



The Association of  
Accountants and  
Financial Professionals  
in Business



Raising the Minimum Wage: Is It Bad for Business?

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# Raising the Minimum Wage: Is it Bad for Business?

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## Executive Summary

There are increased calls in the United States to raise the minimum wage (MW) rate in cities around the country, and at the national level. This report presents the results of a survey of senior financial professionals regarding the impact of raising the minimum wage on their companies and on the economy in general. Key findings include:

- Respondents generally agreed (45% strongly agree/agree vs. 40% disagree/strongly disagree) that we need to raise the minimum wage to the point where workers can afford their basic needs.
  - Companies with a significant number of employees paid at the minimum wage rate were much less likely to agree.
- While supportive of the idea that employees earning the minimum wage need to be able to afford their basic needs, respondents generally believe that raising the minimum wage rate would deprive less-skilled workers of entry-level opportunities and negatively impact the U.S. economy.
  - Mid-market firms were most likely to agree that there would be a positive economic impact; very large companies the least likely.
- Half of the respondents felt raising the minimum wage would have a negative impact on the growth of the U.S. economy while a third of the respondents felt the impact would be positive, with the rest unsure.
- By a 47% to 41% margin, respondents believe raising the minimum wage deprives less-skilled workers of entry-level work opportunities. However, by a 45% to 38% margin, they believe raising the minimum wage would *not* prevent less-skilled workers from gaining the skills that would qualify them for higher-paying jobs.
- The minimum wage prevalent in respondents' main business location affected their beliefs: those in areas where the minimum wage rate was \$7.25/hour (the Federal minimum) were most likely to oppose an increase. Conversely, those in areas where the minimum wage was \$10.10/hour or higher were more likely to agree (44%) than not (39%) that raising the minimum wage to that level would be positive.
- While many companies indicated that raising the minimum wage would not affect their profitability, the impact on many firms with a large percentage of minimum wage earners would be very significant.
  - Mid-market firms are especially likely to be adversely affected.
- For employers with 10% or more of their employees earning the minimum wage, in response to raising the minimum wage to \$10.10/hour:
  - 49% believe they would be forced to reduce their number of employees,
  - 52% believe they would have to raise their prices, and
  - 59% believe they would have to cut hours/services.
- The varying tax treatment of employee tips complicates discussions of minimum wage in the food service industry.

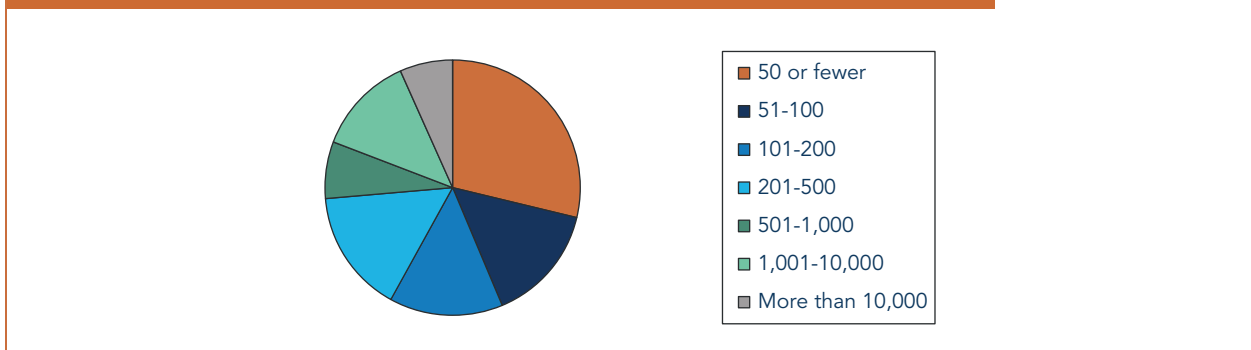


## Introduction

As the United States starts to edge out of the recent great recession, firms are generally starting to see improved economic activity, and prices are slowly starting to rise. This has resulted in increased calls to raise the minimum wage (MW) rate in cities around the country, and at the national level as well.

In order to gauge the impact of an increase in the minimum wage, IMA® (the Institute of Management Accountants) surveyed a sample of 5,000 of its senior financial professional members. As finance leaders in their companies, they have a great vantage point from which to gauge the impact of a change in the minimum wage on their organizations. Four hundred and forty-seven responses were received (for an 8.94% response rate). This very high response rate testifies to the importance of this issue to corporate America today. The respondents came from firms of widely varying size, roughly mirroring the size distribution of companies in the United States today. (See Figure 1.)

Figure 1. Distribution of Firms by Number of Full-Time (or Equivalent) Employees



Many arguments can be made for and against changing the minimum wage rate. The complexity of this issue became apparent when analyzing the survey data: the issue involves economic, political, and ethical considerations, among others, and respondents fell along the entire spectrum of possible responses for each of these. Often these considerations conflict, even for a single individual, as indicated in this comment from one respondent:

It is unfortunate that the economic situation has gotten so polarized. Just recently I was against raising the minimum wage because I thought it would be inflationary. But I have come to believe that the government should step in. A smaller and smaller percentage of Americans own most of the production.

## Views Regarding Minimum Wage

Survey respondents were asked about their feeling regarding the impact of raising the minimum wage on the economy, on access to entry-level work, and on the ability of less-skilled workers to gain necessary skills. Additionally, they were asked about the need to pay workers a “living” wage.



## GENERAL VIEW REGARDING MINIMUM WAGE

Respondents' views diverged sharply with regard to the idea that the minimum wage should be raised to the point where workers can afford their basic needs. Some opinions were based on moral beliefs:

Anybody working has to be able to afford basic housing, food, education, and healthcare.

If we expect employees to spend 1/3 of their life working for a company, we should pay them a living wage. It is then up to them to move up the ladder to make an even better life for their families.

I pay all my employees—even students—at least \$10/hour. Minimum wage is an insult to anyone who makes an effort to do a good job.

Increasing the minimum wage is the right thing to do. Most companies can definitely afford to do so. If owners get a little less, that is fine. Workers need a livable wage. Most companies will not go out of business ...

Others' opinions were based on social equity:

As a taxpayer (both corporate and personal) I am tired of having my tax dollars subsidize companies by allowing them to offer subpar pay and benefits to their employees. Then as a taxpayer, I have to pay for medical care, food stamps, heating oil relief, etc.

Some opposed raising the minimum wage based on economic theory:

All a minimum wage increase does is increase pricing for all other goods which defeats the purpose of getting more funds in low income families hands.

It is a matter of macroeconomics that generally an increase in the minimum wage has only temporary effect because it stimulates inflation. As the minimum [wage] goes up, some benefit temporarily, but soon the cost of living increases as businesses raise prices to cover higher costs.

Opinions also diverged as to whether raising the minimum wage was the right policy tool to address low income. One respondent noted, "Earned income tax credits are a more effective way to address low wages."

The societal implications of raising the minimum wage were also a consideration:

Ignoring the political issues around illegal immigration, raising the minimum wage provides incentives for young citizens & legal aliens to join the workforce rather than participate in the Cash Underground.



A lot of the minimum wage jobs were never meant to be full time jobs that people could support themselves and their family. By raising the minimum wage we are sending a message to people to not try and better themselves through education to get better jobs.

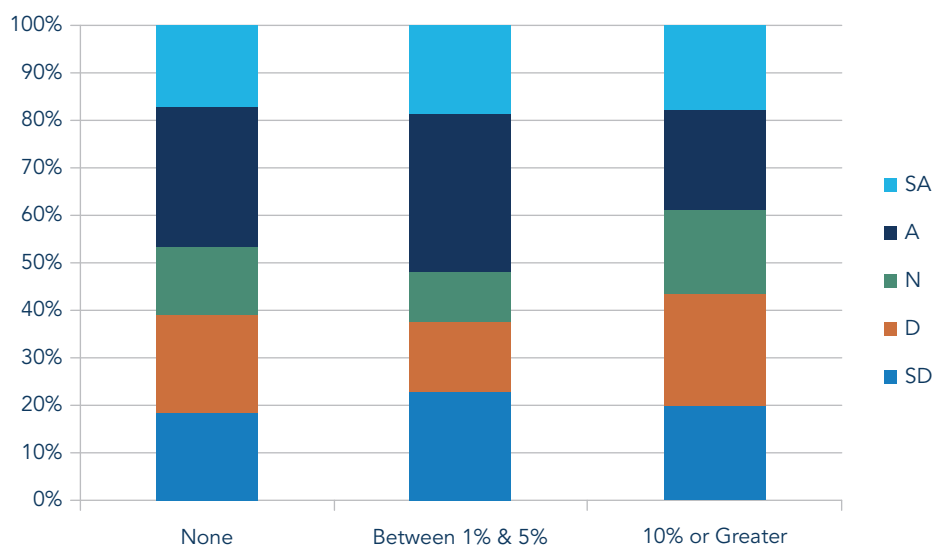
Finally, others questioned the objective of minimum wage legislation:

I am an economist by education so am opposed to an increase in the minimum wage for economic reasons as I do not believe it provides the intended benefit. One is not guaranteed to have a minimum standard. Get the training and education and skills and you will not have to work at minimum wages for long. I did work for minimum wage when I started out at times but I just viewed it as a training wage and am doing well ...

Many minimum wage jobs are not intended to be sole support of a single adult. The focus needs to be on more training of technical skills to those wanting higher paying jobs which will provide adequate support.

Overall, survey respondents generally agreed (45% strongly agree/agree vs. 40% disagree/strongly disagree) that we need to raise the minimum wage to the point where workers can afford their basic needs. Not unexpectedly, agreement was least among employers with the greatest percentage of employees paid at that rate. Somewhat surprisingly, those employers that had a small percentage of employees paid at this rate were more likely to agree than those with no such employees. (See Figure 2. Note: SA=strongly agree, A=agree, N=neither agree nor disagree, D=disagree, SD=strongly disagree.)

Figure 2. Relationship between Belief Regarding Minimum Wage and Percentage of Employees Receiving that Rate

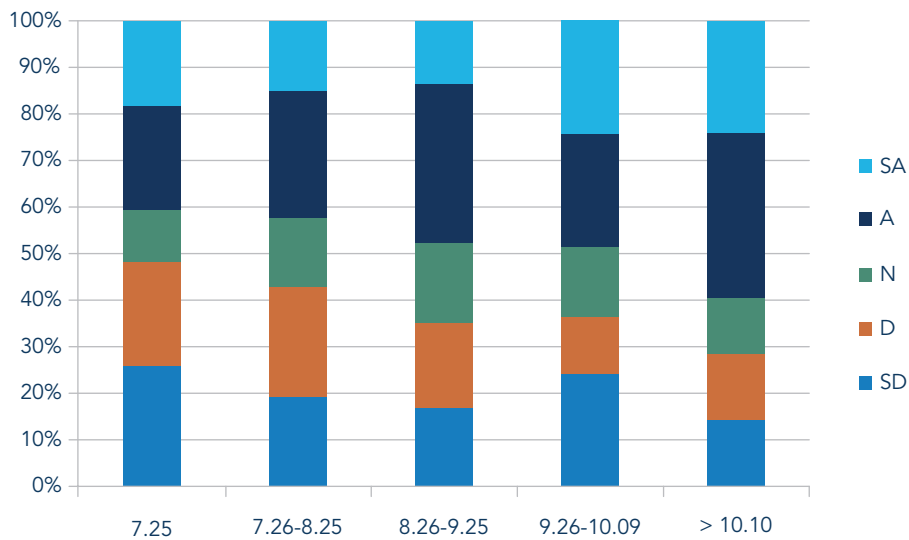


(Note: The three categories include all survey respondents.)



The minimum wage prevalent in respondents' business location affected their beliefs: nearly half of those in areas where the minimum wage was \$7.25/hour (the Federal minimum) were opposed to the view that the minimum wage needed to be raised to the point where workers can afford their basic needs. Conversely, those in areas where the minimum wage was \$10.10/hour or higher were more likely to agree that the minimum wage should be raised to a "living" wage. (See Figure 3.)

Figure 3. Impact of Local Minimum Wage Rate on Belief Regarding Minimum Wage



### ECONOMIC IMPACT

A frequent concern regarding raising the minimum wage is its potential effect on the economy. Half of our respondents felt an increase would have a negative impact on economic growth in the United States, a third felt the impact would be positive, and the rest were unsure.

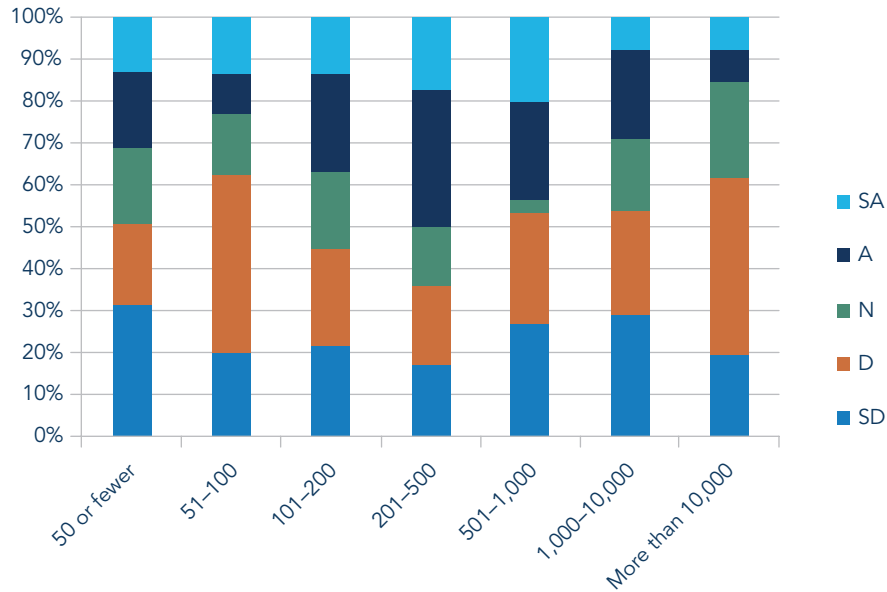
Opinions diverge sharply based on firm size, with mid-market firms most likely to agree that raising the minimum wage would benefit the economy. Most likely to agree were firms with 201 to 500 full-time equivalent employees, of whom half agreed at least to some extent that it would be beneficial. This contrasts with very large firms (with greater than 10,000 employees) of whom only 16% agreed as to the benefit. (See Figure 4.)

The extent to which a company pays its employees minimum wage also affects its assessment of the impact of raising the minimum wage: 67% of firms with 10% or greater of employees paid the minimum wage thought there would be a negative impact on the economy, as opposed 50% of those with between 1% and 5% and 45% of those with no employees paid minimum wage.





Figure 4. Belief that Raising Minimum Wage Would Be Good for the Economy by Firm Size (Number of Full-Time Equivalent Employees)



#### IMPACT ON AVAILABILITY OF ENTRY-LEVEL JOBS

A key concern in raising the minimum wage is its impact on entry-level jobs. As one respondent indicated,

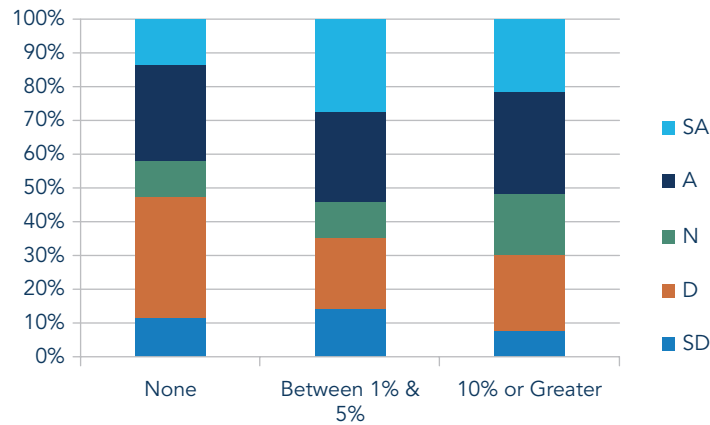
I don't think raising the minimum wage to \$10.10 would be too disruptive but any increase will only provide incentive to employers to accelerate the rate at which they are automating entry level jobs. The more you increase it, the more the incentive.

By a 47% to 41% margin, respondents believe raising the minimum wage deprives less-skilled workers of entry-level work opportunities. Respondents in the mid-market were the least likely to have this concern while very large companies were the most likely.

Having employees paid at the minimum wage rate—even if just a few—affected responses. Employers with relatively few minimum wage employees (between 1% and 5%) were much more likely to agree that raising the minimum wage would deprive less-skilled workers of entry-level work opportunities than employers that either did not have minimum wage employees or had quite a few (10% or more) of them. (See Figure 5.) Perhaps this is because this group would have to make large adjustments due to an increase in the minimum wage while those with many minimum wage employees have already done so and those with no minimum wage employees would not be affected.



Figure 5. Effect of Raising Minimum Wage on Work Opportunities by Minimum Wage Employees



Of course, increasing the minimum wage would affect industries unevenly. The fast food industry was especially singled out:

I think raising the minimum wage for fast food workers to \$15/hour would be catastrophic to the fast food workers because there would be a lot of money spent on capital expenditures to automate those jobs.

I think the minimum wage hikes (Oregon is looking at \$15) would be detrimental to businesses that tend to employ entry level folks such as fast food and gas stations.

### OBTAINING ENTRY-LEVEL SKILLS

By a 46% to 38% margin, respondents disagreed with the idea that raising the minimum wage would prevent less-skilled workers from gaining the skills that would qualify them for higher-paying jobs. Mid-sized firms were the least likely to agree. (See Figure 6.)

However, the ability to find jobs that help develop entry-level skills can vary by group. Students were often cited in this regard:

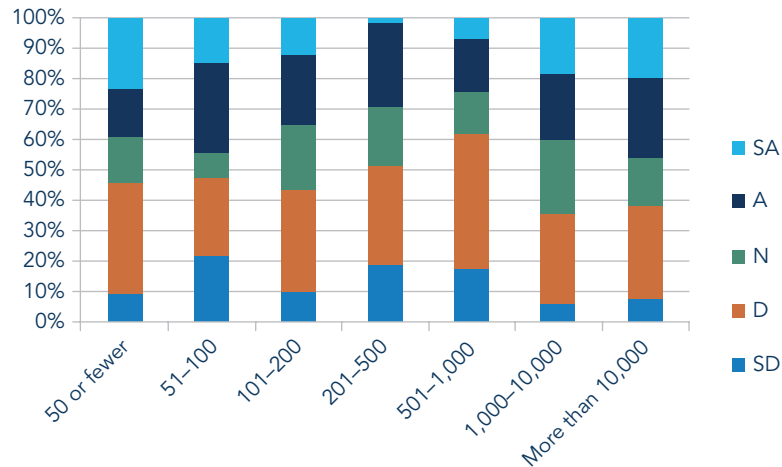
Part-time student workers who learn the valuable lessons of how to work will be negatively impacted. They will be deferred on entering the work force and lose the opportunity to learn valuable life lessons.

Minimum wage hikes would prevent high school students from obtaining positions because more adults would be satisfied with the minimum skill positions.

This differentiated impact should be something that any revised minimum wage legislation should take into consideration.



Figure 6. Impact on Ability to Gain Skills by Firm Size



## Which Companies pay Minimum Wage?

Overall, 34% of respondent companies have at least some employees paid at the minimum wage rate. For many firms, raising the minimum wage rate is not an issue—the demand for labor has compelled these firms to compensate their employees at higher rates. Common comments included:

Market has already forced the company to pay more than minimum wage. In most cases we pay almost double current federal minimum wage.

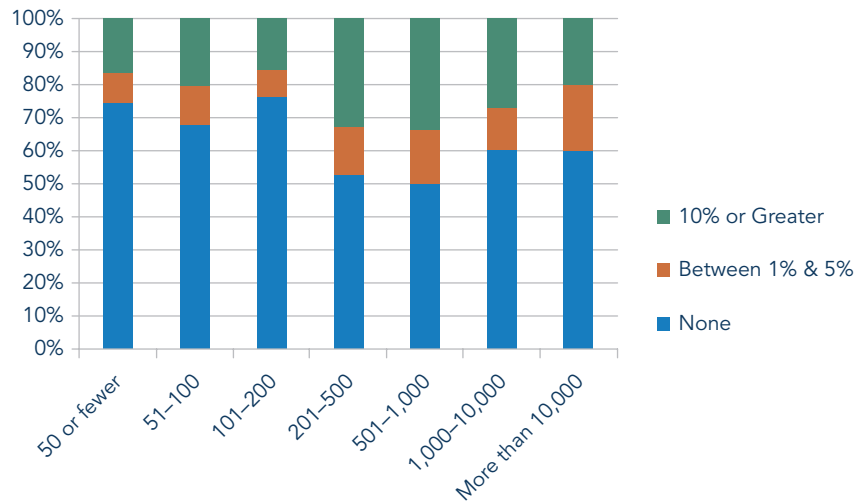
All our positions pay more than the current and proposed minimum wage rates. Most positions require a technical degree or higher.

My company is a high wage high skill manufacturer. An increase would have less effect on my company than many other lower wage lower skill companies.

The percentage of employees receiving minimum wage varies by company size, with mid-market firms (201 to 1,000 employees) employing the greatest percentage of minimum wage employees. (See Figure 7.)



Figure 7. Payment of Minimum Wage to Employees by Firm Size



## Impact On Company Profitability

Raising the minimum wage can be expected to negatively impact company profits, but how prevalent will this be and to what extent? Increasing compensation of those earning the minimum wage also raises the question of whether the compensation of those earning close to that amount will need to be adjusted by companies:

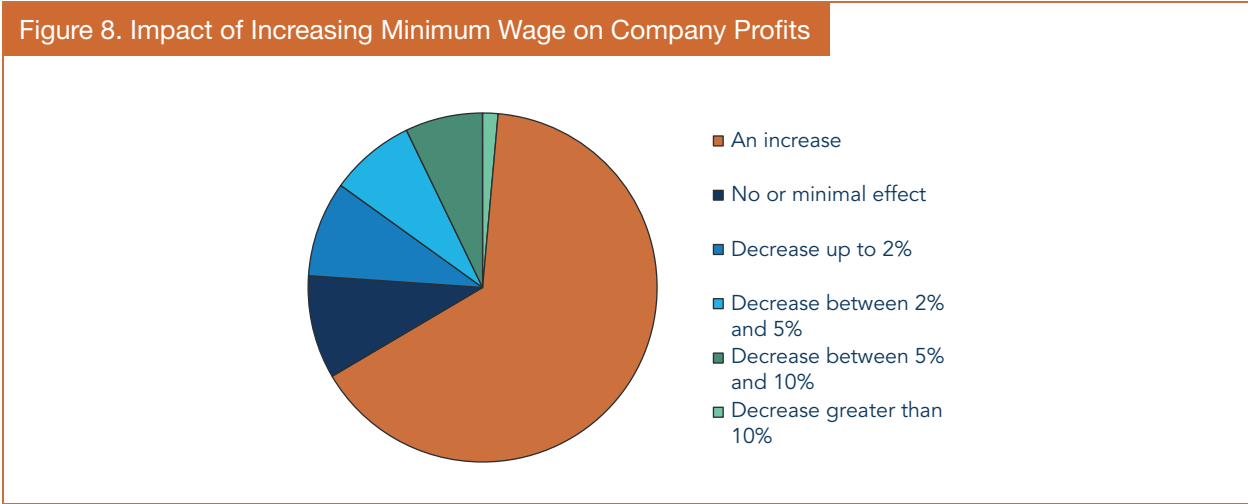
An increase in the minimum wage will push up the lower wage brackets which will push up most of the salary grades even if we have no one at the minimum wage.

While we pay our employees above minimum wage now, employees that currently make at or right below the proposed minimum wage of \$10.10 would impact our entry level staff. Now interns and new employees will be making more than what they started at so this will affect our employee morale in some areas and will force the company to make decisions on whether to increase pay of current employees.

Nearly two-thirds (65%) of the respondents believe that raising the Federal minimum wage to \$10.10 per hour would have no or minimal impact on their company's profit in the coming year. (See Figure 8.)

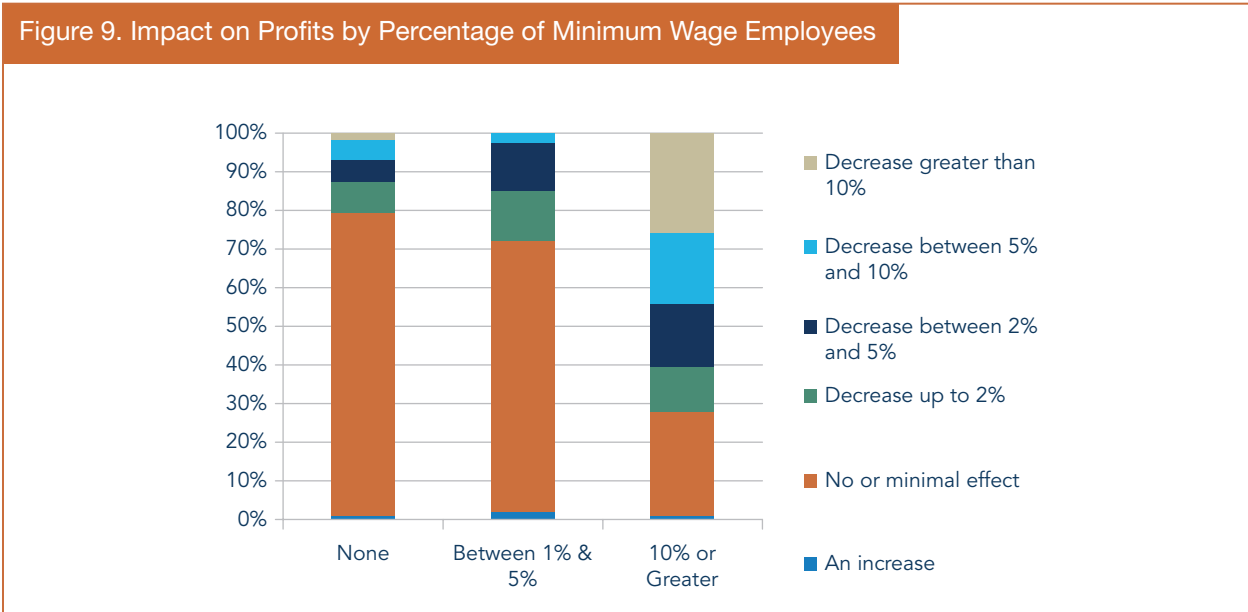


Figure 8. Impact of Increasing Minimum Wage on Company Profits



However, this statement doesn't take into consideration the extent to which companies are currently paying employees at the minimum wage rate. As noted previously, 66% of respondents do not currently pay any of their employees the minimum wage; the effect on these firms is generally minimal. (See Figure 9.) The situation is similar for the 12% of respondents that pay between 1% and 5% of employees at the minimum wage rate, but dramatically worse for the 22% of respondents with more than 10% of their employees being paid at that rate.

Figure 9. Impact on Profits by Percentage of Minimum Wage Employees





The impact on raising the minimum wage was especially pronounced in the middle market (firms with between 101 and 1,000 employees). For firms with 201 to 500 employees, 12% believed such an increase would decrease profits between 5% and 10%; another 14% believed the impact on profitability would be a reduction greater than 10%.

Several respondents noted that the impact on companies' profitability from raising the minimum wage was greater than solely the direct increase in wages paid:

While a significant increase in the minimum wage would not directly affect our direct employees, it would have a tendency to significantly increase our cost of outsourced/ temporary labor. This would have a significant negative impact on profitability.

## Company Responses

Companies can adopt a variety of strategies to cope with an increase in the minimum wage: options include decreasing cost by reducing hours of operation or services, reducing staff, and increasing prices. A (slight) majority of the respondents disagree that they will take any of these steps.

### STAFFING

As one respondent noted, in several industries, "employers are not likely to be able to raise prices enough to sustain the minimum wage increase, so some workers will lose jobs." Another noted, "We are already being impacted in Seattle because of the mandated higher minimum wage and we have cutback hours by 10% for anyone making minimum wage."

Overall, 29% of respondents believed that an increase in the minimum wage to \$10.10/hour would result in staff reductions at their firm. The impact would be greatest for large firms: 33% of firms with 1,001 to 10,000 employees indicated that such an increase would cause them to reduce staff.

Interestingly, increasing the minimum wage rate could also result in an increase in employment, at least for part-timers:

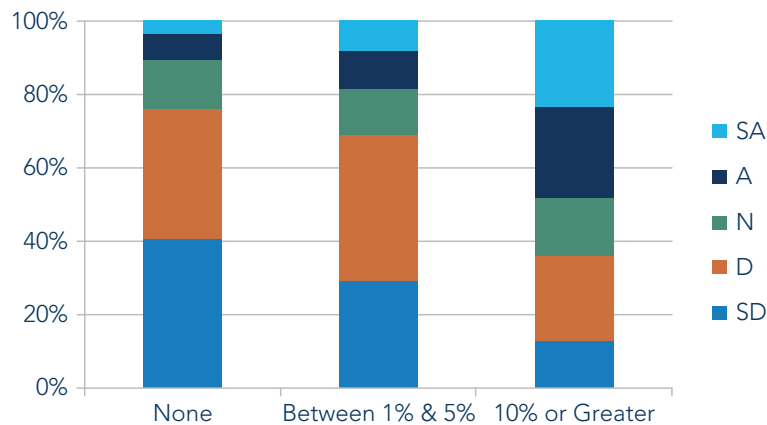
We would manage the expense [of an increased minimum wage] by eliminating overtime for all employees and reducing other aspects of compensation. We might need to hire more part-time workers to fill in the gap.

Again, the extent to which companies are currently paying their employees minimum wage is an important factor. (See Figure 10.) While even some firms that currently do not pay any of their employees minimum wage would reduce their staffing levels, the great impact is with firms that have over 10% in this group. By a 49% (agree) to 36% (disagree) margin, these employers believe raising the minimum wage to \$10.10/hour would force them to reduce their number of employees.



Raising the minimum wage causes a lot of people making more than the new minimum wage to seek and expect wage increases. People that struggle to command a job that pays the current minimum wage will face challenges gaining employment if the minimum wage is dramatically increased.

Figure 10. Level of Agreement that Raising Minimum Wage will Reduce Employment by Percentage of Minimum Wage Employees



Another employment-related issue is the inability of some firms to attract enough skilled workers at current wages levels, a problem that would be compounded by an increase in the minimum wage:

A higher minimum wage would make it harder for us to attract/retain employees.

While the hourly pay would not have an immediate impact on the employees, it would increase costs to all employees (ex. fast food chains would raise prices), and if higher skilled employees went to these lower skilled jobs, we would end up having to pay more for the higher skilled laborers than we currently do.

## PRICES

An increase in the minimum wage rate will have both direct and indirect impact on firms' costs and thus profitability unless prices can be increased commensurately. Typical respondents' comments in this regard include:

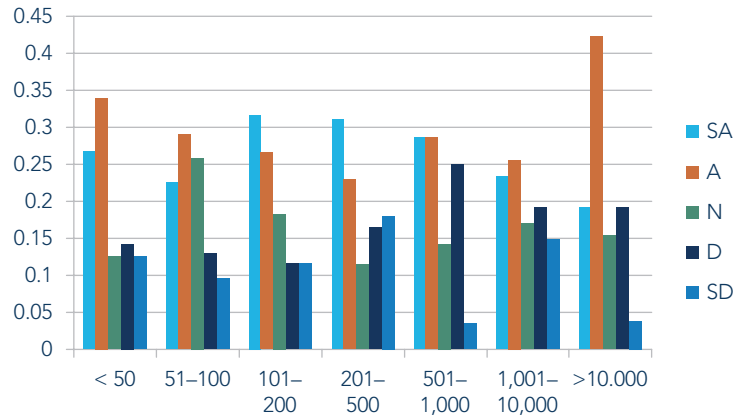
The minimum wage increase will have an inflationary impact due to the ripple effect in the entire economy from increased prices in general as businesses attempt to maintain their profit margins.

Raising minimum wage would not directly impact our full time employees but our suppliers do have employees who make minimum wage and it would force them to increase costs to us and we would need to increase pricing to our customers.



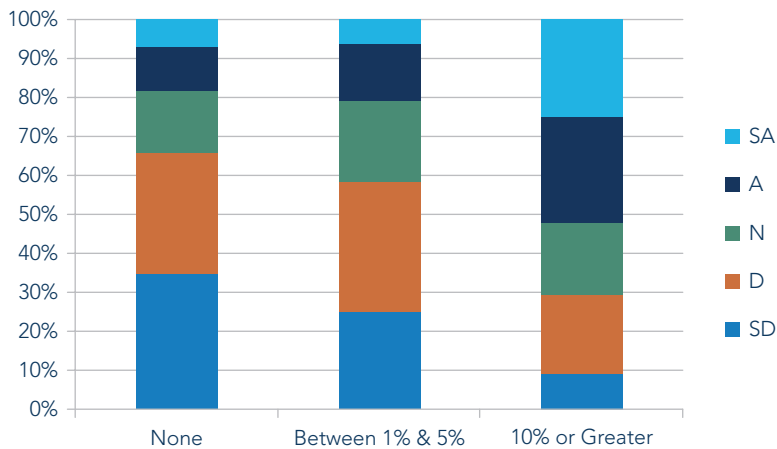
Nevertheless, the majority (57%) of the respondents do not believe an increase in the minimum wage would cause their firms to significantly raise prices. This was especially true for larger (greater than 500 employees) firms. (See Figure 11.)

Figure 11. Level of Agreement that an Increase in Minimum Wage Will Result in Increased Prices by Firm Size (Number of Employees)



As before, these results mask the impact on those firms that currently have a significant number of minimum wage employees. (See Figure 12.) More than half of the firms that have at least 10% of their employees earning the minimum wage indicated an increase in the minimum wage would force them to significantly increase prices.

Figure 12. Level of Agreement that an Increase in Minimum Wage Will Result in Increased Prices by Percentage of Employees Receiving Minimum Wage





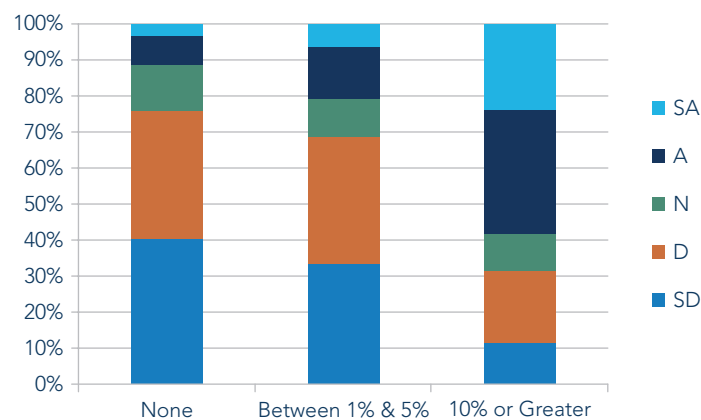


## SERVICES

One-fourth of the respondents believed their firms would have to cut services or hours in response to a raise in the minimum wage to \$10.10/hour. The level of agreement was fairly consistent across firms of all sizes, with larger firms being slightly more likely to agree that a cut in services or hours would be necessary.

Again the level of agreement was dependent upon the extent to which a company is currently paying employees at the minimum wage level. As shown in Figure 13, 59% of those organizations with at least 10% of their employees earning minimum wage anticipate reducing services and/or hours due to the increase while a much lower percentage of other firms would be taking this action.

Figure 13. Agreement that Raising the Minimum Wage Will Lead to Decreased Hours/Services by Percentage of Employees Earning Minimum Wage



## OTHER IMPACTS

While we have examined the impact of increasing the minimum wage on profits, hours, staffing, and service levels, other impacts from such an increase can be expected. Respondent comments in this regard include:

Raising the minimum wage in our organization beyond our lowest wage will cause us not to cut hours or reduce our services, but we will be forced to eliminate or severely reduce benefits to compensate for the losses.

Hotels in LA go to \$15.37 minimum effective July 1st. We will reduce hours and staff, and increase employees' medical insurance contribution.



## The Food Service Industry

The “poster child” in the debate over raising the minimum wage is the hospitality/food service industry in general and the fast food industry specifically. With so many employees working largely for tips, the industry is an attractive target. Yet, even for this industry there are pros and cons when it comes to raising the minimum wage.

Some respondents noted the industry’s traditional role of providing less-skilled workers with entry-level jobs and a chance to further develop their skills. Increasing the minimum wage could significantly impact the number of those jobs:

Most adverse effects of raising minimum wage are likely to be in fast food or other food service industries where employers are not likely to be able to raise prices enough to sustain the minimum wage increase, so some workers will lose jobs.

I think the minimum wage hikes (Oregon is looking at \$15) would be detrimental to businesses that employ entry level folks such as fast food and gas stations. It would also prevent high school students from obtaining positions because more adults would be satisfied with the minimum skill positions.

The nature of compensation in this industry can pose unique challenges in the quest for achieving “fairness” in compensation through minimum wage legislation:

We are in the hospitality business, providing services that can’t be relocated. We have tipped employees, most receiving the bulk of their income directly from guests. Yet some municipalities, and the State of California, do not allow a tip credit. We are forced to give hourly increases even if staff report six figure incomes.

The nature of the tax code can result in costs increasing more for firms in this industry than elsewhere:

This significant increase in the minimum wage will cause indirect payroll expenses in addition to the direct cost of the employment plus payroll taxes. We currently take a tip credit for many of our minimum wage employees. Unfortunately, because we will have to increase the prices in our food and beverage outlets, our employees are likely to receive less in tips thereby increasing our payroll expense by an even greater amount.

A final concern in this regard is the singling out of the hospitality industry for an increase in the minimum wage:

If there is a change in the minimum wage, it should apply to all workers and not just people who work in the fast food industry.



## One More Issue

The increase in costs resulting from an increase in the minimum wage and their resultant impact is a major concern for many companies. Yet other concerns exist as well. At the top of the list in importance is the multitude of minimum wage rules that exist in the various jurisdictions in which companies do business. One respondent indicated:

Still, the greatest concern for us is the piecemeal approach adopted by local municipalities, placing certain locations at competitive disadvantage.

Given the impact of minimum wage legislation on business, government entities need to better coordinate their policies.