

# Can Greensboro afford to raise the minimum wage to \$9.36/hour? Yes!

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The primary purpose of any campaign to raise the minimum wage is to increase the amount of money in the pockets of people who work for the lowest wages. Minimum wage campaigns may also seek to address larger issues around economic inequality and its implications for sustainability and democracy, but the most immediate goal of any such campaign is to provide more disposable income to people who are struggling to cover the most basic costs of living – shelter, food, transportation, healthcare, minimally adequate clothing. The size of the gap between the North Carolina minimum wage of \$6.15/hour (\$12,792 per year) and what it takes to live a minimally decent life in Greensboro (\$32,601 per year) is large – roughly \$19,809 per year for a family of one adult and one child, according to the North Carolina Budget and Tax Center (Quinterno, Gray & Schofield, 2008, p. 31). Given the size of the shortfall, the initiative to raise the minimum wage in Greensboro to \$9.36/hour represents only a partial solution. At \$9.36/hour, a full time minimum wage worker will earn \$19,469 per year, reducing the shortfall for our example family to \$13,132 – still a daunting number.

The shortfall is large enough that when most people learn about the gap (either because they live it, read about it, or are told about it), their first impulse is to support an increase in the minimum wage. But many people, including some who are supporters of increasing the minimum wage on moral grounds, are rightfully concerned that raising the minimum wage might have unintended consequences that actually hurt the very people the initiative is intended to help, because of unintended hurts to the larger economy.

In informal conversations, formal interviews, and reviews of opinion pieces and letters to the editor in the local papers, our Minimum Wage Team has heard these concerns, expressed in different ways. The dominant economic worries that have emerged here are consistent with concerns that have been raised in communities outside of Greensboro. Most revolve around unintended job losses, cutbacks in

worker hours, or business closures:

- Businesses will have to lay off workers or cut back their hours, because they will not be able to afford the increase in payroll costs.
- Some businesses will be so adversely affected by increased payroll costs that they will have to either close down or move out of the city to an area that does not have as high a minimum wage. In either case, local jobs will be lost.
- Small businesses in particular will be hardest hit, and will be the most prone to layoffs and closure. Since many people view small business as the backbone of our economy, not to mention an iconic feature of local life and culture, this threat to small business feels especially challenging.

If any of these things happened at any scale as a result of a mandated increase in the minimum wage, then we would have to say that raising the minimum wage might not be the best policy solution to ease the economic woes of low-paid workers<sup>1</sup>. If we are sincere in our desire to put more income into the hands of people at the very lowest levels of the pay scale, then we have to take these concerns very seriously. We have to find a way to estimate the size of the impact of raising the minimum wage, and then look at the various ways that this impact can be absorbed into the larger economy.

One way to examine the potential impact of raising the minimum wage is to look at the intersection of economic theory and empirical work that tests that theory in communities that are either trying to or have established higher minimum wages. In some of these communities, notably New Orleans, Albuquerque, San Francisco, Santa Monica, and Santa Fe, as well as the State of Arizona, extensive research has been undertaken (Pollin, Brenner, Wicks-Lin. & Luce, 2008).

Core questions answered in this research require a fully local, industry-by-industry enumeration of the number of workers who currently work for wages below the projected minimum, how many hours they work in a week (or year), and how far

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<sup>1</sup> In fact, some policy analysts (see, for example, Krugman, 1998) have argued that the best solution is to simply increase the level of government-sponsored transfer payments to poor working people, and thus avoid tinkering so directly in the labor market. Another line of policy thinking suggests that the solution lies in a national program of guaranteed income supports such as those in Sweden. While these two approaches share the purpose of alleviating economic suffering of low-wage workers, they do not do it by raising minimum wages directly. A comparison and critique of these approaches to the minimum wage approach is beyond the scope of this paper. I mention them as examples of policy approaches that to some extent are borne out of the fear of causing disruptions to business and markets such as those named in the above list of concerns.

below the projected minimum they are paid. This is a key type of data to have in hand, because with it, we are able to project the actual costs of implementing the wage increase.

Unfortunately, we do not have that kind of detailed wage data available for the city of Greensboro. However, in the absence of detailed local wage and hour data, we can still make upper-bound estimates of the cost of raising the minimum wage in Greensboro, by examining the relative size of projected impacts in the various places in which such research has been done.

Table 1, below, lists the total costs of the impact, expressed as a raw number and as a percentage of gross sales in each of two locales where this research has been conducted, both described in Pollin et al., 2008. I note that the total cost to employers takes into account the following types of costs: 1) direct costs attributable to wage increases for workers who currently make less than the proposed minimum; 2) indirect costs attributable to “ripple effects,” in which workers who are paid at or near the projected minimum receive non-mandated raises; and 3) increases in employer-paid payroll taxes paid on higher wages (Social Security, Medicare, and federal and state unemployment tax amounting to roughly 7.4%).

**Table 1. Size and impact of minimum wage increases, as a percentage of gross sales.**

City	Size of increase	Percentage increase in hourly wage	Total annual cost of increase to employers	Percentage of gross annual sales
Santa Fe	\$5.15 to \$8.50 (\$3.35/hour)	65%	\$33 million	1.0% <sup>2</sup>
New Orleans	\$5.15 to \$6.15 (\$1.00/hour)	19%	\$71.4 million	0.9% <sup>3</sup>

<sup>2</sup> From Pollin, et al., p. 79

<sup>3</sup> From Pollin, et al., p. 52

Certainly, the large numbers in the fourth column titled “Total cost of increase to employers” are sizable, scary even. But the data compiled in the fifth column put these big numbers into some perspective. In both cases, the average impact of the increase comes to about 1% of sales<sup>4</sup>. It might be reasonable to take this 1% of sales figure and double it, to establish an upper bound for the average impact on businesses in Greensboro. How might businesses in Greensboro respond to costs increasing by 1 to 2% of sales?

Again, it helps to put things into perspective. Businesses of all sizes are continuously responding to large and small changes in the business environment – it is a constant feature of life as a business. It is a commonplace in both the popular business press and in economic research that a business’s ability to respond to changing conditions is a determining factor in its survival, profitability, and growth. While a 1–2% change in business expenses as a share of sales is certainly not so small it would be ignored by most businesses, it is not so large that a reasonably responsive business doesn’t have multiple options to accommodate to the change. Possible ways to pay for all or some of the costs include:

- **Price increases.** For industries that experience impacts in the 1–3% range, accommodating the cost of wage increases by small price increases is straightforward, easy to implement, and generally acceptable to customers. For example, a janitorial contractor that charges its commercial customers \$200/week to clean a suite of offices might raise their price to \$204, to accommodate a 2% increase in costs relative to sales. A fast food restaurant that charges \$4 for a hamburger might raise its price to \$4.12 to accommodate a 3% increase in labor costs. These price increases are small, so small they may hardly be noticed by consumers. The manageability of these increases is important to note, because some opponents of raising the minimum wage suggest that resulting price increases will be so great that they

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<sup>4</sup> It is somewhat remarkable that the impacts in the two cities, expressed as a percentage of sales, are so similar given that the relative size of the wage increases in the two cities are quite different – 19% and 65%. How can such vastly different wage increases amount to roughly the same overall percentage of sales? The answer lies in differences between the types of industries represented among businesses in the two cities – some industries employ relatively more low wage workers than others. In addition, comparing the same industries across the two cities, researchers found that wage levels vary somewhat due to local conditions and customs. Certainly, the percentage of sales figure is dependent on a number of factors that might well vary between Greensboro and these cities too. So we have to be cautious in assuming that the impact in Greensboro, where the proposed increase amounts to a 52% hourly wage increase over \$6.15/hour (larger than the increase in New Orleans but smaller than the increase in Santa Fe), will conform to the data in those two cities. This is why I suggest setting the upper-bound estimate at 2%.

will literally price low-wage workers out of the very products they need to survive.

The research conducted by Pollin et al in multiple cities suggests that for approximately half of all industry types, the impact of minimum wage increases is below 1%, and another large group of industries experience impacts below 1.5% (see the Santa Fe example, worked out by industry sector by Pollin, et al., p. 80). However, there are a handful of industries that employ large numbers of workers and carry a much higher-than-average increase in overall costs, due their labor intensive nature and the fact that these industries tend to pay very low wages. The most impacted industries are food service and accommodations (averaging a percent-of-sales impact of 3.32% in Santa Fe, the city with a wage increase most comparable to the proposed increase for Greensboro), waste management (2.60%), and health services and social assistance (2.09%). These percentage impacts do not seem very large, which is good news for the potential to accommodate impacts through price rises. However, it must be remembered that these are aggregate impacts, calculated across dozens, if not hundreds of businesses that vary quite a bit in how they do their work and pay their employees. Within these sectors, there are subsectors or particular businesses that will undoubtedly experience much higher impacts, perhaps going as high as 15, 20, or even 30%. The case of childcare is a good example of a sub-sector that is likely to bear a high labor cost impact, because childcare workers are historically paid very low wages, and because labor costs represent a sizable portion of overall costs. For working families (both well paid and low paid), child care is not an optional luxury. A 30% increase in a monthly childcare bill (from, say, \$400 to \$520) may well prove to be the last straw for a two parent family who decides that they'd be better off if one parent just stayed home – thus reducing their family income by at least the amount of after-tax income brought in by one minimum wage worker. If a parent is earning the new minimum wage, \$120 of their \$552 monthly gain has just been wiped out! And for families who are just barely getting by now, working for wages just above the new projected minimum, there will be no income gain from which to pay increased childcare

costs – they will have to squeeze the extra \$120/month out of some other part of their budget. That can be hard to do on an income of \$25,000 per year, seeing as it is not at the Living Income Standard as it is.

This type of concern has been highlighted again and again by opponents of raising the minimum wage, who often speak of the need to protect poor families from such dire outcomes. However, it is important to note three things to put this concern into perspective with the larger picture of economic impacts: 1) The lowest wage families will still come out ahead by \$432/month, even with large increases in childcare bills. I wager that if you asked these families whether they would take the \$552 monthly increase in exchange for a \$120 increase in their childcare bill, they would gladly take the overall increase and pay the higher childcare bill. 2) Not all low-income families have children under five (child-care age) in their households. The 2006 Census shows that 14.6% of Greensboro families have young children at home (U.S. Census Factfinder, 2006). The vast majority of Greensboro families will not have to deal with this dislocating increase. 3) Having young children at home is a temporary condition (as is providing nursing care at home for an elderly relative, a similarly high priced sector.) While higher child care bills or home nursing bills may become especially taxing for some families, this is not a condition that will usually follow them over the course of their entire working lives. This means that other kinds of social supports (e.g., subsidized child or elder care) can affordably be brought to bear, thus reducing some of the economic impact on families of large price increases in these areas<sup>5</sup>. The overall message here is that we need to look closely at the numbers of people who are directly impacted by price increases within different sectors of the economy, and balance that with projected costs and gains in other sectors – before we decide that accommodating wage cost impacts through price increases is too costly across the board. The data clearly show that a tremendous amount of the impact can be absorbed by very small price increases spread across the full population, 63% of whom earn wages above

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<sup>5</sup> It is perhaps time to reconsider federal support of child care, as was passed by Congress in 1972, but vetoed by then-President Nixon.

the Living Wage Standard (Quintero, Gray & Schofield, 2008, p. 3).

- **Increased productivity of workers who feel more valued on the job (and less worried about their economic state).** Employees have been documented to respond to wage increases by working harder and more effectively, and reducing absenteeism and turnover. In Santa Fe, the impact of reduced turnover alone was documented to save 28–29% of the cost of mandated increases in two restaurants that had been particularly concerned about the impact of the increase in wages on their bottom lines (Pollin, et al., p. 95).
- **In the retail, entertainment, and food-service industries, increased sales due to low-income working families having more disposable income in their pockets.** An analysis of the impact of raising the Arizona minimum wage from \$5.15 per hour to \$6.75 per hour resulted in a 2.2% increase in disposable income spent in poor neighborhoods in Phoenix – even after taxes and the loss of certain income streams, as some families became ineligible for some government poverty programs (Pollin, et al., 2008, p.105). While this amount of spending is small, it represents a considerable amount of growth in weak local economies, especially during an economic slowdown like the one we are experiencing now. In fact, raising the minimum wage may well be one of the fastest, most effective, most targeted economic stimulus policies available.

So far, I have discussed three means by which increases in wage costs can be accommodated, without businesses having to reduce their profits. It is certainly imaginable that some businesses might well experience some reduction in profits, but it is clear that most will not have to do so, if they are at all creative and responsive.

Let's now examine the implications of these three tools for accommodating increases in the cost of labor, in regard to the three economic concerns raised earlier: 1) Businesses will have to lay off workers or cut back their hours to accommodate increased labor costs; 2) Some businesses will be so adversely affected they will have to either close down or move out of the city; 3) Small businesses in particular will be hardest hit.

The first two concerns are predicated on the assumption that businesses will

simply not be able to absorb the cost increases. But the preceding analysis shows that this assumption is not reasonable. Businesses have other accommodations they can make or benefit from, and they have choices that are better for their bottom lines than closing, moving, laying off workers or cutting employees' hours, all of which reduces production and/or business' ability to sell and make a profit.

The argument that businesses will move out of Greensboro makes almost no sense at all, given these three factors: 1) The cost of staying is easily offset, as demonstrated above. 2) The industry sectors that are most impacted by an increase to the minimum wage – and which employ the greatest proportions of low-wage workers (food service and accommodations, waste management, and healthcare) literally have to stay in the region in which they already reside in order to keep their customers – their markets are where the people are. 3) The cost of moving a business is very high. Even if a business can keep its customers while moving outside the city limits, it isn't rational to move when low or no cost solutions exist, such as small price increases, or gaining the benefits of increased productivity.

That leaves the third concern, having to do with the fate of small businesses. There are several points to make in thinking about the impact on small business. First is to recall that if all businesses in an area have to raise their wages, and choose to accommodate this increased expense by raising prices, then small businesses are at no competitive disadvantage – since all businesses are affected. Plus, to the degree that any sector benefits from the economic stimulus represented by increased disposable income for poorer families, small businesses are likely to benefit as much or more. Anecdotal data suggest, in fact, that some shoppers choose to shop at low-price big box stores because they need the savings; when they have more disposable income, many try to spend their earnings in slightly higher-priced but locally owned stores.

But to the degree that price increases cannot be used to accommodate increased labor costs, and economic stimulus doesn't cover all the costs of higher wages, small businesses are at increased risk over their larger counterparts. This is because it is generally the case that small businesses have narrower profit margins and less capital, and thus have less flexibility in responding to increased costs. Here, it is instructive to look at what has happened to small businesses in

communities that have enacted higher minimum wages. As summarized by my colleague on the Minimum Wage Team, Malcolm Kenton, the impact on business and employment across most kinds and sizes of businesses has been negligible and even slightly positive (Kenton, 2008). Research cited by Pollin (Levin–Waldman, 1999), as well as Pollin’s own research in New Orleans (p. 54) suggests that small businesses, in fact, carry slightly reduced direct impacts in the first place, meaning that they may employ people at wages below the projected new minimum wage, but they often pay above the current absolute minimum.

Though Pollin does not offer an explanation for this, I think it may have something to do with the “intimacy” of small businesses. It is simply harder to look a worker making less than a living wage in the eye everyday, which small business owners do in a much more direct way than do medium and large-sized businesses. (Most small businesses do not have an “H.R. Department” where a bureaucrat is charged with informing a new employee that he or she will be expected to be prompt, courteous, and hard-working – and in exchange will earn less than they need to survive.) Another factor that small businesses may use to counterbalance some of the economic pressures that they are under is their very smallness, which can make them more nimble and thus quicker to respond to changes in the business environment. In any event, empirical research across several communities has shown that small businesses have not suffered disproportionate pressures from minimum wage increases.

In this paper, I have attempted to use a combination of economic theory and empirical research in communities that have tried to establish or have established a higher minimum wage to examine the validity of three economic concerns that have circulated in response to the local effort to increase Greensboro’s minimum wage to \$9.36 and hour. Both theory and empirical research demonstrate that there are several practical mechanisms that can accommodate the cost of reasonable increases to the minimum wage without causing widespread negative economic disruption to businesses or individuals. In my approach and comparative data sources, I have relied mightily on research conducted by Robert Pollin and colleagues in other communities, and I have felt envious of the detailed, specific, and up-to-date wage and hour data that they were able to develop through survey research. It might be

helpful to conduct a survey of local businesses regarding current wage and labor practices, in order to come up with accurate local estimates of both the size of the impact, and the range of locally viable mechanisms for absorbing the cost. But even without this local data, logical and empirical analysis shows that Greensboro can afford to transition to a minimum wage of \$9.36/hour.

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