Insight

The Job Implications of a $15 Minimum Wage in Maryland

BEN GITIS | MARCH 22, 2019

- The recently passed bill to raise Maryland's minimum wage to $15 per hour could cost 94,600 jobs.
- For perspective, this is equivalent to eliminating nearly 50 percent of projected job growth between 2016 and 2026.
- Maryland is not in a strong position to absorb this shock, as it continued to experience below-average job growth while the state implemented its previous minimum wage hike from 2014 to 2018.

Recently, the Maryland General Assembly passed a bill to raise the state's minimum wage from $10.10 to $15 per hour by 2025.[1] It did so with enough votes to override a likely veto from Governor Larry Hogan, effectively guaranteeing its implementation. With 20 states raising the minimum wage in 2019, Maryland is only the latest to enact a minimum wage hike.[2] American Action Forum (AAF) research has shown, however, that minimum wage hikes often hurt those they intend to help by increasing joblessness among low-skilled workers and failing to deliver income gains to those who need the most assistance.[3], [4], [5] In Maryland, for example, this massive minimum wage increase could cost the state over 90,000 jobs.

Under the law, the state's minimum wage will gradually increase to $15 per hour by 2025 for most workers. Businesses with fewer than 15 employees will have until 2026 to pay at least the new minimum wage. This comes after the state finished implementing a previous increase in its minimum wage, from $7.25 per hour in 2014 to $10.10 per hour in 2018.[6]

While proposals to raise the minimum wage are well intended, it is important to consider the negative labor market consequences. A 2015 peer-reviewed report by Jonathan Meer and Jeremy West concludes that raising the minimum wage reduces job creation.[7] Specifically, a 10 percent increase in the real minimum wage is associated with a 0.3 to 0.5 percentage point decrease in the net job growth rate. As a result of the slowdown in job growth, three years after the minimum wage increase employment is 0.7 percent lower than it would have otherwise been.

This may not seem very problematic, but the $15 per hour minimum wage passed by lawmakers in Maryland constitutes a 48.5 percent increase from the state's current minimum wage of $10.10 per hour. This means that after the minimum wage reaches $15 per hour in 2025, by 2028 employment could be 3.4 percent lower than it would be if the minimum wage did not increase. Using the Maryland Department of Labor, Licensing and Regulation (DLLR) employment projections as a baseline,[8], [9] this translates to a loss of 94,600 jobs.

To put that figure in perspective, the DLLR projects that between 2016 and 2026, Maryland will have created 194,500 jobs under current law. The $15 per hour minimum wage just approved by Maryland's lawmakers could eliminate 48.7 percent of those new jobs.

Moreover, Maryland is not in a strong position to absorb this labor market shock. Since 2010, when unemployment peaked following the Great Recession, job growth in Maryland has lagged the rest of the nation. Specifically, between 2010 and 2018, jobs in Maryland grew 1 percent annually, compared to 1.4 percent nationwide. Of note, since Maryland began implementing its previous minimum wage increase in 2014 (from $7.25 to $10.10 per hour), state job growth continued to stagnate. From 2014 to 2018, jobs in Maryland only grew 1.1 percent annually, while nationwide they grew 1.6 percent each year.[10] An additional, far more dramatic minimum wage increase could ensure that Maryland's labor market will continue to lag the rest of country over the next several years.

Raising the minimum wage may seem appealing, but it is important to understand that it has a cost. Unfortunately, the low-wage, low-skill workers who labor advocates want to help are the very workers who tend to bear the brunt of this cost. Substantial evidence suggests that mandated wage hikes reduce hiring, cost the lowest skilled workers their jobs,[11] and may even force businesses to shut down.[12] Maryland's new $15 per hour minimum wage could cost the state 94,600 jobs—nearly 50 percent of a decade's worth of job growth.

[1] Pamela Wood, "Maryland lawmakers give final OK to increase minimum wage to $15 per hour," The Baltimore Sun, March 20, 2019, https://www.baltimoresun.com/news/maryland/politics/bs-md-minimum-wage-final-20190320-story.html.

[2] Casey Leins, “Minimum Wage Increases in 20 States,” U.S. News and World Report, December 31, 2018, https://www.usnews.com/news/best-states/articles/2018-12-31/minimum-wage-increases-in-20-states-in-2019.

[3] Douglas Holtz-Eakin, “Employment and Earnings Effects of Raising the Federal Minimum Wage to $15 per Hour,” Testimony presented to the U.S. House of Representatives Committee on Education and Labor, American Action Forum, February 7, 2019, https://www.americanactionforum.org/testimony/employment-and-earnings-effects-of-raising-the-federal-minimum-wage-to-15-per-hour/.

[4] Douglas Holtz-Eakin & Ben Gitis, “Counterproductive: The Employment and Income Effects of Raising America’s Minimum Wage to $12 and to $15 per Hour,” American Action Forum & Manhattan Institute, July 27, 2015, https://www.americanactionforum.org/research/counterproductive-the-employment-and-income-effects-of-raising-americas-min/.

[5] Ben Gitis, “The Job Implications of State Minimum Wage Increases in 2018 and Beyond,” American Action Forum, February 7, 2018, https://www.americanactionforum.org/research/job-implications-state-minimum-wage-increases-2018-beyond/.

[6] Ben Gitis & Curtis Arndt, “The Job and Wage Implications of State Minimum Wage Increase in 2017 and Beyond,” American Action Forum, February 2, 2017, https://www.americanactionforum.org/research/job-wage-implications-state-minimum-wage-increases-2017-beyond/.

[7] Jonathan Meer & Jeremy West, “Effects of the Minimum Wage on Employment Dynamics,” Journal of Human Resources, August 2015, http://people.tamu.edu/~jmeer/Meer_West_MinimumWage_JHR-final.pdf.

[8] “Maryland Industry Projections – 2016-2026 – Workforce Information and Performance,” Maryland Department of Labor, Licensing & Regulation, https://www.dllr.state.md.us/lmi/iandoproj/industry.shtml.

[9] DLLR projects the change in employment between 2016 and 2026. To estimate Nevada’s projected employment level in 2028 (three years after Maryland’s $15 per hour minimum wage is implemented), the author calculates the compo9unded annual total employment growth rate implied by the 2016-2026 projection. The author assumes the 10-year growth rate remains the same and projects total state employment to 2028.

[10] Figures based on author's analysis of data from the Bureau of Labor Statistics, https://www.bls.gov/data/.

[11] David Neumark, J.M. Ian Salas, & William Wascher, "Revisiting the Minimum Wage-Employment Debate: Throwing Out the Baby with the Bathwater?" NBER Working Paper, January 2013, http://www.nber.org/papers/w18681.

[12] Daniel Aaronson, Eric French, and Isaac Sorkin, "Firm Dynamics and the Minimum Wage: A Putty-Clay Approach," Federal Reserve Bank of Chicago, November 2013, https://www.chicagofed.org/publications/working-papers/2013/wp-26.