Minimum Wage Policies and Their Effect on Small Businesses

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The discussion about increasing the minimum wage has led to an increased discussion between the interests of workers and the prospects of small businesses in recent years. The purpose of minimum wage regulations is to ensure that the low-paid workers are paid well, in addition to alleviating poverty. Their impact on small companies is, however, complicated and disputed. The current essay analyses the advantages and disadvantages of minimum wage increases on small businesses.

Among the most popular advantages is the fact that it improved the incomes of the workers. There is evidence that increasing minimum wages may increase the wages of low-paid workers without necessarily decreasing the number of jobs in small businesses. As an example, a recent causal examination of long-term employer establishments concluded that wage raises had a big effect on pay in low-wage industries like retailing and fast food, which consists mainly of small businesses, but did not have any statistically significant effect on employment overall. According to the study, the failure rates of these small firms were very low after the wage increases, as well as the fact that this indicated that most of the small businesses are much stronger against the labour increases in cost than expected (Fox-Hodess, 2023b). These results show that increasing the minimum wage can be helpful to workers without necessarily jeopardizing the survival of small businesses.

Though the study marks a small decrease in the employment part-time, it does not reflect a significant laying off of staff in small businesses. This implies that labor arrangements should be rearranged as opposed to massive layoffs, which means that there is no reason to think that small labor markets will be upset by minimum wage increases (Fox-Hodess, 2023a). Moreover, increased salary might decrease the rates of employee turnover and decrease the costs of

recruitment and training of employees, which is a great benefit to smaller businesses since high turnover is a significant problem.

Even though the positive effects of a minimum wage rise may play out, the disadvantages in small enterprises are worth giving attention to. A massive study of over 15 million establishments in the U.S. with 15 million controls by Chava et al. (2019) reveals that the federal raise in minimum wages can negatively affect the financial well-being of small, young, and labour-intensive businesses. An increase in business credit score was correlated with higher mandated wages and higher financial stress, which could delay payments to suppliers, predisposing them to default. These pressures can eventually limit investment and growth.

Similarly, firm-level data on Portugal by Alexandre et al. (2022) demonstrates that in an economic setting of uncertainty, a minimum wage rise decreased employment growth and earnings of financially weak firms, expediting the departure of low-productivity enterprises. Although this clean-up effect has the long-term benefit of increasing productivity, it imposes serious pressure on companies with low margins in the short term.

There can be indirect effects other than employment and survival. According to Liu et al. (2024), large minimum wage increases are associated with higher injury rates at the workplace, and specifically in firms facing financial stress, cost pressures could be the primary factor worsening the safety conditions. However, the impacts are uneven: Rao and Risch (2026) determine that it is possible to have independent businesses increasing revenues through pricing adjustments, operations, or productivity to cover increased wage expenses.

In conclusion, there is a set of far-reaching impacts of minimum wage policy on small businesses. On the one hand, they increase the salaries of workers and may minimize the labor turnover without massive layoffs. Conversely, they can put pressure on financially weak

companies, decrease job creation under some circumstances, and even influence workplace safety. Thus, the role of policymakers should be to strictly adjust the rise in wages, think over a gradual change, balance it with the accompanying support of small businesses (tax incentives, credit availability, etc.), to ensure that economic fairness does not play off against entrepreneurial energy.

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