the median cost of turnover represented 23.5 percent of an employee’s annual wage.


“There’s plenty of research that shows the correlation between low wages and low productivity (and lack of employee engagement). … Some lower-paying companies actually spend more than some higher-paying companies when it comes to workforce management. Why? Because the lower-paying companies have higher turnover costs in the form of job ads, onboarding, training and opportunity costs. Not to mention, poor culture and productivity issues.” Adecco’s data found that in addition to higher turnover the lower an organization paid, “50% of that turnover occurred within the first 45 days of a new hire starting a job. That’s very little time for an organization to see any ROI from their hires before losing them due to poor wages.”

https://www.adeccousa.com/employers/resources/increasing-hourly-wages/

Matthew Castillon, data scientist at Gusto, **70% of workers are likely to quit at current $7.25 federal minimum wage in ‘brutal’ turnover cycle**, September 25, 2019.


Aspen Institute, **Cost of Turnover Tool: Make the business case to improve retention through upskilling and stability**, March 2019.


Policy Matters Ohio, **Leading the way: Greater Cleveland Food Bank raises wages**, January 22, 2019.


http://laborcenter.berkeley.edu/pdf/2017/SFO-literature-review.pdf


https://www.journals.uchicago.edu/doi/abs/10.1086/685449?journalCode=jole

Blake Frank, Coca-Cola Retailing Research Council, New Ideas for Retaining Store-Level Employees, 2000. This in-depth study of the supermarket industry found that the annual cost of turnover exceeded the industry’s total annual profit by 40 percent. The research factored in direct costs such as advertising, screening, training and new employee processing. It measured indirect costs such as errors, product damage and improper use of equipment. It also analyzed the “large and critical cost element” of lost customers due to employee turnover, as customers are irritated by new and inexperienced replacement employees, to the point of taking their business elsewhere. https://www.ccrrc.org/wp-content/uploads/sites/24/2014/02/New_Ideas_for_Retaining_Store-Level_Employees_2000.pdf

Prices

Daniel Cooper, María José Luengo-Prado and Jonathan A. Parker, The Local Aggregate Effects of Minimum Wage Increases, National Bureau of Economic Research, NBER Working Paper 25761, April 2019. Finds that a 10 percent increase in the minimum wage leads to just a cumulative 0.24 percent increase in prices. Analyzes the period 1999-2017, using variation in minimum wages across Metropolitan Statistical Areas (MSAs) and controlling for differences in business-cycle factors and long-run local economic trends. http://www.nber.org/papers/w25761

Daniel MacDonald and Eric Nilsson, Effects of Increasing the Minimum Wage on Prices: Analyzing the Incidence of Policy Design and Context, Upjohn Institute for Employment Research Working Paper, June 2016. Uses updated methodology, with the benefit of being able to incorporate “rich variation in minimum wage policy of the last 10–15 years – including the rise of state and city-level minimum wage changes and the increased use of indexation – to investigate how the extent of price pass-through varies by policy context.” “Our first main finding is that wage-price elasticities are notably lower than reported in previous work: we find prices grow by 0.36 percent for every 10 percent increase in the minimum wage, which is almost half of the previously accepted 0.7 percent. Second, we find that pass-through is primarily concentrated on the month that the minimum wage hike goes into effect, with no appreciable impact on the month before or after.” https://research.upjohn.org/cgi/viewcontent.cgi?article=1278&context=up_workingpapers

Profits and Inflation

Staff Report, Power and Profiteering: How Certain Industries Hiked Prices and Drove Inflation, House Committee on Oversight and Reform, Subcommittee on Economic and Consumer Policy, November 2022. “Recent economic studies and this Subcommittee’s analysis of corporate financial information demonstrate that certain corporate pricing decisions have played a key role in driving inflation, along with supply chain disruptions… Record corporate markups, profits, and profit margins contributed to – and continue to contribute to – ongoing inflation. … This is especially true in highly concentrated industries.” https://oversight.house.gov/sites/democrats.oversight.house.gov/files/2022.11.04%20ECP%20Staff%20Report%20re%20Excess%20Corporate%20Profits.pdf
Rakeen Mabud, Groundwork Collaborative, Congressional Testimony, Power and Profiteering, Subcommittee on Economic and Consumer Policy, House Committee on Oversight and Reform, September 22, 2022.

“When consumers have struggled to navigate both a deadly pandemic and rising costs that have further strapped family budgets, large corporations have exploited consumers to enjoy record profits and profit margins. Corporate profit margins exploded in 2021, but they reached new highs in the second quarter of 2022 at 15.5%, the highest quarterly profit margin in over 70 years.”


“Faster inflation makes it more important, not less, to raise the federal minimum wage. Every year lawmakers don’t raise the minimum wage is a year that they have effectively cut the purchasing power and living standards of this country’s lowest wage workers. … During normal times, profits account for about 13% of the price of goods and services, but since recovery from the COVID-19 recession began in the second quarter of 2020, rising profit margins have accounted for roughly 40% of the rise in prices.”

Justin Schweitzer and Rose Khattar, Wages and Employment Do Not Have To Decline To Bring Down Inflation, Center for American Progress, September 1, 2022.

“Wage growth for many workers has been trailing behind inflation in 2022… Meanwhile, data from the AFL-CIO show that profits of S&P 500 companies rose by 17.6 percent in 2021 – and the earnings of their CEOs grew by 18.2 percent. … Company executives – rather than reinvesting much of their record profits into their workers and into the expansion of their businesses – have been executing stock buybacks at historic levels… artificially boosting share prices that mainly benefit the executives themselves and other wealthy investors. In the first quarter of 2022, U.S. corporations repurchased more than $300 billion in stocks, a new all-time high.”


“This research brief is the first to explore the size and distribution of markups (essentially the difference between sales and marginal costs) and profit margins across 3,698 firms operating in the US in 2021. … We find that markups and profits skyrocketed in 2021 to their highest recorded level since the 1950s. Further, firms in the US increased their markups and profits in 2021 at the fastest annual pace since 1955. Digging deeper, the evidence of this unusually and suddenly high jump in markups fits all three of the main explanatory stories of inflation being debated – namely those related to changes in demand, supply, and market power. …Since markups are unusually and suddenly so high, there is room for reversing them with little economic harm and likely societal benefit, including lower prices in the short term, and less inequality and potentially more innovation in the medium term.”


“The analysis of Securities and Exchange Commission filings for 100 US corporations found net profits up by a median of 49%, and in one case by as much as 111,000%. Those increases came as companies saddled customers with higher prices and all but ten executed massive stock buyback programs or bumped dividends to enrich investors.” Meanwhile, US median wages increased 1.6% from Q1 2020 to Q1 2022. “The Guardian’s findings are in line with recent US Commerce Department data that shows corporate profits rose
35% during the last year and are at their highest level since 1950. Inflation, meanwhile, rose to 8.5% year over year in March.”

https://www.theguardian.com/business/2022/apr/27/inflation-corporate-america-increased-prices-profits

Molly Kinder, Katie Bach, and Laura Stateler, Profits and the pandemic: As shareholder wealth soared, workers were left behind, Brookings, April 21, 2022.
The 22 major companies studied “spent five times more on dividends and stock buybacks than on all additional pay for workers. Diverting some, or all, of that shareholder cash would have allowed companies to increase wages significantly. The 16 companies that repurchased nearly $50 billion of their shares could have raised the annual pay of their median worker by an average of 40% if they had redirected that money to employees.”

https://www.brookings.edu/research/profits-and-the-pandemic-as-shareholder-wealth-soared-workers-were-left-behind/

Paul Constant, It’s not just inflation – corporate greed is also partially to blame for the rising prices you’re paying, Business Insider, Feb 12, 2022.


Josh Bivens, U.S. workers have already been disempowered in the name of fighting inflation, Economic Policy Institute, January 21, 2022.
Analyzes the acceleration in prices and wages across 110 industries. “There is very little correlation to be seen. In sectors where inflation is high, like motor vehicle manufacturing, it’s generally not because wage growth is high. And in those sectors where labor scarcity has put upward pressure on wages, like hotels and other accommodations, it has not led to atypically fast price growth. In short, price inflation remains a problem coming from outside the labor market.”


**Accident Rates**

“At its broadest level, there are three different bodies of research that have addressed new employees’ occupational accident rate. All three literatures clearly show that an employee is more likely to have an accident at work in their initial period of employment in a job.”


**Business Closings**

“Of the businesses with employees that closed in 2015, the top reasons for closing were low sales, the owner(s) retiring, and the owner(s) selling the business (Chart 2). With the next top reasons being opening another firm and illness/injury, it shows that many owners close for personal or health reasons not just business reasons. (‘Other reasons’ was also relatively high.)”


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