

A \$15 Baltimore City Minimum Wage

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on Ordinance 16-0655 City Minimum Wage

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Chairman Curran, members of the council, thank you for holding this hearing and allowing me to speak with you today. My name is David Cooper. I am the senior economic analyst at the Economic Policy Institute, a non-profit, non-partisan research organization in Washington, D.C., that focuses on improving the economic conditions of low- and moderate-income Americans.

Last month, EPI released an analysis describing the workers who would be affected by establishing a Baltimore minimum wage of \$15 by 2020.¹ I'm going to very briefly note the topline results of that report and then discuss the appropriateness of a \$15 minimum wage in Baltimore and what the economics literature tells us about how establishing a higher city minimum wage will affect the local and regional economy.

Who will be affected?

Establishing a city minimum wage initially of \$10 by 2017 and then gradually raising it to \$15 by 2020, as this proposal would do, would raise the wages of 98,000 workers in Baltimore—a little more than 1 in 4 Baltimore workers (27.1 percent). This includes 75,000 workers who will be directly affected by the ordinance—meaning their wages would otherwise be below \$15—and 23,000 workers who will be indirectly affected by the measure, as their projected wages would likely be just above \$15, and they will get a raise as employers adjust overall pay ladders. We estimate that the average affected worker will see her annual income go up by roughly \$4,400 in real (inflation-adjusted) terms.

Our analysis describes the demographics of these workers in great detail. I will simply note here that among the workers who would benefit from the higher minimum wage in Baltimore:

1. The overwhelming majority are adults—only 4.3 percent are teens;
2. The majority (55 percent) are women;
3. The majority (54.2 percent) are black, and more than two-thirds (68.4 percent) are people of color;
4. More than a quarter (28 percent) are parents;
5. Nearly three-quarters work full time;
6. The largest concentrations of affected workers work in accommodation and food service, retail, office support, residential and child care, ambulatory care, hospitals, and other services such as janitorial and personal care services; and
7. The majority are city residents. Roughly 44 percent of the city's total workforce lives within Baltimore, yet more than 60 percent of the beneficiaries of the proposal live in Baltimore—meaning that city residents will disproportionately benefit from the higher minimum wage. In fact, resident workers are more than twice as likely as commuters to be affected by the proposal: 37.8 percent of Baltimore resident workers will get a raise, compared with 18.7 percent of commuters.

These estimates account for the increases in the state minimum wage that will raise the prevailing state minimum wage to \$10.10 by 2018. They also include workers in tipped occupations who will be affected by the proposed increase in the tipped minimum wage through 2020. We do not incorporate any effects for tipped workers in later years.

Is a \$15 minimum wage appropriate for Baltimore?

First, it is important to recognize that inflation will always reduce the purchasing power of any wage floor over the course of its implementation. Based on the CBO's forecast for inflation, \$15 in 2020 is the equivalent of about \$13.48 in today's dollars.² For years, EPI has published and regularly updated a feature on our website called the Family Budget Calculator. This tool measures the income a family needs in order to have a modest yet adequate living standard in 618 different geographic areas in the United States. It accounts for differences in costs of housing, food, child care, transportation, health care, taxes, and other necessities. For residents in Baltimore, a one-person budget requires \$33,994 to meet the budget threshold. This translates into a full time hourly wage of \$16.34 as of this year.³ Workers with children and families would need significantly higher wages. That means that even with a minimum wage of \$15 by 2020, some full-time workers will still struggle to make ends meet, although they will be considerably better off than under a \$10.10 minimum wage.

The second key measure by which economists typically judge the appropriateness of a wage floor is to compare the value of the minimum wage to the wage of the median full-time worker. According to data from the Bureau of Labor Statistics, the median wage of full-time workers in Baltimore as of May 2015 was \$21.98 per hour.⁴ Thus, a minimum wage of \$15 in 2020 (or \$13.48 in 2015 dollars) would be equal to about 61 percent of the median wage—assuming median wage growth at the rate of overall inflation. This is essentially the same relative level of the minimum wage that will be established in California and New York, after both states passed \$15 minimum wages earlier this year.⁵ However, it is worth noting that both California's and New York's increases will have a larger "bite" than the proposed minimum wage for Baltimore. Their increases will affect 37 percent of their respective workforces, whereas this ordinance would only affect 27 percent of the Baltimore workforce.

How would this increase affect employment and the local economy?

A minimum wage of \$15 in 2020 would be 48.5 percent higher than the \$10.10 Maryland state minimum wage scheduled under current law. Given this difference, it is reasonable to question how this would affect employment and business growth in the city. The effect of raising the minimum wage on employment is probably the most studied topic in labor

economics. While there is still some debate among economists over the significance of very small effects on subgroups of the population, the overwhelming consensus is that moderate increases in the minimum wage have had little to no effect on overall employment levels.⁶

The proposed increase for Baltimore would go beyond the timidity of most of the recent state and federal minimum wage increases that have been studied extensively, but it would not be unprecedented. In 2004, the city of Santa Fe, New Mexico, enacted a city minimum wage that was 65 percent higher than the state minimum wage and implemented that increase all in one step. Researchers at the Bureau of Business and Economic Research at the University of New Mexico published an analysis of the effects of the minimum wage hike in 2006. They concluded that “the ordinance had no discernible impact on employment per firm and Santa Fe actually did better than Albuquerque [the closest neighboring city that did not raise its minimum wage] in terms of employment changes. Overall employment levels have been unaffected by the ordinance. In contrast to prevailing economic theory, the accommodations and food services sector did comparatively better [after the minimum wage increase].”⁷

Furthermore, in 2011 researchers at the Center for Economic and Policy Research published a study of the Santa Fe minimum wage increase—as well as a similar increase that took place in San Francisco at the same time—using data from the Census Bureau’s Quarterly Census of Employment and Wages (a virtual census of employers) to look for effects on employment that might occur several years after the wage hike, or differences in effects for businesses of different sizes. They compared employment changes in Santa Fe to the surrounding suburban counties, to neighboring Albuquerque, and to the combination of the surrounding counties and Albuquerque. As with the earlier study, they concluded, “The results support the view that citywide minimum wages can raise the earnings of low-wage workers, without a discernible impact on their employment. Moreover, the lack of an employment response held for three full years after the implementation of the measures. The experience of smaller establishments in San Francisco and Santa Fe suggests that small establishments do not respond to minimum wages differently than larger firms. Small establishments...in those cities did not experience systematic changes in employment.”⁸

Since 2004, Santa Fe has consistently raised its minimum wage to keep pace with inflation almost every year. From 2010 to 2016, Santa Fe’s minimum wage has been an average of 39 percent above the New Mexico minimum wage and is currently 45 percent higher than the state minimum. Over that time period, job growth in Santa Fe has significantly exceeded job growth throughout the rest of the state. Unemployment in Santa Fe as of April 2016 is 4.5 percent, compared with a New Mexico statewide unemployment rate of 6.2 percent. Simply put, there is no evidence to suggest that Santa Fe’s higher minimum wage disadvantaged employment growth relative to the surrounding area.

Is it possible that conditions in Baltimore and the region are so different that we might expect a different outcome? Could businesses move outside the city border to evade the higher wage standard? Again, in all the research on cities that have enacted higher minimum wages, there is little evidence of this. Moreover, the industries that would be

most affected by this proposal are retail, accommodation and food service, education, hospitals, ambulatory care, office support, and residential and child care. These are not mobile industries like manufacturing that might have greater ability to move to areas with lower wage standards. In these industries, the primary advantage is proximity to customers. That is why in choosing to locate in Baltimore, businesses have likely already made the calculation that being inside the city is worth paying higher rents (which tend to be a much larger portion of operating costs than labor) in order to access the city's consumer base. Given that the majority of affected workers from this proposal are city residents, there should be even less concern that businesses would want to move, since the biggest boost in disposable income resulting from this increase will take place among workers living in the city.

The importance of raising the minimum wage for tipped workers

Finally, I'd like to discuss the importance of raising the city's tipped minimum wage and eliminating the differential treatment of the tipped workforce—a step that eight states have already taken.

Research indicates that having a separate, lower minimum wage for tipped workers perpetuates racial and gender inequities, and results in worse economic outcomes for tipped workers. Forcing service workers to rely on tips for their wages creates tremendous instability in income flows, making it more difficult to budget or absorb financial shocks. Furthermore, research has also shown that the practice of tipping is often discriminatory, with white service workers receiving larger tips than black service workers for the same quality of service.⁹

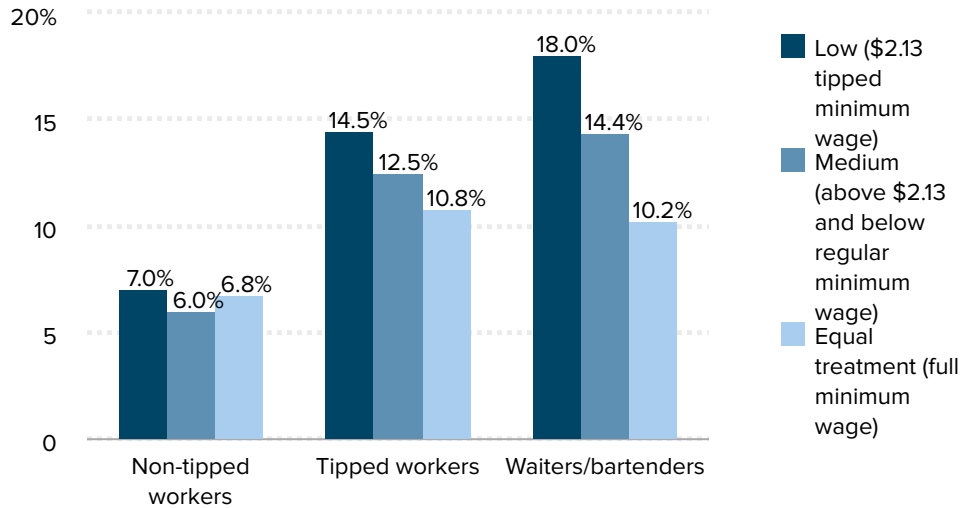
The clearest indicator of the damage caused by this separate wage floor for tipped workers is the differences in poverty rates for tipped workers depending on their state's tipped-minimum-wage policy. As shown in **Figure A**, in the states where tipped workers are paid the federal tipped minimum wage of \$2.13 per hour, 18.0 percent of waiters, waitresses, and bartenders are in poverty. Yet in the states where they are paid the regular minimum wage before tips (equal treatment states), the poverty rate for waitstaff and bartenders is only 10.2 percent.¹⁰ Contrary to claims made by the restaurant industry, full service restaurants in states that have eliminated the lower tipped minimum wage have experienced stronger growth both in terms of the number of establishments and the number of jobs compared to states with a separate, lower minimum wage for tipped workers.¹¹ Research that has analyzed the specific impact of raising the tipped minimum wage has also found no significant effect on employment.¹²

In conclusion, raising the Baltimore minimum wage to \$15 by 2020 would be a bold proposal that would meaningfully boost the pay of nearly 100,000 workers, more than a quarter of the city's workforce. Raising and gradually eliminating the lower minimum wage for tipped workers would end an antiquated, discriminatory, and economically damaging practice. The best research we have suggests that any effect of this proposal on overall

Figure A

Tipped workers' poverty rates are lower in states where they're paid the full minimum wage

Poverty rates of non-tipped workers, tipped workers, and waiters and bartenders, by state tipped-minimum-wage level



Source: Adapted from Allegretto and Cooper (2014)

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employment levels is likely to be negligible and in fact, cities that have enacted similar minimum-wage standards have actually outperformed the rest of their state. In short, raising the minimum wage would help ensure the economy works for all Baltimore workers.

Endnotes

1. Kimball, Will. 2016. *Raising Baltimore's Minimum Wage to \$15 by July 2020 Would Lift Wages for 98,000 Working People*. Economic Policy Institute.
2. Based on the Congressional Budget Office's forecast for the CPI-U. Congressional Budget Office. 2016. *The Budget and Economic Outlook: 2016 to 2026*.
3. Gould, Elise, Tanyell Cooke, and Will Kimball. 2015. "Family Budget Calculator." Economic Policy Institute.
4. Calculations using the May 2015 *Occupational Employment Statistics*, published by the Bureau of Labor Statistics.
5. This is also the same relative position that the federal minimum wage had in 10 states in the 1980s, and many European countries have had minimum wages at comparable levels for years.
6. See Belman, Dale. 2014. *The New Minimum Wage Research*. Upjohn Institute for Employment Research Employment Research Newsletter, vol. 21, issue 2. article 2; and Schmitt, John. 2013.

Why Does the Minimum Wage Have No Discernible Effect on Employment? Center for Economic and Policy Research.

7. Potter, Nicholas. 2006. *Measuring the Employment Impacts of the Living Wage Ordinance in Santa Fe, New Mexico*. University of New Mexico Bureau of Business and Economic Research.
8. Schmitt, John, and David Rosnick. 2011. *The Wage and Employment Impact of Minimum-Wage Laws in Three Cities*. Center for Economic and Policy Research.
9. See Lynn, M., M. Sturman, C. Ganley, E. Adams, M. Douglas, and J. McNeil. 2008. “Consumer Racial Discrimination in Tipping: A Replication and Extension.” *Journal of Applied Social Psychology*, 38: 1045–1060.
10. Allegretto, Sylvia, and David Cooper. 2014. *Twenty-Three Years and Still Waiting for Change*. Economic Policy Institute, Briefing Paper #379.
11. Calculations using the Quarterly Census of Employment and Wages between 2011 and 2014 (the last available data year for full-service restaurants). For greater detail, see Gould, Elise. 2016. “D.C.’s Fair Shot Minimum Wage Amendment Act of 2016.” Testimony Before the Council of the District of Columbia Committee on Business, Consumer, and Regulatory Affairs. May 26.
12. Allegretto, Sylvia, and Carl Nadler. 2015. “Tipped Wage Effects on Earnings and Employment in Full-Service Restaurants.” *Industrial Relations*, vol. 54, no. 4, 622–647.