



The District's Dime

Going Beyond the Budget Book

The DC Fiscal Policy Institute blog
www.dcfpi.org

November 19, 2013

THERE IS AGREEMENT: LET'S RAISE THE MINIMUM WAGE!

By Elissa Silverman

In a letter sent last week to Mayor Gray and DC Council Chairman Phil Mendelson, the DC Chamber of Commerce expressed support for an increase in DC's minimum wage and to have the wage rise with the cost of living in the future. That's encouraging, because it shows the business community recognizes the importance of making sure workers in DC can earn a decent living.

The economist commissioned to study the issue by the Chamber, David Neumark, is a [reliable critic](#) of increasing the minimum wage. His new report acknowledges research support from another organization aligned with that way of thinking, the [Employment Policies Institute](#). Nevertheless, Neumark's report acknowledges many ways in which a minimum wage increase would help low- and moderate-income DC residents, and as noted, the Chamber ultimately recommends a minimum wage increase.

A coalition of business, labor, religious and community organizations, including DCFPI, supports an increase in DC's minimum wage to \$12.50 by 2016 and then indexing the wage to the cost of living, as well as increasing the tipped minimum wage to at least 70 percent of the base minimum wage. Along with these reforms, the groups support passage of the "Earned Sick and Safe Leave Act of 2013," which would improve DC's sick leave law. We urge the DC Council and Mayor Gray to enact these moderate and reasonable approaches to making work pay for our residents.

Below, we outline areas in which there is common ground and areas in which we call into question the Neumark study.

COMMON GROUND WITH THE CHAMBER STUDY

- **Many DC workers in low-wage jobs are in poverty.** Neumark points out that "a higher percentage of workers earning less than \$10 per hour in DC are in poverty than among all workers (20.41 percent versus 2.77 percent)." His examination of Census data also shows that almost half of these workers are in families with a household income at less than 150 percent of poverty, which is approximately \$26,000 for a family of three. Finally, Neumark found that 94 percent of workers making less than \$10 an hour are 20 years of age or older. Together, these data confirm that minimum wage workers tend to be adults helping support a family, and that most low-wage workers are in low-income families.

- **The minimum wage should rise with the cost of living by tying it to the Consumer Price Index.** Right now, DC's minimum wage is frozen, which means that purchasing power of the wage declines each year. Neumark advocates for the minimum wage to be indexed to the CPI for

several reasons. For businesses, indexing creates a steady, predictable wage increase and eliminates the economic shock that comes with sporadic bumps in the minimum wage.

- **Neumark notes that four-out-of-ten DC low-wage workers live in the District.** While Neumark uses that to suggest that a minimum wage increase is not well targeted on DC residents, his data show that low-wage workers in DC are more likely than high-wage workers to be DC residents. This suggests that a minimum wage increase is a good tool to help low-income DC families. Moreover, the minimum wage isn't the only tool to address poverty and income inequality but should be viewed as a part of a tool chest, which includes the Earned Income Tax Credit, subsidized child care, food stamps, and other policies to make work pay for low-income families.
- **There is limited research into the economic impacts of raising the minimum wage for tipped workers.** DC falls into the bottom half of states when it comes to the minimum wage for tipped employees, such as restaurant servers and bartenders. The District's wage is frozen at \$2.77, but seven states require tipped workers to be paid the full minimum wage. This approach recognizes the fact that service industry jobs are an important part of the economy and helps ensure that these jobs can provide a decent income. DC has a "tipped credit," meaning that, under the law, employers are obligated to pay up to the full minimum wage if tips and the reduced minimum wage do not reach that wage during a work week. However, this provision is not well known to workers and rarely enforced.

AREAS FROM THE CHAMBER STUDY CALLED INTO QUESTION

- **Neumark states that a 10 percent increase in the minimum wage leads to a 1 to 3 percent decrease in employment among least skilled workers, but the most extensive and credible studies find no discernible impact on employment.** John Schmitt, in a well-known study titled, "[Why Does the Minimum Wage Have No Discernible Effect on Employment?](#)" concluded that most comprehensive studies find that there is no job loss when a minimum wage has been increased on the federal or local level. In fact, a higher wage often leads to cost savings for businesses through less employee turnover and greater productivity. Neumark provides a summary of numerous studies, but fails to take into account the varying reliability of their findings. Schmitt's review, taking this into account, finds that the overwhelming conclusion of these studies is that raising minimum wages in the past has not led to job losses.
- **Neumark states that, due to the District's small size, businesses might relocate to neighboring jurisdictions. Yet many of the businesses which pay low-wages are in the service and retail sectors which want to locate in the District to be close to customers.** Even Neumark acknowledges his argument is based on thin evidence, because there is "little solid research on the effects of a higher minimum wage on business creation, destruction, or relocation decisions." In fact, monthly surveys done by the National Federation of Independent Business consistently show that [small businesses rank labor costs](#) a low concern. They are most impacted by government red tape and other costs to their business.

The DC Council will likely [consider a bill](#) in the next few weeks that will raise DC's minimum wage to \$11.50 an hour by 2016 and index it to the cost of living thereafter. This proposal matches ones being considered by Montgomery and Prince George's counties in Maryland. DCFPI, along with a coalition of groups, sees this as moving in the right direction, yet still advocates for the Council to

approve a \$12.50 wage indexed for the cost of living. The bill should also include an increase for tipped workers and improve the city's sick leave law by including tipped restaurant employees and allowing workers to accrue leave from the first day on the job.