

## **Raising DC's Minimum Wage: Boosting Our Families and Our Economy Without Job Loss**

The District's retail and hospitality sectors are steadily growing, yet the DC workers needed to staff stores and restaurants aren't seeing the same trend in their paychecks. Even a parent working a 40-hour-a-week, full-time job at DC's current \$8.25 minimum wage earns \$17,160 a year, which is more than \$2,000 below the federal poverty level for a family of three. **Raising DC's minimum wage to \$12.50 an hour, in a series of increments over a number of years, is a rational increase given the economic conditions of our city — including a relatively high average wage and high cost of living — that will help DC families afford the basic necessities.** And extensive reviews of numerous studies over the last two decades point to the fact that a reasonable minimum wage increase will lead to no discernible reduction in employment. Instead, it would likely further stimulate our economy because low-wage workers put that increase in pay right back into local shops and retailers.

There are many things our city can do to help hard-working, low-wage households, including improving educational resources for their kids, providing good job training in growing sectors of our economy, and making housing affordable. But having a city of residents who earn above the poverty level makes all these investments pay off even more.

### **Beyond the \$12.50 minimum wage, DC should make other necessary adjustments:**

- **Indexing The Minimum Wage to Inflation in Future Years**  
In 1968, the federal minimum wage was \$1.60. If that wage had kept pace with inflation, it would be \$10.56, more than \$3 higher than the current federal minimum wage. DCFPI supports tying any new minimum wage bill to the Consumer Price Index for the DC metro area.
- **Raising the Tipped Worker Wage to at Least 70 Percent of the Minimum Wage**  
The federal tipped worker minimum wage was last increased in 1991 to \$2.13 an hour. DC's is currently set at \$2.77, and at least 26 states have a higher tipped minimum wage than the District. Employers are expected to pay up to the minimum if tips do not exceed that amount per hour, but this part of the law is rarely enforced. A number of states tie the tipped worker wage to the minimum wage at an average above 60 percent, with seven states giving tipped workers the full minimum wage.
- **Eliminating Lower Local Minimum Wage for Adult Learners**  
For up to 90 days, employers of adult learners may pay only the federal minimum wage. This provision in DC regulations should be eliminated, so all workers earn the DC minimum wage.

## Why \$12.50 an Hour Is a Reasonable Minimum Wage For DC

Given the fair market rent for a two-bedroom apartment in DC is \$1,500 a month, a worker allocating the recommended 30 percent of her paycheck to housing would need to earn nearly \$29 an hour—but that’s not how economists approach setting a reasonable minimum wage.

DC’s current minimum wage is \$8.25 an hour, one dollar above the federal minimum wage. Workers who receive tips earn a tipped minimum wage of \$2.77 an hour, which is 64 cents above the federal tipped minimum. We will address the need to raise the tipped minimum a bit later.

Other local economic benchmarks are commonly used, such as setting a wage that would boost the earnings of the lowest 10 to 20 percent of workers.

- A reasonable middle ground might be to boost the lowest 15 percent. As shown in the chart below, 15 out of 100 DC workers earned \$11.53 an hour or less in 2012. Adjusting for inflation, that 15 percent would get a boost if the wage went to \$12.50 by 2016.

<b>Hourly wage distribution, Washington, DC, 2012, with projections through 2020</b>									
Percentile	2012	2013	2014	2015	2016	2017	2018	2019	2020
5th	8.25	8.40	8.57	8.75	8.95	9.14	9.35	9.56	9.78
10th	10.00	10.18	10.38	10.61	10.85	11.08	11.33	11.59	11.86
15th	11.53	11.74	11.97	12.24	12.50	12.78	13.06	13.36	13.67
20th	13.00	13.23	13.50	13.80	14.10	14.41	14.73	15.07	15.41
50th	24.79	25.24	25.74	26.31	26.89	27.48	28.08	28.73	29.39
90th	61.39	62.50	63.74	65.15	66.58	68.05	69.54	71.14	72.78

Center for Economic and Policy Research analysis of Census data. Wages refer to workers living in DC. Inflation projections from CBO, CPI-U-RS.

- This is a very similar percentage to the workers across the U.S. who would benefit from the proposed increase to the federal minimum wage introduced in Congress, known as the [Fair Minimum Wage Act of 2013](#). This bill would raise the minimum wage for 16 percent of workers in the U.S. by setting a \$10.10 minimum wage by July 1, 2015.
- **Another approach taken by economists is to look at half of the average wage.** As the chart above shows, that would be \$12.40 in 2012, and \$13.45 adjusting for inflation by 2016.

A worker earning \$12.50 an hour would earn \$26,000 a year — hardly enough to afford the median two-bedroom apartment but enough to make work pay a bit more.

## Why A Reasonable Minimum Wage Increase Leads To No Discernible Impact on Employment

The minimum wage is one of the most studied topics in economics, and over the last two decades, the majority of research has found that a reasonable increase in the minimum wage does not lead to discernible reduction in employment. Instead, the higher cost of labor reaps rewards for businesses in higher productivity of workers, lower turnover, and increased spending, which cycles back to their businesses.

Opponents of a minimum wage increase often repeat an argument that the higher labor costs will lead to employment reductions, but since the 1994 study of David Card and Alan Krueger on the fast-food industry in New Jersey and Pennsylvania, that job loss myth has been refuted time and again by academic studies.

There are many studies, so highlighted are a couple “meta-studies” that review other research:

- [“Why Does the Minimum Wage Have No Discernible Effect On Employment,” John Schmitt, Center for Economic and Policy Research, Feb. 2013](#)

Schmitt conducted an extensive review of the last decade of research on the minimum wage. He concludes that almost all the studies show little or no employment loss. He attributes the small impact that to the fact that other adjustments are made in areas such as productivity and efficiency that absorb the wage costs. As stated in his report: **“Economists have conducted hundreds of studies of the employment impact of the minimum wage. Summarizing those studies is a daunting task, but two recent meta-studies analyzing the research conducted since the early 1990s concludes that the minimum wage has little or no discernible effect on the employment prospects of low-wage workers.”**

- [“Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties”, “Arindrajit Dube, T. William Lester, and Michael Reich, The Review of Economics and Statistics, November 2010](#)

One of the most rigorous studies on the on-the-ground impact of minimum wage increases across the country over the last decade, the authors analyze employment and earnings data from over 500 counties in the U.S., controlling for other economic factors affecting local labor markets in order to isolate the effect of the higher minimum wage levels. The study shows that higher minimum wages did not reduce employment. As stated: **“For cross-state contiguous counties, we find strong earnings effects and no employment effects of minimum wage increases.”**

Many low-wage employers are big businesses such as national retailers and quick-service food chains, which have the ability to absorb the increased labor costs. There is a common concern that these quantities of scale do not apply to our small businesses, which can be a foundation of our neighborhoods and commercial corridors. Consistently, surveys done by the National Federation of Independent Businesses — a national group representing small business — show that labor costs are one of the smaller concerns. In its recent [October](#) trends report, only 5 percent of businesses

cited labor costs as a big problem, whereas red tape and government bureaucracy, taxes, and sales ranked in the top three.

## **Why DC's Tipped Minimum Wage Should Be Raised**

DC falls into the bottom half of states when it comes to the tipped minimum wage, which is currently set at 34 percent of the minimum wage or \$2.77. DC should restore the tipped minimum to its original intent, which was to tie the wage to a percentage of the minimum wage so that workers who receive tips as part of their compensation have a stable living income and are not subject to wild fluctuations of earnings. A reasonable approach would be to set the tipped wage to at least 70 percent of the minimum wage, as proposed in the federal Fair Wages Act of 2013, and consider phasing out the tipped wage altogether.

At least [26 states](#) have a higher tipped minimum wage than DC, including seven which make no distinction between a tipped worker and any other worker. These states include California, Minnesota, and Oregon.

By law, in DC and most states, tipped workers—including restaurant servers, bartenders, nail salon technicians, and even car wash employees—may receive a lower wage because some of their income comes from tips. These workers qualify for a “tipped credit,” meaning that wages plus tips must equal the full minimum wage. If employees do not average at least the full minimum wage over the work week, counting both wages and tips, their employer is required to pay the difference. This is rarely enforced, however.

Initially, the federal tipped wage was tied to the full minimum wage; it was set at half of the minimum wage. In 1980, Congress raised it to 60 percent of the minimum. In today's terms, that would mean the tipped wage in DC would be \$4.95. In 1996, however, the federal tipped minimum was set at \$2.13 and has remained frozen ever since, despite increases to the broader minimum wage.

Raising the minimum wage for tipped workers, along with other workers, is important for several reasons. Some servers work in low-price establishments where tips can be very low. Restaurant business can vary from week to week or shift to shift, so that a worker relying mainly on tips could face very uneven income despite having the same bills to pay every month. And freezing the tipped worker minimum wage for a long period of time means that the balance of who pays servers changes over time from owners to patrons. Most of us who eat at restaurants would like to think that tips are adding to our server's wages, not filling in for low and stagnant pay.

DCFPI's recommendations include:

- **Making the tipped minimum at least 70 percent of the base minimum wage so it increases with any increase to the minimum wage.**
- **Providing annual inflation adjustments to the full minimum wage, which will allow the tipped worker wage to also rise with the cost of living.**

- Ensuring the tipped minimum is a living wage for all tipped workers, whether they are in high-end or lower-priced establishments.

The Paid Sick Days For All Coalition has a primer on the bill here.

### A Comparison of Benchmarks and Bills Under Consideration

	<i>10th percentile wage distribution</i>	<i>1968 federal minimum wage, if it was indexed to inflation</i>	<i>15th percentile wage distribution</i>	<i>Half the median wage</i>	<b>Catania's bill</b>	<b>Wells' bill</b>	<b>Montgomery and Prince George's County bills</b>	<b>Orange's bill</b>
<b>2012</b>	10.00	10.56	11.53	12.395	8.25	8.25	7.25	8.25
<b>2013</b>	<b>10.18</b>	<b>10.75</b>	<b>11.74</b>	<b>12.62</b>	8.25	8.25	7.25	8.25
<b>2014</b>	10.38	10.95	11.97	12.87	9.00	9.25	8.25	8.25
<b>2015</b>	10.61	11.18	12.24	13.16	9.75	<b>10.25</b>	9.75	9.50
<b>2016</b>	10.85	11.42	12.50	13.46	<b>10.50</b>	10.47	<b>11.50</b>	10.50
<b>2017</b>	11.08	11.67	12.78	13.74	10.50	10.70	11.75	11.50
<b>2018</b>	<b>11.33</b>	<b>11.94</b>	<b>13.06</b>	<b>14.04</b>	<b>10.50</b>	<b>10.94</b>	<b>12.02</b>	<b>12.50</b>