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Business and the Minimum Wage

By THE EDITORIAL BOARD FEB. 27, 2014

Much of the discussion about the Democratic proposal to raise the minimum wage to \$10.10 an hour by 2016 has rightly focused on the workers who will clearly benefit from the move. But what about businesses? How would higher wages affect them?

The answer — contrary to a great deal of reflexive hand-wringing by some conservative think tanks and politicians — is surprisingly positive. Scholarly studies and the experience of businesses themselves show that what companies lose when they pay more is often offset by lower turnover and increased productivity. Businesses are also able to deal with higher costs by modestly increasing prices and by giving smaller increases to higher-paid employees.

The Senate majority leader, Harry Reid, says he expects to bring a minimum-wage increase proposal to the floor of the Senate for a vote in late March or early April. When he does, politicians from both parties need to put aside old canards and instead focus on research that suggests that a higher minimum wage has a powerful upside.

One 2013 study by three economists — Arindrajit Dube, T. William Lester and Michael Reich — compared the experiences of businesses in neighboring counties in different states and found less turnover in states that had raised the minimum wage. Workers were less likely to leave on their own, and managers were more likely to keep the workers they had on staff to avoid the cost of recruiting and training replacements.

Other studies on the effect of local minimum wage increases in places like San Francisco and Los Angeles have found similar results, according to a recent overview published by the Center for Economic and Policy Research in Washington.

These clear benefits might help explain why Gap, the apparel chain, said last week that it would raise the minimum pay of its hourly employees to \$9 an hour in 2014 and to \$10 next year, which will benefit 65,000 of its 90,000 workers. The company's chairman and chief executive, Glenn Murphy, said the move would "directly support our business, and is one that we expect to deliver a return many times over."

Some retailers pay their workers even more. Costco, one of the most successful retailers in the country, has a starting wage of \$11.50 per hour for most entry-level jobs, and its average wage for hourly workers is \$21 an hour. Patrick Callans, a senior vice president for the company, said that Costco's higher pay and benefits "allows us to attract and retain great employees." A 2006 management case study argues that the higher pay has also helped the company keep "shrinkage," or theft, fraud and errors, low by industry standards. For national chains, paying more than the current \$7.25 federal minimum is not such a shock. Twenty-one states and the District of Columbia already have minimum wages higher than the federal level.

There is another way in which a higher minimum wage helps businesses: by increasing consumer spending. When poor families earn more, they spend more. A group of more than 600 economists, including seven Nobel laureates, recently told President Obama and congressional leaders that an increase in the minimum wage would stimulate today's weak economy. Even Walmart, the country's largest retailer, has previously called on policy makers to increase the federal minimum wage. A spokesman for the company recently told Bloomberg News that it was "looking at" supporting the current Democratic proposal.

The argument that a higher minimum wage would hurt business is old and tired. There is clear and compelling evidence that the economy

and companies enjoy real benefits when workers are paid more.

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