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CFO SURVEY: MINIMUM WAGE HIKES WOULD LEAD TO FEWER JOBS, MORE MACHINES

Note to editors: Watch professor John Graham discuss the results (http://youtu.be/S7DeMLc-XTQ) You may embed this video in your website or blog. Names of CFOs who took part in the survey and agreed to speak with media are available by request.

DURHAM, N.C. -- Chief financial officers in the U.S. say a hike in the minimum wage to $10 to $15 an hour (from the current federal standard of $7.25) would result in immediate layoffs and significantly curtail future hiring at firms that would be affected by these wage hikes.

These are just some of the findings of the latest Duke University/CFO Magazine Global Business Outlook Survey, which concluded September 5. The survey has been conducted for 74 consecutive quarters and spans the globe, making it the world's longest running and most comprehensive research on senior finance executives.

The results presented below are for U.S. firms unless otherwise noted.

IMPACT OF MINIMUM WAGE HIKE

The survey contains extensive analysis of how increasing the minimum wage to $8.75, $10, or $15 would affect multiple business functions, including employment, benefits and a shift toward labor-saving technology (robots). The reported results apply directly to firms with workers that would be affected by a minimum wage hike (e.g., the 10 percent of workers currently earning $8.75 or less, the approximately 25 percent earning $10 or less, and the nearly half who earn $15 or less). Findings include:

- Few affected firms would lay off current employees if the minimum wage is increased to $8.75 but 46 percent would lay off employees at $15.
- Future employment growth would be curtailed at 35 percent of affected firms if the wage were set at $8.75, while two-thirds would curtail future hiring at $15.

- Nearly 20 percent of affected firms would reduce employee benefits or increase product prices if the minimum wage were increased to $8.75; approximately half would do both at $15.
- About 30 percent of affected companies think their ability to attract higher quality workers and reduce turnover would improve if the minimum wage were increased to $10, while about 40 percent feel the same at $15.
- In general, firms indicate they could reasonably accommodate a modest hike in the minimum wage to $8.75 but substantial negative consequences would kick in as the wage approaches $10.
- An ongoing shift away from labor and towards machinery will accelerate if the minimum wage is increased.

"It is important to put these findings in perspective," said John Graham, a finance professor at Duke's Fuqua School of Business and director of the survey. "For one thing, these results primarily apply to employees who currently earn less than $10 per hour, which is about one-fourth of the U.S. workforce, according to the Bureau of Labor Statistics. Among firms employing these low-wage workers, the expected effects of proposed minimum wage hikes are dramatic. According to CFOs at these firms, the low-wage employees that increases are designed to help will also bear significant employment risk, potentially losing their jobs as firms implement labor-saving technologies."

SHIFT AWAY FROM LABOR TOWARDS MACHINERY

Nearly half of all companies surveyed indicate they have already or soon will implement labor-saving technology, which will allow them to maintain production with fewer employees. Among these companies, the average reduction in the needed number of employees is approximately 10 percent (median 5 percent).

"Labor-saving technologies have dramatic and permanent effects," said Fuqua professor Campbell R. Harvey, a founding director of the survey. "Once those jobs are lost, they do not come back. It is very important to note that low-skill jobs are most at risk of being eliminated by labor-saving technologies, with 62 percent of companies with employees earning less than $10 per hour investing in labor-saving techniques. This indicates that low-skill positions are the easiest to eliminate in favor of robots, implying great employment risk to low-skill workers if minimum wage is raised to $10 or $15 per hour."

"Raising the minimum wage gives the robots a competitive advantage," says Harvey. "The manufacturing sector is already telling us that spending on labor saving technologies will allow them to shed 11 percent of their current employees over the next five years. Nearly three-fourths of that expenditure is aimed at the jobs with the lowest paid workers. Higher minimum wages will push firms to choose more robots and fewer people."

TAX FINDINGS

Seventy-six percent of U.S. CFOs say that other countries have tax policies that are more favorable to business than the U.S. tax code. As a result, 13 percent of those companies have considered reincorporating in another state or country (conducting a corporate inversion).

U.S. ECONOMIC OUTLOOK BRIGHTENS

On a scale of 0-100, CFO optimism about the U.S. economy increased to 63 from 61 last quarter, continuing to rise above the long-run average of 59. Capital spending is expected to grow by more than 7 percent and full-time employment by 2 percent. Earnings should increase by more than 10 percent.

"It looks like the economic recovery in the United States is gaining momentum pretty much across the board," said David W. Owens, director of research at CFO Publishing. "However, having been burnt so badly during the recession, companies remain cautious. We still will need to wait and see how that optimism can translate into spending, especially in terms of taking on new employees."

TOP CONCERNS

U.S. CFOs indicate governmental policies and increased regulation are their top two concerns in terms of risks to the financial performance of their firms. Other top concerns include the cost of benefits, economic uncertainty, difficulty attracting and retaining qualified employees, and data security.

RESULTS FROM EUROPE

Optimism has improved moderately in Europe. Business spending is expected to rise by 3.6 percent and earnings by 6 percent. Employment will be flat, however. Top concerns include economic uncertainty, governmental and regulatory policies, weak demand, difficulty attracting qualified employees and geopolitical crises.

If the minimum wage increased by 40 percent in Europe (which is analogous to a hike from $7.25 to $10 in the US), 37 percent of firms with minimum wage employees would reduce current employment and 69 percent would reduce future hiring. Nearly 60 percent would shift towards labor-saving technologies. Of those who have already shifted or would soon shift towards labor saving-technologies, the need for workers is reduced 8 percent.

The most difficult positions to fill in Europe are skilled labor/staff, senior management, and especially engineers. European companies do not find it hard to fill jobs in manual labor, operating line, transportation and human resources.

RESULTS FROM ASIA

Asian optimism remains the highest in the world. Wages are expected to jump 7 percent, as is capital spending. Employment will increase by only 1.7 percent. CFOs are concerned about the difficulty hiring and retaining qualified employees, wage inflation, weak demand, government and regulatory policies and economic uncertainty.

The effects of "Abenomics" are waning, as optimism in Japan has fallen below that in the rest of Asia. Top concerns are rising input costs, economic uncertainty and government policies. In the face of difficult economic times, half of Japanese companies would reduce hours worked or temporary workers, and 43 percent would delay maintenance or investment.

If the minimum wage increased by 40 percent in Asia, 36 percent of affected firms across the region would reduce current employment (67 percent in China). Across Asia, three-fourths would reduce future hiring (nearly 90 percent in China). Three-fourths acknowledge that higher wages would increase worker productivity. However, more than 75 percent of affected companies would shift towards labor-saving technologies. Of those who have already or soon will shift towards labor saving-technologies, the need for workers is reduced by about 15 percent.

RESULTS FROM LATIN AMERICA

Optimism continues to fall, with Latin America now being the least optimistic region in the world. In particular, optimism in Brazil has now fallen for six consecutive quarters and is also low in Chile, contrasting with continued strong optimism in Peru and Uruguay.

"Economic growth has slowed in Latin American giant Brazil, and CFOs are not expecting improvement anytime soon." said Graham. "Brazilian companies are particularly worried about governmental policies and regulations, which puts a bright spotlight on the role of government in the upcoming election."

Across Latin America, surveyed CFOs expect wages to increase 7 percent and capital spending will rise only 2 percent. Employment will increase by nearly 3 percent. In addition to concern about governmental and regulatory policies, other top concerns include economic uncertainty, weak demand and wage inflation.

If the minimum wage increased by 40 percent, 40 percent of affected firms would reduce current employment and 72 percent would reduce future hiring. Nearly two-thirds would pass the wage increase along to customers in the form of higher product prices. About three-fourths would shift towards labor-saving technologies. Of those who have already or soon will shift towards labor saving-technologies, the need for workers is reduced by 10 percent.

RESULTS FROM AFRICA

Optimism remains low in Africa as well, averaging only 52, but is up from 49 last quarter. Wage increases are expected to average 7 percent. Capital spending will rise more than 7 percent and fulltime employment will increase 4 percent. Top concerns include government policies, currency risk, economic uncertainty, rising input costs, and difficulty hiring and retaining qualified employees.

If the minimum wage increased by 40 percent, 64 percent of affected firms in Africa would reduce current employment and 86 percent would reduce future hiring. Nearly two-thirds would pass along the wage increase in the form of higher product prices. More than 70 percent would shift towards labor-saving technologies. Of those who have already or soon will shift towards labor saving-technologies, the need for workers is reduced by more than 10 percent.

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Detailed results, including tabular summaries of the numbers in this release and results from previous surveys are available at www.cfosurvey.org.

About the survey: This is the 74th consecutive quarter the Duke University/CFO Global Business Outlook survey has been conducted. The survey concluded June 6 and generated responses from 1,005 CFOs, including 383 from the U.S., 216 from Asia, 190 from Europe, 142 from Latin America and 74 from Africa. The survey of European CFOs was conducted jointly with TiasNimbas in the Netherlands (C.Koedijk@uvt.nl) and ACCA, based in the U.K.

The survey of Latin America was conducted jointly with Fundação Getúlio Vargas (FGV) in Brazil (gledson.carvalho@fgv.br, klenio.barbosa@fgv.br). The Japanese survey was conducted jointly with Kobe University (cfosurveyjp@people.kobe-u.ac.j) and Tokyo Institute of Technology, among others. The African survey was conducted jointly with SAICA (kellym@saica.co.za).

The Duke University/CFO Global Business Outlook survey polls a wide range of companies (public and private, small and large, many industries, etc.), with the distribution of responding firm characteristics presented in online tables. The responses are representative of the population of CFOs that are surveyed. Confidence ranges are reported in the online top line and banner tables for most of the numeric variables. A typical confidence range is less than one percentage point (e.g., capital spending is expected to increase by 7.6 percent with a 95 percent confidence range of 7.3 percent to 7.9 percent, which is a 0.6 percent confidence interval).

Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance. The average growth rates are weighted by revenues or number of employees. For example, one $5 billion company affects an average by as much as 10 $500-million firms would. Revenue-weighted mean growth rates are provided for earnings, revenues, capital spending, technology spending, and prices of products. Employee-weighted mean growth rates are used for health care costs, productivity, number of employees, and outsourced employment. The earnings, dividends, share repurchases and cash on balance sheet are for public companies only. Unless noted, all other numbers are for all companies, including private companies.