

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

February 23, 2021

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Dean Phillips
Chairman
Subcommittee on Oversight,
Investigations, and Regulations
U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Beth Van Duyne
Ranking Member
Subcommittee on Oversight,
Investigations, and Regulations
U.S. House of Representatives
Washington, DC 20515

Re: Perspectives from Main Street: Raising the Wage

Dear Chairwoman Velázquez, Chairman Phillips, Ranking Member Luetkemeyer, and Ranking Member Van Duyne:

I thank you for holding a hybrid hearing on how raising the federal minimum wage would affect small businesses. I ask that this statement be included in the Committees' official hearing record.

I am Ian MacLean, President and Owner of Highland Landscaping, LLC based in Southlake, Texas and I serve as Chair of the U.S. Chamber of Commerce's Small Business Council. 96% of Chamber member companies have fewer than 100 employees and 75% have fewer than 10. The Small Business Council works to ensure the views of small businesses are integrated into the Chamber's policy-making process.

While you are holding this hearing, the U.S. House of Representatives is preparing to pass legislation that would increase the federal minimum wage from \$7.25 per hour to \$15 per hour. The U.S. Chamber of Commerce opposes the \$15 minimum wage hike because the mandate does not reflect a data-driven approach that incorporates wage-rate differences between business sectors and business locations.

Landscaping: Entry level jobs in my business, for instance, depend more on the price of oil than any other factor. When the price of oil goes down, low wage workers come to me for work. When the price of oil goes up, I have to pay our lowest earners higher salaries to keep them from leaving for jobs in the oil and gas sector.

Our lowest wage earners currently make \$11 per hour. If the lowest wage earners are increased to \$15 per hour, even through several steps, every one of my employees

currently making \$15 per hour or more would, justifiably, want their hourly rates increased commensurate with their skills, experience, and tenure above the new \$15 per hour employees. Wages make up 51% of our Cost Of Goods Sold here at Highland Landscaping and hiking the minimum wage to \$15 is a 36% increase. The effect of this on our gross margin is 18%, which means we are losing money at a gross margin level. That leaves not a single dollar to go towards overhead, much less any profit. Our market does not have the elasticity to pass this on to our customers. On one end, we are competing against one-truck operators who aren't a registered business, pay no insurance, pay their employees by the day, and operate out of their driveway. On the other end, we are competing against companies that have thousands of employees, millions of customers, and report revenues over \$1 billion.

Before we started hearing about this Congress' plans to raise the federal minimum wage, we had already begun exploring solutions to growing wages in our industry such as Husqvarna robotic mowing systems and purchasing more machinery to do more of the labor work on the construction side. In order to mitigate the effects of a minimum wage hike, we would fast-track those solutions and eliminate most of our entry-level and less-skilled labor positions. Unfortunately, this would eliminate our ability to provide youth jobs, entry level jobs, and summer jobs. As a small business owner, I take great pride in creating and sustaining jobs for people who can then provide for their families. I believe most small business owners do as well. During the pandemic, I was able to create three new jobs. With news of a potential wage hike, I'm now making preparations to move in the opposite direction. "Small Business" is the biggest job creator in the United States, and the driving force of our economy. A wage hike to \$15 per hour would cause small business owners like me to not only stop creating new jobs, but to eliminate jobs.

There are other small business owners who serve on the Chamber's Small Business Council and feel that Congress' current approach of raising the minimum wage to \$15 per hour ignores the realities of running a small business where one-size-fits-all solutions generally miss the mark and can have horrible unintended consequences.

Restaurants: Jeff Good, President of Mangia Bene Restaurant Management Group in Jackson, Mississippi is thankful to have been able to reopen after COVID-19 shutdowns, is making ends meet while operating under limited seating and operational capacity, and never wants to furlough staff in his 3 restaurants again. While not averse to raising the minimum wage in Mississippi above its current \$7.25 per hour, Jeff is concerned that the proposal being considered by the House of Representatives would eliminate the "FICA tax tip credit" wage that is the foundational labor cost underpinning to the entire full service restaurant industry.

At BRAVO!, his upscale Italian restaurant, waitstaff earn \$2.13 an hour from the business, but earn \$20 and \$25 an hour in tips. Menu prices are able to stay reasonable, since the prime labor cost for the service function is manageable. Furthermore, the tip credit provides an additional important financial girder to the overall cost structure of his and all restaurants based on a full service model. Likewise, in Jeff's counter service restaurant, Broad Street Baking Company, employees earn a base tip-wage between \$5-

\$8 per hour. They pool and split proceeds from customer tips and total earnings for cashiers and food runners amount to \$11-\$12 per hour. Like any counter service operation, Broad Street would have to fundamentally restructure its business if the tipped wage paradigm were to be eliminated.

Jeff fears the loss of the FICA tax tip credit, heaped on top of all the financial damage caused by the last 11 months of the pandemic, would force operators like him to reduce staff head count and hours worked, increase menu prices to customers, and look to contract operations to ensure viability. Simply put, the upheaval of the core guiding financial structure that the dining industry has been built upon by increasing the tipped server minimum wage and eliminating the FICA tax tip credit at a time where the industry has shuttered over 110,000 restaurants due to COVID-19 could prove fatal to those that are hanging on by a thread.

Employees working for tips are incentivized to work hard to earn more tips from their customers. The reward for their hard work most often results in them earning more than \$15 an hour. If mandated to earn that amount, in many cases they would end up earning less. Also, there is widespread concern that customer awareness of a higher directly paid minimum would lead to off-setting reductions in tips and leave the tipped worker no better off and possibly worse than before. This is why so many tipped workers oppose eliminating the tipped minimum wage.

Pet Care and Boarding: Craig Lambert, President of Creature Comforts Veterinary Resort and Suites in Inman, South Carolina echoes Mike's concern that a \$15 minimum wage would prevent him from hiring part-time and college students. Craig currently has 34 employees and entry-level positions start between \$9-\$10 per hour. A wage hike to \$15 per hour would force him to raise prices and cut some of his employees.

A higher minimum wage has the largest negative impact on the lowest-skilled workers. These tend to be the youngest, least-experienced workers as well. Businesses can only pay workers up to their productivity. If forced by government policy to pay more than workers' productivity, businesses would not hire those workers as they would be losing money. Because the least-experienced and least-skilled workers are usually younger, they are the ones that usually pay the toll for minimum wage increases. This is unfortunate because part-time jobs build skills that can help attain better jobs later in life. Entry-level jobs are needed to start a worker's ascent up the career ladder. If they cannot get on the ladder because the minimum wage cuts off the first rung, they may be prevented from climbing their way up the ladder to bigger and better jobs.

Local Economic Differences Make a \$15 Federal Minimum Wage Impracticable:

The U.S. is a continental, economically diverse nation, which greatly complicates the imposition of a high uniform federal minimum wage. Typical [median] household incomes range from a high of \$95,572 in Maryland to \$44,787 in Mississippi. These differences are reflected in housing costs, taxes, electric utility costs, and many other

costs of living. A \$15 per hour for a 40 hour per week year-round job in Mississippi earning \$31,200 is over two thirds of the typical household income level in Mississippi and puts a two-earner household into a status significantly above the 50th percentile. A similar comparison can be made for Louisiana (median \$51,703), New Mexico (\$53,133), West Virginia (\$53,706), Arkansas (\$54,539) or Kentucky (\$55,662). \$31,200 per year is 20 percent above the continental U.S. poverty benchmark for a family of two adults and two children. What works in California and New York will not necessarily work in Mississippi or New Mexico because the local economies in these places vary so greatly. As a result, instead of one national labor market, one can view the U.S. labor market as a vast array of distinct but interconnected local markets.

The current situation allows many states (and localities) to tailor their minimum wage policies to be higher than the federal threshold to reflect local conditions. Minimum wage rates currently vary from the federal minimum that is effective at \$7.25 in 20 states to \$14 in California and \$15 in Washington, D.C. 31 states have minimum wages above the current federal minimum but this would be eclipsed by the proposed new federal amount. A \$15 hourly wage may seem low from the perspective of New York City or Washington, D.C., or San Francisco, but that wage is well above entry-level earnings in parts of the country where the cost of living is lower.

A higher minimum wage in a high-income, tech-heavy city like Seattle may not spell doom for small businesses there because they should have more latitude to pass the increased cost on to their customers. But that same latitude does not apply in Oxford, Mississippi.

Interestingly, Seattle's \$15 minimum wage has had mixed results. Wages have gone up for many workers. But at the same time, employers have cut back on hours for low-skilled, less experienced workers so much that total pay for low-skilled workers has decreased in aggregate.¹ If Seattle is seeing a mixed result at best, what hope do lower income communities have if they are forced to pay their lowest-skilled workers \$15 an hour?

Conclusion:

The U.S. Chamber of Commerce is not opposed to raising the minimum wage. However, the starting point should be hearings like this and not a partisan vote on the House floor with a "\$15" moniker driven by political and not economically substantive arguments. My experience and the insight gained from my fellow Small Business Council members mirror the situations on Main Streets throughout the United States and Congress should approach the exercise of raising the federal minimum wage with that in mind.

The hearing today is a positive step towards Congress understanding the consequences raising the minimum wage would have on small businesses like mine. I am hopeful that

¹ *Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle*, Ekatarina Jardim, Mark C. Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, Hilary Wething, National Bureau of Economic Research Working Paper 23532, (June 2017).

today's exploration will prompt an effort by Congress to utilize a data-driven method for establishing a federal wage floor upon which localities and states can build according to their situations. Above all, I hope that the findings of this Committee will re-focus attention towards ways to help communities to collectively lift America's economy out of the COVID-19 recession.

Sincerely,

A handwritten signature in black ink, appearing to read "Ian MacLean". The signature is written in a cursive style with a horizontal line above the first name and a horizontal line below the last name.

Ian MacLean
Chair
U.S. Chamber of Commerce Small Business
Council