



Baltimore City Council
Proposed \$15 Baltimore Minimum Wage
Baltimore, Maryland
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Testimony Submitted by
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Thank you for the opportunity to testify today on the proposed Baltimore \$15 minimum wage. My name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI), a nonpartisan nonprofit education and research organization focused on economic and fiscal policy issues. FPI has long analyzed labor market and economic trends, and we have been very involved in state and federal minimum wage issues for nearly two decades. We played an active role in the New York Fast-Food Wage Board hearings and deliberations last year, and in the statewide \$15 minimum wage deliberations earlier this year. As you know, New York and California were the first states to adopt a phased-in \$15 minimum wage in early April this year.

We have also been active in various discussions in New York City regarding a \$15 minimum wage for companies receiving economic development assistance from the City, and in a new City initiative for a \$15 minimum wage for nonprofit sector employees providing a wide range of human services under contract to the City of New York.¹

Under New York State's recently enacted law, the minimum wage will rise in New York City for businesses with 11 or more employees by \$2 an hour to \$11 on December 31 of this year, and then rise by \$2 on the last day of 2017 and by the same amount on the last day of 2018 when it will reach \$15 an hour. For New York City businesses with 10 or fewer employees, the phase-in will occur in four annual steps of \$1.50 each to reach \$15 by the last day of 2019.

Washington, D.C., and a growing number of other major cities, including Seattle, San Francisco, and Los Angeles are acting to phase in a \$15 minimum wage. Governments are boosting minimum wage levels out of recognition that wages for the great majority of U.S. workers have been stagnant for too long, that wages have not kept pace with the growth in productivity, and that a significantly higher minimum wage is needed to enable workers to have a decent standard of living.

¹ Under New York State law, New York City does not currently have the authority to set a citywide minimum wage.

As an economist who has extensively studied the minimum wage issue, I think there is considerable evidence from around the country to conclude that the proposed phased-in \$15 minimum wage makes sound economic sense for Baltimore, and will significantly benefit low-wage workers.

More than a quarter of Baltimore’s workforce will benefit from a \$15 minimum wage

In its recent report, the Economic Policy Institute (EPI) estimated that the Baltimore \$15 minimum wage proposal would raise wages for 98,000 workers, 27 percent of the entire workforce. The EPI analysis found that 96 percent of affected workers would be 20 years of age or older—i.e., not teenagers—and that most come from families of modest means with the wages from minimum wage jobs accounting for over half of family income, and many such workers supporting families of their own. According to the EPI analysis, nearly two-thirds of Baltimore workers in poverty or near poverty would get a raise under the \$15 proposal.²

Fifty-five percent of affected Baltimore workers are women, and two-thirds are people of color, with 54 percent black or African American.³ Given these circumstances, this measure is important for gender and racial equity reasons as well as on general economic policy grounds.

Minimum wage increases and the economics literature

There have been many studies of the impact of minimum wage increases over the past twenty years, and considerable evolution in the sophistication of the research methods utilized. A good way to make sense out of this burgeoning literature is to look at “meta-studies” that survey and aggregate the findings of several independent studies that focus on different time periods and geographies. The two leading meta-studies show that the vast majority of recent studies find minimum wage increases have little to no effect on employment levels or job growth. The most rigorous studies found close to zero effect on jobs.⁴

In a recent address at the City University of New York, Nobel prize-winning economist Paul Krugman noted that the new body of minimum wage research is “one of the most compelling sets of empirical results I’ve ever seen in economics.”⁵ By the way, at the CUNY event, Krugman went on to conclude, “There’s absolutely no reason to think that a fifteen dollar minimum wage will be a problem for New York.”

² Will Kimball, *Raising Baltimore’s minimum wage to \$15 by July 2020 would lift wages for 98,000 working people*, Economic Policy Institute, May 4, 2016. <http://www.epi.org/publication/raising-baltimores-minimum-wage-to-15/>

³ *Ibid.*

⁴ Hristos Doucouliagos and T. D. Stanley, “Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis,” *British Journal of Industrial Relations*, vol. 47, no. 2, 2009, pp. 406-428; Paul Wolfson and Dale Belman, *What Does the Minimum Wage Do?* Kalamazoo, MI: Upjohn Press, 2014; and John Schmitt, *Why Does the Minimum Wage Have No Discernible Effect on Employment?* Center for Economic and Policy Research, February 2013.

⁵ Paul Krugman at CUNY Equality Forum, October 1, 2015. For a video tape of Krugman’s remarks, see <http://equalityindicators.org/media/>.

A thoughtful analysis of the potential impact of a phased-in \$15 minimum wage should consider the impact on business operating costs on a sector-by-sector basis. Such an analysis would provide a concrete understanding of how businesses would respond, and of the various mechanisms at work that would offset higher wage levels. Researchers at the Berkeley Institute on Research for Labor and Employment prepared such a report to inform the \$15 minimum wage proposal in New York State. The Berkeley analysis integrates the relevant factors affecting operating costs including savings due to reduced turnover, employment savings from the expanded use of technology, and modest price increases. The Berkeley model also accounts for the substantial increase in consumer spending by low-wage workers benefitting from rising wage floor, and finds that overall there are only small net employment effects but a significant improvement in living standards for low-wage workers.⁶

Across all industries, a phased-in \$15 minimum wage in New York would increase businesses' operating costs by less than one percent, 7/10 of a percent to be precise. The cost impact is so small since wage costs on average are less than one-fourth of all operating costs, most workers are paid more than \$15, and industries that utilize a lot of low-paid workers will see significant hiring and training cost savings resulting from reduced turnover. One of the major economic benefits of a higher minimum wage is that it will induce more businesses to improve the efficiency of their operations, and while this involves utilizing workers more productively, the increased consumer spending means that the overall employment level is unlikely to decline. I would expect fairly similar results in Baltimore.

There is a growing recognition on the part of businesses that higher wages are key to reducing turnover, improving customer service, and enhancing profitability.⁷ Several large employers including Walmart, Target, T.J. Maxx, Marshalls, Aetna, IKEA and the Gap are starting to raise wages as a result. Walmart is an interesting case in point. Across the country, the giant retailer raised its entry wage to \$10 on February 1 of this year. The *Economist* magazine recently noted that "the pay rise is also a strategic investment. Walmart wants to boost its productivity and give its workers more freedom to innovate, as it seeks to make its stores more pleasant and, perhaps, appealing to more affluent customers. That requires motivated staff." The *Economist* went on to cite Walmart's CEO to the effect that "the firm now says that higher wages come before price cuts."⁸

⁶ Michael Reich, Sylvia Allegretto, Ken Jacobs and Claire Montialoux, *The Effects of a \$15 Minimum Wage in New York State*, University of California, Berkeley, Institute for Research on Labor and Employment, Policy Brief, March 2016.

⁷ Lauren Weber, "Why Fund Managers Want Better HR," *The Wall Street Journal*, September 8, 2015. <http://www.wsj.com/articles/why-top-fund-managers-want-better-hr-1441749764>

⁸ "High expectations, Walmart and low-wage America," *The Economist*, January 30, 2016, pp. 21-22. The article noted that the store closings Walmart announced recently were not a result of wage costs, but rather because the firm was abandoning its small "Walmart Express" stores.

Small businesses and the minimum wage

Invariably in minimum wage discussions you hear the argument that a higher wage will pose a special challenge for small businesses. In my many years of involvement in such discussions, it is clear to me that this concern is mainly voiced not by small businesses themselves, but rather by lobbyists working for trade associations that claim to represent the interests of small businesses. For example, a recent Bank of America survey of small businesses in the New York City area found that while many are not optimistic about the course of the overall economy, two-thirds of small businesses believe a higher minimum wage will be good for the economy.⁹ We also know that the Brooklyn Chamber of Commerce, one of the largest in the country, endorsed New York’s \$15 minimum wage, and that nearly two-thirds of their members supported Governor Cuomo’s \$15 proposal.¹⁰

I think small business support for a higher minimum wage is very intuitive. Small businesses see first-hand the importance of paying decent wages and treating their workers fairly, and they know that low-wage workers will spend their increased wages in the communities where they live.

Conclusion

In light of these facts, it would be sound public policy for the City of Baltimore to phase in a \$15 an hour minimum wage. Considerable compelling and economically sound research supports the conclusion that businesses can accommodate such an increase. A higher wage floor would generate significant cost savings due to reduced turnover and there is room for modest price increases to ease the adjustment without jeopardizing overall employment levels or profitability. Businesses of all sizes will be encouraged to operate more efficiently. Moreover, a \$15 wage floor would boost consumer spending for nearly 100,000 Baltimore workers. It will aid struggling families, benefit many of the city’s children, reduce poverty, and will have positive overall economic consequences across the city.

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⁹ “Small business not optimistic about growth in New York City,” *New York Post*, June 11, 2016.

¹⁰ Brooklyn Chamber of Commerce, *2016 New York State Legislative Agenda*, p. 25.