

## **Testimony of Yannet Lathrop**

National Employment Law Project

# **Support for *Fair Wage Act of 2023* (HB 549)**

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## **Hearing before the Maryland House Economic Matters Committee**

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Chair Wilson, Vice Chair Crosby, and members of the House Economic Matters Committee: Thank you for the opportunity to testify today. My Name is Yannet Lathrop, and I am a senior researcher and policy analyst at the National Employment Law Project (NELP). NELP is a national nonprofit advocacy organization that for more than 50 years has sought to build a just and inclusive economy where all workers have expansive rights and thrive in good jobs. We partner with federal, state, and local lawmakers and local community-based groups on a wide range of workforce issues, including the minimum wage.

NELP testifies today in support of the Fair Wage Act of 2023 (HB 549), which would accelerate the timeline for increasing Maryland's minimum wage to \$15 per hour by October 1, 2023. NELP also supports adjusting Maryland's minimum wage automatically on an annual basis to keep up with rising prices but cautions against the adoption of an index cap or a mechanism that would allow for a pause of future wage increases. Lastly, NELP respectfully suggests that a gradual elimination of the tipped wage would put Maryland on a path to greater gender and racial equity, and therefore should be a key provision of the Fair Wage Act.

## **An Accelerated Timeline to \$15 would Help Mitigate the Impact of High Inflation on Workers' Paychecks**

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Accelerating the timeline for Maryland to reach a \$15 minimum wage is an urgently needed policy that would mitigate the impact that high inflation is having on workers' paychecks. Since mid-2021, inflation has climbed well above its typical pace, eroding the value of Maryland's minimum wage by 13.6 percent from April 2021 to December 2022.<sup>1</sup> Although inflation is slowing down, it remains elevated at 6.4 percent year-over-year as of January 2023.<sup>2</sup>

## **Four States, the District of Columbia, and Dozens of Localities Throughout the Country Have Already Reached or Surpassed a \$15 Minimum Wage**

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Enactment of the Fair Wage Act would put Maryland in line with other high-cost jurisdictions that have already reached or surpassed a \$15 minimum wage. In **New York**, the majority of workers are already covered by a \$15 minimum wage, with areas upstate projected to reach \$15 by next year. **Massachusetts, California, Washington State**, and the **District of Columbia** have already reached or surpassed \$15, as have over four dozen cities and counties.<sup>3</sup> Later this year, Connecticut and Oregon will also reach a \$15 minimum wage.

If Maryland enacts an accelerated path to \$15, it will join a growing group of state and local jurisdictions on the forefront of the movement for higher wages.

## **Indexing the Minimum Wage to Inflation would Ensure that Workers' Paychecks Keep up with Rising Prices**

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As referenced above, from April 2021 to December 2022, inflation rose by a *cumulative* 13.6 percent, or an *average* of 7 percent<sup>4</sup>—far above the typical annual average of under 2 percent. At the same time, *real hourly earnings*—earnings that account for inflation—in the private sector *fell 1.8 percent* for all workers, and by 0.9 percent for production and non-supervisory workers.<sup>5</sup> This occurred despite an increase in nominal average wages in the private sector from \$31.63 in January 2022 to \$33.03 in January 2023 for all workers, and from \$26.88 to \$28.26 for production and non-supervisory workers.<sup>6</sup>

Inflation affects us all, but is particularly harmful to low-income households, whose already tight budgets leave no room for adjustments. Over the past year, low-income households have had to contend not only with elevated energy prices (in particular, utilities), but also with grocery costs that have surpassed overall inflation. Over the past 12 months that ended in January 2023, the cost of groceries rose by 11.3 percent,<sup>7</sup>

leading to reports of rising food insecurity.<sup>8</sup> The full impact of inflation on low-income families is yet to be determined. But pre-pandemic research suggests that it may lead to higher levels of poverty—particularly among people of color<sup>9</sup>—and to the widening or reinforcing of income inequality.<sup>10</sup>

If Maryland adopts an indexing provision it would prevent the erosion of the minimum wage in future years and would make it easier for workers to keep up with rising costs of groceries, rent, and other necessities. But in order for indexing to fully protect workers' paychecks, it cannot be capped at 5 percent, as the Fair Wage Act proposes. Instead, Maryland should follow the lead of the majority of states, which have adopted higher wages *and* indexing provisions without caps.<sup>11</sup> None have had adverse economic impacts from adopting indexing without caps.

## **Eliminating the Board of Public Works' Authority to Pause Wage Increases Helps Ensure that Workers' Paychecks do not Falter**

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NELP strongly encourages the elimination of a provision in Maryland's law that allows the Board of Public Works to suspend increases in the minimum wage. A strong minimum wage floor is vital to ensure workers' economic security. **At all times, economic policy should be focused on improving labor standards, not providing an avenue for the State to revoke gains that workers have won and expect.** This is especially true in the wake of a public health emergency—that is not yet behind us—which put workers, including those in the fast-food, grocery, and hospitality industries, in a situation that forced them to bear the brunt of unsafe workplace conditions, unstable employment, and inadequate compensation.

As the Maryland Center for Economic Policy (MDCEP) explains in a 2020 report, if Maryland had frozen its minimum wage rate last year, it would have cost the typical underpaid worker more than \$7,000 in lost wages by 2026, or more than \$14,000 by 2027.<sup>12</sup> What's more, this harm would have had a disproportionate effect on women and workers of color who are overrepresented among the underpaid workforce—in 2018, MDCEP estimated that the workers who benefitted from an increased minimum wage are 55 percent female and 50 percent workers of color (despite comprising only 44 percent of Maryland's total workforce).<sup>13</sup>

## **The Gradual Elimination of the Subminimum Tipped Wage Would put Maryland on a Path to Greater Racial and Gender Justice**

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Maryland is on a path to a \$15 minimum wage, whether it reaches this target rate in October of this year as the Fair Wage Act proposes, or by 2026 as per current law.

Its tipped cash wage, however, has been frozen at \$3.63 since 2009. In those intervening 14 years, Maryland's tipped wage has lost nearly 30 percent of its value<sup>14</sup>—meaning that the tipped cash wage is worth only \$2.56 in today's dollars. And as inflation continues to take its toll on the dollar, it will continue to decrease in real value unless it is raised. Furthermore, as the state minimum wage climbs higher to \$15 and beyond, the gulf between the regular minimum wage and the tipped wage will only widen.

Raising—and specifically, gradually eliminating—the tipped wage is not only a matter of wage parity among occupations, but also a matter of gender and racial justice. The One Fair Wage advocacy organization estimates that there are over 105,000 tipped workers in Maryland. Of these, the majority are women (65 percent) and workers of color (52 percent).<sup>15</sup> The tipped subminimum wage puts tipped workers in a situation where they must depend on customer tips for a disproportionate share of their pay, which results in widely fluctuating incomes<sup>16</sup> and is one of the main reasons that tipped workers face double the poverty rate of other workers.<sup>17</sup> The District of Columbia and a growing numbers of states and cities are in the process of eliminating the subminimum tipped wage for all workers. Maryland should join them.

## Decades of Research on the Minimum Wage Demonstrates that Higher Wage Floors Boost Workers' Incomes Without Adverse Employment Effects

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Decades of pre-pandemic economic research have found that the minimum wage raises the earnings of underpaid workers without affecting their employment. In fact, two meta-studies—the analysis and synthesis of independent studies—found virtually no impact on employment.<sup>18</sup>

The pandemic did not call this near consensus into question. In fact, during the beginning of the pandemic, we witnessed jobs numbers drop to record lows as governments imposed lockdowns to contain the spread of the virus. And as economies began to open back up in mid-2020, we saw employers attempting to rebuild their workforces by raising wages—showing in real time that higher pay does not automatically lead to disemployment effects, and that in fact, wage increases can be a boon to workers and employers alike.

## Recommendations

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For the reasons discussed above, NELP urges a favorable report on the Fair Wage Act of 2023 (HB 549) but cautions against the adoption of an indexing cap or a pause of automatic increases. NELP also respectfully suggests consideration of a gradual elimination of the tipped wage, which would put Maryland on a path to greater gender and racial equity.

## Endnotes

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<sup>1</sup> NELP analysis of U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPI-U), All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, 2021-2022.

<sup>2</sup> “CPI for All Urban Consumers (CPI-U), All items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted (series ID CUUR0000SA0, CUUS0000SA0),” U.S. Bureau of Labor Statistics.

<sup>3</sup> Yannet Lathrop, “Raises From Coast to Coast in 2023,” National Employment Law Project, December 2022, 16, <https://s27147.pcdn.co/wp-content/uploads/2023-NELP-Raises-Report-1.pdf>.

<sup>4</sup> NELP analysis of U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPI-U), All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, 2021-2022.

<sup>5</sup> U.S. Bureau of Labor Statistics, *Real Earnings – January 2023*, Tables A-1 and A-2, [https://www.bls.gov/news.release/archives/realer\\_02142023.htm](https://www.bls.gov/news.release/archives/realer_02142023.htm).

<sup>6</sup> U.S. Bureau of Labor Statistics, *The Employment Situation – January 2023*, Tables B-3 and B-8, <https://www.bls.gov/news.release/pdf/empisit.pdf>.

<sup>7</sup> U.S. Bureau of Labor Statistics, *Consumer Price Index – January 2023*, Table 7, [https://www.bls.gov/news.release/archives/cpi\\_02142023.htm](https://www.bls.gov/news.release/archives/cpi_02142023.htm).

<sup>8</sup> Zoe Han, “‘ Food Inflation is Coming Down,’ Biden Says, but Experts Say Food Insecurity in America is on the Rise,” *MarketWatch*, February 9, 2023 (updated), <https://www.marketwatch.com/story/even-as-inflation-wanes-americans-face-a-looming-food-insecurity-problem-11675818095>.

<sup>9</sup> Christopher Wimer, Sophie Collyer and Xavier Jaravel, “The Costs of Being Poor: Inflation Inequality Leads to Three Million More People in Poverty,” Groundwork Collaborative and the Center on Poverty and Social Policy at Columbia University, November 2019, <https://groundworkcollaborative.org/wp-content/uploads/2019/11/The-Costs-of-Being-Poor-Groundwork-Collaborative.pdf>.

<sup>10</sup> Adewale Maye, “How Inflation Reinforces Economic Disparities,” The Center for Law and Social Policy, November 7, 2019, <https://www.clasp.org/blog/how-inflation-reinforces-economic-disparities>.

<sup>11</sup> NELP analysis of state minimum wage laws. Of the 30 states with minimum wages above the federal wage floor, 17 have indexing provisions without caps, and only 3 have indexing provisions with caps.

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<sup>12</sup> “We Must Keep Our Promises to the Low-Wage Workers Who Keep Maryland Communities Going,” Maryland Center for Economic Policy, June 2020, <http://www.mdeconomy.org/wp-content/uploads/2020/06/MDCEP-Minimum-Wage-Freeze-Memo-.pdf>.

<sup>13</sup> Christopher Meyer, “What a \$15 Minimum Wage Would Mean for Maryland,” Maryland Center on Economic Policy, February 2018, [http://www.mdeconomy.org/wp-content/uploads/2018/02/MDCEP\\_FF15\\_report-2.pdf](http://www.mdeconomy.org/wp-content/uploads/2018/02/MDCEP_FF15_report-2.pdf).

<sup>14</sup> NELP analysis of the real value of Maryland’s tipped wage, 2009-2023.

<sup>15</sup> “One Fair Wage: Ending a Legacy of Slavery and Addressing Maryland’s Restaurant Staffing Crisis,” One fair Wage, January 2023, 1, [https://onefairwage.site/wp-content/uploads/2023/01/OFW\\_EndingLegacySlavery\\_MD-1.pdf](https://onefairwage.site/wp-content/uploads/2023/01/OFW_EndingLegacySlavery_MD-1.pdf).

<sup>16</sup> Leo Gertner, “Initiative 77 is a Vital Measure for D.C.’S Almost 30,000 Tipped Workers,” National Employment Law Project, June 8, 2018, <http://stage.nelp.org/news-releases/initiative-77-vital-measure-d-c-s-almost-30000-tipped-workers/>.

<sup>17</sup> Sylvia A. Allegretto and David Cooper, “Twenty-Three Years and Still Waiting for Change: Why It’s Time to Give Tipped Workers the Regular Minimum Wage,” Economic Policy Institute and UC Berkeley Center on Wage and Employment Dynamics, July 10, 2014, <https://files.epi.org/2014/EPI-CWED-BP379.pdf>.

<sup>18</sup> See summary of minimum wage research in Yannet Lathrop, “Overview of the Economic Research on the Impact of Minimum Wage Increases,” *In Support of a \$15 Minimum Wage in New Hampshire* [Testimony], National Employment Law Project, February 20, 2019, <https://s27147.pcdn.co/wp-content/uploads/NELP-Testimony-in-Support-of-15-New-Hampshire.pdf#page=14>.