

Testimony of Yannet Lathrop

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Maryland Should Preserve the Right of Cities and Counties to Enact Local Minimum Wage Laws

Hearing before the House Economic Matters Committee Regarding <u>HB317</u>

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(202) 640-6518 ylathrop@nelp.org Good afternoon and thank you for the opportunity to testify today. My name is Yannet Lathrop, and I am a 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 across the country, and we partner with federal, state, and local lawmakers on a wide range of workforce issues. I am based in our D.C. office.

Across the country, our staff are recognized as policy experts in areas such as unemployment insurance, wage and hour enforcement, and, as is relevant for today's hearing, the minimum wage and minimum wage preemption. We have worked with dozens of city councils and state legislatures across the country and with the U.S. Congress on measures to boost pay for low-wage workers. NELP has worked with most of the cities in the United States that have adopted higher city minimum wages in recent years and is familiar with their economic experiences. NELP has also developed expertise on the topic of preemption as it applies to local minimum wage laws. Most recently, NELP submitted *amicus curiae* briefs to the Missouri Supreme Court¹ and the Kentucky Supreme Court² addressing the question of whether local minimum wage laws passed in those states were preempted by state law.

NELP testifies today in opposition to HB317, which seeks to prohibit, or preempt, counties and municipalities in the State of Maryland from enacting local laws regulating wages or benefits (other than local wage or benefits laws applying only to county or municipal employees).

Local minimum wage laws play a key role in ensuring that a worker can afford the basics in cities or counties where the cost of living is higher than in other parts of the state. For example, Maryland's Montgomery and Prince George's Counties have some of the highest costs of housing and living in the United States—far higher than the Maryland state-wide average. Those communities have been successfully using higher local minimum wages to provide greater protection for low-paid workers than the state's \$8.75 minimum wage provides.

Local minimum wages also provide a safety valve allowing action to raise the minimum wage when gridlock prevents the state legislature or Congress from raising it—for example, when a conservative governor blocks state action to raise the minimum wage.

While proponents of minimum wage preemption often claim that their main concern is to avoid a "patchwork" of wage levels within a state, which businesses argue will make it difficult for employers in higher wage communities to compete, these concerns are not supported by the economic evidence. The most rigorous modern research on the impact of raising the minimum wage shows that this policy boosts worker earnings with little adverse impact on employment levels. And research on higher local minimum wages shows that they do not slow job growth in, or drive businesses out of higher wage communities.

The benefits of higher wages for low-wage workers and their families have been very significant. They have raised wages in the face of broader economic trends that have led to stagnant and falling paychecks across the bottom of our economy. They have reduced economic hardship, lifting workers out of poverty. And they have improved other life outcomes.

Rather than protecting against a lack of uniformity, efforts to ban higher local minimum wages are, in reality, driven primarily by corporate interests, such as the Koch Brothers-funded American Legislative Exchange Council (ALEC), which fight any action to raise minimum wages or adopt other protections for struggling workers. Legislators who support an economy that works for all should oppose preemption of local minimum wage laws.

Across Maryland and the Nation, More and More Cities and Counties Are Successfully Using Higher Local Minimum Wages to Help Local Workers and Families

With job growth skewed towards low-paying jobs, over the past decade, there has been growing national momentum for action to raise the minimum wage. This has included not just action at the state level, but increasingly at the local level.

In 2003, only two U.S. cities, Santa Fe, New Mexico, and San Francisco, had local minimum wage laws higher than their respective state minimum wage rates. Today, more than forty cities and counties in states such as California, New Mexico, Arizona, and Iowa have adopted local minimum wage laws to help workers better afford the basics.³

In Maryland, these include Montgomery County and Prince George's County, which have been successfully using higher local minimum wages since 2014. In fact, the City of Baltimore was one of the first cities to enact a higher local minimum wage law in the 1960s.

Recognizing the important role that both cities and states play in raising the minimum wage, President Obama appointed former Kentucky Lieutenant Governor and Louisville Mayor Jerry Abramson to help work with more cities to raise the minimum wage.⁴

Local minimum wage laws—which generally impact just a few high-cost communities in a particular state—have proven effective and manageable for businesses. As discussed below, the most rigorous research shows that higher minimum wages raise worker incomes without reducing employment.

Local Power to Raise the Minimum Wage Is Important for High-Cost-of-Living Communities

One key function that local minimum wages play is to allow higher-cost-of-living communities in a state to adopt wages that better match their higher housing and living costs. A U.S. Bureau of Labor Statistics analysis found that urban households in 2011 spent 18 percent more than rural households, and higher housing costs by urban consumers "accounted for about two-thirds of the difference in overall spending between urban and rural households." 5

The Maryland suburbs of Washington, D.C., are among the most expensive regions of the country, comparable to high-cost cities like New York, San Francisco and Seattle. According to the Economic Policy Institute, in 2014, a single worker without family responsibilities in the Maryland suburbs of Washington, D.C., had to earn at least \$20 per hour on a full-time basis just to make ends meet.⁶ Parents raising children needed significantly more.⁷ These living costs are significantly higher than those in rural Maryland.

Local Power to Raise the Minimum Wage Provides a Means to Raise Wages when Political Gridlock Prevents State Action

Local power to enact minimum wage laws also provides a means of raising wages when political gridlock prevents the state from acting—for example, when a governor blocks action to raise wages, or when one or both houses of the legislature refuse to act. Across the country, many states that have raised the minimum wage, such as New Mexico, Illinois, and Minnesota,8 now have

legislative majorities or governors who are blocking any action to raise the state minimum wage.⁹ Local minimum wages in those states provide a crucial alternative means of raising pay.

In addition, legislatures that raise the statewide minimum wage are sometimes urged to ban local minimum wages in the process, with opponents arguing that they are unnecessary. Or, sometimes, opponents of raising the minimum wage offer to allow a one-time statewide increase if minimum wage supporters agree to ban local minimum wages in the future. Legislators should reject such shortsighted deals that handcuff localities from supplementing state laws in the future. For example, in 2004, Democratic Wisconsin Governor Jim Doyle agreed to ban local minimum wages as part of a deal to get the Republican-controlled legislature to raise the state's minimum wage. But with current Governor Scott Walker blocking any statewide increase, Wisconsin leaders now realize that preventing cities and counties from addressing the minimum wage was a grave mistake.¹⁰

Responding to Pressure from Big Business, More State Legislatures Are Attempting to Prohibit Cities from Enacting Wage Laws

As of January 31, 2017, 21 states have passed laws that preempt cities from passing their own local minimum wage laws. ¹¹ See **Figure 1** for a map of states that have passed minimum wage preemption laws. The Missouri and Florida legislatures have also attempted to enact statewide minimum wage preemption bills, but the validity of those laws is currently being challenged in court. ¹² Most state preemption laws have been passed in recent years as a response to successful local campaigns to raise the minimum wage. ¹³ In 2016, for example, the State of Alabama passed a preemption bill after the City of Birmingham passed a local minimum wage law. ¹⁴ The effect was not only to block future local minimum wages, but to invalidate Birmingham's higher minimum wage law.

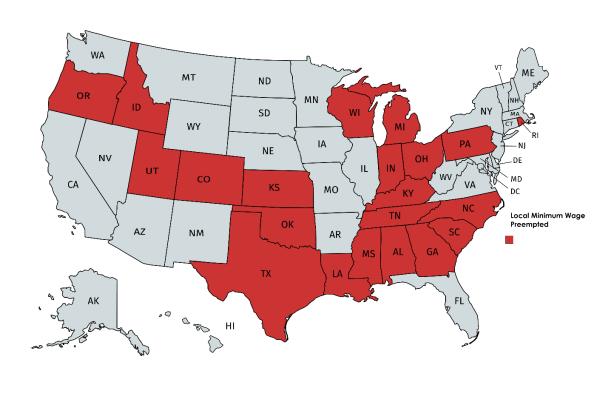
In addition, most minimum wage preemption laws have been pushed and adopted by largely conservative state legislatures in recent years¹⁵ in response to pressure from big business, which generally opposes minimum wage increases.

In other words, the real motivation behind recent state preemption bills is not uniformity, but rather a desire to limit the ability of local elected officials to raise pay. Taking away local control over wages has become a major priority for ALEC, a corporate-backed organization with extensive lobbying resources and influence in our state legislatures. As a *Slate* article explained, "[f]ounded in 1973, [ALEC] has paired lawmakers with businesses and special interests ranging from Google to the AARP to Exxon Mobil" to produce "hundreds of 'model policies' that have made their way into state codes." ALEC has successfully preempted local laws on a growing list of important issues like guns, tobacco, wages, the banning of plastic bags, fracking, and pesticides. ALEC has drafted "model" preemption bills to prohibit local minimum wage laws since at least 2002. Preempting local minimum wages was a priority agenda item for ALEC in 2016, and the rapidly growing list of states introducing preemption bills in 2017 indicates that minimum wage preemption continues to be a top priority for big business.

While proponents of preemption claim they are concerned about having a "patchwork" of wage levels across the state, in reality businesses are accustomed to dealing with varying rules across cities and counties. Cities in most of the country have extensive "home rule" powers allowing them to legislate over a wide range of areas in order to adequately respond to local needs. Businesses

have adapted to varying rules concerning traffic, business licenses, construction, zoning, and many other local laws. Local minimum wages are no different.

Figure 1: States That Have Adopted Minimum Wage Preemption Laws (as of January 31, 2017)



The Most Rigorous Research Shows That Higher Minimum Wages Raise Worker Incomes without Adverse Employment Effects

The most rigorous research over the past 20 years—examining scores of state and local minimum wage increases across the U.S.—demonstrates that these increases have raised workers' incomes *without* significant impact on employment. This substantial weight of scholarly evidence reflects a significant shift in the views of the economics profession, away from a former 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

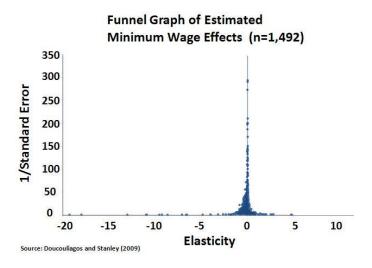
boost, albeit a small one, as strapped workers immediately spend their raises.²¹

The most sophisticated of the new wave of minimum wage studies, "Minimum Wage Effects Across State Borders," was published in 2010 by Arindrajit Dube, T. William Lester and Michael Reich – economists at the Universities of Massachusetts, North Carolina and California, respectively – in the prestigious journal, *Review of Economics and Statistics*.²² 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. 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, and the study has been lauded as state-of-the-art by the nation's top labor economists, such as Harvard's Lawrence Katz, MIT's David Autor, and MIT's Michael Greenstone. (By contrast, studies often cited by the opponents of raising the minimum wage that 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).

Consistent with a long line of similar research, the Dube, Lester, and Reich study found no difference in job growth rates in the data from 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.²³

However, it is not simply individual state-of-the-art 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 studies of the impact of minimum wage increases published in the *British Journal of Industrial Relations* in 2009 shows that the bulk of the studies find close to no impact on employment.²⁴ This is vividly illustrated by a graph from the meta-study showing the results clustered around zero:

Figure 2: Funnel Graph of Estimated Minimum Wage Effects



Another recent meta-study of the minimum wage literature by Paul Wolfson and Dale Belman demonstrates similar results.²⁵

Similarly, the White House Council of Economic Advisors released a new study in December 2016 of all U.S. minimum wage increases since the recession. Like the lion's share of recent rigorous research on the minimum wage, it found that these increases delivered significant raises with little negative effect on job growth.²⁶

The Evidence from Cities, in Particular, That Have Adopted Significantly Higher Local Minimum Wages Similarly Shows That They Have Not Cost Jobs and That Implementation Has Proven Manageable for Employers

The experiences of cities with higher local minimum wages—and the most rigorous economic research on the impact of city wage laws—have shown that they have raised wages broadly without slowing job growth or hurting local employers.

The two U.S. cities that have had higher local minimum wages for the longest period are San Francisco, California, and Santa Fe, New Mexico. Both adopted significantly higher local minimum wages in 2003 and the impact of the minimum wages has been the subject of sophisticated economic impact studies.

In San Francisco, a 2007 study by University of California researchers gathered employment and hours data from restaurants in San Francisco as well as from surrounding counties that were not covered by the higher minimum wage and found that the higher wage had not led San Francisco employers to reduce either their employment levels or employee hours worked. ²⁷ A follow-up 2014 study examined the combined impact on San Francisco employers of the city's minimum wage ordinance and of other city compensation mandates that cumulatively raised employment costs 80 percent above the level of the federal minimum wage. The study again found no adverse effect on employment levels or hours, and found that food service jobs—the sector most heavily affected—actually grew about 17 percent faster in San Francisco than in surrounding counties during that period.²⁸

In Santa Fe, a similar 2006 study conducted after the city raised its minimum wage 65 percent above the state rate compared job growth in Santa Fe with that in Albuquerque (which at that time did not have a higher city minimum wage). It determined that "[o]verall, . . . the living wage had no discernible impact on employment per firm, and that Santa Fe actually did better than Albuquerque in terms of employment changes."²⁹

A 2011 study of higher minimum wages in San Francisco, Santa Fe, and Washington, D.C., compared employment impacts to control groups in surrounding suburbs and cities. It similarly found that "[t]he results for fast food, food services, retail, and low-wage establishments . . . support the view that citywide minimum wages can raise the earnings of low-wage workers, without a discernible impact on their employment "³⁰

In addition, the actual experiences of cities that have recently raised the minimum wage have shown that such increases have been manageable. For example, in San Jose, California, business groups made dire predictions before voters in 2012 approved raising the city's minimum wage. But the actual results did not bear out those fears. As the *Wall Street Journal* reported, "[f]ast-food hiring in the 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."³¹ *USA Today* similarly found, "[i]nterviews with San Jose workers, businesses and industry officials show [the city minimum wage] has improved the lives of affected employees while imposing minimal costs on employers."³²

The same pattern of dire predictions followed by manageable real world implementation was repeated when SeaTac, Washington, phased in its \$15 minimum wage—the nation's first at that level. As *The Seattle Times* reported, "[f]or all the political uproar it caused, SeaTac's closely watched experiment with a \$15 minimum wage has not created a large chain reaction of lost jobs and higher prices"³³ *The Washington Post* similarly reported that "[t]hose who opposed the \$15 wage in SeaTac and Seattle admit that there has been no calamity so far," and highlighted how even though Seattle restauranteur, Tom Douglas, stated in April 2014 that a \$15 wage could "'be the most serious threat to our ability to compete'" and that he "'would lose maybe a quarter of the restaurants in town," as of September 2014, he had opened, or announced, five new restaurants that year.³⁴

In Seattle, while many business owners supported the increase, other business owners predicted that increasing the city's minimum wage to \$15 would lead to dramatic job losses for restaurants and strain on small businesses. An article by the *Puget Sound Business Journal* reported in October 2015 that the restaurant business in Seattle is, in fact, booming.³⁵ More recent reports confirm that neither the city's economy nor the restaurant industry has suffered.³⁶ A few months after Seattle began phasing in its minimum wage, the region's unemployment rate hit an eight-year low of 3.6 percent, significantly lower than the state unemployment rate of 5.3 percent.³⁷ As of October 2016, the number of food services and beverage industry business licenses issued in Seattle had increased by 9 percent since the minimum wage law went into effect.³⁸

Higher Wages from Minimum Wage Increases Have Very Significant Beneficial Effects for Low-Income Individuals and Households

The higher incomes that result from minimum wage increases have very direct and tangible impacts on the lives of affected working households. Significant increases in minimum wages have proven an effective strategy for addressing declining wages and opportunity for low-wage workers by raising pay broadly across the bottom of the city economy. For example, over the decade that San Francisco's strong minimum wage has been in effect, it has raised pay by more than \$1.2 billion for more than 55,000 workers, and it has permanently raised citywide pay rates for the bottom 10 percent of the labor force.³⁹ The widely recognized success of San Francisco's minimum wage led Mayor Ed Lee to broker an agreement with business and labor to place an increase to \$15 on the November 2014 ballot, which the voters overwhelmingly approved.

The higher pay resulting from minimum wage increases translates to a range of other important improvements in the lives of struggling low-paid workers and their families. For workers with the very lowest incomes, studies show that minimum wage increases can lift workers and their families out of poverty. Similarly, higher incomes for low-wage workers and their households translate to improved educational attainment and health. For example, a recent study by the National Institutes of Health determined that "[a]n additional \$4000 per year for the poorest households increases educational attainment by one year at age 21." Another study found that raising California's minimum wage to \$13 per hour by 2017 "would significantly benefit health and well-being." It stated that "Californians would experience fewer chronic diseases and disabilities; less hunger, smoking and obesity; and lower rates of depression and bipolar illness." Moreover, "[i]n the long

run, raising the minimum wage would prevent the premature deaths of hundreds of lower-income Californians each year."⁴⁴ Yet another study 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.⁴⁵

Conclusion

Based on the foregoing testimony, this committee should reject HB317 and therefore preserve the power of Maryland cities and counties to enact local minimum wage regulations. With 42 percent of workers in the United States earning less than \$15 per hour⁴⁶ and workers in high-cost cities and counties facing especially difficult economic challenges due to a higher cost of living, localities must be able to respond to the unique needs of workers who cannot survive on the federal or state minimum wage.

Thank you very much for the opportunity to testify today. I would be happy to answer any questions that you may have.

For more information, please contact NELP Researcher and Policy Analyst Yannet Lathrop at ylathrop@nelp.org. For more about NELP, visit www.reisetheminimumwage.org.

Endnotes

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²³ Similar, sophisticated new research has also focused in particular on teen workers—a very small segment of the low-wage workforce affected by minimum wage increases, but one that is presumed to be especially vulnerable to displacement because of their lack of job tenure and experience. However, the research has similarly found no evidence that minimum wage increases in the U.S. in recent years have had any adverse effect on teen employment. *See* Sylvia Allegretto et al, Industrial Relations, Do Minimum Wages Reduce Teen Employment? (Apr. 2011) at vol. 50, no. 2. A NELP Summary is *available at* http://nelp.3cdn.net/eb5df32f3af67ae91b_65m6iv7eb.pdf. ²⁴ Hristos Doucouliagos & T.D. Stanley, British J. of Indus. Relations, Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis (May 2009) at Vol. 47, Iss. 2.

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²⁶ Sandra Black et al., White House Council of Economic Advisors, Minimum wage increases by US states fueled earnings growth in low-wage jobs (Dec. 2016), http://voxeu.org/article/minimum-wage-increases-and-earnings-low-wage-jobs; National Employment Law Project, Minimum Wage Basics: Employment and Business Effects of Minimum Wage Increases (Oct. 2015),

⁴⁵ Lisa Dodson & Randy Albelda, Center for Social Policy, Univ. of Mass., Boston, How Youth Are Put at Risk by Parents' Low-Wage Jobs (Fall 2012) at 9–13.

⁴⁶ Irene Tung et al., National Employment Law Project, The Growing Movement for \$15 (Nov. 2015),

http://www.nelp.org/content/uploads/Growing-Movement-for-15-Dollars.pdf.

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