

Lori Swilley
Word Count: 3,000

7/10/2016

The Domino Effect

What will be the effect on small business owners when the minimum wage is increased to \$15.00 an hour? Well, let me start by bringing up that the current Federal minimum wage is \$7.25 per hour, and California's minimum wage is currently \$10.00 per hour. The effect of mandating a state wide wage increase of this size for California is a 50% increase in labor operating costs. Whether this change is overnight or phased in over a couple of years, absorbing this increase in costs is tough on any business. Some small businesses with large profit margins may be able to weather this assault on their business. However, most small businesses will be crippled by this blow. In this essay I will explain how this wage increase will more often hurt small businesses, their employees, as well as the economy as a whole rather than help raise the standard of living.

It is argued by some that by increasing the minimum wage, the standard of living will be improved by those individuals earning a minimum wage. On the news, people are rallying to increase the minimum wage. Citizens are holding protests in city council meetings. But will an increase in the minimum wage truly better their lives or are these workers misinformed? Personally, I believe that, although completely well-intentioned, increasing the minimum wage in California will have a tremendously negative affect on those earning minimum wage, business owners, and the entire economy as a whole.

I believe in order to effectively argue my side of this issue; I must also do my due diligence in viewing the reverse side. At first, a higher minimum wage sounds good. After all, it is meant to help create a higher standard of living for our community or workers earning minimum wage. It is true that many men and woman work hard and still have a hard time supporting their families. Sadly, we live in an economy and State where the cost of living is high and most families need at least one if not two full salaried incomes to live. Looking at the positives though, I know that for most people the amount of money you are paid directly correlates to the value you believe you have in your job. Higher pay would certainly increase a person's feeling of contribution and importance to their company. Being paid well can also have the effect of higher loyalty from employees and a lower turn around rate. However, raising the minimum wage is a more complex issue and has a much farther reach beyond simply giving a leg up to minimum wage workers.

This issue is very personal for me, as a past small business owner. I am also the family member and friend of many small business owners in our community. Having been raised by parents who ran a small business locally for over 30+ years, I can tell you

there's a lot more to this issue than meets the eye...or wallet. Most small businesses are family run with less than 30 employees- men and woman trying to support their family and provide a better quality of life, while creating a work environment based on their values and principles. Most business owners start a business because they have a dream, and a desire not to work their life away in corporate America. They want more control over their time and income. Most small businesses have high employee morale and are truly a family with their employees. I grew up with parents who were always there at every school event or game. My mom was always home when we got home from school and we ate home-cooked meals together at the dinner table every night. We lived a comfortable life. This was all due to my parent's hard work in their small business which allowed them to make choices and allowed them to create their own schedule. This had a large impact on me. Having parents that were entrepreneurs taught me life lessons. I learned how to have a great work ethic, and to be service driven with integrity. I learned business and money management skills. I learned the pride that comes with the rewards you reap when you work hard for yourself, and when you employ others. I tell you this background of mine to give you a small insight into the impact small business owners have on their children, who are most likely the small business owners of the future.

Now let's look at the roll of small businesses in our community. According to the U.S. Small Business Administration report on Small Business Trends, "the 28 million small businesses in America account for 54% of all U.S. sales." The report also states that "small businesses provide 55% of all jobs and 66% of all net new jobs since the 1970s (*Small Business Trends*)." I think this shows the economic roll of small businesses in our State and Nation is not small at all, but instead quite big. If these small businesses that employ so many and provide such a large portion of U.S. sales, have a large loss in profitability, it in turn will affect our workforce, the businesses themselves and our economy overall.

The sustainability of a business comes down to a simple formula- Revenue minus expenditures equals profit. When there is an increase in overall operating costs, be it wholesale goods, building rent, or wages, it always reduces the profits of the company. With labor costs going up for small businesses by 50%, the business only has two options to remain profitable. First is to increase their product or retail prices. Second, is to reduce expenditures. In most service or retail businesses, it is estimated that labor costs account for about 30-40% of the overall operating costs. For many companies, this is one of their biggest single expenses.

In the first scenario, the small business can increase their prices to the consumer. However, in doing this, the small business owner is banking on the consumer being willing to pay the higher price. Even if consumers are willing to pay a bit more for the products, services, or goods, they are not going to be willing to pay substantially more.

Often a business has a natural market price point that is their highest sales amount. By altering this price point, without the slow natural economic progression of inflation, the company will lose sales, customers and overall profits. For a product-based business in the Global Market we live in today, drastically increasing your price point is committing business suicide. Your competition is not just in your local community. Your competition is global, it's online and it's with companies that outsource their labor to cheaper countries. Another example of the global market we live in is Amazon. Borderland books in San Francisco found last year that charging \$20.17 for the same book Amazon charged \$17.05 for with free shipping wasn't enough of an increase in costs to be profitable. Even though they offered a fun, warm, friendly environment with local artists, book readings, and book signings, the business could not stay afloat a profit of \$3,000. The fact is customers love the convenience of online shopping, free shipping, and lowest prices. Many local companies cannot compete with the low online prices and competition. Borderland books announced to the public on their blog that though they thought an overall minimum wage increase was a good thing in principal, it was more than their company would be able to absorb, and they projected it would actually it would cost them \$25,000 a year to remain open (Wilde, Robert. 2015). There are also many other U.S. based competitors that are only dealing with the current Federal Minimum Wage Cost and therefore have much lower overhead and profit margins. Ultimately, whatever type of business the small business is, passing on the increased operating costs to the consumer will most likely decrease the overall sales and profitability, possibly resulting in the closure of the business. People are only willing to pay what they are willing to pay and they don't care if your costs have gone up. For example, I love pizza, however if my favorite \$14 pizza increases to \$32, I'm going to find a cheaper or different food option. In the Pizza company example, when labor costs increase it also effects the prices of the goods used to make the pizzas. For example the dairy farmer the cheese is purchased from must now pay his farm hands \$15 per hour too, so his prices to the pizza company increase, along with all the other items used to make the pizza. The net effect is a very expensive pizza that isn't any better quality that I and many others will now not purchase. What good is a pay increase to minimum wage workers if the overall costs of goods and services in the community increases at the same rate? The cost of living increase will eat away at the benefit of the higher wages. Sadly, good businesses will suffer and close, just for the minimum wage workers to remain in the same quality of living scenario.

The second option of how a business remains operational is by reducing their expenditures, all while having to maintain the same level of effectiveness, quality, and service for their customer. Going back to the pizza company example, the company can find a cheaper priced cheese and other ingredients to use, but this reduces the quality of the pizza. They can cut their advertising budget and not send out coupons by mail or publish coupons in local mailers, however this will reduce sales. Location or rent costs

are not usually negotiable as most companies are in rental contracts and could not consider moving to a new location with cheaper rent at the loss of several months if not a year of income. Lastly, the labor cost can be reduced either by shortening hours for each employee or cutting staff. This hurts the effectiveness and efficiency of the business. Imagine waiting 1 ½ hours for your \$32 pizza delivery because now the pizza business can only have 1 driver per night instead of 3, or you have to wait longer to be served when dining in on a Friday night because they only have one employee at the register and one making the pizza's, instead of the 3 – 5 employees it would take to run the business efficiently. Driving a car with only three wheels puts extra work and strain on the three remaining wheels. It cannot drive straight, turn or even operate correctly. This is true for small businesses that must reduce hours or staff. A business that runs efficiently at a staff of say 50 employees may have to lay off around 1/3 of its staff (15 employees), to keep labor costs static. Now 35 employees, though being paid more, are now required to effectively and efficiently do the work of 50. When each staff member's job is crucial to the day to day operations of a company, reducing that staff, only serves to cripple the small business. The service or goods being provided to the consumers will most definitely suffer over time. This could result in the loss of sales and customers, further injuring the company. Some small businesses may survive this situation and fully heal to grow into a healthy profitable and growing company again someday. Sadly, however, I believe that many small businesses would fold. Reducing hours and keeping your full staff, only serves to put a Band-Aid on things, as it would surely effect the efficiency of their work, and now instead of being paid \$10 per hour for blank number of hours, they are being paid \$15 per hour for at least half if not more than half of their old hours. The employees' overall net income has not increased and may have actually decreased. I don't see how this serves them well either. If the purpose of this increase is to increase the overall standard of living, but in reality we are actually losing jobs.

When small businesses must reduce hours or cut staff they hurt their employees. Men and woman cannot provide for or support their families on less hours or no job. They are also now competing with all the other men and woman out of work from layoffs and business closures. Small business owners pride themselves on not only working for themselves and providing for their families, but also on the fact that they are providing jobs for others in their community. There is something great about being able to provide an opportunity for others to support their families with a non-corporate America job option. Small businesses are often like a family. Many small business owners give more bonuses, more employee rewards and recognition events. Some small business owners even contribute to their employees' retirement plans and provide some medical coverage. It's not that small businesses don't want to pay their staff more, it's just that it is always a balance to remain profitable while covering all the costs involved in a business. The equation must have more revenue than expenses to equal jobs for the community.

The truth is a government mandated minimum wage increase to \$15 per hour causes a domino effect. 1. Businesses' labor costs increase by 50%. 2. Loss of product or service quality or reduction of hours or staff occurs. 3. Businesses' operations and profits suffer. 4. Businesses' hobble along with Band-Aids patching it up. 5. Possibly the business folds. 6. More woman and men are unemployed or are making less money. 7. Families suffer. Unemployed parents may lose their homes, are be unable to support their families. 8. The economy suffers from higher cost of goods, increased unemployment, businesses folding, possible bankruptcies, and home foreclosures. Overall, the domino aftermath is brutal to the economy as a whole.

A few companies may choose the "Hail Mary" option- that is, relocating. This only works for companies that are not reliant on operating from a specific location. Brick and mortar businesses are out. Service businesses are out. Only a few mainly "online" companies have this pass option, the option to move their businesses to a more "business friendly" State. Also, although this option may save that business, it negatively impacts the state of California in many ways. Minimum wage employees may not relocate with the business. The State loses potential tax revenue and the community loses another business invested in serving it. This deprives California of jobs, goods, services and businesses that are important to our community.

California is already considered such a hostile and harsh environment towards business; it's no surprise that many large corporations have left the state in favor of more "business friendly" states. In the past several years, many big revenue companies have fled California for Texas or Florida, for other less harsh economies. For example in 2014 Toyota moved their headquarters out of California to Plano, TX. In California, businesses already have high taxes, strict regulations and high operating costs to absorb. Add to that mandated health care costs and now another mandatory wage increase, and the only alternative many larger companies have is to high tale it out of California. As I mentioned before, this is much harder for a small business to do. The real tragedy is that the climate for businesses is not going to get any calmer or kinder in the future. After Toyota left, Governor Brown revealed his aloofness towards business challenges by saying, "We've got a few problems, we have lots of little burdens and regulations and taxes, but smart people figure out how to make it."(*Jerry Brown's Little Burdens, 2014*). The Wall Street Journal came back with this: "California's problem is that smart people have figured out they can make it better elsewhere." (*Toyota Escapes to Texas. 2014*). If our State government has no plan to make it easier on businesses that employ our citizens and provide our economy's sales and tax revenue, than what would drive anyone want to start up a business here? So, yes I believe the \$15 an hour wage increase will not only drive businesses' out of the State, but also drive potential start-ups out of our State as well. I know for my family, we have considered moving to Texas for a cheaper cost of living since supporting a family of 6 on one teacher's salary

is very difficult. I don't expect to be paid more for a job simply because I want more income. Every job is different and has a different value. Some jobs are meant to attract youth out of college for a starter job, some extra income for a stay at home mom, and some with higher pay are meant to attract experienced and highly educated professionals. What right does the government have then in telling private businesses what they should pay their workers? If a business pays too little, doesn't it stand to reason they will lose staff to higher paying contributors? As I stated before, my family has considered moving to Texas. However, the truth is it's not just for a cheaper cost of living. I am an entrepreneur at heart, and the only way I would consider starting up a business would be in a business friendly state. The risk to reward factor for owning a business in California is just not worth it to me.

As I stated in the beginning, most small businesses are run by family, friends and neighbors in our community. People like you and me, just trying to make it day by day. However, they have the added struggle of trying to remain profitable with continued rising expenses. My heart breaks for my many friends and family and the difficulties that lie ahead for them as they attempt to navigate, side step, and jump over the domino train as it plows their way. They have families, they have bills and they have a dream to continue working for themselves. For those small business owners I know, their business dream life involves being in control of their schedule, time and income. It includes being at their kids events and still making a decent living. They have pride in their service, work, employees and community. They treat their employees like family. America is supposed to be the land where hard work pays off and dreams come true. Every time a small business closes, a dream dies, and we all suffer the consequences of it. You ask, what is the effect of a mandatory minimum wage increase to \$15 per hour? I tell you as a former small business owner, a daughter of a retired small business owner, and a friend of several current small business owners right here in our community, the impact short and long term is that at the end of the domino run, many small businesses will have fallen.

References

Jerry Brown's Little Burdens. Wall Street Journal. May 2, 2014. Retrieved from Web page: <http://www.wsj.com/articles/SB1000142405270230367840457953628220583405>

Small Business Trends. U.S. Small Business Administration. Web Article Found at: (<https://www.sba.gov/managing-business/running-business/energy-efficiency/sustainable-business-practices/small-business-trends>)

Toyota Escapes to Texas. Wall Street Journal. May 4, 2014. Retrieved from Web page: <http://www.wsj.com/articles/SB10001424052702303678404579533794175451998>

Wilde, Robert. *Liberals Surprised Beloved Bookstore Closes Due To Minimum Wage Hike*. Feb 3, 2015. Retrieved From: <http://www.breitbart.com/california/2015/02/03/liberals-surprised-beloved-bookstore-closes-due-to-minimum-wage-hikes/>