NATIONAL EMPLOYMENT LAW PROJECT

TESTIMONY

Written Testimony of Yannet Lathrop

National Employment Law Project

Hearing on S.B. 940, A Bill to Incrementally Raise Maryland's Minimum Wage to $15 by 2020

March 17, 2016

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Thank you, Sen. Middleton, Sen. Astle and members of the Maryland Senate Finance Committee, for the opportunity to submit written testimony on S.B. 940. This bill would gradually phase Maryland's minimum wage up to $15 by January 2020 and eliminate the outmoded tipped subminimum wage. My name is Yannet Lathrop and I am Researcher and Policy Analyst at 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 in Washington, DC and California. We partner with federal, state, and local lawmakers on a wide range of workforce issues ranging from unemployment insurance, to the on-demand economy, to raising the minimum wage.

NELP testifies today in support of the proposed $15 minimum wage increase under S.B. 940. Such an increase would raise pay for hundreds of thousands of Maryland's lowest paid workers. The typical worker who would be affected by a minimum wage increase in the state is a woman over 25 who works full-time and provides on average 42 percent of her household's income, according to analysis by the Economic Policy Institute.[1] And the typical raise these workers would receive, once the wage was phased in by 2020, would likely be more than $4,000 per year – enough to make a real difference in the lives of hundreds of thousands of Maryland's workers.

As for the impact on jobs and businesses, the best economic evidence shows that gradually phasing in such an increase by 2020 would be manageable for the state's businesses.

S.B. 940's proposal to phase out the tipped subminimum wage would also be highly beneficial for Maryland's workforce. Lower tipped minimum wages contribute to high poverty rates among the mostly female tipped workforce of waitresses, nail salon workers and the like. And the economic evidence from the many states that do not have a tipped subminimum wage is that eliminating it does not hurt job growth in industries employing tipped workers such as restaurants.

In this testimony I'll summarize the evidence on these and other key points.

1. Nationally There Is Growing Momentum for a $15 Minimum Wage

Maryland's proposal is part of a wave of national action for significantly higher minimum wages. Over the past two years, more than half dozen localities including Los Angeles, San Francisco and Seattle have approved $15 minimum wages; and more than a dozen cities including Rochester, Buffalo and New York City have approved raising pay for city workers and/or city contractors to $15.[2]

Now states are beginning to act. In 2015, the state of New York adopted a $15 minimum wage for fast food workers,[3] and New York Gov. Andrew Cuomo is pushing to expand this wage statewide to all industries.[4] Joining Maryland and New York are Connecticut,[5] New Jersey,[6] California,[7] Massachusetts (fast food and big retail),[8] and the District of Columbia,[9] which are also pushing state-wide $15 minimum wages. Some of those measures are likely to appear on the November 2016 ballot, and with polls showing high levels of public support, they are likely to become law. (More background on $15 minimum wages is available on the National Employment Law Project's Raise the Minimum Wage website at http://raisetheminimumwage.org/pages/movement-for-15 .)

2. The Experience of Businesses in Other Jurisdictions Suggests Maryland Can Adjust to a Minimum Wage of $15

You're likely going to hear testimony from some business owners who will predict that they'll have to lay off staff or even close if the minimum wage is raised to $15 – even if gradually phased in over four years, as the bill proposes. Business lobbying groups, too, will provide similar testimony. These groups in general can be counted on to oppose any minimum wage increase, whether large or small. But, the experience of jurisdictions such as Seattle and San Francisco – which are currently phasing in a $15 minimum wage – shows that predictions of economic dislocation have not come to pass (see Section 7 of this testimony).

Why is that? First, more than half of low-wage workers work for big companies like the big retail and restaurant chains, whom most people recognize can absorb an increase, even a large one. And second, among small businesses, most are service industry firms like dry cleaners, convenience stores and diners that serve local customers. When the minimum wage goes up, they and their competitors are all on a level playing field and can gradually adjust their prices to cover the cost without being put at a disadvantage. Moreover, that cost is partially offset both by the increased consumer spending generated by a $15 minimum wage, and the staff recruitment and training savings generated by better paid staff who stay on the job longer.

A diverse range of business leaders confirm that transitioning to a $15 minimum wage is entirely feasible. "'Everybody in retail is dealing with an increase in minimum wage,' said Popeyes CEO Cheryl Bachelder to *CNN Money*. 'We will adjust to increased costs [of a $15 minimum wage] just like we have before. Life will go on. There's been too much hubbub about it.'"[10]

Marcus Samuelsson, owner of Harlem's Red Rooster restaurant in New York City, put it this way to *Crain's New York*, "You have to adjust. I have 160 employees—we adjusted to the health care law, and we will have to adjust to [a $15 minimum wage]. As a small-business owner, I know that change is something that comes constantly."[11]

And as a former food chain owner in New York, Dennis Kessler, who teaches at the University of Rochester's Simon School of Business told the *Washington Post* last year, "This $15 thing is being phased in over quite a few years, so I don't think it's going to have much of an impact. …. People are going to have to pay a little more. It really isn't too much more complicated than that."[12]

3. Workers Throughout Maryland Need $15 to Make Ends Meet

Opponents of the minimum wage may suggest that $15 is an excessive wage rate for Maryland. However, cost of living data show that in most regions of the state, single workers without family responsibilities will need approximately $15 by 2020 just to cover the basics. Workers supporting children will need substantially more.

For example, in the suburbs surrounding Washington, D.C., by 2020 a single worker will need $46,650 to cover housing, food, medicine and other basic necessities. This translates to $22.43 hourly, assuming full-time, year-round work. A single parent raising just one child will, by 2020, need to earn an hourly wage of $34.87. Even in rural Maryland, a single worker will need to earn at least $17.47 hourly in 2020 to cover the basics, while a single parent raising one child will need $28.03. It is only in a handful of the very least expensive regions of the state, such as Cumberland, near the border with West Virginia, that a single adult will still potentially be able to get by in 2020 on a little less than $15.00. But even there, a single worker with just one child will need to earn well over $15.00 – $23.39 by 2020 – to cover the basics. (See Table 1). [13]

Table 1: Hourly Wage Needed to Afford a Basic Household Budget in Maryland, by Family Size

Region	Family Size	2016	2017	2018	2019	2020
Baltimore/Towson MSA	Single Adult	$17.00	$17.34	$17.69	$18.04	$18.41
	With 1 Child	$29.58	$30.17	$30.77	$31.39	$32.02
Cecil County	Single Adult	$16.27	$16.59	$16.92	$17.26	$17.61
	With 1 Child	$27.88	$28.44	$29.01	$29.59	$30.18
Cumberland MSA	Single Adult	$12.29	$12.53	$12.79	$13.04	$13.30
	With 1 Child	$21.60	$22.04	$22.48	$22.93	$23.39
Hagerstown MSA	Single Adult	$14.14	$14.43	$14.71	$15.01	$15.31
	With 1 Child	$25.65	$26.16	$26.69	$27.22	$27.76
Maryland Suburbs of Washington D.C.	Single Adult	$20.72	$21.13	$21.56	$21.99	$22.43
	With 1 Child	$32.22	$32.86	$33.52	$34.19	$34.87
Rural Maryland	Single Adult	$16.14	$16.46	$16.79	$17.13	$17.47
	With 1 Child	$25.90	$26.41	$26.94	$27.48	$28.03
Salisbury MSA	Single Adult	$13.12	$13.38	$13.65	$13.93	$14.20
	With 1 Child	$24.59	$25.08	$25.58	$26.10	$26.62

4. Comprehensive Economic Studies of a Phased-In $15 Minimum Wage Shows Far-Reaching Benefits and a Modest Impact on Jobs

The first comprehensive analysis of the impact of a $15 minimum wage at the state level was conducted recently for New York by economists from the University of California at Berkeley's Institute for Research on Labor and Employment.[14] It found that a $15 state minimum wage gradually phased in over five years would have broad benefits for workers, raising pay by an average $4,800 (in 2015 dollars) for nearly 37 percent of the state's workforce.

In terms of the impact on employers, the University of California analysis found that it would be manageable and would raise business operating costs by an average of just 0.7 percent by 2021. Most importantly, the analysis found that rather than leading to a reduction in jobs, the net impact of a phased in $15 minimum wage on employment levels would be tiny – and, in fact, very likely would be slightly positive, resulting in a modest net increase in employment.

These findings were based on a careful economic modeling and analysis of the two significant – and largely offsetting – impacts on employers of a large minimum wage increase. The first impact is, of course, the increase in business operating costs, which is a negative for businesses. The second impact, however, is a corresponding large increase in consumer spending generated by workers receiving higher wages, which is a positive for businesses, since it increases sales.

Past smaller minimum wage increases typically raised pay for less than 10% of the workforce, and so had very little net impact on consumer spending. The University of California analysis found that under an increase to $15 that raises pay for more than one in three workers, the resulting increase in consumer spending is much larger than in the past, and that the two impacts largely offset each other. The net result is that any negative impact on jobs is very small. But for workers, the benefits would be far reaching, delivering the first significant raises in low-paid industries in many years.

Two additional careful studies – one by researchers at the University of Massachusetts[15] and a second by researchers at the Purdue School of Hospitality and Tourism Management – both reach similar results. They show that restaurants – the industry most affected by a minimum wage increase – will be able to accommodate a $15 minimum wage through significant savings from reduced staff turnover and small price increases not much greater than recent experience.[16]

5. Growing Numbers of Economists Endorse a $15 Minimum Wage

In addition to individual studies, growing numbers of economists are advising that a gradually phased-in $15 minimum wage is manageable and highly beneficial for workers. And in particular, many have endorsed the University of California study as the most credible and comprehensive analysis of the topic.

For example, this month more than 75 New York economists endorsed the study's findings and a $15 minimum wage.[17] The economists explained that "The methodology used in the Berkeley study is straightforward and appropriate in modeling the impacts on businesses and the overall economy." They concluded, "we believe that a phased-in increase in the New York State minimum wage to $15 an hour makes sound economic sense: it would be good for the state's workers and their families, good for businesses, and good for the health and sustainability of the overall state economy."

Similarly, more than 200 economists have endorsed a $15 federal minimum wage by 2020, finding that raising the minimum to $15 an hour "will be an effective means of improving living standards for low-wage workers and their families and will help stabilize the economy. The costs to other groups in society will be modest and readily absorbed."[18]

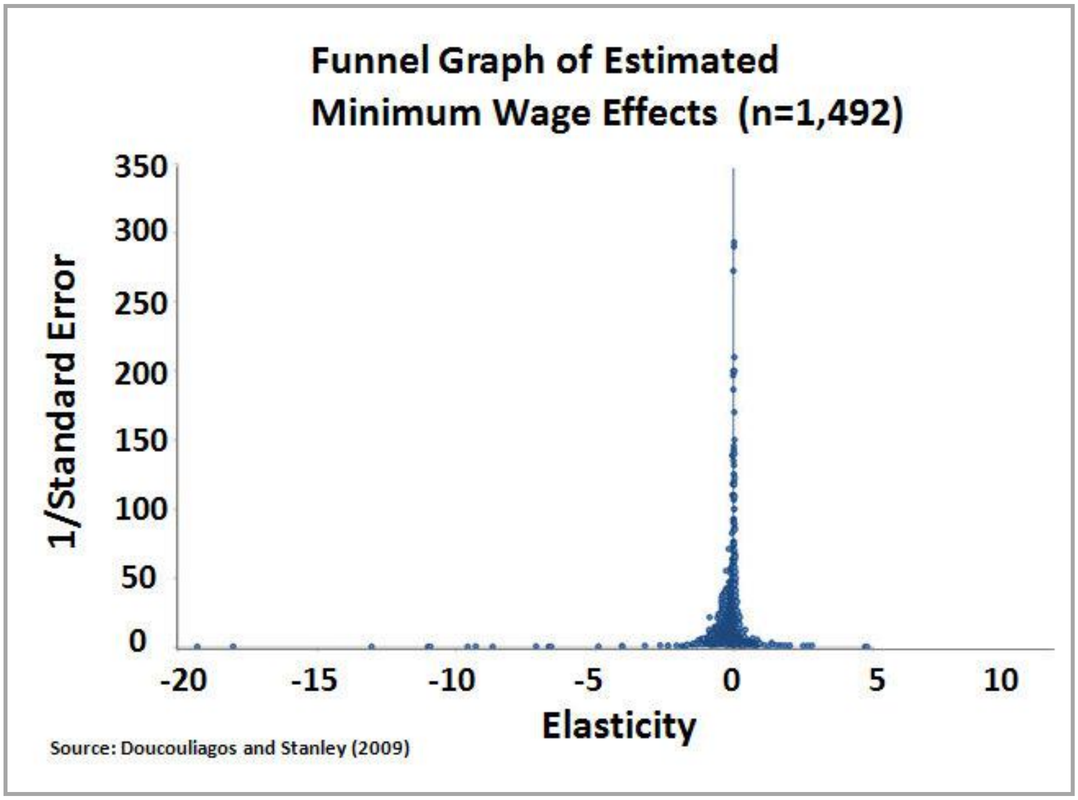
6. For More Than Twenty Years, the Most Rigorous Economic Research Has Shown That Raising the Minimum Wage Boosts Incomes for Low-Wage Workers with Only Very Small Adverse Impacts on Jobs

Over the past twenty years, the bulk of credible minimum wage research in the U.S. has found that minimum wage increases boost worker pay with only very small adverse impacts on jobs. As Bloomberg News summarized it, "[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."[19]

This is best illustrated by "meta-studies" that survey and aggregate the findings of scores of minimum wage studies. The two leading meta-studies – by economists Hristos Doucouliagos and

T.D. Stanley (2009)[20] and Dale Belman and Paul Wolfson (2014)[21] – show that the vast majority of recent studies find minimum wage increases have little to no effect on employment levels or job growth.[22] The following funnel graph (Figure 1) from the first of these meta-studies illustrates how the job loss findings from most minimum wage research are clustered very close to zero ("elasticity" in the graph refers to a measure of the change in employment resulting from an increase in the minimum wage). It also shows that the most rigorous studies (those higher up on the vertical axis) found close to zero effect on jobs.

Figure 1: Doucouliagos' and Stanley's Findings of the Effects of Minimum Wage increases



A new study released by economists at the Cornell Center for Hospitality Research further illustrates that the bulk of credible research points to very small effects on jobs and business growth, but significant effects on wages. The new Cornell study looks at the impact on restaurant employment and business growth levels over 20 years across the United States. It finds no evidence that states with higher minimum wages, including higher minimum wages for tipped workers, have lower employment or business growth rates.[23]

7. Job Growth Has Thrived in Areas with Significantly Higher Minimum Wages, and Predictions That Businesses Would Close or Lay-Off Workers Have Not Materialized

Predictions of store closures by business owners and certain trade associations are common when cities or states propose raising the minimum wage. However, real world experiences in places that have actually raised wages substantially have proven these predictions unfounded, as documented both by reports in the business press and by rigorous academic studies.

For example, in Seattle, the first major city to adopt a $15 wage, the region's unemployment rate hit an eight-year low of 3.6 % in August 2015, significantly lower that the state unemployment rate of 5.3 percent, following the initial wage increase in April 2015.[24] In a front-page story titled "Apocalypse Not: $15 and the Cuts that Never Came," the *Puget Sound Business Journal* reported on "The minimum wage meltdown that never happened," explaining that Seattle's restaurant industry has continued to expand and thrive as the $15 wage phases in.[25] King County, where Seattle is located, is on track to break last year's record for the number of business permits issued to food service establishments. And business owners who had publicly opposed the $15 minimum wage are in the process of expanding operations.

Other regions of the country implementing significant minimum wage increases have had similar experiences. In San Jose, *The Wall Street Journal* reported, "Fast-food hiring in the region accelerated once the higher wage was in place. By early this year, the pace of employment gains in the San Jose area beat the improvement in the entire state of California."[26]

In San Francisco, a University of California study found, as reported by *Bloomberg Business,* that after the city phased in what was at the time the highest minimum wage in the nation, "[a]mong food-service workers, who are more likely to be affected by minimum-wage laws, employment grew 17.7 percent in San Francisco, faster than either of the other [neighboring] Bay Area counties."[27]

And in SeaTac, Washington – where the minimum wage today is already over $15 – *The Puget Sound Business Journal* reported that "none of these dire warnings [of business closures or job cuts] have come to pass," and the *Washington Post* reported that a major hotel that predicted it would have to lay workers off instead decided to expand.[28]

8. Maryland Should Join States Paying Tipped Workers the Full Minimum Wage

Finally, S.B. 940's proposal to phase out the tipped subminimum wage would also be highly beneficial for Maryland's workforce. There are many well-established reasons why having a lower minimum wage for tipped workers just doesn't make sense, and why having one fair wage for all workers – as eight states currently do – is good policy.

First, many of the sectors where workers are paid in part with tips are notorious sweatshop industries such as nail salons, car washes, pizza delivery and airport personal services for seniors and persons with disabilities. Workers in these sectors barely scape by and should be paid the full minimum wage with any tips on top of that.

Second, the lower tipped minimum wage – under which employers are supposed to monitor weekly total compensation and make up the difference if tips fall short of bringing workers up to the full minimum wage – is widely recognized by enforcement authorities to be difficult to enforce. As explained in a 2014 report by the White House National Economic Council and the U.S. Department of Labor, "The rules for tipped workers are complicated and can be confusing for employers and employees alike. One of the most prevalent violations is the failure to keep track of employee tips and therefore the failure to 'top up' employees if their tips fall short of the full minimum wage."[29]

Third, the main argument raised by the restaurant industry for not raising the tipped minimum wage – that many tipped workers are employed at high end restaurants where they receive significant amounts in tips and so do not need an increase in their base wage – flies in the face of available evidence. While there certainly are such well-paid workers, they represent a very small segment of the tipped workforce and therefore are not representative. Instead, the typical tipped worker in the state is a waitress at a diner or at a chain restaurant like Applebee's. In 2014, their median wage, including tips, was just $8.83 – a little higher than the state's current minimum wage of $8.25, but still very low.[30] Tipped workers are overwhelmingly low-income women, many of them supporting children, and the lower tipped wage is a significant reason that tipped workers like waitresses have more than twice the poverty rate of the workforce as a whole.[31]

Fourth, the evidence is indisputable that the tipped wage can be phased out without harming the restaurant industry, which employs the greatest number of tipped workers. This is very clear from the fact that seven U.S. states have eliminated the tipped wage – or never had one – and their restaurant business and job growth patterns are indistinguishable from the rest of the nation. In fact, the first three major cities to raise the minimum wage to $15 – Los Angeles, San Francisco and Seattle – are all places with no lower tipped minimum wage.

Fifth, these findings are confirmed by the new report published last month by researchers at Cornell's Hospitality Research Center titled "*Have Minimum Wage Increases Hurt the Restaurant Industry? The Evidence Says No.*" It shows that higher tipped wages have not harmed restaurant business or job growth.[32]

Lastly, the growing movement by many restauranteurs to do away with tipping makes the proposal to eliminate the tipped wage all the more timely and important: without tips, restaurant workers will depend entirely on their base wage to make ends meet. They and the rest of Maryland's low-wage workforce need a boost to $15 to begin to cover basic living costs – whether they live in Montgomery County, rural Maryland or Cumberland.

Thank you so much for the opportunity to testify today. I'd be happy to answer any questions that you may have.

For more information, please contact Yannet Lathrop at ylathrop@nelp.org. For more about NELP, visit www.nelp.org or www.raisetheminimumwage.org.

ENDNOTES

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[16]Richard Ghiselli and Jing Ma, "The Minimum Wage, A Competitive Wage and the Price of a Burger: Can Competitive Wages be Offered in Limited-Service Restaurants," Purdue University School of Hospitality and Tourism Management, 2015.
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