A REPORT FROM:

POLICY MATTERS OHIO

Center for American Progress

GOOD FOR BUSINESS:
SMALL BUSINESS GROWTH AND STATE MINIMUM WAGES

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MAY 2006

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Acknowledgements

We owe thanks for assistance with data or for comments on drafts to Christian Weller and Susan Lee from the Center for American Progress, Jeff Chapman from the Economic Policy Institute, James Parrott from the Fiscal Policy Institute, and George Zeller from the Center for Community Solutions, as well as the staff of Policy Matters Ohio. Amy is, as always, grateful to Mark, Max and Katrina Cassell for their patience and interest in her work. Generous support from the George Gund, Joyce and St. Ann Foundations and Greater Cleveland Community Shares allows Policy Matters to study ways to better achieve an economy that works for all. Any errors in the document are the sole responsibility of the authors.

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POLICY MATTERS OHIO, the publisher of this study, is a nonprofit, nonpartisan statewide research institute dedicated to researching how our economy can work better for everyone in Ohio. Other areas of inquiry for Policy Matters have included workforce policy, education, housing, energy, tax and budget policy, consumer policy and economic development.

Executive Summary

For 68 years, the minimum wage has been an important part of an economy that works for all Americans. Recently, the federal government has let the minimum wage deteriorate in real value to its lowest point in more than 50 years. In response, twenty states and the District of Columbia have raised their minimum wages above the federal level, up from three in 1996. A grassroots coalition in Ohio is seeking to put an initiative on the November 2006 ballot to raise Ohio's minimum wage to $6.85 an hour.

This study compares performance of small businesses (establishments under 500 employees) in the 39 states that accepted the federal minimum wage before 2003 to the twelve states (including the District of Columbia) that had minimums above the federal level in January, 2003. Nine new states have joined the high-wage group since. The study found that between 1997 (when more states began having higher minimums) and 2003:

♦ Employment in small businesses grew more (9.4 percent) in states with higher minimum wages than federal minimum wage states (6.6 percent) or Ohio.

♦ Inflation-adjusted small business payroll growth was stronger in high minimum wage states (19.0 percent) than in federal minimum wage states (13.6 percent) or Ohio.

More data became available in 1998, allowing further analysis. Between 1998 and 2003:
♦ The number of small business establishments grew more in higher minimum wage states (5.5 percent) than in federal minimum wage states (4.2 percent) or Ohio.

♦ Small business retail employment grew more in higher minimum wage states (9.2 percent) than in low minimum wage states (3.0 percent) or Ohio.

♦ Retail payroll grew more in higher minimum wage states (12.3 percent) than in low minimum wage states (6.4 percent) or Ohio.

♦ States with high and low minimum wages had similar growth in number of restaurants, restaurant payrolls, and restaurant employment.

All of the above findings "weight" states with more workers more, but nearly all of the findings remain true with un-weighted data (counting each state equally – for details see footnote 15). The better performance of high minimum wage states also held true for small establishments of varying sizes (under 100, 100 to 500, or under 500 employees).

Contrary to the claims of critics, states with higher minimum wages have generally performed as well or better economically than states with lower minimums since 1997. This is in keeping with most recent empirical research on the minimum wage. A higher minimum wage will help 719,000 Ohio workers better support themselves and their families. It is unlikely to lead to aggregate employment loss, payroll loss or establishment closure among small business. On the contrary, a high minimum wage is consistent with a thriving economy that works better for all Ohioans.

Introduction

For 68 years, the federal minimum wage has been an important part of an economy that works for all Americans. Recently, the federal government has allowed the minimum wage to deteriorate in real value so that it is now at its lowest point in more than 50 years. In response, twenty states and the District of Columbia have acted to raise their minimum wages above the federal level. The most recent states to join this growing group were neighboring Michigan, where the Republican legislature just raised the state's minimum wage to $6.95 effective later this year, and Arkansas, where the Democratic legislature raised the minimum wage to $6.25, which the Republican governor signed.

The last federal minimum wage increase was in September 1997—a boost from $4.75 to $5.15 an hour (in nominal dollars). Since then, inflation has eaten away the real value of this wage. If the minimum wage had kept pace with the 1998 level, it would now be worth $6.15, and had it kept pace with its 1968 peak, it would now be worth $7.74.[1]

The erosion of the minimum wage has painful consequences for families. A full-time, year-round worker earning $5.15 per hour brings in only $10,712 for a year's work, a far cry from even the official definition of poverty, which most analysts agree grossly understates costs of living. Full-time minimum wage workers earn less than two-thirds of that three-person poverty threshold ($16,600 in 2006).[2]

Because federal inaction has allowed such dramatic wage erosion, states have taken action. More than half of the workers in the United States now live in a state where they are or will soon be protected by a minimum wage above the federal level.[3] In Ohio, a grassroots coalition is seeking to put a minimum wage increase on the November 2006 ballot. This initiative would raise Ohio's minimum wage to $6.85 an hour in January 2007, with annual cost-of-living adjustments thereafter. Previous research by Policy Matters Ohio found that the increase would raise wages for 719,000 Ohio workers, 14 percent of the state's workforce. Of affected workers, about three-quarters are age twenty or above. For more about who would be affected, see *Who Needs A Raise? Potential Impact of a Higher Ohio Minimum Wage*.[4]

Figure 1 below shows the state minimum wages that will be in place at the time of the vote on the Ohio initiative in November 2006. At least 20 states plus the District of Columbia will have minimum wages above the federal. Several other states may join this group by then or soon after – coalitions are seeking to put minimum wage increases on the ballot or push them through the legislature in several other states. In 2007, nine of the

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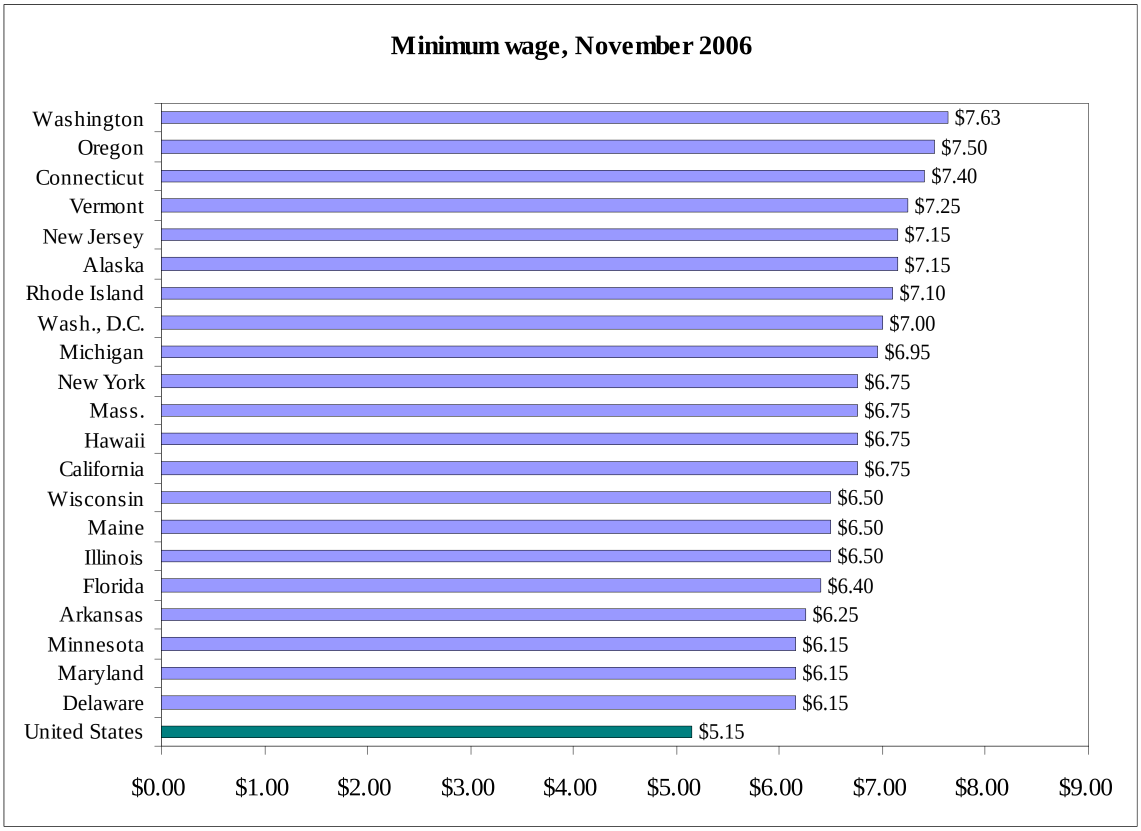
[1] We adjust past prices to inflation using the Consumer Price Index urban research series (CPI-U-RS) index to inflate dollars. This is generally considered a more cautious and conservative inflator than the urban index (CPI-U) which was previously used (and is still used by the Bureau of Labor Statistics). Had we used the CPI-U, the 1968 value would have been $9.02 in 2006 dollars, not $7.74. The differences between the two indices is of significance for years prior to 1998, but not for years since 1998 or going forward.
[2] Pollin, Robert, Mark Brenner and Jeannette Wicks-Lim. *Economic Analysis of the Florida Minimum Wage Proposal.* Center for American Progress. p 11.
[3] Authors' calculations based on U.S. Census Bureau data on state populations.
[4] Available at http://www.policymattersohio.org/who_needs_a_raise.htm.

states below are already scheduled to raise their minimum wages above the rate listed here, some by an already-specified amount, and some according to inflation.

Figure 1



Sources: U.S. Department of Labor (http://www.dol.gov/esa/minwage/america.htm), supplemented by newspaper accounts[5] for Michigan and Arkansas

Other Research

A review of empirical research on the minimum wage finds that a strong minimum wage is consistent with a strong economy. Although opponents of the minimum wage sometimes claim that minimum wages can cause job loss, business relocation or price increases, empirical research consistently finds that modest minimum wage increases do not result in these negative consequences.[6]

In their exhaustive 1995 book *Myth and Measurement: The New Economics of the Minimum Wage*, Professors David Card (UC-Berkeley) and Alan Krueger (Princeton

[5] *New York Times*, National Briefing "Michigan: Minimum Wage Will Increase" March 29, 2006, *Arkansas Democrat-Gazette*, "Huckabee enacts minimum-wage raise" April 11, 2006

[6] "Many studies have examined this issues, and the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment. In fact, a recent study of the 1996 and 1997 increases, using several different methods, found that the employment effects were statistically insignificant." *Economic Report of the President 1999*. 112

University) repeatedly found comparable or greater employment growth after minimum wage increases, when compared to similar cases where there was no minimum wage increase. Card and Krueger found that fast food employment in New Jersey grew more after New Jersey raised its minimum wage then did fast food employment in neighboring Pennsylvania, which kept the same minimum wage. They also found that employment growth was higher in those New Jersey restaurants that were forced to increase their wages than in those that were already paying that level. They found similar results for fast-food restaurants in Texas after the federal minimum wage increase, and for teen workers after a state minimum wage increase in California. Their cross-state analysis found that after the federal minimum wage increase in 1990-91, states forced to raise the wage of more workers had equal or more job growth than states already paying more. In short, whether comparing states with different wage rates, the same states before and after wage changes, or effects of federal wage increases, Card and Krueger repeatedly found that higher minimum wages are consistent with strong economic growth and were often more closely correlated with strong growth than lower minimum wages.[7]

In 1999, a minimum wage study found that the employment effects of the minimum wage are limited and that there is a positive spillover on high-wage workers.[8] A 2003 study concluded that "the minimum wage has little effect on rent, employment, output, and profits."[9] Other research has similar findings.[10]

A study conducted by University of Massachusetts Economist Robert Pollin for the Center for American Progress examined the likely effects of the Florida minimum wage and found that businesses would not need to lay off workers or relocate, but would instead be able to absorb cost increases through productivity gains and modest price increases (the study found that a typical restaurant could fully cover the cost of the increase by raising the price of a $20 meal to $20.14). [11]

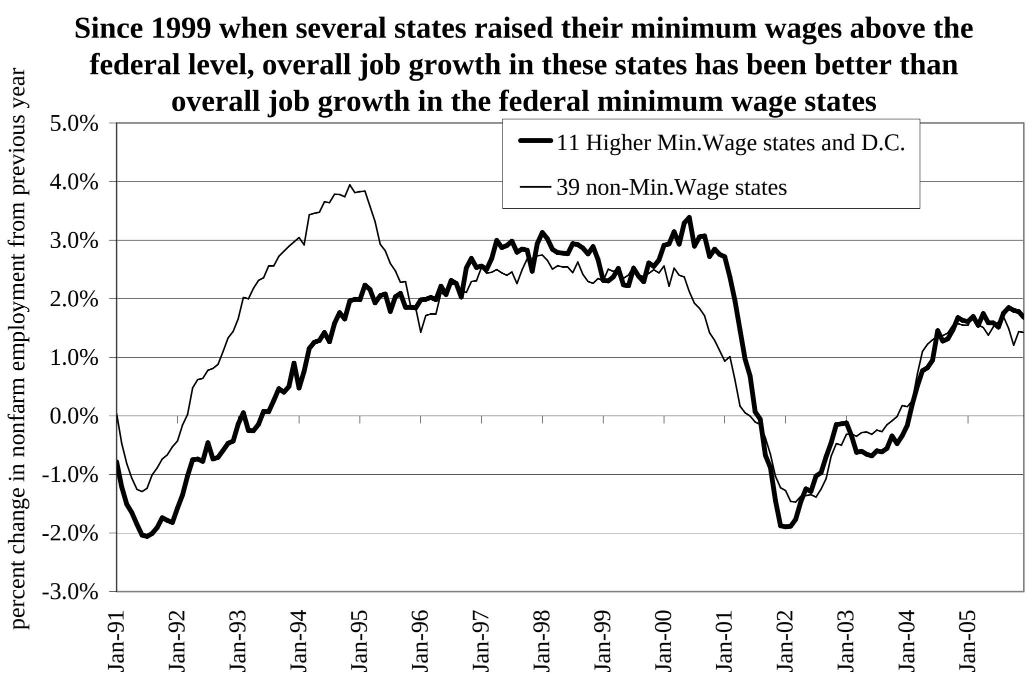
In a 2006 paper updating earlier findings, the New York-based Fiscal Policy Institute found that establishments with fewer than fifty workers had greater employment growth in states with a higher minimum wage than in states where the $5.15 federal minimum

[7] Card, David and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton University Press, Princeton, NJ, 1995, pages 1-4.
[8] De Fraja, Gianni. "Minimum Wage Legislation, Productivity and Employment," *Economica*, vol. 66, no. 264, November 1999, pp. 473-88.
[9] Ippolito, Richard A. "The Impact of the Minimum Wage If Workers Can Adjust Effort." *Journal of Law and Economics*, vol. 46, no. 1, April 2003, pp.207-27.
[10] For example, a broader study looked at the effects of the minimum wage increases between 1947 and 1997 across a range of low-wage industries. The study concluded that "increases in the federal minimum wage between 1947 and 1997 have raised average wages in many of these [low-wage] industries, especially the lowest wage ones. The effect on employment, however, is mixed and typically non-significant, even when average wages have risen." This is from Wolfson, Paul and Dale Belman.. "The Minimum Wage: Consequences for Prices and Quantities in Low-Wage Labor Markets" *Journal of Business and Economic Statistics*, vol. 22, no. 3, July 2004, pp. 296-311.
[11] Pollin et al, page 7.

prevailed.[12] The study also found that total job growth and retail job growth were stronger in the higher minimum wage states.

The FPI paper showed that after a large group of states increased their minimum wages above the federal level, these high-wage states have performed as well or better in overall employment growth. Although minimum wage opponents may assert that these states are merely stronger economically, it is interesting to note that prior to the state minimum wage increases in the late 1990s, these states as a group had shown slightly weaker job growth than the rest of the nation. While FPI does not claim that the higher minimum wages caused the better economic performance, the results clearly indicate that raising the wage didn't have negative effects predicted by some opponents. Figure 2, from the FPI study, tracks overall job growth in high minimum wage and federal minimum wage states both prior to and since the increases in the late 1990s and early 2000s.

Figure 2



Source: Fiscal Policy Institute analysis of Bureau of Labor Statistics Current Employment Survey, 2005 benchmark series.
Note: Of the 39 federal minimum wage states, one (IL) increased its minimum wage above $5.15 in 2004, and five more did so in 2005. The 11 high minimum wage states, plus D.C., are depicted in Figure 3 below.

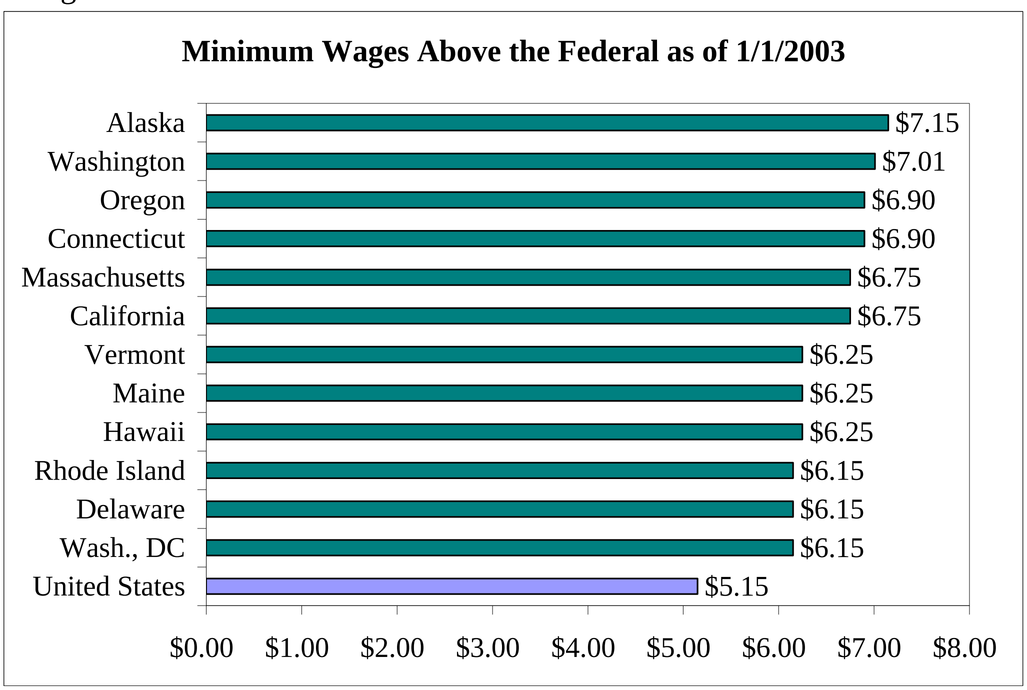
[12] Parrott, James and Brent Kramer, Fiscal Policy Institute *States with Minimum Wages above the Federal Level have had Faster Small Business and Retail Job Growth*, March 2006, available at http://www.fiscalpolicy.org/FPISmallBusinessMinWage.pdf. This was an update of the earlier study by Parrott and Oliver Cooke, Fiscal Policy Institute, *State Minimum Wages and Employment in Small Businesses*, April 2004

This paper builds on the extensive existing literature documenting that a minimum wage increase is often consistent with a strong economy. Like the two previous papers from the Fiscal Policy Institute, this study relies on comprehensive data provided by the Census Bureau's *County Business Patterns* through 2003, the most recent year available. We expand upon the Fiscal Policy Institute's analysis by incorporating additional Ohio information, examining larger businesses (up to 500 employees), differentiating analysis by business size, and providing limited additional statistics for the retail sector and the restaurant sub-sector. We are grateful to the Fiscal Policy Institute for sharing their methodology, sharing some data, and reviewing a draft of this paper.

Results

We compare the 39 states where the federal minimum wage prevailed before 2003 to the twelve states (including the District of Columbia) that had minimum wages above the federal level as of January 1, 2003. As mentioned, nine additional states have since taken action to also raise their minimum wages above the federal. Figure 3 shows the 2003 wage rate in the high minimum wage states.

Figure 3



Source: U.S. Department of Labor (http://www.dol.gov/esa/minwage/america.htm)

Small Business Sector Growth – Stronger in High Minimum Wage States

Total employment in small business[13] establishments grew slightly more in states with higher minimum wages than in states where the federal minimum wage prevailed between 1997 when more states began adopting higher minimum wages and 2003, the most recent year available for much of this data. This holds true whether examining all establishments with fewer than 500 employees, all establishments with fewer than 100 employees, or establishments with between 100 and 500 employees.[14] It also remains true whether the data is weighted or un-weighted, that is whether states with more workers are counted more heavily or each state is counted equally.[15] Table 1 shows total employment change between 1997 and 2003 in higher minimum wage states and federal minimum wage states. Higher minimum wage states in this and subsequent tables and figures include Alaska, California, Connecticut, Delaware, Hawaii, Massachusetts, Maine, Oregon, Rhode Island, Vermont, Washington and Washington, D.C. (which is considered a state here). Federal minimum wage states are all others, which had wages of $5.15 during the period analyzed.

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[13] We define "small businesses" as those in which the establishment has fewer than 500 employees. The Small Business Administration covers businesses with fewer than 500 employees. An establishment is a single physical location at which business is conducted or services or industrial operations are performed. It is not necessarily identical with a company or enterprise, which may consist of one or more establishments. We refer to "small business" although we might consider some of the businesses to be large businesses with several small establishments. Because we also provide data for establishments with fewer than 100 employees when available, and because FPI has provided this analysis for establishments with fewer than 50 employees, we feel that this is the best data to use for a new contribution to the existing analyses.

[14] Further, it is true for businesses with fewer than 50 employees, the group that the Fiscal Policy Institute has already examined in great detail. We chose to look at slightly larger small businesses, both because we wanted to expand upon FPI's analysis and because the SBA defines businesses with fewer than 500 employees as small businesses.

[15] Un-weighted numbers consider each state's job growth equally to each other state's job growth or decline. Therefore, if California, with its 36.1 million people, grows by 5 percent (1.8 million jobs), that would be cancelled out by a 5 percent decline in jobs in Vermont, with its 623,000 people (31,000 jobs), if the numbers were un-weighted and we would say the two states together averaged no job growth or loss. Weighted numbers would instead say that the hypothetical 1.8 million job growth in California and the hypothetical 31,000 job decline in Vermont together constituted a 4.8 percent job growth. The weighted numbers therefore add up the entire number of workers of all high minimum wage states and examine outcomes for this whole group in comparison to outcomes for the sum of all worker for all federal minimum wage states; they thus consider each worker of equal importance. The un-weighted numbers consider each state of equal importance. A case can be made for either approach – if each state is considered the unit of experiment, we would not weight them, if each job is considered the unit of experiment, we would. In any case, our analysis found that job growth was stronger in higher minimum wage states whether or not the data were weighted.

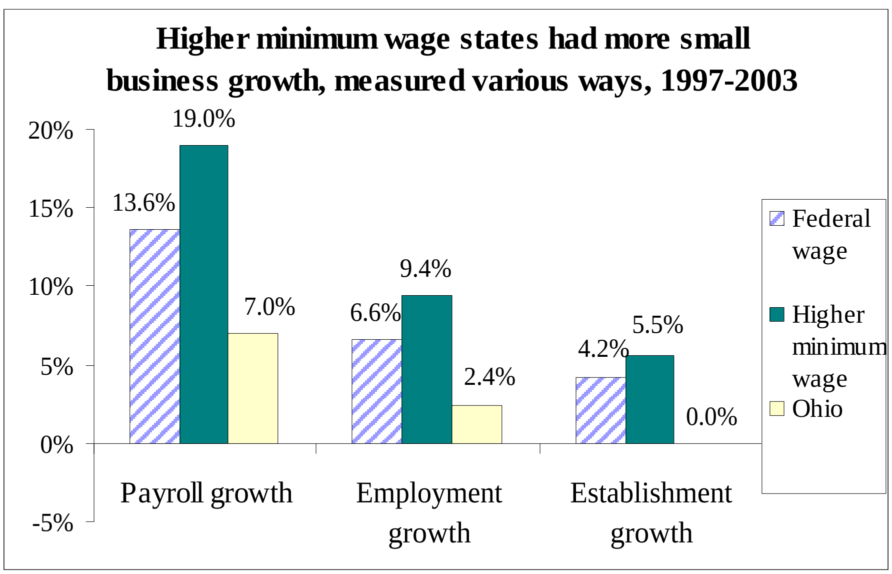
Table 1

Small business employment grew more in high minimum wage states than in federal minimum wage states (1997-2003)				
	Higher Minimum Wage States (un-weighted)	**Federal Minimum Wage States** (un-weighted)	**Higher Minimum Wage States** (weighted)	**Federal Minimum Wage States** (weighted)
Employment Change				
All Small Businesses (1 to 499 Employees)	8.9 %	7.4%	9.4%	6.6%
1 to 99 Employees	8.9%	8.0%	9.6%	7.6%
100 to 249 Employees	8.5%	3.0%	9.4%	4.2%

Source: Authors' calculations based on data from U.S. Census Bureau, County Business Patterns Annual Reports 1997-2005. Last report released 9-16-05. (CBP Annual reports)

Between 1997 and 2003, aggregate small business sector performance on several indicators was stronger in states with a higher minimum wage than it was in the states where the federal minimum wage prevailed. Employment grew 9.4 percent (compared to 6.6 percent in low minimum wage states and 2.4 percent in Ohio), payrolls grew by 19.0 percent (compared to 13.6 percent in low-wage states and 7.0 percent in Ohio), and number of establishments grew 5.5 percent (compared to 4.2 percent in low-wage states and zero growth in Ohio). These findings indicate that the minimum wage is consistent with a thriving small business economy. During the period examined, in fact, higher minimum wages were positively correlated with a more vibrant small business economy when compared to lower minimum wages. Figure 4 below portrays this information, weighted so that larger states are more significant, although the findings hold true if the un-weighted data are used.

Figure 4

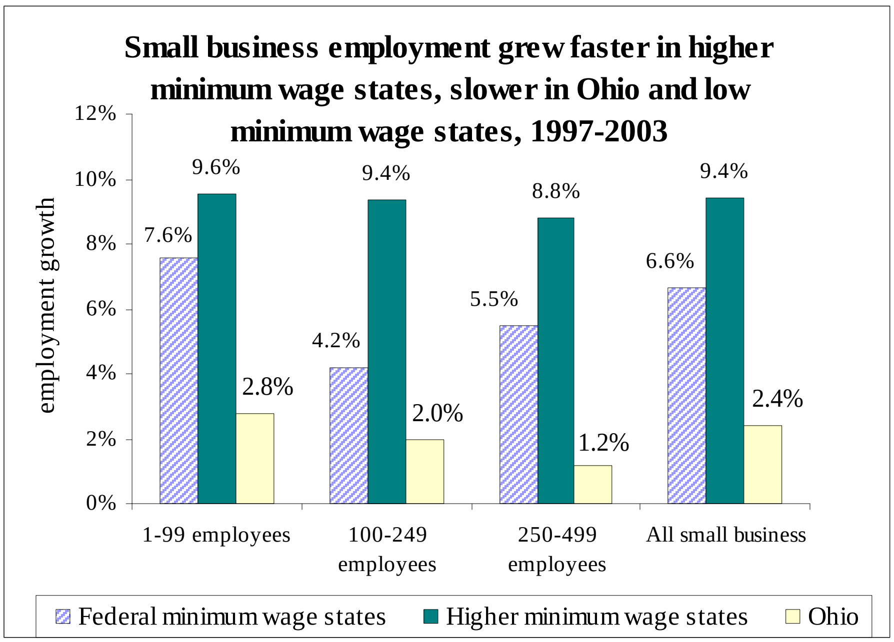


Source: Authors' calculations based on CBP Annual Reports. Weighted data.

Figure 5 again shows the overall employment numbers from above, but also breaks the data out for different business sizes. As with all figures in this paper, this figure weights larger states more, but similar findings held using un-weighted data, as the tables throughout the document show.

The consistently greater job growth in higher minimum wage states held true for various sub-sizes of small business establishments, including those with 1 to 99 employees, those with 100 to 249 employees, and those with 250 to 499 employees. Employment growth was weaker at businesses of each of these sizes in the $5.15 minimum wage states, and weaker still in Ohio, as the figure shows.

Figure 5



Source: Authors' calculations based on CBP Annual Reports. Weighted data.

Between 1997 and 2003, total inflation-adjusted payrolls[16] at small business establishments in higher minimum wage jurisdictions increased by 19.0 percent compared to 13.6 percent in federal minimum wage states (weighted data). The growth in higher minimum wage states was consistent for businesses with 1 to 99 employees and those with 100 to 249 employees and was true whether we weighted states with more workers more or counted each state equally, as Table 2 shows.

[16] According the Bureau of Labor Statistics, $1 in 1997 was worth $1.15 in 2003. The payroll levels from 1997 were multiplied by 1.15 to give the equivalent value in 2003 dollars.

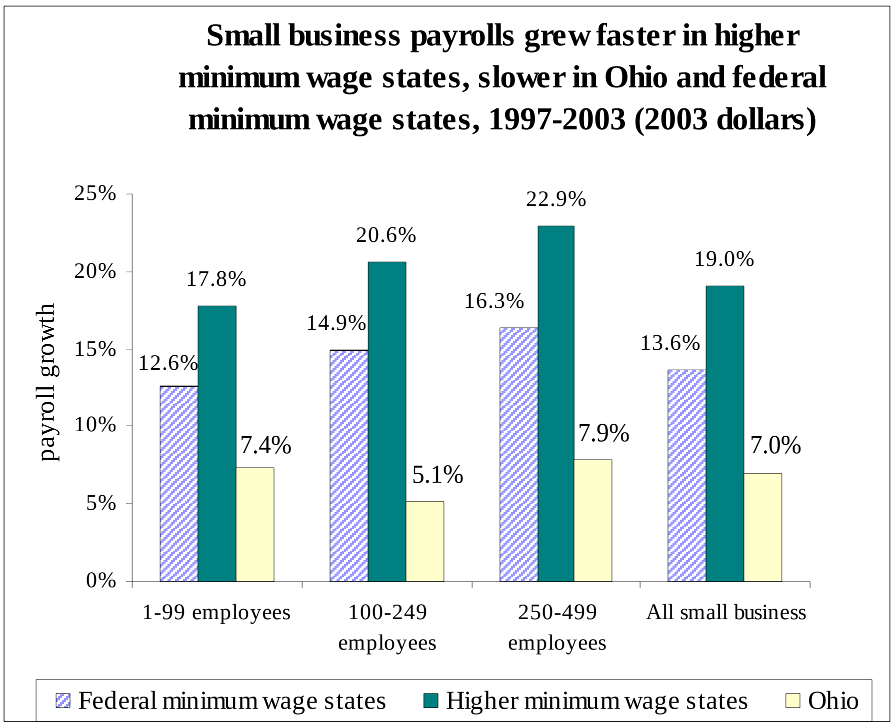
Table 2

Small business payrolls grew more in higher minimum wage states than in federal minimum wage states, between 1997 and 2003				
	Higher Minimum Wage States (un-weighted)	**Federal Minimum Wage States** (un-weighted)	**Higher Minimum Wage States** (weighted)	**Federal Minimum Wage States** (weighted)
All Small Businesses (1 to 499 Employees)	18.3%	15.2%	19.0%	13.6%
1 to 99 Employees	17.2%	13.8%	17.8%	12.6%
100 to 249 Employees	17.9%	14.8%	20.6%	14.9%

Source: Authors' calculations based on CBP Annual Reports.

Figure 6 below also shows that small business payroll growth was weaker in Ohio than in either federal minimum wage or higher minimum wage states, but was stronger across all small business sizes in high minimum wage states.

Figure 6



Source: Authors' calculations based on CBP Annual Reports. Weighted data.

The number of establishments with fewer than 500 employees is an indicator of the relative strength of the small business sector. After 1998, data on number of establishments became available on a state-by-state basis, allowing comparison. Between 1998 and 2003, the number of small business establishments grew at similar rates in higher minimum wage states and in federal minimum wage states. When the data are not weighted, there was a 4.2 percent growth in number of small business establishments in the higher minimum wage states and a 4.4 percent growth in the other states. When the data are weighted, higher minimum wage states pull substantially ahead, with 5.5 percent growth in number of businesses, compared to 4.2 percent growth in the other states. This data was only available in the aggregate for all small business establishments and could not be broken down for different sizes within the under 500 employees category. Available data is in Table 3.

Table 3

Number of small business establishments grew at comparable rates in higher minimum wage states and federal minimum wage states, 1998-2003				
	Higher Minimum Wage States (un-weighted)	**Federal Minimum Wage States** (un-weighted)	**Higher Minimum Wage States** (weighted)	**Federal Minimum Wage States** (weighted)
All Small Businesses (1 to 499 Employees)	4.2%	4.4%	5.5%	4.2%

Source: Authors' calculations based on CBP Annual Reports.

Retail Sector Growth: Stronger in High Minimum Wage States

Some sectors of the economy have a higher proportion of minimum wage and near minimum wage workers. Among these are the retail and restaurant sectors. For this reason, we did greater analysis for these parts of the economy.

Employment growth was stronger in higher minimum wage jurisdictions than in federal minimum wage states. Between 1998 and 2003,[17] retail employment at small businesses increased by 9.2 percent in higher minimum wage jurisdictions and by 3.0 percent in federal minimum wage states (weighted). Retail employment growth was also more robust in higher minimum wage states when un-weighted data was used and was stronger across different small business sizes (under 100 employees or under 500), as Table 4 shows. Retail payroll growth was slightly less strong in the unweighted data for the higher minimum wage states, but was considerably stronger once population of the states was accounted for.

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[17] In 1998, the County Business Patterns data began providing much greater detail on sub-sectors. We are able, therefore, to analyze effects on retail and restaurant employment for 1998 and subsequent years, but not for previous years.

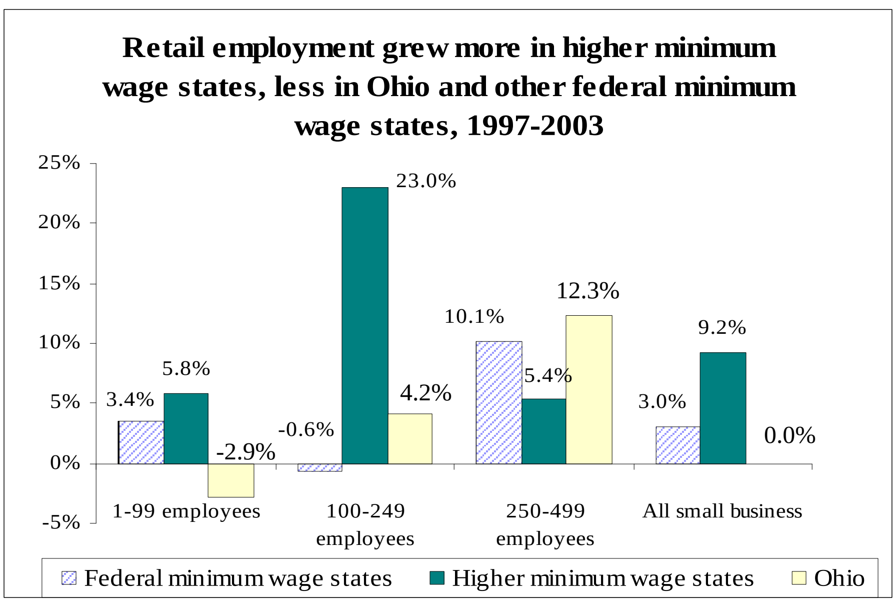
Table 4

Number of retail employees and amount of retail payroll grew more in higher minimum wage states (1998-2003, retail under 500 employees only)				
	Higher Minimum Wage States (un-weighted)	**Federal Minimum Wage States** (un-weighted)	**Higher Minimum Wage States** (weighted)	**Federal Minimum Wage States** (weighted)
Retail Employment				
1-499 employees	4.8%	3.2%	9.2%	3.0%
1-99 employees	4.5%	3.0%	5.8%	3.4%
Retail Payroll				
1-499 employees	6.5%	6.6%	12.3%	6.4%
1-99 employees	3.9%	4.3%	6.4%	4.2%

Source: Authors' calculations based on CBP Annual Reports.

As Figure 7 below shows, the stronger retail sector job growth in higher minimum wage states remained true for very small and moderately small business establishments, and for all small businesses. For the largest small retail businesses (250-499), employment growth was stronger in lower minimum wage states. Because the vast majority of small retail employees work in smaller establishments, this finding is less meaningful than the more robust job growth among smaller retail establishments as the pie chart below Figure 7 shows.

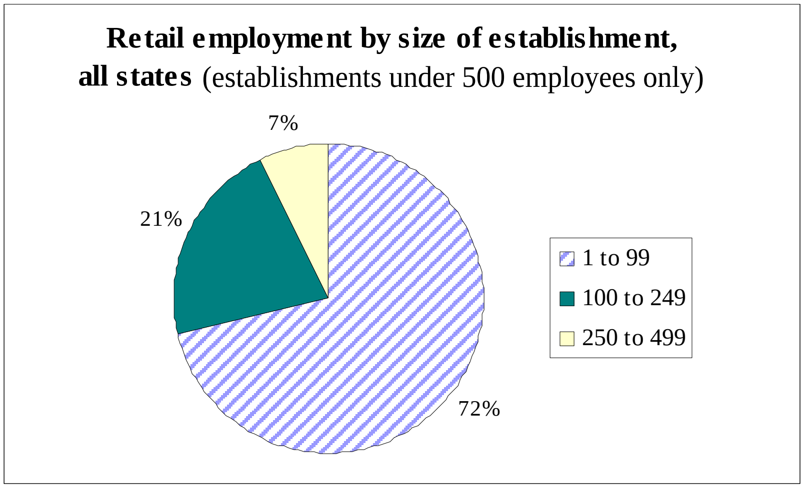
Figure 7



Source: Authors' calculations based on CBP Annual Reports. Weighted data.

Among retail establishments with fewer than 500 workers, close to three-fourths (72 percent) of employment is in establishments with fewer than 99 employees. Most of the rest (21 percent) is in establishments with 100-249 employees, and seven percent is in establishments between 250 and 499, as Figure 8 shows.

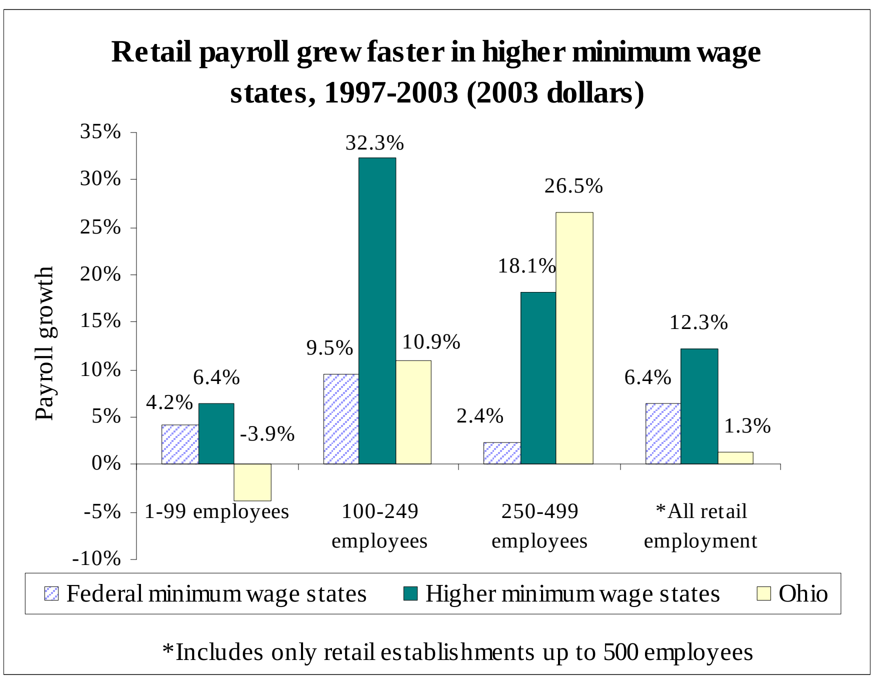
Figure 8



Source: Authors' calculations based on CBP Annual Reports.

Between 1998 and 2003, inflation-adjusted retail payroll increased by 12.3 percent in minimum wage states and by 6.4 percent in federal minimum wage states. For very small and moderately small business establishments, retail payroll growth was much greater in higher minimum wage states and lower in federal minimum wage states and Ohio. For the largest small retail businesses (250 to 499), retail payrolls grew faster in Ohio than in other states. Although this is a positive finding for Ohio, it is important to remember that, as the above pie chart shows, very few of America's small business retail employees work for such large establishments. Figure 9, below, shows the growth in retail in high- and low-minimum wage states and Ohio.

Figure 9



Source: Authors' calculations based on CBP Annual Reports. Weighted data.

Restaurant Sector Growth:
Similar in High and Low Minimum Wage States

We did further examination of the restaurant sector, which, like retail, has a higher proportion of lower-wage employees. As Table 5 shows, states with higher and lower minimum wages had similar growth in number of restaurants, restaurant payrolls, and restaurant employment between 1998 and 2003 (examining only restaurants with fewer than 500 employees). The un-weighted data show slightly better employment growth in lower minimum wage states with slightly better establishment and payroll growth in the higher minimum wage states. The weighted data show roughly the same employment growth in the two types of states (11.4 percent in the federal minimum wage states and 11 percent in the higher) and stronger establishment and payroll growth in the higher minimum wage states.

Table 5

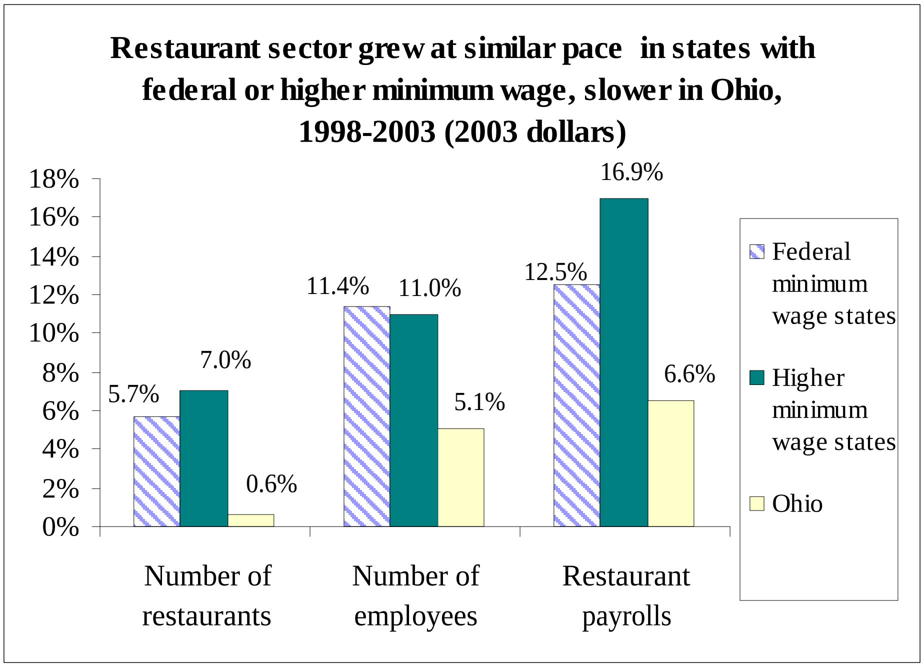
Number of restaurants, restaurant employment and restaurant payrolls grew at similar levels in federal minimum wage and higher minimum wage states (1998-2003, restaurants with fewer than 500 employees only)

	Higher Minimum Wage States (un-weighted)	**Federal Minimum Wage States** (un-weighted)	**Higher Minimum Wage States** (weighted)	**Federal Minimum Wage States** (weighted)
Number of restaurants	5.2%	4.6%	7.0%	5.7%
Restaurant employment	9.0%	11.2%	11.0%	11.4%
Restaurant payrolls	14.0%	12.1%	16.9%	12.5%

Source: Authors' calculations based on CBP Annual Reports. Restaurant employment data is not broken down to sub-sizes below 500 employees for every state, so we analyzed under 500 only.

As Figure 10 shows, the number of restaurants and restaurant payrolls grew very slightly more in high minimum wage states and less in Ohio and other low minimum wage states. The number of restaurant employees grew at comparable rates in high and low minimum wage states, but grew less in Ohio.

Figure 10



Source: Authors' calculations based on CBP Annual Reports. Weighted data.

Explanations

Researchers have put forth different explanations for why higher minimum wage states have performed better in terms of overall job growth and the small business indicators described in this paper. The fact that the two trends (state minimum wages above the federal and better performance on these indicators) are positively correlated does not mean that one caused the other. Nonetheless, given the job loss that some predict will stem from minimum wage increases, understanding the better growth in high minimum wage states is important.

The Fiscal Policy Institute suggested some combination of higher productivity through improved worker retention and savings on recruitment and training might be at the root of the findings. FPI also posited that it could be a "Henry Ford effect" – that when workers are better paid, they have more disposable income and are able to make more of the retail and restaurant purchases that keep parts of the small business economy thriving. Others have also argued that better-compensated workers have lower turnover, better attendance, less tardiness and more attachment to their workplace, leading to higher productivity. This, too, makes sense – inadequately compensated workers have less reliable transportation, child care and housing, making getting to work consistently and on time a greater challenge. Low wages also mean that workers have to constantly consider better-compensated opportunities – relieving that pressure can reduce the high costs associated with searching for, interviewing and training new staff, and also increase the productivity of the workforce. Finally, when employers pay workers more, they have more incentive to train those employees and do other things to increase productivity – that too may be contributing to the better performance in state with higher minimum wages.

Whatever the reason, some small businesses have begun to understand the benefits. The Cincinnati Business Courier recently reported that nearly half of all small business owners favor an increase in the minimum wage, according to a survey conducted by the Gallup Organization for Wells Fargo, although the article went on to note that some small business associations oppose the policy.[18]

Conclusion

Contrary to simplistic introductory economic theory and the claims of critics, states with a higher minimum wage have generally performed as well or better than states with a lower minimum wage over the past several years on several indicators of establishment, payroll and employment growth. This is in keeping with most recent empirical research on the minimum wage. A higher minimum wage is consistent with a thriving economy. Ohio voters need not worry that increasing the minimum wage will adversely affect the small business climate. In fact, such increases have been positively correlated with better economic performance in other states. A higher minimum wage will help some workers better support themselves and their families. At the same time, it is unlikely to lead to aggregate employment loss, payroll loss or establishment closure among small business.

For 68 years, the minimum wage has been an important part of the structure that helps our economy function well for all workers. The federal government has allowed the minimum wage to erode to its lowest real value in more than fifty years. More than twenty states have now responded to that federal inaction by raising their own minimum wages. Between 1997 and 2003, small business growth was just as strong and often stronger in the states that took the early lead on this policy. Increasing the minimum wage in Ohio will benefit thousands of workers and help us develop an economy that works better for all of us.

[18] Hoover, Kent, "Many small businesses support minimum wage hike", *Cincinnati Business Courier*, April 24, 2006

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all.

Policy Matters Ohio is a non-profit research institute dedicated to researching an economy that works better for everyone. Generous funding for the institute comes from the Joyce Foundation, the George Gund Foundation, the Economic Policy Institute, Greater Cleveland Community Shares and the St. Ann Foundation, among other sources.

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