

U.S. Senate Committee on Health, Education, Labor & Pensions

Full Committee Hearing, March 14, 2013

Keeping up with a Changing Economy: Indexing the Minimum Wage

Statement of Lew Prince, Co-Owner and CEO of Vintage Vinyl

A few months ago I got to join a dozen other small business people across a table from President Obama, Vice President Biden and several of their economic advisors. The businesspeople ranged from a young entrepreneur just starting out to a woman from Detroit whose trucking company had just added its 300th employee. The small business organizations that had suggested some of us for that meeting represent more than 160,000 companies.

The President opened the discussion by asking, "What can I do to help small business?" When the first of us to speak said, "You can raise the minimum wage to 10 bucks," I was not surprised. Because for 34 years my company has always paid more than minimum wage and my return on that investment has been huge.

I co-own and am the CEO of a company called Vintage Vinyl, in St. Louis, MO. My partner, Tom Ray and I started with 300 record albums and a \$20 booth at the local Farmers Market. You could say our lives are a tribute to the American dream. We have grown into a multi-million dollar business with 23 employees. We stage 150 in-store concerts a year in our 7,500 square foot store with 40,000 compact discs a similar number of records and thousands of DVDs. We are the largest independent music store in the Midwest.

From day one, we have built this business on wages above the minimum. For this small extra investment, I get loyal, long term employees who are devoted to my company; employees whose ongoing relationships with my customers have built my business.

Back in 1979, when we started our company, the minimum wage was \$2.90. That would be \$9.20 in today's dollars. Even back then, it had eroded from the 1968 level, which would be \$10.59 in today's dollars. We never would have believed that 34 years later the buying power of minimum wage workers would actually be lower. That's terrible for small business, terrible for our economy and terrible for our country. If we had indexed the minimum wage to inflation back then, we wouldn't have this problem now. If we had indexed back then, my business would have benefited from the buying power of my customers being steady and predictable for the last 34 years.

I have found that good wages are good business strategy, too. The last 20 years have been tough on the record business. In St. Louis, 2/3 of the record stores have closed since the year 2000. We've outlasted a 20 store local chain and dozens of national chains. Most of those stores' paid their employees minimum wage. My creative, loyal, dedicated and better paid employees won this life or death struggle for us. Higher wages made us more competitive. While my competition

dealt with the costly results of constant employee turnover, constant training costs and the unsatisfied customers that turnover breeds, my employees added value to my business.

Indexing the minimum wage would make it easier for businesses to predict and plan for labor costs. The crucial part of my job as CEO is prediction. I must imagine the possible futures for my company and make sure my employees are financially and logistically prepared for them. Part of that is predicting costs. My rent, utilities, supplies and health care costs rise constantly; sometimes unpredictably. Indexing would especially help businesses that pay minimum wage as they would know when and how much to plan for. My bookkeeper and I have already begun discussions in anticipation of your actions.

Indexing minimizes the disruption of rising labor costs in minimum wage businesses because raises are gradual. The minimum wage has been indexed in Missouri since 2007. In that time indexing has tacked on 85 cents. That averages out to about 11 and a half cents a year. If a business can't plan for or absorb that tiny cost increase, it's already dead in the water and is not going to survive even the slightest competition.

But most importantly indexing makes the buying power of my customers more consistent and predictable. Small business owners know that higher minimum wages put spendable dollars into the hands of our customers. Minimum wage earners, who live from paycheck to paycheck, spend increases right away. Putting a couple of hundred dollars more a month in their pockets would be a boon to business and a boon to the economy. These dollars go directly to the local grocery store, daycare, or pharmacy. It increases business and creates jobs. It also maintains the local tax base.

Indexing will help government planners. Payroll taxes come from wages and sales taxes come from spent wages. Indexing wages to rise at the rate of inflation can only increase the predictability of revenues derived from taxes related to those wages.

Indexing is good for school systems. The most local small business is landlord. Most rental units are locally owned. The vast majority of minimum wage workers are renters. If minimum wages don't keep up with inflation, neither can rents. When rents fall in relation to the price of other goods, property values fall proportionally and so do property tax revenues. Where I come from schools are funded by property taxes.

Without indexing, people making minimum wage will fall further into poverty, which will increase the tax burden on small businesses and successful individuals. You may think of food stamps, government housing and child care subsidies as helping the poor and they do and it's important that we maintain them. But from a business point of view, when wages are so low that full time workers qualify for this help, we are actually subsidizing unrealistically low wages paid mostly by extremely profitable multi-national corporations. I feel like I'm being forced to subsidize the profitability of my competition. This perverts capitalism and is lousy public policy, to boot.

For example: In my state, According to the MO Healthnet Employer Report, in the 1st quarter of 2011 (the latest data available) Wal-Mart alone cost Missouri taxpayers \$6,506,254 in Medicaid

costs. McDonalds cost 3,781,373, Casey's, Dollar General, and Sonic Restaurants cost \$1.5 million each, Subway, Wendy's and Taco Bell came in at about a million dollars each. That's nearly \$18 million of Missouri taxpayer money over 8 very profitable, low wage companies in one quarter.

The combination of democracy and capitalism is a powerful one, but people have to have access to success to buy in. Capitalism and democracy work spectacularly well together because they keep each other's excesses in check. The American Dream isn't functioning when the pie keeps getting bigger, but working people's share shrinks.

A decent wage at the lowest rung lets workers make ends meet while giving them a taste of the rewards of work. Remember, the \$10 minimum will be a floor. It's not a middle class wage. But having a few bucks in discretionary spending or a little more financial stability will make the reward of looking at your paycheck and thinking, "I earned that and it's something to build on," a little more satisfying and demonstrate the rewards of work.

Let's keep the American Dream in sight for those farthest from experiencing its sweetest fruits.

In a race to the bottom, the winner ends up at the bottom.