

Increasing The “Minimum Wage” – A Small Business Person’s Perspective

May 05, 2014

The following is an email thread shared between two associates as regards the recent debate over raising the “minimum wage” and its effects on workers, small business and the overall U.S. economy in general. The thread starts out from the perspective of the CEO (CJ) of an extremely small and rather recent service provisioning startup laying out the foundation of the conversation and then asking some key questions. The response is then provided by the CEO (GK) of a small business of about 40-50 “employees” and who has operated his far more mature and profitable specialty construction business over a period of many more years...

TO: GK,

As you are well aware you and I have had differing opinions about worker/employee “compensation” (as opposed to a “minimum wage”) when we have discussed said topic in the past. But, I would like to run it by you again anyway.

To, hopefully, clarify my view on this topic, I feel that you and I, right out of high school, were able to earn more, in terms of actual **purchasing power**, by working as lot attendants when being paid the Oregon state “minimum wage” in 1972 (which, as I recall, was about \$3.00 per hour back then) than what folks earning a “minimum wage” in Washington state (currently the state mandating the highest “minimum wage” in the U.S.) are able to earn today. In today’s terms \$3.00 in 1972 **purchasing power** is equivalent to about \$16.00 (while the state of Washington’s “minimum wage” is just under \$10.00 per hour).

But, I personally feel that governments should **not** be setting any “minimum wage” via regulations at all. What should happen is people should have access to basic information concerning historic wages and **purchasing power**, so that they know what money is, what a dollar can buy them and how much money has been reduced in value due to inflation, etc. And they should be made aware of what it takes just to retain the same ability to feed themselves, shelter their selves and pay for their own costs of living. Most folks never take the time or make the effort to even research such topics. Then, once they have this information, they should also decide for themselves what their labor is **worth** and they should negotiate for themselves what they are willing to trade their labor, their man hours of work, for when looking for work (i.e. when marketing their services) and when providing their services to someone else (i.e. the so called “employer”) who might be willing to purchase their labor or “compensate” them for the services they provide.

Those who are assertive and who set their own prices, who market their services well and who refuse to sell themselves short (for example lawyers, accountants, business owners, etc.) often times are “compensated” what their services are actually worth (sometimes even more); they are well “compensated” for their labors because they set their own prices and refuse to sell themselves short. The same should be said for everyone; professionals, business executives, craftsmen and women, factory workers, farmers, et al.

But...

In my opinion, most workers or “employees” are simply too economically ignorant and too easily manipulated by “employers” into working for way less than they should be working for and they simply do not negotiate **fair** “compensation” for themselves because (A) they feel someone else will accept a given job offer for the lower “compensation” anyway, (B) they are usually cash flow

short and thus desperate to take a job offer and start making something/anything even if it is half of what it takes to afford their own cost of living or what their services should be worth in the first place and (C) most folks simply are **afraid** to set a higher rate for their services, stick to it and/or negotiate anything at all – most folks are **timid** when it comes to negotiating for their own **fair** “compensation” and are **afraid** they will never find employment if they do. It is their **timidity** and the **timidity** of their peers, other workers like them, which is their Achilles’ heel...

http://en.wikipedia.org/wiki/Achilles'_heel

In other words the supply of economically ignorant and easily manipulated workers (service providers referred to as “employees”) has always been larger than the demand for such workers and that has, and always will, result in someone performing work for far less than what its actual value is, thus affording most so called “employers” the upper hand. Naturally there will always be those who argue when the supply of anything is high and the demand is low the amount traded for a given thing will be less; in this case the amount traded for a type of labor will be less. But that is only true when those doing the selling are **timid** and/or buckle for some reason and then sell what they have to offer for less than it is actually worth. When this happens, when some of the sellers, the “employees” in this case, buckle and sell their labor short, “employers” will happily take **unfair** advantage of the situation, knowing there is a large supply of economically ignorant and easily manipulated potential “employees” and that someone out there is always desperate enough to perform a given service or work for far less than it is actually worth. Most “employers” are more experienced and savvy and they are more economically assertive; they know from their experience that supply and demand always works in their favor because someone out there will always sell their services short. So they rarely offer a **livable** wage for most entry level or general labor positions unless they actually have to for some reason... such as when they need a very select talent for a given task, when bargaining with labor unions or when government forces them to pay “employees” per higher “minimum wage” rules.

Given that view point, limited as it may be, **here is my question for you**, because you are a small business owner and manager, and **because you have way more experience in this realm than I do**:

If the city of Tacoma or the state of Washington (where your company is located) in general were to raise the “minimum wage” to \$15.00 per hour – like Seattle’s City Council is now considering doing or like SeaTac recently did – how would that affect the way you compensate ALL of your “employees” and how would you respond? Would you cut your “employee” level? Would you hire more? Would you move your business? Would you simply cut costs and adjust? Would it perhaps force you to shut down your business? Or... would it not cause any changes at all... because, perhaps, you already pay everyone \$15.00 per hour or more?

And, **if** the same question were asked **but** instead of the “minimum wage” being raised to \$15.00 per hour it were raised to \$25.00 per hour then what would your answer be?

<http://www.kvi.com/home/featured/15-minimum-wage-not-nearly-enough-one-CA-Congresswoman-wants-26-minimum-wage-258332091.html>

I am curious what your real thoughts are on this topic which will quite likely affect your business sooner or later. So shoot away if you feel so inclined.

CJ

Reply given from GK back to CJ...

TO: CJ

Interesting subject.

First of all let me respond to your opinion section before you asked me your questions. Then I will give you my view on your questions.

I *feel* your view is (or may be) far more tainted than my view on this subject. You have the small/limited world “employee” view as if in the bigger/broader world the “employer” has all the power. Your perspective here is (or may be) extremely short sighted.

Regarding economics, most “employers” are the **middle man** in that they have to answer to their “employees”, their customers, and their government. Most “employees” only answer to their “employer” regarding their economic life.

When the government (which is driven mostly by “employees” voting and hiring law makers) decides to pass a law that destroys a business, the business either changes and survives, sues their government (good luck on that one), or just fades away into the sunset. No one cries at the funeral or places a headstone at their grave site. In fact, more than likely, their former “employees” (who hired their own executioner by voting for them) just move on with jobs somewhere else and then talk trash about their former screwed up “employer”. When a union (which is a collection of “employees” banding together under socialistic and maybe even communistic laws – passed to protect them from evil capitalists) negotiates unreasonable terms or labor wage hikes the “employer” deals with it and attempts to move on by making the necessary adjustments in the market place to continue their survival, or not, and the result is often that the “employer” just fades away into the sunset. When the customer/consumer – which is, most often, some business’s “employees”, directly or indirectly – decides they like China’s goods and their lower pricing better than what their own company or business is able to provide, their “employer” starts outsourcing/offshoring their labor/goods so the business can compete, or not, and the result is often that the “employer” just fades away into the sunset. I could go on, but you get the idea.

I really am just sort of numb to the idiot ranting that the general public, the average citizen, perhaps like yourself, subscribes to on this subject because there is only one school that can teach you the truths about how business works, and that is why few students successfully graduate. That school, my friend, is the school of owning and operating a successful business for five (5) or more years. I am not trying to call myself superior to you. I was your kind of, shall we say, idiot through most of my 20s. But now, having had the experience of running a business for so long, I simply have the education you do not possess. You got a computer science degree so you know things about computer science that I simply do not. So I am a computer science idiot and you are an educated computer science engineer. All I ask is that you, on the flip side, try to accept the possibility that your view is limited and so, perhaps, is your understanding. And I would also ask that you heed my following answers to your questions on the subject of “minimum wage”.

Let me first say you are on the right track when asking your questions about what I might do if the “minimum wage” was raised to \$15.00 per hour. This is because for every action there is an equal and immediate reaction. That law of physics applies here. The real question should not necessarily be what exactly will happen, as there is no exact answer. But we should, without question, agree that something significant will happen. There is no free lunch guys! **Someone pays**, and surprise, surprise; **it won’t be the businesses that want to remain in business**. They will pass on the costs in every way conceivable and probably in some other ingenious

ways you have never thought of. In fact, the businesses that figure out the ingenious ways the rest of their competitors never think of will now have an advantage over their competitors which, prior to any “minimum wage” hike, did not exist before. They will actually prosper as a result. Won't that stick in the socialist's or anti-capitalist's craw!

OK.

To be more specific to my business, let me say this. The government does this to me on a semi-regular basis all the time. Yet I am nimble enough and I am usually ready to evolve in whatever way I figure will be in my business's best interest. In the past, I have benefited and grown as a result, mostly because I had competitors that could not evolve; I took up their slack when they failed as a result. I have also struggled and felt the pain of losing money as a result, but because I am an experienced, weathered business manager, I know better than to try and survive year by year. I have built up reserves that I am able to utilize each time our business suffers through the losing times, at least long enough for the business to eventually pass on such costs to my customers in a similar manner that all my other surviving competitors do as well. So, being the fittest, surviving businesses we are all successful at pulling off price increases that the customer/consumer (also the voters for those pesky politicians) is then forced to pay, just like the government forced our business to pay. When this happens inflation is forced upon us all as a direct result of government's rules and regulations and the consumer suffers their own consequences by wanting a BIG, dictatorial government system.

OK, now for some direct answers to your original questions...

Let me answer each of your questions without trying to teach you anything else in the process.

1. How would that affect the way you compensate ALL of your “employees” and how would you respond?

Answer: I would absorb the costs not changing any of our “employee” situations except for the “minimum wage” adjustments for those “employees” that were under the new \$15.00 number and operate less profitably, or even at a loss, for a period of time, if need be. Then I would wait for the market place to blink and be the third or fourth of my competition to adjust customer prices. The point being I would not be the first to raise my prices. I would let my competitors overreact and then pick up some of their customers that are willing to tap into my business services because their current provider hit them with a price hike which they did not like.

2. Would you cut your “employee” level?

Answer: No. And, neither would any other business manager that runs a good operation. If they have “employees” that they are able to let go and still operate successfully, then they need to do that regardless of “minimum wage” hikes. Why, you may ask. The answer is because the current business environment is highly competitive. So, one had better be on their game. Too many unnecessary costs and your competitor will destroy you. You might quit giving to charity, but every “employee” you have is either making you money or costing you money. If they are costing you money then you either chalk it up to your idea of charitable giving (like hiring people to dust refrigerators at Lowes) or you get rid of them; usually replacing them with “employees” that are making you money.

3. Would you hire more?

Answer: I hire as many “employees” as I can that make me money. That is the whole idea. I know how that may make you feel. You may have thought that I hired “employees” because I wanted to do my part in society and to help people raise families. If so, I am sorry to burst your bubble. My primary motivation for hiring someone is driven by the potential for our company and myself to make money through the business I am operating. If I do a good job at this I am proud of the fact that I was able to contribute to other peoples’ success by helping them get what they want, MONEY, so that they can afford their living costs and raise their families, etc. But don’t kid yourself. Anyone else that tries to tell you they hire people so that their business can help them survive in life is either operating a charity or they are a liar.

4. Would you move your business?

Answer: If Tacoma forced me to pay a minimum \$15.00 per hour to all my “employees”, simply because my business was headquartered in Tacoma, and (for example) my competitor, that has a headquarters in Olympia, was not forced to do the same I would move my business, simply because I would, otherwise, eventually go bankrupt and both our management and our “employees” would lose their work and livelihoods. In the case of our small business, the difference in “minimum wage” pay would likely be too great to otherwise overcome.

5. Would you simply cut costs and adjust?

Answer: I am regularly in the practice of cutting costs and making adjustments to help increase our profits. So really nothing changes here. Again this question is based on a skewed view that “employers” just cruise through their luxurious day cashing checks and living the high life on the backs of their “employees” who do all the heavy lifting. Jesus I am so sick of this prevailing attitude in society. That, my friend, is how guys like Obama become president or that crazy woman on the Seattle City Council gets on TV telling Boeing workers to take over their plant and build bicycles instead of airplanes for the betterment of society. UGGGGGGGGGGGGG.

6. Would it perhaps force you to shut down your business?

Answer: Every day is a fight against the forces that are driving me to shut down my business. It is an ongoing war to tell the truth. Sometimes I tire of it and almost give in. But then somehow I find the strength knowing I am providing better for my family than the person who chose the easy path of non-business-owner “employee”.

7. Or... would it not cause any changes at all... because, perhaps, you already pay everyone \$15.00 per hour or more?

Answer: I don’t pay everyone \$15.00 or more. I am sure you already knew that. But, it most definitely will cause changes to the entire market place and all businesses and the entire economy. Anyone that does not realize that is a fool.

8. And, **if** the same question were asked **but** instead of the “minimum wage” being raised to \$15.00 per hour it were raised to \$25.00 per hour then what would your answer be?

Answer: I think the laws of physics would still apply. There will still be a reaction to the greater impact that \$25.00 per hour would cause. It would be exponentially greater in that the increase to \$15.00 per hour impacts mostly nonprofessional labor, whereas \$25.00 per hour will clearly impact some professional labor jobs also. So now all those

superior people just got demoted. Now that will be a huge impact to our society and in many possible new ways. Think of a person that takes on student loan debt amounting to hundreds of thousands of dollars and makes many, many personal life sacrifices to become a medical doctor. Then you change the rules on them and say we are raising the “minimum wage” to a doctor’s wages. His kids won’t become doctors and he may even choose to no longer practice. You get it? There are lots of new, and possibly fun, scenarios to contemplate. Everything works with flattened out wages if you have an altruistic society. But we simply don’t. I think the central planning communists tried this once. How are they doing as a society? Oh, they did worse than our evil capitalistic society and eventually failed; did they not?

Given all of that, my final comments on this subject may surprise you.

If government were to make the Federal “minimum wage” \$15.00 per hour, I *think* it may actually improve the already damaged economical problem we are currently experiencing.

Before reading on... this view is based on a ***national “minimum wage”***, not a just in a given city. Perhaps a State level \$15.00 per hour wage might work, but I think it really needs to be national or perhaps even global to actually work at all.

Right now, our current economy is hampered by overzealous, socialistic government giveaways. In this current economic environment, people are dis-incentivized to work or make something of their selves. So many capable people are trapped in a sort of economic **everything or nothing** option, where they must choose between taking a low paying job or they take no job at all and then survive through government programs, at the behest of the government, based on what the government is willing to give out. This traps people into the category of poor with no upside, because they are punished (they must work) for even thinking about trying to move up. So they short change the middle class instead.

Guess what! The middle class pays most of the taxes. So current government, through its various wealth transfer plans, weakens the middle class and traps more people into the poor category and then turns around and demonizes the rich so that government’s leftist politicians can gain more power and retain their own job security. Thus you have our current situation that just gets worse and worse.

What ends up happening is the government, the professional politicians (on both sides of the isle actually), work the class warfare angle to gain more power and ultimately move the pendulum farther and farther to the left, where eventually the upper class is hated and the middle class is nonexistent. Revolution comes next.

So how, you ask, can a national \$15.00 per hour “minimum wage” help this negative economic trend?

It will not solve anything. However, I personally think it may just be the ticket to prolong the inevitable (i.e. kick the can down the road), at least long enough so I am dead before the eventual Revolution occurs. Simply put, the hard working entrepreneurial Americans (the heart and soul of America) and all that has been created by them that is good, will get a reprieve from our government’s system of enslaving their citizens through indoctrination of the poor via the power of the vote (paying them for their votes) and via the typical **chicken in every pot** giveaway election campaign.

You see if government raises the “minimum wage” high enough for poor people to once again be incentivized to be an “employee” somewhere instead of staying on the government dole it

undermines the giveaway programs as they currently stand. It sort of ups the ante and government (the politicians) will be forced to play catch up to give away more stuff so they can start growing the size of their voter base, the poor people group, again. So it sets our liberal government a step back so to speak.

The other thing it does, that helps small business, is it removes subsidies for big business (government's bread and butter donors). As I already mentioned, most of the taxes paid are by the middle to upper middle class. We pay into a government system that gives the money (and matches it through extreme DEBT) away to poor people so government can prolong their power with the voters; and also with big business. In the current equation big business is now able to hire plenty of low wage people but whom, on the strength of the wage itself, still can't support a family with the basics, such as food, clothing, and shelter, unless the government is helping them out on the side as well.

Compare my business to a Walmart or McDonald's. My business has, maybe, 20% of our total "employees" that make less than \$15.00 per hour. Out of that group, only a couple of positions are planned as permanent wage levels below \$15.00 per hour. All the rest have the opportunity to do the same job they have now while being paid under \$15.00 per hour and yet within two years their wages will increase to over \$15.00 per hour; apprentices moving up to journeymen. That is my business structure. So, at first, I am able to fill those under \$15.00 per hour starting wage positions with people that depend on government help which ultimately and partly subsidizes my business. However, Walmart or McDonald's, and other similar business models, require a much larger percentage of "employees" under the \$15.00 wage range, meaning that their corporate income is dramatically subsidized by the government which is mostly funded by small business "employees" all over the country, just like mine, making more than \$15.00 per hour (most "employees" work for small businesses and make high enough wages that they actually pay taxes).

This sick, non-capitalistic (crony capital) system changes dramatically with a \$15.00 per hour national "minimum wage". All businesses, including mine, basically lose the subsidy and all poor people can then earn a **living wage** that allows them to become customers of us all. Of course goods and services will eventually go up in price (the Fed's mandates will make sure of that). Yet, for a while anyway, this will move the cash flow out of the government hands and into the capitalistic economy where it has its own *checks and balances*. But, over time, with government being what government is, it all goes back the way it was because, eventually, those "employees" now making \$15.00 per hour are at the bottom again once the economy adjusts. Then the evil politicians will start all over again by promising them more pots and more chickens and we will end up right back where we are now. Then Revolution!

Next the response back to GK from CJ...

TO: GK,

You never cease to amaze me. It is a pure joy and extremely enlightening chatting with you now and then. In fact I could not help but smile and giggle a few times at your response.

I will say a few things in response to your response, however. And, actually, if you don't mind me saying so, we **agree** way more than you may be willing to give me credit for.

First off, you will note that near the end of my opening remarks and questions I said, "...**here is my question for you**, because you are a small business owner and manager and **because you have way more experience in this realm than I do...**" In other words I was admitting that

I have less direct experience and, therefore, defer to you and your judgment, knowing you were more than able to shed some valuable light on the topic.

Second. Like you, apparently for some different reasons which I had not pondered or expressed, I have always felt there must be several reasons (some KEY ones of which you hit the nail right on the head) that raising the average pay of ALL lower income “employees” (be that via a Federal “minimum wage” law or otherwise), and those entering employment for the first time, that it would, in fact, improve economic conditions in the U.S. and/or the entire global economy. Like you, I feel it would somehow *balance* things out (for a while at least) as well... at least until government screws it all up again. But, my reason(s) for feeling that way, up until now, were based more on the **purchasing power** side of the “monetary/economic equation” itself (1970’s vs. 2000’s value of money and the current **purchasing power** of a U.S. dollar) than on the political side of buying votes with socialistic tactics as you described. However, when you combine both of these points of view or arguments it seems to make an even stronger case for a better starting wage level than otherwise.

Third. While I have not spent nearly as much time in your small business world, keep in mind that I have spent a great deal of time in the large business world, AND I, eventually, got real sick of what I saw going on there. You are correct. Large businesses, such as [Walmart](#) or [McDonald’s](#), which also compete globally, leverage off of socialist governments that actually generate boat loads of unemployed folks (often on the government dole) to tap into for their “employee” base and which are, therefore, enabled to grow larger and larger while crushing the efforts of smaller businesses in the process. This is probably the main reason why governments should be reined in and never allowed to grow so large and/or gain so much **monetary power** (via issuing DEBT) such that they are then able to manipulate things in favor of the rich, or shall I say structure things in favor of the rich, the way they do.

As you said, “...The other thing it does, that (maybe) helps small business, is it removes subsidies for big business. ... We pay into a government system that gives the money (and matches it through extreme DEBT) away to poor people so government can prolong their power with the voter, but also with big business. In the current equation big business is now able to hire low wage people but which, on the strength of the wage itself, still can’t support a family with the basics, such as food, clothing, and shelter, unless the government is helping them out on the side as well...” Thus government welfare systems allow businesses, in particular large businesses, to cut payroll costs... in effect they get the most advantage from the indirect subsidy and all that borrowed government money. It seems to me, correct me if I am wrong, that what you are saying here is that providing people with government subsidies (food stamps, welfare, 99 weeks of unemployment, massive government contracts, most large business tax breaks and grants, etc.) that it helps create that pool of low wage workers and at the same time keeps them poor enough that they will continue to keep voting for the politicians who offer the **chicken in every pot** as well. So the winners are both the big company managers and the left wing and/or semi-socialist politicians (no matter what party they belong to).

Next, I would have preferred it, however, if you had **not** included me in with most “employees”... “You have the small/limited world “employee” view as if in the bigger/broader world the “employer” has all the power...”, which is how it came across.

Keep in mind that I stated that I do not feel that people should vote for or **hire** politicians (government) to do their bidding for them in the manner you have implied, “...I personally feel that governments should **not** be setting any “minimum wage” via regulations at all...” In fact, for as long as I can remember, probably back when you and I were both less than 20 years of age, I have subscribed to the theory of a strict 100% Constitutional Republic form of government, which is what our founding fathers gave us (vs. a semi-socialist government of which ours has

been corrupted into) whereby, as Henry David Thoreau once pointed out, "...government is best which governs not at all." In fact I wrote this a few years ago in my book, **Money Slaves and Cool Aid** (<http://www.Get-The-Book.com>), by quoting Thoreau directly...

... Henry David Thoreau made the following observations as to governments and their ability to become corrupt...

I heartily accept the motto, "That government is best which governs least"; and I should like to see it acted up to more rapidly and systematically. Carried out, it finally amounts to this, which also I believe – "That government is best which governs not at all"; and when men are prepared for it, that will be the kind of government which they will have.

You see my good buddy, while I believe a better wage or "compensation" (which people should negotiate it for themselves) would, in itself, *balance* things out and would be better for our entire country (our entire global economy) and everyone in it, from an economic point of view, I do not believe government should be meddling in it one bit... because governments just screw things up. Nor do I believe people should be forming unions or even banning together to pressure "employers" into better wages... because that also tends to just screw things up in the long run.

All I was saying is that I think it should be every man and woman for themselves, **when men (and women) are prepared for it**, so to speak. However, I also believe (due to human nature, I suppose) that most men and women are **too timid** and, therefore, they have been relying way too long on other things or **systems** like unions and government (**hiring** the *less timid* to do their bidding for them) to protect them and to negotiate for them. It is the age old issue of the less fit riding on the backs of the most fit to get what they want. Then the next thing you know people vote for the Obamas of the world and the Obamas of the world offer them peanuts or carrots – like a minor bump up to \$10.00 in the "minimum wage" – acting as if that will solve a problem. But the people then jump on the city by city and business by business band wagon and/or start marching in the streets while asking for \$15.00 or \$20.00 or even \$25.00 and things get screwed up and *out of balance* even worse, just as you suggested when a business in one local area is hit while a competitor in another area is not.

Thus, because too many people are **timid** – and for other possible reasons (which I am sure you can also explain to me) – they do **not** start their own businesses, which is what they really SHOULD be doing (vs. always relying on someone else to provide them with a livelihood). Instead they end up becoming the "money slaves" rather than the "money masters" like you.

In short, had you read my book I think YOU would have been a bit surprised at my actual point of view.

Anyway, I sincerely appreciate your thoughts and wisdom.

CJ