Maryland Chamber of Commerce

Legislative Position

SB 331
OPPOSE

Finance
Committee

2/13/14

SB 331
Maryland Minimum Wage Act of 2014

Brief Summary of Bill:
This Administration bill requires employers in the State, as of July 1, 2014, to pay the greater of the federal minimum wage or a State minimum wage of $8.20 per hour to employees subject to federal or State minimum wage requirements. The bill provides for subsequent annual increases in the State's minimum wage.

The bill also expands the application of the Maryland Wage and Hour Law to additional industries or classes of workers, changes overtime laws for various industries, alters the tip credit that employers can apply against the direct wages paid to tipped employees, and provides for liquidated damages to be awarded under specified circumstances to employees who are paid less than the minimum wage.

Maryland Chamber's Position:
The Maryland Chamber of Commerce understands and sympathizes with the intent of this bill. However, by again raising Maryland's minimum wage above the federal minimum wage of $7.25 per hour, this will likely result in unintended negative consequences for Maryland employees, their families, and employers.

Upon learning of the intent to introduce this legislation, the Maryland Chamber heard from a number of its members with very serious concerns. The concerns included:

- An increase to the minimum wage will drive up employer costs, causing an increase in the costs or products and services that will be passed on to the customer
- Employers are still in the midst of trying to recover from the recession and significant downturn it had on the economy. Many cannot afford to increase costs during such an unstable time. Mandating such an increase would result in job cuts in order to save costs.
- To remain competitive with businesses on a national and international level, businesses may be forced to send jobs overseas or cut jobs
- Most states follow the federal minimum wage; including some Maryland's neighboring and competing states – Virginia, North Carolina, West Virginia, and Pennsylvania.
- This legislation would place Maryland's employers at a competitive disadvantage with businesses in neighboring states.

SB 331 Effect Maryland Employees and Their Families
The burden an increase in the minimum wage could present to small employers is significant and will ultimately result in unnecessary unintended consequences. For example, as employers are forced to cut back on staffing due to the increased costs, many employees may have their hours reduced. Others may loose their jobs, and still others will not be hired as a result of a construction in the employment market placed. Rather than increase their standard of living, this legislation could lead to precisely the opposite effect.
Additionally, those employees who are retained by employers may be forced to work additional hours and absorb increased benefit responsibilities, such as higher costs for health insurance and other similar benefits. Employers may also be placed in the position where they must make the difficult

choice of reducing certain employee benefits to be able to afford the wage increase. Thus, while an employee may benefit in his/her wages, such benefits may be neutralized or even negated by the side effect of a wage increase.

SB 331 Effect on Maryland Businesses
Many small business owners in Maryland are struggling to remain competitive, particularly, during this long and tough economic season. Increasing their costs, even in a minimal fashion, can mean the difference between surviving or not. The proposed wage increase is far from minimal for an employer in survival mode. Even the $.95 increase proposed in the first year becomes significant when multiplied by 40 hours a week, 52 weeks a week, for one or more employees. Yet, this legislation proposes an increase of roughly $2.85 by 2016, and then adds an indexing component to that. This direct cost totals thousands of dollars per year for employers, depending on the number of workers they employ – money that comes out of the pockets of small business owners. Even for large businesses, with a significant number of employees at or above minimum wage, these costs can be prohibitive.

Moreover, as starting wage rates rise, they force higher wage rates to rise as well. For example, an employee who started at the minimum wage of $7.25 per hour and is currently making $8.15 per hours would be making less than the proposed minimum wage of $8.25 in the first year. In order to retain the employee's place "ahead" of lesser-earning workers, his/her employer would have to increase the employee's pay rate to something in excess of the proposed increase. This effect, otherwise known as the escalator or ripple effect, would result in driving up other wage rates in order to maintain the appropriate distance between wage rates.

Faced with these increased labor costs mandated by State law, but not federal law, a business owner faces hard choices from among a number of options, all of which are difficult and problematic. First, a business may not be able to cover the increased costs, and may be forced to close. Second, a business may have to fire and retain fewer workers in order to keep costs down. Third, a business may have to lay-off workers or reduce their hours to keep down its labor costs. Fourth, a business may have to transfer work out of state or offshore, where labor costs are lower. Fifth, a business may be forced to hire less qualified workers, because it cannot afford the more experienced and/or skilled workers whose wages must be ratcheted up in order to avoid an untenable wage compression situation. Lastly, for those businesses that are able, they may be forced to raise the price of its goods and/or services in order to compensate for the greater labor costs – passing the costs on to the consumer.

For Maryland businesses, the supply and demand of talented employees creates an incentive for businesses to provide for reasonable market value wages for their employees. According to labor statistics and Maryland Chamber members, they are doing just that.

Conclusion
Despite the good intentions of the bill, there are many negative consequences to the proposed increase in the minimum wage – consequences that would affect Maryland employees, their families and businesses of all sizes.

For these reasons, the Maryland Chamber respectfully requests that the Committee give SB 331 an unfavorable report.

This testimony was written in consultation with Mr. Patrick Pilachowski, Partner, Shawe Rosenthal, LLP, and Member of the Maryland Chamber of Commerce Employment Relations Committee.

Contact: *Deriece Pate Bennett, Vice President of Government Affairs*
dpatebennett@mdchamber.org