Myths and Facts of a $15 Minimum Wage in Montgomery County, MD

Whenever a raise in the minimum wage is proposed, opponents attempt to defeat these efforts by reviving old myths about supposed negative effects on businesses, jobs, and the economy. Economic research and the experience of jurisdictions that have adopted higher minimum wage laws, however, show that raising the wage floor does not cause economic catastrophe. In fact, robust minimum wages can have broad positive effects for workers, businesses, and local economies.

An increasing number of lawmakers and voters in various jurisdictions understand these benefits and are taking steps to raise their wage floors. State and local action has had a tremendously positive impact in the four years since the Fight for $15 began:

- Since 2012, 22 states and 44 localities have raised their minimum wages, benefiting more than 19 million workers, including nearly 10 million who are on a path to $15.

- The latest jurisdictions to raise their minimum wage are Arizona ($12 by 2020), Colorado ($12 by 2020), Maine ($12 by 2020 and the elimination of the tipped subminimum wage), Washington State ($13.50 by 2020), and Flagstaff, AZ ($15 by 2021 and the elimination of the tipped wage), all of which approved ballot initiatives in the November 2016 elections.

- Momentum continues to build in states and localities for action on wages. For 2017 and 2018, grassroots coalitions and elected leaders in the following states are exploring campaigns for minimum wage increases: New Jersey ($15), Connecticut ($15), Rhode Island ($15), Vermont ($15), New Hampshire ($15 and $12), and Ohio (TBD). And building on the Maine and Flagstaff victories, Washington, D.C. and other states and cities will launch campaigns to repeal the outmoded subminimum wage for tipped workers.

- Success in these campaigns would raise pay for somewhere between three and five million more workers, bringing the total number of workers benefiting from the movement for higher wages to between 22.6 million and 24 million.
MYTH: Businesses warn they cannot adjust to a $15 minimum wage
FACT: On the contrary, experts and businesses agree $15 is manageable

- State-of-the-art modeling of the impact of a $15 minimum wage conducted by University of California economists for Los Angeles, CA found that, if phased in gradually over five years, a $15 wage would be manageable for employers and would raise business operating costs just 0.9 percent by 2019. Even smaller impacts (between 0.2 and 0.5 percent) were projected for Santa Clara, San Jose, and Contra Costa counties.

- The University of California analyses also projected that these very modest increases in operating costs would be offset by lower staff turnover and increased productivity and spending by workers receiving higher wages. As a result, any net negative impact on jobs would be negligible.

- A diverse range of business leaders confirm that transitioning to a $15 minimum wage is entirely feasible. For example, Cheryl Bachelder, CEO of Popeye’s Louisiana Kitchen, recently told CNN, “Everybody in retail is dealing with an increase in minimum wage. We will adjust to increased costs just like we have before. Life will go on. There’s been too much hubbub about it.”

MYTH: Economists believe that a $15 minimum wage is too high
FACT: Hundreds of economists have endorsed a $15 minimum wage

- 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.”

- Two careful studies—one by researchers at the University of Massachusetts and a second by researchers at the Purdue School of Hospitality and Tourism Management—both show that fast-food restaurants 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.

MYTH: There would be few benefits to a $15 minimum wage
FACT: Analysis shows benefits for workers, businesses, and the economy

- According to analysis of Bureau of Labor Statistics data, up to 107,000 workers in Montgomery County could benefit from a minimum wage increase to $15 per hour.

- The majority of these workers are employed in low-wage occupations, such as sales, food preparation, building and grounds cleaning and maintenance, personal care, and health care support.
• It is not only workers in Montgomery County, but also businesses—in particular, small businesses that cater to low-wage workers—and the county’s economy in general that would benefit from a minimum wage increase to $15 per hour. The higher minimum wage would put more money into the pockets of struggling households, who are likely to spend it right away, often at local businesses to buy basics necessities and even a few small luxuries, such as dinner at a local restaurant, an extra pair of jeans, or fresh fruit from the farmer’s market.

• The increased consumption allowed by higher wages has the effect of boosting demand for goods and services and keeping money circulating in the economy, creating a virtuous cycle that benefits a broad constituency.

**MYTH: A $15 minimum wage would be unsustainable for small businesses**

**FACT: Past experience does not show a disadvantage to small businesses**

• The experience of jurisdictions phasing in $15 minimum wage laws does not show a disadvantage to small businesses. In fact, the wage-floor increases level the playing field for small businesses, who have to compete with large businesses for the most talented employees.

• In reality, it is large companies, not mom-and-pop businesses, that employ most workers earning less than $15. For example, in Montgomery County and throughout Maryland, large retailers (with 500 or more workers) employ 65.4 percent of all retail workers in the state, but pay 24.3 percent below the average for smaller businesses.

• Data show that on average, smaller retailers in Maryland pay $30,286 annually, which translates to $14.56 per hour for full-time, year-round work. In comparison, large retailers pay significantly less: $22,930 annually, or $11.02 hourly. By adopting a $15 minimum wage, Montgomery County would ensure that smaller businesses are not put at a competitive disadvantage relative to larger businesses.

• Most small businesses are service industry businesses such as dry cleaners, convenience stores, and diners that serve local customers. When the minimum wage goes up, they are placed on the same playing field as their larger competitors and can gradually adjust their prices to cover the cost without being put at a disadvantage.

• Past experience with minimum wage increases in various jurisdictions and the recent experiences in cities like San Francisco, San Jose, and Seattle with significant minimum wage increases bear this out. There is no evidence that transitioning to higher wages has hurt small businesses or changed the mix of large and small businesses. (For more, see below, “Myth: In jurisdictions with $15 minimum wages, businesses are closing.”)
MYTH: Most low-wage workers are teens who don’t need a living wage
FACT: Most affected workers are adults; at least 1 in 4 are parents

- An analysis of the impact of a $12 federal minimum wage shows that the overwhelming majority of workers in Maryland (90.4 percent) who would benefit from this increase are adults 20 years or older, and nearly 66.2 percent are over the age of 25. Just 9.6 percent are teenagers.¹⁴

- One in four affected workers (24.9 percent) are parents to dependent children.¹⁵ A majority (57 percent) are women, and 59.5 percent are workers of color, including 31.4 percent who are African American.¹⁶

- Nearly 60 percent of affected workers work full time, and 47.1 percent have some level of post-secondary education. In fact, 16.1 percent have at least bachelor’s degrees, and 6.1 percent have associate’s degrees.¹⁷

- These data prove that the overwhelming majority of low-wage workers are adults, not teens, and that an increase in the minimum wage would generally benefit workers who are responsible for themselves or for young children.

MYTH: $15 minimum wage is excessive for Montgomery County
FACT: Cost-of-living analysis shows that even single workers need $15

- Cost-of-living data show that in the Maryland suburbs of Washington D.C., which includes Montgomery County, single workers without family responsibilities already need at least $19.92 by 2020 just to cover the basics. Workers raising just one child will need even more ($30.96).¹⁸

- The fact is that virtually everywhere in Maryland, households need a living wage of $15 or more to put food on the table, pay rent or mortgage, afford public transit or gasoline to get to and from work, purchase medicine, and provide for other basic necessities.

MYTH: Economists say that raising the minimum wage leads to job losses
FACT: Economic research shows no discernable impact on employment

- Opponents often claim that minimum wage increases lead to job losses and hurt rather than help workers. The bulk of the most rigorous research on the minimum wage, however, shows that raising the wage floor boosts incomes with little impact on employment.

- 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.”

- This is best illustrated by “meta-studies” that survey and aggregate the findings of scores of minimum wage studies. Two leading meta-studies by economists Hristos Doucouliagos and T.D. Stanley (2009) and Dale Belman and Paul Wolfson (2014) show that most recent studies find that minimum wage increases have little to no effect on employment levels. Figure 1, below, illustrates this clearly: findings of job losses or gains (“elasticity”) are clustered close to zero, meaning almost no impact on employment. It also shows that the most rigorous studies (those higher up on the vertical axis) found zero effect on jobs.

- Analyses by opponents, such as those of David Neumark and William Wascher, projecting significant job losses from any minimum wage are not reliable because they use outdated research methods that produce inaccurate results.

- The studies’ opponents rely on the claim that even small minimum wage increases, like the ones Montgomery County approved in 2013 and Maryland approved in 2014, have killed lots of jobs. But as shown above, the overwhelming majority of credible studies have concluded that any adverse impacts are absent or very small.

**MYTH:** In jurisdictions with $15 minimum wages, businesses are closing  
**FACT:** Actually, the experiences of these jurisdictions have been positive

- Available data suggest that businesses are not only not closing but are thriving in jurisdictions like Seattle and San Francisco, where a $15 minimum wage is being phased in.
• In Seattle, the first major city to adopt a $15 minimum wage, the region’s unemployment rate hit an eight-year low of 3.6 percent in August 2015, a few months after it began implementing its new wage floor. In contrast, the jobless rate for Washington State was a significantly higher 5.3 percent during that same month.24 A few months later, in a front-page story entitled, “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—one of the most affected by a higher wage floor—has continued to expand and thrive as the $15 minimum wage phases in.25 Moreover, since 2014, when Seattle adopted its trailblazing $15 minimum wage, the number of food-services and beverage-industry business licenses issued in the city has increased by a healthy 6 percent.26

• In San Francisco, which is also raising its minimum wage to $15 per hour, the restaurant industry is likewise booming. According to the Golden Gate Restaurant Association, “the metrics show that San Francisco has still seen record restaurant growth” despite a minimum wage increase and other factors affecting the restaurant industry.27 San Francisco’s experience with prior minimum wage increases offers further proof that wage-floor increases do not lead to economic catastrophe. After the adoption of a 2003 ordinance that indexed the city’s minimum wage to inflation (thereby raising the wage floor each year), University of California researchers analyzed the effects of this policy in a 2007 study. They found that the higher wage had not led San Francisco employers to reduce either their employment levels or employee hours worked.28 A follow-up study in 2014 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 effects on employment levels or hours worked, instead finding that food service jobs grew about 17 percent faster in San Francisco than in surrounding counties during that same period.29

**MYTH:** Eliminating the tipped subminimum wage would hurt restaurants

**FACT:** Analyses show that restaurants can adapt to One Fair Wage

• The experiences of the seven One Fair Wage states—California, Nevada, Oregon, Washington, Minnesota, Montana, and Alaska—which do not allow for a lower subminimum tipped wage, as well as One Fair Wage cities like Seattle and San Francisco, show that both high minimum wage rates and the elimination of a subminimum tipped wage are economically manageable for restaurant employers.

• The tipped subminimum wage has not always existed, and it is not universal today.30 Until 1966, federal law did not allow for a separate subminimum wage for tipped workers. But with the 1966 expansion of the federal Fair Labor Standards Act (FLSA) to cover hotel, motel, restaurant, and other leisure and hospitality employees who had previously been excluded from the FLSA, the law was amended to allow employers to pay tipped workers a subminimum wage of 50 percent of the full minimum wage.31 In 1980, Congress raised the subminimum tipped wage to 60 percent of the full minimum wage, but returned it to 50
percent in 1991. In 1996, bowing to pressure from the restaurant industry, Congress froze the federal subminimum tipped wage at $2.13, decoupling it from the full minimum wage for the first time since its adoption.\textsuperscript{32}

- Over the years, Maryland’s and Montgomery County’s tipped subminimum wage have increased to just a little above the federal rate. Nonetheless, they remain woefully low, at $3.63 and $4.00, respectively.\textsuperscript{33}

- Notwithstanding federal law, \textbf{seven states—California, Nevada, Oregon, Washington, Minnesota, Montana, and Alaska—do not currently permit a subminimum wage for tipped workers.} Tipped workers in those One Fair Wage states receive the full minimum wage, and their tips function as a gratuity should: as additional income over and above their wages.

- \textbf{Maine and Flagstaff, AZ will soon join the seven One Fair Wage states.} In a historic victory for the One Fair Wage movement, voters in these two jurisdictions approved ballot initiatives in November 2016 that will raise the minimum wage to $12 and $15, respectively, and will gradually phase out the subminimum tipped wage. Maine and Flagstaff became the first state and city to eliminate the tipped subminimum wage in more than 30 years.\textsuperscript{34}

- While opponents of the minimum wage often argue that eliminating the subminimum tipped wage would hurt restaurants, the fact is that the restaurant industries in the seven One Fair Wage states are seeing healthy growth. A 2015 study by Cornell University looked at the impact of minimum wage increases on restaurant employment and business growth levels over 20 years across the United States. It found that raising the regular and subminimum tipped wage increases restaurant industry wages but does not lead to “large or reliable effects on full-service and limited-service restaurant employment.”\textsuperscript{35}

- These conclusion apply to One Fair Wage States. In fact, analysis by the National Restaurant Association (NRA) shows that the restaurant industry is healthy in the states that do not have a subminimum tipped wage, and that sales in those states, on average, are projected to grow at an even faster rate than in many of the states that have retained a subminimum tipped wage. Restaurant employment in California, where the minimum wage is now $10 per hour and will reach $15 by 2023,\textsuperscript{36} is projected to grow by 10.1 percent between 2016 and 2026.\textsuperscript{37} In Oregon—where the minimum wage is currently $9.75 in most parts of the state (and $9.50 in certain nonurban counties)\textsuperscript{38} and will increase to between $12.50 and $14.75 per hour over the next six years\textsuperscript{39}—restaurant employment is projected to grow by 13.2 percent during that same period.\textsuperscript{40} And in Washington State, where the minimum wage is $9.47\textsuperscript{41} and voters will decide in November whether to increase the minimum wage to $13.50 through a ballot initiative,\textsuperscript{42} restaurant employment is expected to grow by 12.6 percent.\textsuperscript{43} In contrast, restaurant employment in Maryland, which has retained a lower subminimum tipped wage, is projected to grow at a slower pace of 9.6 percent.\textsuperscript{44}

- In terms of restaurant sales, projected 2016 sales for the seven One Fair Wage states average 6.1 percent—a rate that exceeds both the projected national average of 5.0 percent and Maryland’s projected sales growth rate of 4.6 percent.\textsuperscript{45}
• In addition, the experience of Seattle and San Francisco—two cities that also do not allow a subminimum tipped wage and are in the process of raising their wage floor to $15 per hour—add further proof that adopting a One Fair Wage for all workers is doable and beneficial for workers and businesses alike. In both of these cities, the restaurant industry is booming. (See “Myth: Eliminating the tipped subminimum wage would hurt restaurants,” above.)

Endnotes


3. Ibid, endnotes 1 and 2.


8. Ibid.


12. Ibid.


15. Ibid.

16. Ibid.

17. Ibid.


21. Ibid.

22. Ibid.

23. Ibid.


Food service and beverage industry licenses include the following categories: Full service restaurants, limited service
restaurants, drinking places, mobile food services, and snack and non-alcoholic beverage bars. In 2014, 3709 food service and
beverage industry licenses were issued, compared with 3930 in 2016. See Seattle.gov, City of Seattle Business License Database,
List of Top 100 NAICS (North American Industry Classification System) with Descriptions, March 2014,
https://web.archive.org/web/20140321225147/http://seattle.gov/licenses/end-a-business; and current business license data in
Seattle.gov, City of Seattle Business License Database, List of Top 100 NAICS (North American Industry Classification System) with

27. Samantha Higgins, Golden Gate Restaurant Association, The State of the Industry: An Update from GGRA’s Executive Director, April


29. Michael Reich, Ken Jacobs and Miranda Dietz, Eds., When Mandates Work: Raising Labor Standards at the Local Level, University
See also Susan Berfield, “San Francisco’s Higher Minimum Wage Hasn’t Hurt the Economy,” Bloomberg Business Week, January 22,
2014, http://www.businessweek.com/articles/2014-01-22/san-francisco-higher-minimum-wage-hasnt-hurt-the-economy; and
Carolyn Lochhead, “S.F. Praised as Model for U.S. on Increasing Minimum Wage,” SF Gate, January 28, 2015,

Tipped workers working for chain establishments and retail stores were nevertheless largely exempt from protections under the
FLSA originally in that they were not considered to be engaged in interstate commerce. See Paul H. Douglas and Joseph Hackman.


32. Ibid.

33. Maryland Department of Labor, Licensing and Regulation, Maryland Minimum Wage and Overtime Law—Employment Standards
Services (ESS), https://www.dlir.state.md.us/labor/wages/wagehrfacts.shtml.


35. Michael Lynn & Christopher Boone, Have Minimum Wages Increases Hurt the Restaurant Industry? The Evidence Says No!

36. United States Department of Labor, Wage and Hour Division, Minimum Wage Laws in the States—August 1, 2016,


41. United States Department of Labor, Wage and Hour Division, op. cit.


44. Ibid.


© 2016 National Employment Law Project. This report is covered by the Creative Commons “Attribution-NonCommercial-NoDerivs”
license fee (see http://creativecommons.org/licenses). For further inquiries, please contact NELP (nelp@nelp.org).