

GUAM MINIMUM WAGE STUDY
ADDENDUM: EMPLOYER AND EMPLOYEE
PERCEPTIONS REGARDING POTENTIAL MINIMUM
WAGE INCREASES

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Employer and Employee Perceptions Regarding Potential Minimum Wage Increases

Market Research & Development, Inc. (MR&D) was contracted to conduct an independent economic analysis for the minimum wage increase in accordance with Public Law 32-229. The study integrates a macro economic analysis of Guam's economy with quantitative and qualitative information collected from low income households and businesses on Guam. The research was conducted between September, 2016 and the end of January, 2017

As the research was being completed, the Guam Legislature passed Bill 312-33 which proposed to raise the minimum wage to \$9.20 per hour in 2017 and then to \$10.10 per hour in 2018. Governor Calvo vetoed the bill in January, 2017. However, the proposal to increase the minimum wage beyond the current \$8.25 begs the question of what effect the proposed increases might have on businesses and households. Although outside the scope of the work MR&D was contracted to provide, the research team asked households and employers of what they perceive the impact might be.

Questions regarding increasing the minimum wage beyond \$8.25 were included in the employer and household surveys that were conducted. The business survey consisted of 125 randomly selected businesses. They were selected utilizing listing of businesses licenses issued by the Department of Revenue and Taxation, The Department of Public Health and Social Services and the Guam and the Guam Contractors Licensing Board. The sample of businesses interviewed were drawn from a stratified random sampling reflecting the proportion of businesses identified by the BLS Occupational and Employment Survey for Guam as employing workers at wages less than \$10 per hour.

The household survey was based upon a random sampling of households drawn from randomly selected residential phone numbers. Only households where at least one resident earned \$10 or less were interviewed. Three hundred fifty-five randomly selected respondents were interviewed. The household survey was accurate to within $\pm 5\%$ at the 95% confidence interval. In other words, if the survey were replicated the same results would be obtained 95 times out of 100. One half, or 12 of the 25 household interviews were conducted among households currently participating in nutritional and health care subsidy programs.

Since the proposed increases have not yet become law, both employers and households could only speculate on the impact of the proposed changes. Businesses were asked how it might impact their operations and households were asked about possible effects the changes might have on their household finances.

Perceptions of Employers:

Only about half of employers interviewed were aware of the possible 2017 minimum wage increase. Given that many employers were hearing of this possible increase for the first time, responses could reflect on-the-spot thinking or changes businesses had made in the past to accommodate wage increases. More significant changes to business models and operations will evolve as business owners learn of planned wage increases and strategically think about how to approach these changes. In the interviews, larger businesses generally responded stating they would accommodate the wage increase as they have done before, often time cutting employee hours or the number of full-time employees. Smaller businesses seem to still be in the midst of figuring out what to do, as there was no coherent single approach across the board.

Throughout the interviews, employers mentioned a variety of approaches to adjusting to wage increases, such as “change scheduled hours, limit raises, change store operation hours,” and “minimize overtime, which is time and a half, increase efficiency overall.”

Businesses feel that if a minimum wage mandate were to pass, they would have no choice but to increase wages to follow the law—and all employers interviewed intend to do so. A handful of businesses interviewed stated they plan to raise wages regardless of a mandate.

One point of contention raised among business owners is the issue of wage compression and how increased minimum wages will impact hiring and turnover. One concern is that businesses will not be able to pay higher minimum wages while at the same time increasing the wages for workers with seniority and good work ethic. One business owner said the following after asked if a wage increase will affect their business:

“Definitely, because the guys who are around \$10 will be bumped up to at least \$12. The guys that are in \$12 got to take them into \$15. Yeah, it’s going to have an effect. Sooner or later, where I cannot hold that margin anymore – yeah, my prices are going to go up because you can only make a person do so much work or he or she gets burnt out no matter how efficient they are. There’s a certain limit. And then when the price goes up, to me it’s like a vicious circle. If my prices

go up, the person that got a raise – it's like a fake raise because the cost of the product went up. So, the only that gets affected is the one on fixed incomes...I think it's just a vicious cycle where... I don't know, want to get paid more. Work harder, work smarter. Because something like, you're the customer and I'm selling hamburger for a \$1 but now I'm going to charge \$3 for that same hamburger. And you said, whoa, why? Because the law says, does my hamburger get any better? No."

This same sentiment around wage compression and pricing was shared among multiple businesses interviewed. One business owner responded, “[We] already allocated a certain percentage of salaries budget towards merit increases for 2017. If there was an increase to the minimum wage, it would come out of this pool of money.” Another elaborated on this point as well, stating, “it’s a win for our frontline but what ends up happening is then it prevents us from recognizing their performance because they’re already above that, that wage determination.”

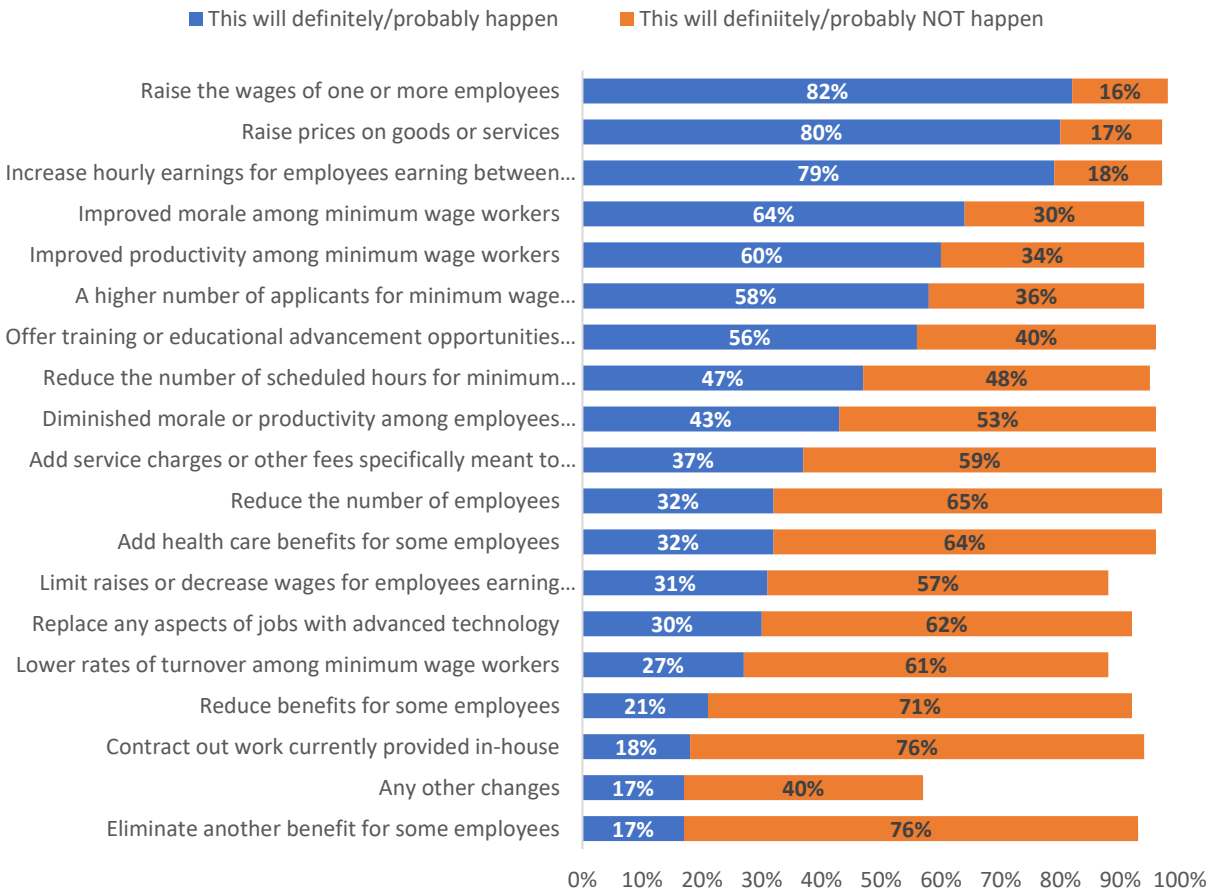
[Possible Employer Responses to Further Minimum Wage Increases](#)

Survey participants were asked, “If the minimum wage requirement increases to \$10.10, do you anticipate any of the following happening?” Respondents stated they are likely to raise the wages of minimum wage employees (82 percent) as well as employees making above the minimum wage (79 percent), and are less certain of limiting raises (31 percent), reducing the number of employees (47 percent) , or contracting out work (18 percent). See Chart 1 below.

CHART 1. ANTICIPATED CHANGES IN RESPONSE TO \$10.10 MINIMUM WAGE, GUAM BUSINESSES

If the minimum wage requirement increases to \$10.10, do you anticipate any of the following happening?

Among businesses employing workers at \$10.10 or less, excluding those who "don't know" or "refused", N=100



Source: Market Research & Development, Guam Business Quantitative Survey, 2017

In terms of services and employee benefits, employers stated likelihood of increasing the prices of goods or services, while not adding a service charge. For employees, employers want to invest in more training and educational opportunities, and do not intend to decrease or eliminate benefits. Survey responses showed a wider range of responses on these categories than in the interviews, where a few business owners explicitly stated they would decrease benefits. As with all of these anticipated effects, they are truly speculation based on little past experience.

Some employers in interviews supported these same opinions when asked how they anticipated handling the increase in wages. Others discussed how they might change hiring practices and expectations of employees. One business owner discussed how they might change hiring, stating:

“Increase skill levels for that amount of money. You better be expecting a lot more skill. And, it’s also because the people now, like let’s say I’m paying somebody \$10 now or \$10.10 now, I’m going to bring up a laborer to \$10.10 and yet I’ve got a person who’s been with us for like, five years that’s at, \$10. You know, that whole, justification, ‘Well, why can’t I get one now?’”

Another interview respondent echoed many of these same points, responding about possible changes with saying:

“Probably increase the price somewhere. Um, not hire as many people and just have to deal with whatever staff we have here and we don’t really want to do that because we don’t want people to be tired while they’re out there, we don’t want to, we don’t want to overwork our staff. But that might be the case when we... if the minimum wage should go up. In addition to that, you know, we hire a lot of laborers, and people come to us... yes, they are high school graduates but some of them can barely read, some of them can’t even do simple math functions. So to me, it’s also a thing about where if I’m going to pay \$10.10 per person, they’d better have some skill. They better be able to be promotable to the next level, they should be able to do certain things that we expect of people in the higher positions, you know, and we expect them to be able to move up.”

Lastly, employers were asked whether they anticipated the moral and productivity of employees to change in response to an increase in the minimum wage. Around 60% of survey respondents feel morale will improve, productivity will improve, and businesses will receive a higher number of applicants for minimum wage positions. Respondents do not anticipate lower rates of turnover than normal.

Discussion

Businesses are struggling to figure out how exactly to adjust their businesses to keep up with the proposed increases in minimum wages. While some respondents focus on employee retention and opportunities for growth such as adding benefits or training opportunities, other businesses intend to cut hours or increase prices of goods or services. Overall, there is not one single anticipated approach to addressing future wage mandates, nor is there a single observed change in response to previous mandates. Employers want their employees to succeed, and believe in paying living wages. There is a concern with increasing living costs on Guam, which affect profits of employers and wages they can pay employees.

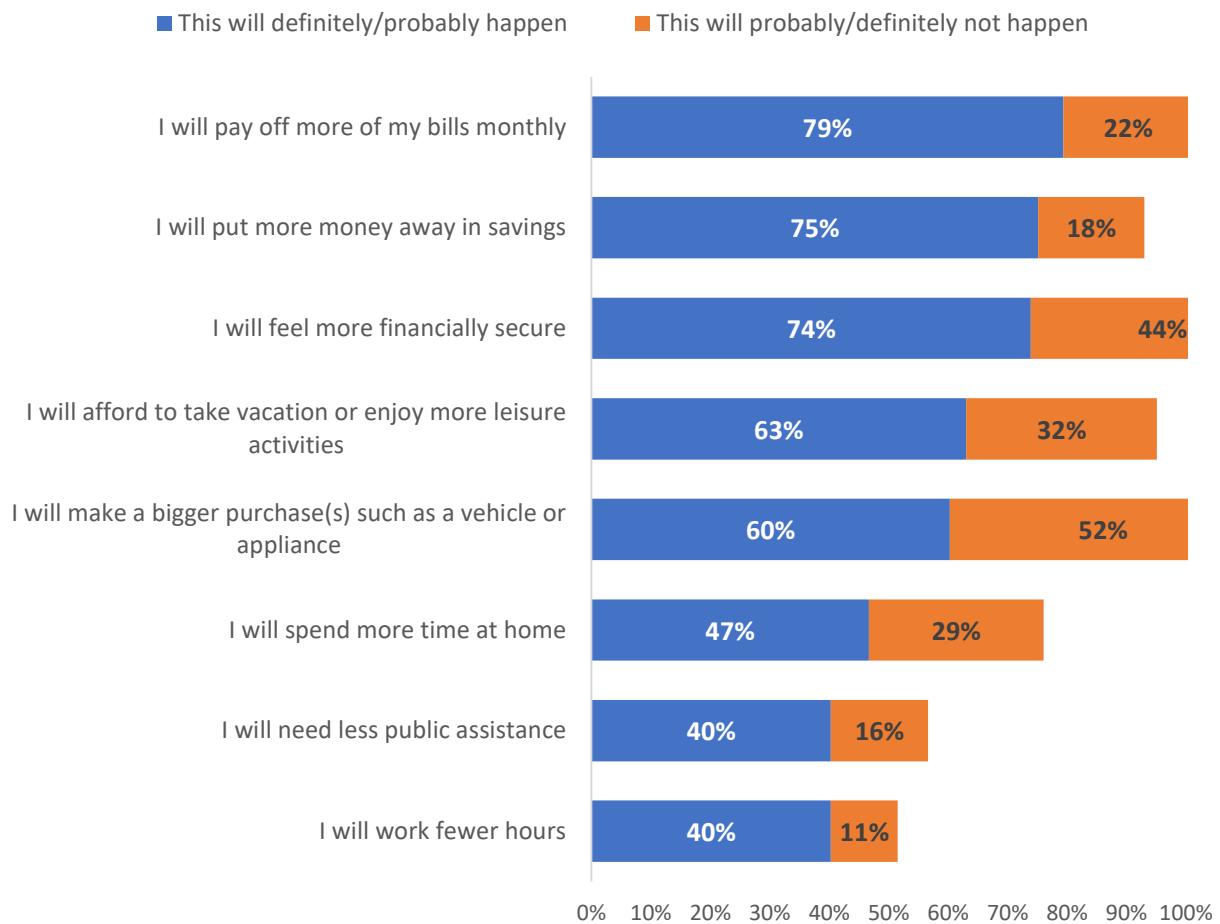
Perceptions of Households

Respondents of households with members currently earning less than \$10.10 per hour are optimistic about future raises. When asked, “If the Guam minimum wage requirement increases to \$10.10, do you anticipate any of the following happening?” respondents feel they will have the ability to pay off more bills, take more leisure time, put more money away in savings, and overall feel more financially secure. Respondents do not anticipate working fewer hours. See Chart 2 below for details.

CHART 2. ANTICIPATED CHANGES TO HOUSEHOLD IN RESPONSE TO \$10.10 WAGE INCREASE

If the minimum wage requirement increases to \$10.10, do you anticipate any of the following happening?

Among all respondents excluding those who "don't know" or "refused", N=330



Source: Market Research & Development, Guam Household Quantitative Survey, 2017

When workers were asked in the qualitative interviews how future wage increases would affect them, responses were split between positive and negative. About half (12) respondents stated

an increase in the minimum wage would be helpful for them to save more money, pay more bills, and use more money for education or saving for the future. For example, some participants responded saying, "Oh my god- it [wage increases] would be great. I mean, I might not be able to, what do you call that, make a lot of savings but at least I'll be able to pay up all the bills on time...Maybe save a little bit aside for emergency purposes."

And other participants echoed this feeling: "That would be good more then. I mean, basically be able to save up for my kids' future"

The other half of respondents seemed hesitant about future increases stating prices would also go up, raises wouldn't be enough to impact paying bills, and public assistance use like SNAP may be negatively affected. For example, one worker replied:

"I mean, it'll be good but at the same time, everything else will go up so it doesn't really make a difference. Personally, me, I'll still be struggling."

And as another worker stated:

"I mean, it will help very much but it would mean the prices would go up.... It would help us but a lot of things are going to go high"

Family life. When qualitative participants were asked, "If the minimum wage goes up to \$10.10, how will that affect your home and family life?" responses were again varied. A couple workers said they would possibly travel more as a family, while 9 respondents said family life would not change much. Another 8 workers said they anticipate spending more time with family and having the ability to eat out more or make bigger purchases such as a car or vacation. As one respondent put it:

"Well, it's me and my daughter right now, it would really be a big help because first of all, I would be able to at least go to sleep at night not having to think about what are we- what are the plans for the following day again to be able to make ends meet. And then, I could probably spend more time with her and bond with her during weekends because I'd have extra money to take her to Play Port or Chuck E Cheese."

Discussion

Households across Guam are incredibly diverse in many ways, from family structures, work sectors, budgets, and how they're affected by wage changes. Overall, this goes to show that not one single policy can truly affect all households the same, so it's important to note who policies are designed to address. While overall survey respondents did not feel largely impacted by the wage increase in 2015, they are optimistic about the potential impact future wage raises could have on their lives.

Above all, workers prioritize their children and children's needs. There was a sense overall that whether the Guam minimum wage increased or not, workers may not feel largely affected but will continue to budget and save in order to care for their children the best way possible. As a couple participants put it, "And whatever my children need, you know, even though it's like to my last dollar, I'll still use it," and, "it's mainly also what our kids need. I pretty much put what my kids need before me and my partner...you know, the pampers, the wipes, you know, clothes, we put their needs before ours."

Workers and their families seemed busy and sometimes rushed through the interviews while not willingly elaborating on their answers. Multiple participants mentioned doing the interview simply because the \$25 incentive would help them.

Considerations Regarding the Effects of the Minimum Wage Increase

While this study has shown no impact of the minimum wage increase to \$8.25, diverse perspectives were revealed regarding how employers and employees view the current wage system and how it impacts business operations and the lives of a large segment of Guam's population. In general, both employers and employees believe that both business costs and living costs are high, and some employers expressed concerns about how their workers are able to "get by" on the current minimum wage. At the same time, employers are concerned that the proposed increases would force them to raise prices and nearly half (forty-seven percent) indicated they would be forced to cut hours for their workers. While many employers have shared that the minimum wage is an entry wage and they provide training opportunities for advancement, many employees shared they were at the minimum wage for years, with no benefits and with part time schedules.

Repeatedly employers mentioned during the qualitative interviews that the skill levels of the workforce is lagging behind the needs of employers. Skilled workers are becoming harder and harder to find. That would indicate that opportunities for advancement for low wage workers are not being realized because they lack the skills employers are increasingly looking for. At the same time, low wage workers face rising living costs and do not have the funds to invest in training or higher education. This creates a gap between the expectations and needs of employers and ability of low wage workers to meet those expectations. This dysfunction in the labor market is slowing wage and economic growth.