

Anticipated Business Reactions to a \$15 Minimum Wage in Washington, D.C.

Introduction

Between 2014 and 2016, Washington, D.C.'s minimum wage has risen by nearly 40 percent, from \$8.25 an hour in early 2014 up to \$11.50 this summer. In her 2016 State of the District address, Mayor Muriel Bowser proposed raising the hourly minimum wage by an additional 30 percent to \$15 by 2020. The mayor has also proposed raising the base wage for tipped employees by 171 percent to \$7.50 an hour.

About the Survey

This survey, fielded between May 6 and May 19, 2016, represents the anticipated reactions to these wage changes of 100 affected businesses in the District. While not representative of the city as a whole, the results suggest that proponents' predictions of a pain-free transition to a higher wage floor may not reflect reality.

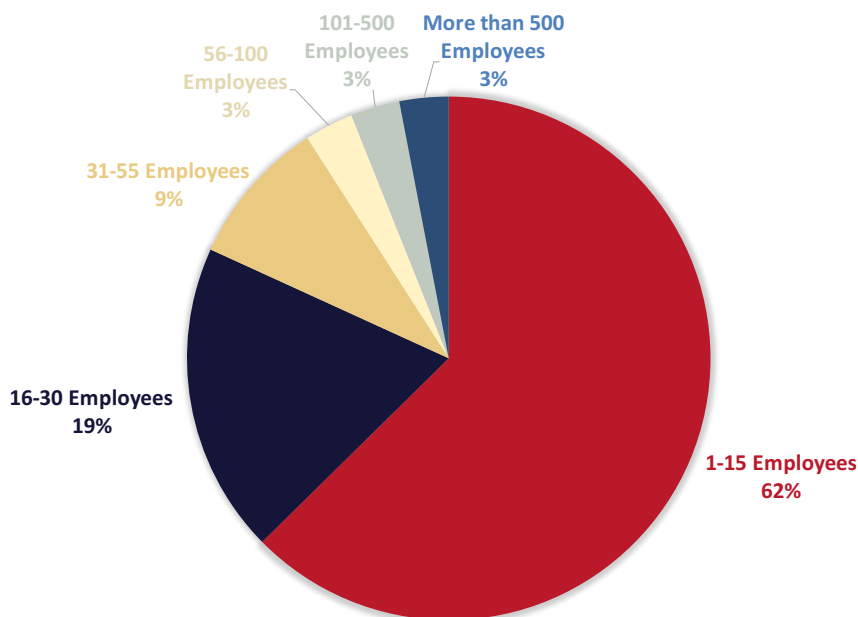
Of the 100 D.C. businesses surveyed, over 80 percent had 30 or fewer employees on staff. Just over half of the surveyed businesses were from a non-restaurant sector, such as a laundromat, beauty shop, or a grocery store. The responding businesses came from across the city's eight wards, with the bulk of responses coming from Wards 1, 2, 3, 4, and 6.

About one in three businesses reported that 20 percent or fewer of their affected employees reside in D.C.; just over half of the surveyed businesses reported that 50 percent or fewer of their affected staff lived in the District. By contrast, one in four reported that 100 percent of their affected staff lives in D.C.

Survey Responses from Businesses, By Ward

	Responses
Ward 1	16
Ward 2	15
Ward 3	17
Ward 4	17
Ward 5	3
Ward 6	27
Ward 7	3
Ward 8	2
Total	100

Size of Responding D.C. Business (All Locations)



Totals may not sum to 100% due to rounding.



Survey Results

Perceptions of Business Friendliness

In recent months, the City Council in D.C. has considered enacting a number of new labor mandates, including a higher minimum wage, a bill that would fine employers for schedule changes, and a family leave policy funded by a tax on employers. These proposed laws have encouraged a perception that D.C. is becoming less friendly for businesses.

Two-thirds of surveyed businesses agreed with this sentiment, with half strongly agreeing that D.C. is becoming a business-unfriendly city.

Responses to Prior Minimum Wage Increases

D.C. has pursued an aggressive minimum wage increase schedule since 2014. Employers affected by the proposed increase to a \$15 minimum wage were asked if they had either reduced the number of employees on their staff, or reduced the hours of current employees, to adapt to recently enacted minimum wage increases. Nearly half of employers surveyed had already taken one of these steps—suggesting that 2014-16 minimum wage increases haven't been absorbed through higher prices alone.

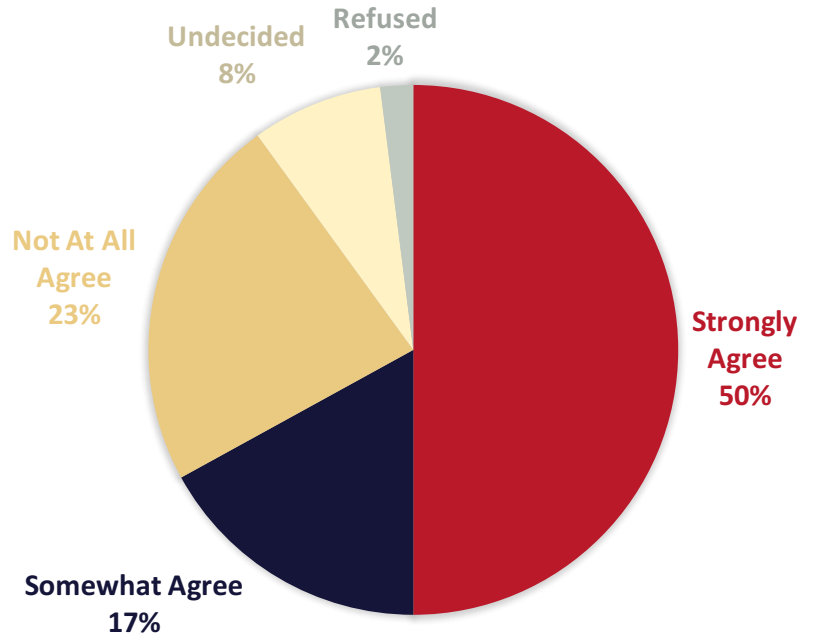
Short-Term Impacts

Businesses were asked about a range of proposed actions to offset the costs associated with a \$15 minimum wage. Just over half of surveyed businesses planned to raise prices. (Roughly one in four were undecided on whether to raise prices.)

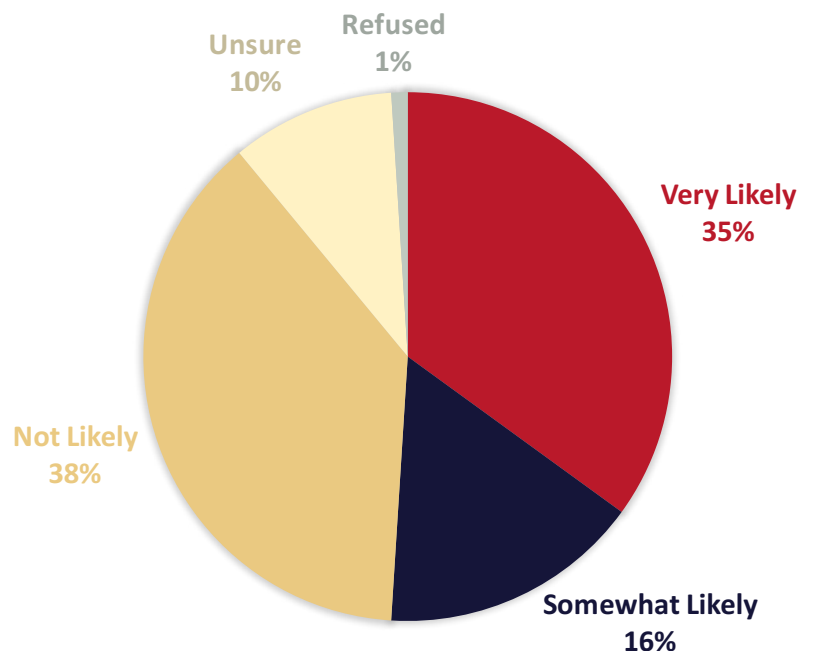
But price increases aren't a cure-all: Customers are price sensitive, and too steep an increase in prices could reduce sales. As a result, businesses reported taking other actions to offset the increased cost.

Thirty-five percent of surveyed businesses said that they were very likely to reduce staffing levels in response to a \$15 minimum wage. A similar

Is DC Becoming Unfriendly to Business?



How Likely to Reduce Staffing Levels?





percentage (37 percent) reported that they would very likely reduce employees' hours or their hours of operation to offset the additional costs of the minimum wage increase. Just over 30 percent would very likely adapt to the higher costs by hiring mostly more-skilled or experienced employees in the future, whose qualifications better justified the higher wage requirement.

These results are consistent with the best and most-recent published research on the minimum wage, which finds that past increases (at lower proposed wage levels) have reduced employment for younger and less-educated employees.

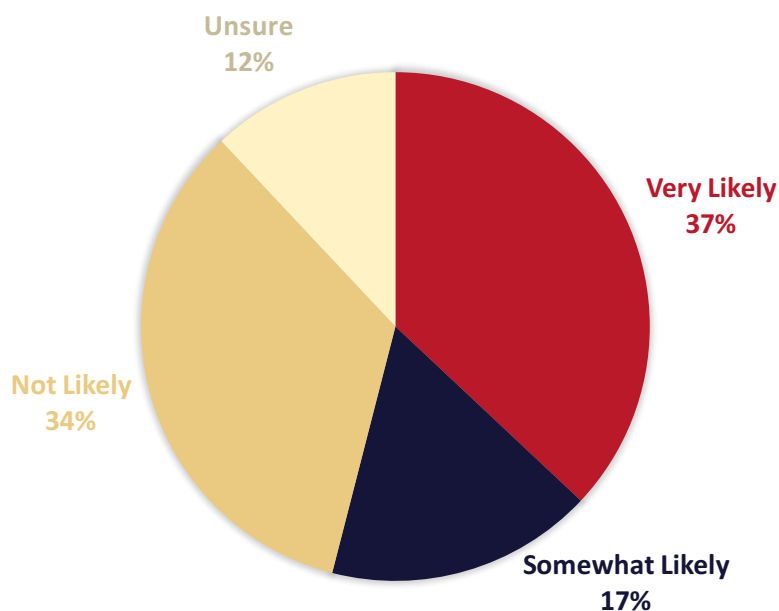
Six percent of businesses reported that they would very likely close in response to a \$15 minimum wage and 16 percent were somewhat likely to close. More concerning for D.C. policymakers, one in five businesses would strongly consider a move across the river to Arlington, Va.—where the minimum wage of \$7.25 would be less than half the number required in the District.

Tipped Employers' Responses

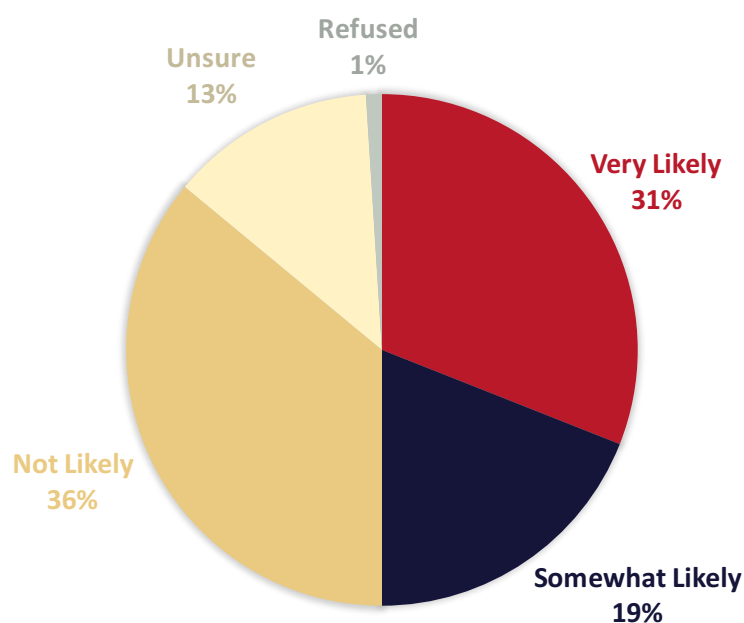
One unique aspect of Mayor Bowser's minimum wage proposal is that it would more than triple the current base wage for tipped employers such as restaurants. In other high-labor cost markets, on the West Coast in particular, some restaurants have eliminated tipping to help fund pay raises for the rest of the staff. News stories and polling data suggest that this compensation change is unpopular with many employees (who lose money) and customers (who perceive a loss of control over their dining experience).

Forty-four of the affected employers reported having tipped employees on staff. Of those employers, 14 percent were very likely to eliminate tipping, and another 27 percent were somewhat likely to make this decision.

How Likely to Reduce Staff/Store Hours?



How Likely to Hire More Skilled Workers?





References

David Neumark. “The Effects of Minimum Wages on Employment.” Federal Reserve Bank of San Francisco. December 21st, 2015. Available at: <http://www.frbsf.org/economic-research/publications/economic-letter/2015/december/effects-of-minimum-wage-on-employment/>

Methodology

The survey was conducted by phone between May 6th and May 19th by Connection Strategy. 3,576 business records were purchased for Washington, D.C., and business industries were identified by SIC code. Businesses were contacted and screened on whether they would have to raise wages in response to a proposed \$15 minimum wage. The final results represent 100 employers within the District, but are not representative of the entire business community.

The Employment Policies Institute is a nonprofit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI focuses on issues that affect entry-level employment. EPI receives support from foundations, and individuals.