

## **Testimony of Yannet Lathrop**

National Employment Law Project

# **In Support of a \$15 Minimum Wage in Vermont, and the Gradual Elimination of the Tipped Sub-Minimum Wage**

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*Hearing Before the Minimum Wage Study Committee of the Joint Fiscal Office of the Vermont General Assembly*

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Thank you for the opportunity to testify today. My name is Yannet Lathrop, and I am a researcher and policy analyst with the National Employment Law Project (NELP). NELP is a non-profit, non-partisan research and advocacy organization specializing in employment policy. We are based in New York with offices across the country. Our staff are recognized as policy experts on a wide range of workforce issues, such as unemployment insurance, wage and hour enforcement, and—as is relevant for today’s hearing—the minimum wage. We have worked with dozens of city councils, state legislatures and the U.S. Congress on measures to boost pay for low-wage workers. We track both, the economic experience of state and local jurisdictions that have increased their wage floor, and the academic research on the minimum wage. As a result, we have developed a strong expertise on the analysis of minimum wage policy.

**NELP testifies today in support of H.93 and S.40**, “An act relating to increasing the minimum wage,” which would raise Vermont’s minimum wage to \$15 by 2022 and index it to inflation in subsequent years; **and H.313**, “An act relating to increasing the minimum wage and tipped minimum wage,” which would do the same and would also gradually eliminate the subminimum wage for tipped workers. These policies will help struggling workers in Vermont meet their basic needs, and will ensure that tipped workers are entitled to the same One Fair Wage as the rest of the labor force.

If Vermont approves a \$15 minimum wage, the state would join a growing number of jurisdictions across the country that have enacted or are pushing for similar policies. Two of the nation’s biggest states—New York and California—with strong economies similar to Vermont, approved statewide \$15 minimum wage policies last year, while Oregon adopted a slightly lower wage floor of \$14.75 for most of the state. A growing number of other states—including Massachusetts, New Jersey, Connecticut, Rhode Island, Maryland and Hawaii—are currently or will soon be considering similar \$15 minimum wage legislation. In addition, nearly two-dozen cities and counties from Washington, D.C. to Minneapolis to Flagstaff, Arizona have approved \$15 minimum wage legislation of their own, and several other local campaigns are underway.

The vast majority of the most rigorous modern research on the impact of higher minimum wages—including robust increases to \$13 or more—shows that these policies boost worker earnings with little to no adverse impact on employment. The few analyses showing adverse effects—such as the University of Washington’s recent study of Seattle’s minimum wage increase—have been shown to have serious flaws that should call their conclusions into question, and tend to be driven by ideological concerns.

The benefits of robust minimum wages for low-wage workers and their families have been significant, raising pay in the face of broader economic trends that have led to stagnant and falling wages across the bottom of our economy, reducing economic hardship, lifting workers out of poverty, and improving other life outcomes. The increased consumer spending triggered by higher wages can have the effect of boosting demand for goods and services and keeping money circulating in the economy, creating a virtuous cycle that benefits workers, businesses and the economy.

These positive benefits have led a growing number of business owners and economists to endorse a \$15 minimum wage. In Washington, U.S. Senator from Vermont, Bernie Sanders, introduced a \$15 minimum wage bill, the Raise the Wage Act (S.1242), which was co-sponsored by 32 other Senators, including Senator Patrick Leahy. Its companion bill in the U.S. House of Representatives (H.R.15) was similarly strongly received, with more than 160 co-sponsors, including Congressman Peter Welch. The Raise the Wage Act, S.1242/H.R.15, would not only raise the federal minimum wage to \$15, but would also gradually phase out the sub-minimum tipped wage nationwide.

In the testimony that follows, I will summarize the evidence on these and other key points.

# The Need for a \$15 Minimum Wage in Vermont

## Workers Throughout Vermont Need to Earn at Least \$15 Per Hour *Today* Just to Afford the Basics; By 2022, They Will Need Much More

Facing some of the highest costs of living in the nation, workers throughout Vermont already need to earn at least \$15 per hour today just to afford the basics. By 2022, they will need even more. As Table 1 shows, even single workers in lower-cost rural Vermont need more than \$16 per hour today, and will need more than \$18 by 2022. Workers caring for at least one child need significantly more.

**Table 1. Vermont workers already need more than \$15 per hour. By 2022, they will need more.**

Region	Family Size	2017 (Inflation Adjusted)	2022 (Estimated)
Burlington / South Burlington MSA	Single Adult	\$18.99	\$21.43
	1 Adult 1 Child	\$34.07	\$38.45
	2 Adults 2 Children*	\$21.20	\$23.93
Rural Vermont	Single Adult	\$16.26	\$18.35
	1 Adult 1 Child	\$26.70	\$30.13
	2 Adults 2 Children*	\$17.76	\$20.05

\* Hourly wage per adult worker.

NELP analysis of Economic Policy Institute's *Family Budget Calculator*, <http://www.epi.org/resources/budget/>. Assumes a modest 2 percent inflation and no median wage growth. Inflation adjustment to January 2017 with Bureau of Labor Statistics' *Inflation Calculator*, <https://data.bls.gov/cgi-bin/cpicalc.pl>.

Housing expenses, alone, can quickly drain the budgets of low-income families. The benchmark for affordable housing is 30 percent of income.<sup>1</sup> Yet, in Vermont, with housing costs continuously climbing over the past decade, an increasing number of low- and middle-income families are having to spend more than 30 percent of their total household incomes on housing.<sup>2</sup>

Today, in rural Vermont, rent for a modest one-bedroom apartment averages \$797 per month, or 46 percent of *pre-tax* earnings for full-time work at the current state minimum wage.<sup>3</sup> In the Burlington metropolitan area, a one-bedroom apartment averages \$1,080, or 62 percent of gross minimum wage earnings.<sup>4</sup> Rent for apartments with two or more bedrooms, which parents raising children would need, cost more and account for even larger percentages of gross monthly earnings. (See Appendix A for additional estimates by county or region, and apartment size).

## **An Expanded EITC Is a Complement to, Not a Substitute for, a \$15 Minimum Wage; and Budgetarily, It Is Unrealistic to Expand the EITC Sufficiently to Deliver a Comparable Income Boost to a \$15 Minimum Wage**

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Opponents of a higher minimum wage sometimes argue that a better tool to increase the incomes of minimum wage workers is the Earned Income Tax Credit (EITC), which in Vermont functions as a refundable tax credit worth 32 percent of the federal EITC.<sup>5</sup>

But this is a false choice. An expanded EITC—which is beneficial policy and worth pursuing—is a complement to, not a substitute for, a \$15 minimum wage. A \$15 minimum wage for Vermont would deliver an average income boost of \$2,000 or more for 87,000 residents.<sup>6</sup> Providing a comparable increase through an expanded EITC would entail increasing the scale of Vermont’s state EITC many fold and expanding it dramatically for childless adults—something that is not budgetarily or politically realistic. By contrast, a \$15 minimum wage, combined with an expanded state EITC, can together have the greatest impact in helping working Vermonters make ends meet.

An expanded EITC by itself does not serve one of the additional functions of a higher minimum wage: Raising labor standards across the bottom of the economy, helping push up stagnant pay scales for workers earning moderately above the minimum wage, and ensuring that employers do their part in providing for their workforces. In particular, while the EITC is an important source of income for many low-wage workers (especially, those with dependent children), relying entirely on this tax credit to boost workers’ income essentially functions as a taxpayer subsidy to low-wage employers<sup>7</sup>—which rewards and reinforces their choice to use a poverty-wage business model to realize profits.

Moreover, the EITC, as currently designed, leaves many low-income workers behind—in particular childless adults who work full-time. In Vermont, childless adults who earned more than \$14,880 in 2016<sup>8</sup> (the equivalent of income from roughly 30 hours of work per week at the 2016 minimum wage rate of \$9.60) did not qualify for the tax subsidy. And if these workers were younger than 25 or older than 65, they did not qualify at all, regardless of income.

That’s why an expanded EITC and a \$15 minimum wage work best together. A higher minimum wage raises pay broadly for workers at the bottom, and the EITC provides an additional income boost, chiefly for families raising children. As the Center on Budget and Policy Priorities explains, “Families modestly above the poverty line often can’t meet basic needs. Improving state EITCs and minimum wages together not only helps more families climb out of poverty, but also helps working families get further down the road to economic security.”<sup>9</sup>

That’s why the same states that are expanding their EITC programs are also raising their minimum wages, including Oregon, Rhode Island, Washington, D.C., Maryland and Minnesota.<sup>10</sup>

# The National Movement to Raise the Wage Floor, and the Benefits of a Higher Minimum Wage

## A Growing List of Jurisdictions Are Enacting \$15 Minimum Wage Increases, Reflecting Continued Concerns with Low Wages and Popular Support for Bold Change

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With job growth skewed towards low-paying occupations over the past decade, there has been growing national momentum for action to raise the minimum wage. Although the U.S. median household income is slowly climbing from the depths of the Great Recession,<sup>11</sup> hourly wages continue to stay flat or decline for most of the labor force.

The worsening prospects and opportunities for low-wage workers have prompted a record number of cities, counties, and states to enact higher minimum wage rates for their residents, often with overwhelming support from voters. Polling data shows that approximately two out of three individuals support a \$15 minimum wage, and support among low-wage workers is even higher.<sup>12</sup> A poll of low-wage workers commissioned by NELP found that approximately 75 percent of low-wage workers support a \$15 minimum wage and a union.<sup>13</sup>

Since November 2012, an estimated 19 million workers throughout the country have earned wage increases through a combination of states and cities raising their minimum wages; executive orders by city, state and federal leaders; and individual companies raising their pay scales.<sup>14</sup> Of those workers, **nearly 10 million will receive gradual raises to \$15 per hour.**<sup>15</sup>

More than two-dozen states and localities have adopted, and are currently phasing in, \$15 minimum wage laws. Two of the nation's biggest states—California and New York— approved statewide \$15 minimum wage policies last year, while Oregon adopted a slightly lower wage floor of \$14.75 for the majority of workers in the state. **A growing number of states—including New Jersey, Massachusetts, Connecticut, Rhode Island, Maryland and Hawaii—are currently or will soon be considering similar \$15 minimum wage legislation.**<sup>16</sup> In addition, nearly two-dozen cities and counties from Washington, D.C. to Minneapolis to Flagstaff, Arizona have approved \$15 minimum wage legislation of their own, and several other local campaigns are underway.<sup>17</sup>

The trend in localities and states pushing for higher minimum wage rates is likely to continue as wages decline or stagnate, inequality worsens or remains high, and Congress fails to take bold action to ensure that hard-working individuals can make ends meet. (See Appendix B).

## Higher Earnings Resulting from Minimum Wage Increases Can Have Significant Benefits for Low-Income Individuals and Their Families

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By raising pay broadly across the bottom of the economy, substantial minimum wage increases can have very direct and tangible impacts on the lives of affected workers and their families, and can be **an effective strategy for addressing declining wages and opportunities for low-wage workers.**

For example, analysis of San Francisco's minimum wage policy—which, over the past decade, has remained significantly above the California and federal rates—shows that the City's minimum wage boosted pay by more than \$1.2 billion for more than 55,000 workers, and permanently raised citywide pay rates for the bottom 10 percent of its labor force.<sup>18</sup> (San Francisco voters first approved an \$8.50 minimum wage in 2003,<sup>19</sup> at the time one of the highest in the nation. The widely recognized success of this measure led Mayor Ed Lee to broker an

agreement with business and labor to place a new increase—this time to \$15—on the November 2014 ballot, which voters overwhelmingly approved).<sup>20</sup>

Research also shows that higher incomes resulting from a minimum wage increase can also translate to a range of other important improvements in the lives of struggling low-paid workers and their households:

- **Decreased poverty:** For workers with the lowest earnings, a study shows that the additional pay can increase their net incomes and lift them and their families out of poverty.<sup>21</sup>
- **Decreased rates of child abuse and neglect:** An analysis of child maltreatment rates found “evidence that increases in minimum wage reduce the risk of child welfare involvement, particularly for neglect reports and especially for young and school-aged children. Immediate access to increases in disposable income may affect family and child well-being by directly affecting a caregiver's ability to provide a child with basic needs.”<sup>22</sup>
- **Improved educational outcomes:** A National Institutes of Health study determined that for children in low-income households, “[a]n additional \$4000 per year for the poorest households increases educational attainment by one year at age 21.”<sup>23</sup>
- **Improved graduation rates:** A study by University of Massachusetts researchers found that high dropout rates among low-income children can be linked to parents’ low-wage jobs, and that youth in low-income families have a greater likelihood of experiencing health problems.<sup>24</sup>
- **Improved health and wellbeing:** A California study estimated that an increase in the state’s minimum wage to \$13 per hour by 2017 “would significantly benefit [the] health and well-being” of Californians, and that they “would experience fewer chronic diseases and disabilities; less hunger, smoking and obesity; and lower rates of depression and bipolar illness. In the long run, raising the minimum wage would prevent the premature deaths of hundreds of lower-income Californians each year.”<sup>25</sup>

# The Economic Impact of Minimum Wage Increases

## Decades of Rigorous Research Shows That Raising the Minimum Wage Boosts Workers' Incomes Without Adverse Employment Effects

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The most rigorous minimum wage research over the past two decades, which examines scores of state and local increases across the U.S., demonstrates that these measures have raised workers' incomes without reducing employment. The substantial weight of the scholarly evidence reflects a significant shift in the views of the economics profession, away from the simplistic view that higher minimum wages cost jobs. As *Bloomberg News* summarized in 2012:

*[A] wave of new economic research is disproving those arguments about job losses and youth employment. Previous studies tended not to control for regional economic trends that were already affecting employment levels, such as a manufacturing-dependent state that was shedding jobs. The new research looks at micro-level employment patterns for a more accurate employment picture. The studies find minimum-wage increases even provide an economic boost, albeit a small one, as strapped workers immediately spend their raises.<sup>26</sup>*

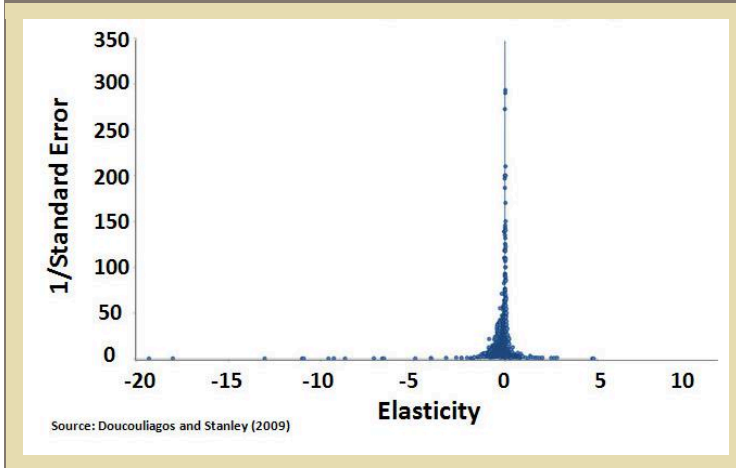
One of the most sophisticated studies coming out of this new wave of minimum wage research, "Minimum Wage Effects Across State Borders," was published in 2010 by economists from the universities of California, Massachusetts, and North Carolina in the prestigious *Review of Economics and Statistics*.<sup>27</sup> That study carefully analyzed minimum wage impacts across state borders by comparing employment patterns in more than 250 pairs of neighboring counties in the U.S. that had different minimum wage rates between 1990 and 2006.<sup>28</sup> Consistent with a long line of similar research, the study found no difference in job growth rates in the 250 pairs of neighboring counties—such as Washington State's Spokane County compared with Idaho's Kootenai County where the minimum wage was substantially lower—and found no evidence that higher minimum wages harmed states' competitiveness by pushing businesses across the state line.<sup>29</sup>

The study's innovative approach of comparing neighboring counties on either side of a state line is generally recognized as especially effective at isolating the true impact of minimum wage differences, since neighboring counties otherwise tend to have very similar economic conditions. The study was lauded as state-of-the-art by the nation's top labor economists, such as Lawrence Katz of Harvard University, and David Autor and Michael Greenstone from the Massachusetts Institute of Technology.<sup>30</sup> (By contrast, studies often cited by minimum wage opponents, which compare one state to another—and especially those comparing states in different regions of the U.S.—cannot as effectively isolate the impact of the minimum wage, because different states face different economic conditions, of which varying minimum wage rates is but one.)

However, it is not simply individual studies, but the whole body of the most rigorous modern research on the minimum wage that now indicates that higher minimum wages have had little impact on employment levels. This is most clearly demonstrated by several recent "meta-studies" surveying research in the field. For example, a meta-study of 64 individual studies on the impact of minimum wage increases, published in the *British Journal of Industrial Relations* in 2009 by economists Hristos Doucouliagos and T. D. Stanley, shows that the bulk of the studies find close to no impact on employment.<sup>31</sup>

This is vividly illustrated in Figure 1, below, which arrays the 1,492 different findings from 64 different studies, mapping their conclusions on employment impacts against the statistical precision of the findings. As economist Jared Bernstein summarizes, "the strong clumping around zero [impact on jobs] provides a useful summary of decades of research on this question [of whether minimum wage increases cost jobs]."<sup>32</sup>

Figure 1. Research overwhelmingly finds that minimum wage increases have little to no effects on employment<sup>33</sup>



Drawing on the methodological insights of Doucouliagos and Stanley, a more recent meta-study by Dale Belman and Paul Wolfson reviews more than 70 studies and 439 distinct estimates to come to a very similar conclusion: “[I]t appears that if negative effects on employment are present, they are too small to be statistically detectable. Such effects would be too modest to have meaningful consequences in the dynamically changing labor markets of the United States.”<sup>34</sup>

A recent study by University of California economists analyzed over three decades (1979 to 2014) of teen and restaurant employment data, comparing states with high average minimum wages and those with low average minimum wages (typically, equal to the federal minimum wage). The data did not show disemployment effects among restaurant workers—who comprise a large share of low-wage workers affected by a minimum wage policy—and the effect on teen employment was only a fraction of the already negligible impact claimed by minimum wage opponents.<sup>35</sup>

Previously, in 2011, this same team of economists had analyzed the impact of the minimum wage on teen employment in a peer reviewed study, “Do Minimum Wages Really Reduce Teen Employment?”<sup>36</sup> The study carefully examined the impact of all U.S. minimum wage increases between 1990 and 2009—including those implemented during the recessions of 1990–1991, 2001 and 2007–2009—and found that the even during downturns in the business cycle, and in regions with high unemployment, the impact of minimum wage increases on teen employment was negligible.<sup>37</sup>

Similarly, in an analysis released near the end of the Obama Administration by the White House Council of Economic Advisors, economists examined all U.S. minimum wage increases since the Great Recession. Like the lion’s share of recent rigorous research on the minimum wage, they found that the post-recession increases delivered significant raises to low-wage workers with little negative effect on job growth.<sup>38</sup>

### **The University of Washington Study of Seattle’s Minimum Wage Ordinance Has Serious Issues Leading to Dubious Conclusions. Thus, it Cannot Serve as Guide for Policymaking**

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Earlier this year, two separate teams of researchers—from the University of California at Berkeley, and the University of Washington—released conflicting analyses of the employment effects of the first two steps of Seattle’s \$15 minimum wage ordinance. (The initial step increased the minimum wage from \$9.47 to \$11 for large employers in 2015, and from \$11 to \$13 in 2016). The study by the University of California, which focused



on the restaurant industry during the 2015-2016 period, and which employed sophisticated controls, did not find negative employment effects.<sup>39</sup> The University of Washington study, which has been criticized by leading economists for its serious methodological flaws,<sup>40</sup> found a reduction in low-wage jobs and hours worked.<sup>41</sup>

Chief among the study's problems—which even the authors themselves admit that they “worry” about—are:

- **Outsized Low-Wage Job Losses.** The study's main conclusion of substantial job losses is, ironically, also one of the first indicators that something is amiss with the analysis. The authors' job loss estimates are far greater than those found for a synthetic control group, which they constructed made up of similar areas in Washington State where the minimum wage did not increase.

Incredibly, the authors find a 9 percent decline in full-time-equivalent jobs paying under \$19 an hour, compared with only a 3 percent increase in wages. This is the equivalent of a 3 percent job loss from a small 1 percent minimum wage increase. That is a job loss estimate that is far above what other researchers—including perennial minimum wage critic, David Neumark—have found in the handful of past studies showing a negative impact.<sup>42</sup> Usually, if economists find a disemployment effect from an increase in the minimum wage, it is statistically insignificant or close to the zero mark.<sup>43</sup>

While one may be tempted to rationalize these outsized findings by pointing to the high nominal value of a \$13 minimum wage, in reality this wage level is modest for a city like Seattle, which has been experiencing a boom in jobs and wages in recent years. One measure economists use to determine the strength of the minimum wage is the “Kaitz index,” or the ratio of the minimum wage to the median hourly wage for full-time workers. A Kaitz index up to 55 percent is considered to be within the normal observed range, and in 2016, when the Seattle's minimum wage rose to \$13, ratio was approximately 51 percent.<sup>44</sup>

Thus, with a minimum-to-median wage ratio in the range of normal, it is reasonable to expect that any observed employment effects will also be within the bounds of past minimum wage research. But as explained above, a 3 percent job loss from a 1 percent wage increase is an outsized disemployment estimate that is far greater—up to 10 times greater, according to one estimate<sup>45</sup>—than past research. And that points to fundamental problems with the study's methodology and data.

- **Large Growth in High-Wage Jobs.** While finding that low-wage jobs paying under \$19 per hour saw a substantial decrease (9 percent) since the minimum wage ordinance went into effect, the authors also find a significant increase (21 percent) in higher-wage jobs that pay more than \$19 per hour,<sup>46</sup> including those in the \$30 range<sup>47</sup>—parts of the wage distribution which should not be influenced by a moderate minimum wage increase. This nonsensical conclusion points to a failure to control for Seattle's booming economy, which has been experiencing rapid job growth and low unemployment rates over the past few years.<sup>48</sup> Tight labor markets, like Seattle's, put pressure on employers to voluntarily raise wages in order to attract and retain staff, which results in a shift toward higher-paying jobs, independent of the minimum wage law.

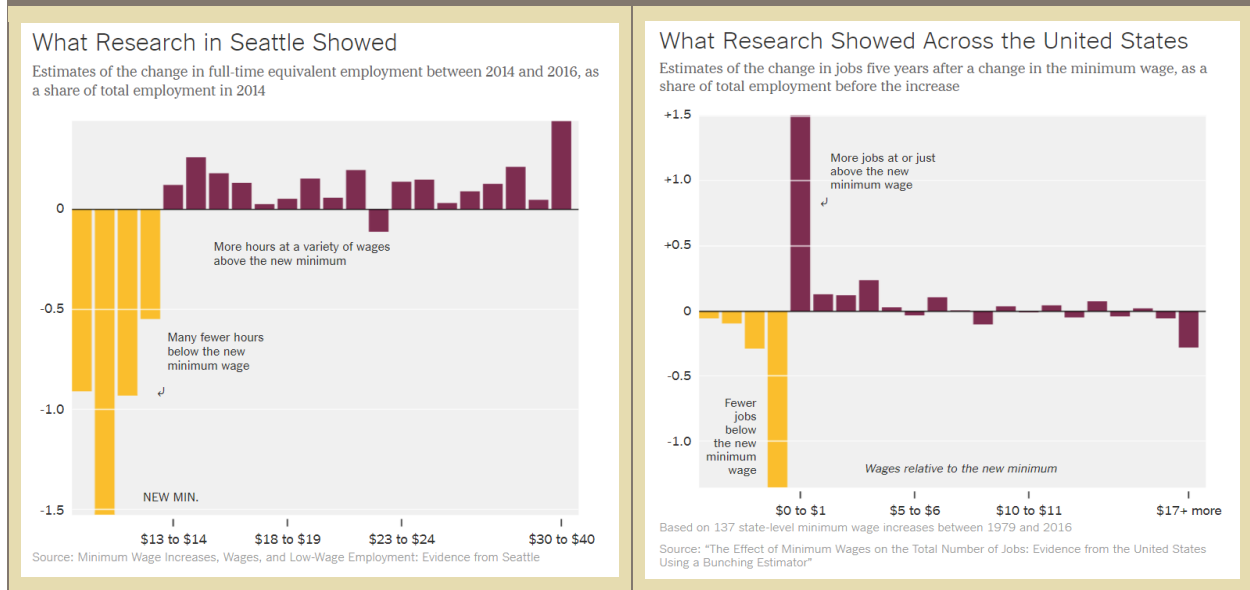
Hence, a more logical interpretation of the observed decrease in lower-wage jobs and increase in higher-wage jobs is not that Seattle's \$15 minimum wage ordinance was causing job losses, but rather, that market forces were naturally changing the city's wage distribution towards higher wages without significant reductions in employment. Economists point to the study's lack of a “spike” in the number of hours worked at the new minimum wage as evidence supporting this interpretation. They write,

*“Rather than a smooth distribution of workers at and above any statutory minimum wage, a regular feature of local, state, and federal minimum wages is that there are noticeably more workers who earn exactly any new minimum wage than there are just above the new minimum. This reflects the tendency of a new higher minimum wage to sweep workers who were below the new minimum just up to the new higher level, while leaving many (though not all) workers just above the minimum wage at or near where they were. In graphs of the wage distribution, this phenomenon creates a ‘spike’ in employment at exactly the new minimum wage. The fact*

that...the authors fail to detect any new spike due to the minimum wage increase to \$13.00, again suggests that the study is not estimating the true effects of the minimum wage and instead merely [reflects] wage growth in Seattle that is occurring regardless of [the] minimum wage increase.”<sup>49</sup>

Figure 2, below, shows a graphical representation of the University of Washington’s findings for Seattle (which *does not* show a spike), and of findings for 137 minimum wage increases over nearly 40 years, which do show a clear spike in the 5 years after the minimum wage increases.

**Figure 2. The University of Washington’s findings for Seattle, which does not show a “spike,” vs. a summary of findings for 137 minimum wage increases over 40 years, clearly showing a spike<sup>50</sup>**



Thus, the paradox of low-wage job losses in tandem with higher-wage job increases, and the lack of a spike, both point to the University of Washington researchers’ erroneous interpretation of the data and the unreliability of their findings.

- Exclusion of 40 Percent of the Workforce from Its Analysis.** Another feature of the study that casts serious doubts on its conclusion is the authors’ exclusion of nearly 40 percent of the state workforce. Because the data did not allow the researchers to identify whether individual workers employed by businesses with multiple locations throughout Washington, work within or outside of Seattle, they left those workers out of the analysis. As a result, the study paints an incomplete picture of the true effects of the minimum wage increase, and fails to determine if the ordinance might have been switching employment from single-location businesses to multiple-locations establishments. (In fact, economic theory suggests that minimum wage increases can result in the elimination of the lowest-paid jobs, such as those that may be more typical in single-location businesses, and their replacement with jobs in higher-wage businesses).<sup>51</sup>

Experts find other areas of concern with the University of Washington study. However, these three flaws, by themselves, are significant enough that the study cannot be relied upon to paint an accurate picture of the employment effects of Seattle’s \$15 minimum wage ordinance, or to guide Vermont’s debate over whether or not to adopt similar legislation.

## Evidence from Cities That Were Early Adopters of High Minimum Wages Similarly Shows Little Adverse Effects on Jobs, and That Implementation Is Manageable for Employers

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Beginning with SeaTac, Washington in 2012—joined later by Seattle, San Francisco, Minneapolis and dozens of other local jurisdictions—U.S. cities have been at the forefront of the movement to raise minimum wages to significant levels up to \$15, forging a path for states to do the same. Academic studies and the media are beginning to report on the experience of these cities, documenting the effects these policies are having on local economies. To date, both research and business press reports suggest these measures are boosting pay with little negative impact on employment.

**Seattle.** This past June, the team of University of California economists released a study that explored the impact of Seattle’s higher minimum wage, which this year hit the \$15 mark for large employers. The study focused on the restaurant industry—the largest low-paying sector where any negative effects on jobs would first appear. The study found that Seattle’s minimum wage, which ranged from \$10.50 to \$13 during the period analyzed, had raised pay for workers without any evidence of a negative impact on jobs.<sup>52</sup>

Another much-publicized Seattle study reached a conflicting conclusion, suggesting that the increase had cost jobs.<sup>53</sup> But the conflicting study has come under fire for its serious methodological errors, which cast doubt on its findings.<sup>54</sup> These problems include the fact that the study excluded 40 percent of the workforce from its analysis, and failed to control for Seattle’s booming economy, which was naturally reducing the number of low-paying jobs as employers raised pay independent of the minimum wage to compete for scarce workers.<sup>55</sup> (For an expanded explanation, see section immediately above).

Business press reports on Seattle’s economy and job market confirm that it is continuing to thrive as the \$15 minimum wage phases in. Today, Seattle has an unemployment rate of just 3.5 percent, one of the lowest on record for the area and lower than the Washington State and U.S. unemployment rates.<sup>56</sup> As *Forbes* reported recently, “Higher Seattle Minimum Wage Hasn’t Hurt Restaurant Jobs Growth After a Year.”<sup>57</sup> Earlier reporting in the *Puget Sound Business Journal* was titled “Apocalypse Not: \$15 and the Cuts that Never Came.”<sup>58</sup>

**San Francisco.** After SeaTac and Seattle, San Francisco was one of the first U.S. cities to adopt a higher minimum wage in 2003. Four years later, a study published in Cornell University’s *Industrial and Labor Relations Review* found that the city had raised pay without costing jobs.<sup>59</sup> Today, the city’s minimum wage is \$14 and will rise to \$15 next year. While an updated study of the impact of the city’s higher wage floor is expected in the coming months, all indicators suggest that it is going smoothly. The city’s unemployment rate dropped to 3.9 percent in July of this year<sup>60</sup> from 5.7 percent in July 2014<sup>61</sup>—the year in which the city adopted its \$15 minimum wage—and its restaurant sector sales grew from 5.4 percent to 6.6 percent from 2014 to 2015, a faster pace than comparable cities like New York.<sup>62</sup>

**San Jose.** In 2012, voters in San Jose approved a \$10 minimum wage by high margins, despite predictions of gloom and doom by opponents.<sup>63</sup> Four years later, the City Council, acknowledging the need for more robust wages, unanimously voted to adopt a \$15 minimum wage.<sup>64</sup> In 2016, University of California researchers released a study of the city’s \$10 minimum wage policy. The authors found that the \$10 minimum wage had raised pay without costing jobs,<sup>65</sup> which confirmed earlier observations reported by the media. As *The Wall Street Journal* reported a year after full implementation of the new minimum wage and two years before the study was released, “[f]ast-food hiring in the [San Jose] region accelerated once the higher wage was in place. By early [2014], the pace of employment gains in the San Jose area beat the improvement in the entire state of California.”<sup>66</sup>

## Despite Minimum Wage Opponents' Claims to the Opposite, Businesses of all Sizes Are Comfortable with Minimum Wage Increases

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The positive experiences of jurisdictions that are currently phasing in a \$15 minimum wage are some of the reasons that, despite what minimum wage opponents often claim, the majority business owners and executives in firms of all sizes are comfortable with higher minimum wages.

According to polling conducted by LuntzGlobal—an opinion research firm headed by leading Republican pollster Frank Luntz—on behalf of the Council of State Chambers, **80 percent of CEOs, business owners and executives at companies of all sizes support raising the minimum wage** in their states, while only 8 percent oppose it.<sup>67</sup> Among small business owners, 59 percent favor raising the minimum wage, according to a poll by Manta.com.<sup>68</sup>

Illustrative of the business community's support for higher wage floors is the fact that a growing number of business owners, business associations, and economists are either voluntarily raising their minimum pay, or have publicly endorsed \$15 minimum wage proposals:

- **Business Associations:** In states that are currently transitioning to a \$15 minimum wage, business organizations representing more than 32,000 small businesses either endorsed the \$15 wage floor proposal, or simply did not oppose it. These include the Greater New York Chamber of Commerce (endorsed), the Brooklyn Chamber of Commerce (endorsed), the Northeast Organic Farmers Association—New York Chapter (endorsed), the Long Island and Westchester/Putnam African-American Chambers of Commerce (endorsed), the Restaurant Association of Metropolitan Washington (endorsed), and the Golden Gate Restaurant Association (did not oppose).<sup>69</sup>
- **Retailers and Other Businesses:** Target, which employs 323,000 workers nationwide,<sup>70</sup> recently became the first low-wage chain to announce it will raise its minimum pay to \$15 by 2020, citing a need to attract and retain talent, and disproving the myth that a higher wage is an unsurmountable challenge for employers.<sup>71</sup> The retail giant is not alone, as a growing number other retailers, financial institutions, restaurants and other diverse businesses of all sizes have made similar announcements, or endorsed minimum wage campaigns.<sup>72</sup>
- **Economists:** Citing a link between low minimum wages, stagnating incomes and growing wealth inequality, a growing number of economists have similarly endorsed Senator Bernie Sanders' \$15 minimum wage bill, which would also gradually eliminate the sub-minimum tipped wage. Endorsers include economists from Vermont, Massachusetts, and Connecticut.<sup>73</sup>

# The Case for a Gradual Elimination of the Tipped Sub-Minimum Wage in Vermont

## Eliminating the Sub-Minimum Wage for Tipped Workers Is Crucial to Making a Real Difference in the Lives of Low-Wage Workers

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The gradual elimination of the sub-minimum wage for tipped workers is crucial to improving the lives and economic prospects of low-wage workers in Vermont. Without it, a significant share of the state's lowest-paid workers will become increasingly vulnerable to poverty. As inflation erodes the real value of the tipped wage, tipped workers will become progressively more dependent on the generosity of customers to earn their livelihoods and avoid poverty.

A sub-minimum wage for tipped workers has not always existed. Until 1966, there was no federal subminimum wage for tipped workers.<sup>74</sup> But with the 1966 expansion of the Fair Labor Standards Act (FLSA) to cover hotel, motel, restaurant, and other leisure and hospitality employees who had previously been excluded by the FLSA, the law was amended to allow employers to pay tipped workers a sub-minimum wage of 50 percent of the full minimum wage.<sup>75</sup> In 1996, tipped worker's pay decreased further when a Republican-controlled Congress raised the federal minimum wage from \$4.25 to \$5.15, but froze the tipped minimum wage at \$2.13. This policy decoupled the tipped wage from the full minimum wage for the first time in the history of U.S. wage law, setting up over two decades of a frozen minimum wage for tipped workers<sup>76</sup> in most of the nation.

If Vermont adopts a gradual elimination of the tipped sub-minimum wage, it would join the seven "One Fair Wage" states—Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington—that do not allow employers to pay their tipped staff a lower wage.<sup>77</sup> Tipped workers in these One Fair Wage states receive the full minimum wage directly from their employers, and their tips function as gratuities should: As supplemental income over and above their wages, in recognition of good service. Although not technically a One Fair Wage state, Hawaii also abolished the sub-minimum wage for most tipped workers, preserving a very limited tip credit of just 75 cents for tipped workers who average at least \$7.00 an hour in gratuities.<sup>78</sup>

This past May, U.S. Senator from Vermont, Bernie Sanders, introduced a \$15 minimum wage bill, the Raise the Wage Act (S.1242), which was co-sponsored by 32 other Senators, including Senator Patrick Leahy. Its companion bill in the U.S. House of Representatives (H.R.15) was similarly strongly received, with more than 160 co-sponsors, including Congressman Peter Welch. The Raise the Wage Act, S.1242/H.R.15, would not only raise the federal minimum wage to \$15, but would also gradually phase out the sub-minimum tipped wage nationwide.<sup>79</sup>

Although minimum wage opponents in the restaurant industry often claim that most tipped workers earn high incomes and do not need a raise, Bureau of Labor Statistics (BLS) data shows that **the typical tipped worker in Vermont earns just a few dollars above the state minimum wage**. According to the most recent BLS data, between November 2013 and May 2016, the median wage for restaurant servers in Vermont was \$14.03 per hour *including tips*, and the average was \$15.27 per hour, also including tips.<sup>80</sup> During the period covered by the BLS data, the applicable minimum wage in Vermont was between \$8.60 and \$9.60 per hour,<sup>81</sup> meaning that servers in the state earned between \$4.43 and \$6.67 above Vermont's wage floor—hardly the type of high incomes that the restaurant industry claims to be typical.

In addition to restaurant servers, other tipped jobs include car wash workers, nail salon workers, and pizza delivery drivers—notorious sweatshop occupations where pay is often even lower than in the restaurant industry.<sup>82</sup>

Tipped work is inherently uneven and often unpredictable. While most of us expect to be paid the same for every day or hour we work, for tipped workers this is often not the case. For example, restaurant servers can earn substantially more on Friday or Saturday nights, but much less on other days of the week. Bad weather, a sluggish economy, the changing of the seasons, a less generous customer, and a host of other factors can also cause sudden drops in their tipped income and lead to economic insecurity. Not surprisingly, **tipped workers face poverty at twice the rate of non-tipped workers**, with waiters and bartenders at even higher risk of poverty.<sup>83</sup>

**Tipped workers across the country are also significantly more likely to rely on public assistance** to make ends meet. Close to half (46 percent) of tipped workers and their families rely on public benefits compared with 36 percent of non-tipped workers.<sup>84</sup> Ultimately, shifting the responsibility to pay workers' wages to customers under the tipped sub-minimum wage system allows employers in a few select industries to benefit from a customer-funded subsidy at the expense of workers' economic security.

## **The Complex Sub-Minimum Wage System for Tipped Workers Is Difficult to Enforce and Results in Widespread Noncompliance**

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The sub-minimum tipped wage system is complex, difficult to implement and plagued by noncompliance. For example, both employers and employees find it difficult to track tip earnings, a task that is often complicated by tip sharing arrangements amongst workers. In addition, when tipped workers' earnings fall short of the full minimum wage, many will forego asking their employers to make up the difference—as employers are legally required to do—for fear that the employer may retaliate by giving more favorable shifts to workers who do not make such demands.<sup>85</sup>

Given the implementation challenges inherent in the subminimum wage system, it is not surprising that a 2014 report by the Obama Administration's National Economic Council and the U.S. Department of Labor found that one of the most prevalent violations amongst employers is failing to properly track employees' tips and make up the difference between an employee's base pay and the full minimum wage when tips fail to fill that gap.<sup>86</sup> A survey found that more than 1 in 10 workers employed in predominantly tipped occupations earned hourly wages below the full federal minimum wage, including tips.<sup>87</sup>

## **Vermont's Restaurant Industry is Strong, and Can Afford to Adapt to a \$15 Minimum Wage without a Tip Credit**

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While restaurant industry lobbyists often argue that eliminating the tipped sub-minimum wage would hurt restaurants and its workers, the facts belie those claims. In particular, the restaurant industry in One Fair Wage states is strong and projected to grow faster than in many of the states that have retained a sub-minimum tipped wage system.

According to projections by the National Restaurant Association (NRA), **restaurant sales are expected to reach \$799 billion this year, a 4.3 percent increase over 2016.**<sup>88</sup> In Vermont, restaurant sales are expected to reach \$1 billion this year. Restaurant and food service jobs currently make up 10 percent of employment in the state, and are expected to grow by a healthy 7.1 percent over the next ten years.<sup>89</sup>

Many of the states with the strongest restaurant job growth do not allow a tipped minimum wage for tipped workers, and require employers to pay tipped workers some of the country's highest base wages. For example, restaurant employment in California—which has no subminimum wage for tipped workers and is phasing in a \$15 minimum wage—is projected to grow by 10.6 percent during the 2017–2027 period.<sup>90</sup> In California, the minimum wage is now \$10 per hour for small employers (25 or fewer employees) and \$10.50 for large employers (26 or more employees), and the minimum wage will reach \$15 for all employers by 2023.<sup>91</sup> In

Oregon, where the minimum wage is currently between \$10 and \$11.25 and will increase to between \$12.50 and \$14.75 by 2022,<sup>92</sup> and which has no tipped sub-minimum wage, restaurant employment is projected to grow by 13.2 percent during that same period.<sup>93</sup> And in Washington State, where the minimum wage is \$11.00<sup>94</sup> and will increase to \$13.50 by 2020,<sup>95</sup> restaurant employment growth during the same period is expected to grow by 11.8 percent.<sup>96</sup> According to the NRA's own projections, restaurant employment in the seven states without a tipped minimum wage will grow in the next decade at an average rate of 10.7 percent.<sup>97</sup>

Moreover, a 2015 Cornell Hospitality Report looked at the impact of minimum wage increases on restaurant employment and business growth levels over twenty years across the United States. It found that raising the minimum wage (including the tipped wage) will raise restaurant industry wages but will not lead to "large or reliable effects on full-service and limited-service restaurant employment."<sup>98</sup>

**Appendix A. Rent As a Percent of Pre-Tax Monthly Earnings, by Apartment Size and Region**

Apartment Size	Studio		One Bedroom		Two Bedrooms		Three Bedrooms		Four Bedrooms	
	Rent	Pct. of Earnings	Rent	Pct. of Earnings	Rent	Pct. of Earnings	Rent	Pct. of Earnings	Rent	Pct. of Earnings
<b>Burlington MSA</b>	\$885	51%	\$1,080	62%	\$1,395	81%	\$1,885	109%	\$1,934	112%
<b>Rural Vermont</b>	\$748	43%	\$797	46%	\$989	57%	\$1,289	74%	\$1,491	86%
<b>Addison County</b>	\$782	45%	\$878	51%	\$1,015	59%	\$1,367	79%	\$1,609	93%
<b>Bennington County</b>	\$816	47%	\$833	48%	\$988	57%	\$1,378	80%	\$1,383	80%
<b>Caledonia County</b>	\$685	40%	\$689	40%	\$916	53%	\$1,146	66%	\$1,263	73%
<b>Essex County</b>	\$602	35%	\$629	36%	\$781	45%	\$977	56%	\$1,077	62%
<b>Lamoille County</b>	\$644	37%	\$844	49%	\$1,006	58%	\$1,330	77%	\$1,705	98%
<b>Orange County</b>	\$762	44%	\$773	45%	\$979	57%	\$1,263	73%	\$1,400	81%
<b>Orleans County</b>	\$598	35%	\$654	38%	\$788	46%	\$986	57%	\$1,090	63%
<b>Rutland County</b>	\$758	44%	\$769	44%	\$948	55%	\$1,186	68%	\$1,386	80%
<b>Washington County</b>	\$776	45%	\$781	45%	\$1,033	60%	\$1,292	75%	\$1,569	91%
<b>Windham County</b>	\$720	42%	\$815	47%	\$1,035	60%	\$1,317	76%	\$1,581	91%
<b>Windsor County</b>	\$800	46%	\$861	50%	\$1,057	61%	\$1,457	84%	\$1,677	97%

Source: National Low Income Housing Coalition, *Out of Reach 2017: Vermont*, <http://nlihc.org/oor/vermont>. Pre-tax estimates assume 2,080 hours of work per year at the current state minimum wage of \$10.



**Appendix B. Ongoing and Forthcoming \$15 Minimum Wage Campaigns or Proposals (Selected)**

Jurisdiction	Proposed Wage and Timeline	Current Wage	Proposed Tipped Wage	Current Tipped wage	Cost of Living Indexing	Worker (#) and Labor Force (%) Impact	Type of Campaign
<b>Federal</b>	\$15.00 by 2024	\$7.25	OFW	\$2.13	Jan. 2021 (median wage)	41 million (30%)	Legislative
<b>Connecticut</b>	\$15.00	\$10.10	OFW	\$6.38 (restaurant, hotel); \$8.23 (bar)	Yes	336,000 (20%)	Legislative
<b>Hawaii</b>	\$15.00	\$9.25	OFW	\$9.25 or \$8.50	TBD	223,000 (33%)	Legislative
<b>Maryland</b>	\$15.00	\$9.25	OFW	\$3.63	Yes	1.3 million (33%)	Legislative
<b>Massachusetts</b>	\$15.00 by 2021	\$11.00	OFW	\$3.75	Yes	943,000 (29%)	Legislative and Ballot
<b>New Jersey</b>	\$15.00	\$8.44	TBD	\$2.13	TBD	1.3 million (31%)	Legislative and Ballot
<b>Rhode Island</b>	\$15.00	\$9.60	TBD	\$3.89	TBD	175,000 (36%)	TBD
<b>Montgomery County, MD</b>	\$15.00 by 2020 - 2022	\$11.50		\$4.00	Yes		Legislative
<b>Santa Clara, CA</b>	\$15.00 & \$16.50 by 2019	\$11.10	No Change (OFW)	\$11.10			Legislative
<b>St. Paul, MN</b>	\$15.00	\$9.50 (large) \$7.75 (small)	No Change (OFW)	\$9.50 (large) \$7.75 (small)			TBD
<p><b>Notes:</b> OFW (“One Fair Wage”) refers to policies that guarantee the same minimum wage to tipped and non-tipped workers—with gratuities in addition to that base hourly wage—and which do not allow employers to claim a tip credit.</p>							

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