Employment Policies Institute

POLICY BRIEF

May 2018

The Impact of a $15 Minimum Wage in New Jersey

Proponents of a higher wage in New Jersey argue that a $15 wage will pull families out of poverty while saving taxpayers money. For instance, Assembly Speaker Vincent Prieto argued that, "[a $15 minimum wage] will be an integral component in our efforts to stop the decline in the middle class and lift working families out of poverty."

But mounting evidence, including a new analysis specific to New Jersey, indicates that a wage increase will not deliver these results.

In a 2014 study, the nonpartisan Congressional Budget Office (CBO) estimated that a half million jobs would be lost nationwide should a $10.10 minimum wage take effect. A survey of labor economists from the University of New Hampshire found that three-quarters (76 percent) of respondents said that a $15 minimum wage would have a negative effect on the number of jobs available.

In this analysis, Drs. David Macpherson of Trinity University and William Even of Miami University use Census Bureau data to replicate the CBO methodology to determine how many jobs would be lost should New Jersey raise its minimum wage to $15 an hour by 2024. They also examine the family composition and household income of affected employees, to determine if the wage increase would be well-targeted to families in poverty.

AFFECTED INDUSTRIES

According to the Bureau of Labor Statistics (BLS), approximately 50,000 people in the state earn at or below the federal minimum wage of $7.25. (The state's minimum wage is currently more than a dollar above this, at $8.60.) BLS data show that the median hourly wage in New Jersey is $20.43, meaning a $15 minimum wage requirement would reach considerably higher in the wage distribution.

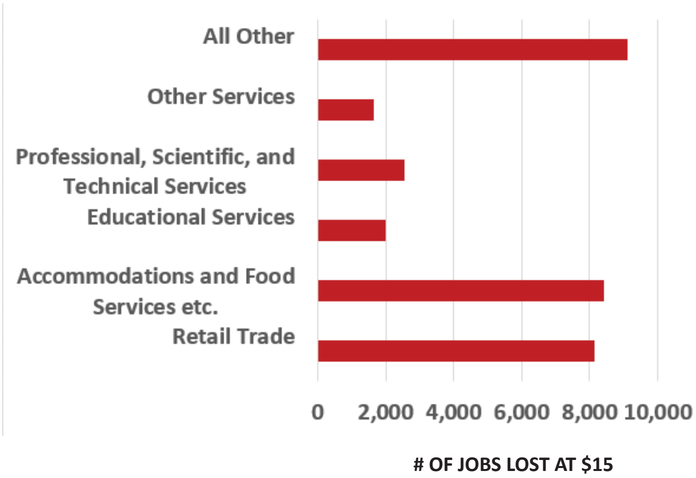
Roughly 721,000 employees in the state would be affected by a $15 minimum wage, almost half of whom are concentrated in two low-margin industry groups: retail and recreation, accommodation & food services.

IMPACT ON EMPLOYMENT

When employers are not able to offset additional labor costs in the form of higher prices, they often absorb the costs by cutting hours or laying off employees. Following the CBO methodology, economists Even and Macpherson estimate that 31,889 jobs would be lost in the state by 2024 as a consequence of the higher labor costs.

The two most affected low-margin industry groups listed above – retail and recreation, accommodation & food services – would also suffer from the most significant impact on employment, with just over half of the losses coming from these two industry groups alone.

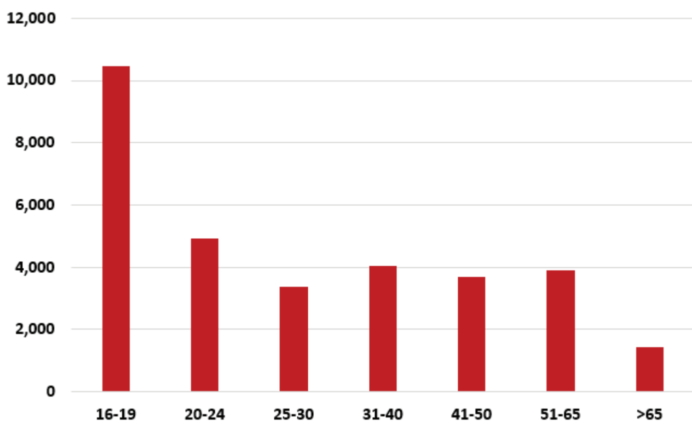
THE COST OF A HIGHER MINIMUM WAGE IN NEW JERSEY



The policy would disproportionately impact employees age 16-19, who make up just over one-third (10,473) of the jobs lost.

The policy would also have extremely negative implications for New Jersey's least skilled workers, with 90 percent of job losses coming from those without a college degree.

JOB LOSS BY AGE



JOB LOSS BY GENDER

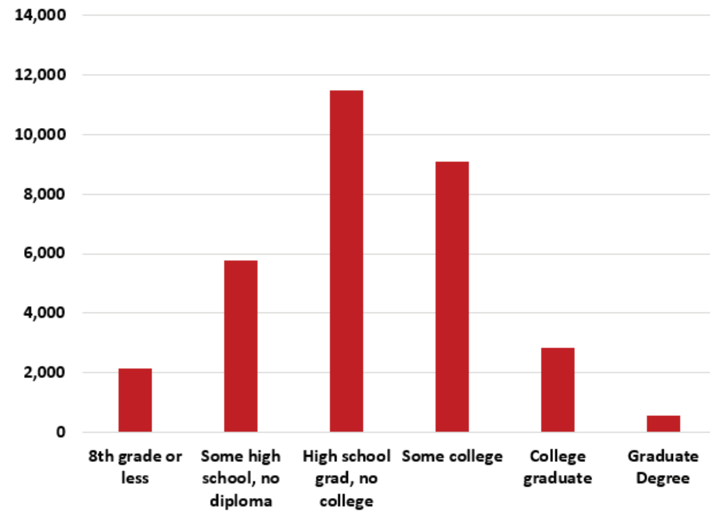
Male	14,461
Female	17,427

JOB LOSS BY EDUCATION LEVEL IMPACT ON POVERTY RATES

One of the most popular arguments for increasing the minimum wage is that it's an effective way to reduce poverty rates. But accumulating evidence suggests this is not the case. A study of the 28 states that raised their minimum wages between 2003 and 2007—including New Jersey – found little associated reduction in poverty. The authors proposed that this was largely because the increases are not well-targeted to families in poverty.

The data suggests that a similar problem exists with a $15 minimum wage in New Jersey. The Employment Policies Institute used data from the 2013-2015 March supplements to the Current Population Survey to study the working age population (18 to 64-year-olds) living in poverty in each state. In 41 of the fifty states plus Washington D.C., more than 50 percent of the working age population living in poverty were not employed.

JOB LOSS BY EDUCATION LEVEL



In New Jersey this percentage was even greater, with two-thirds (66.6 percent) of the working-age poor unemployed – which means they won't be able to benefit from a "raise."

Two-thirds of poor working age New Jersey residents are not employed.

Data from economists Even and Macpherson show that just nine percent of affected employees are single parents. By contrast, over 60 percent either live with family, or are secondary earners where both spouses work. Because so many minimum wage earners live in households where they're either a second- or third earner, the average family income of a beneficiary in New Jersey is $79,727 per year.

PERCENTAGE AFFECTED BY FAMILY STATUS

Single Adult	20%
Single Parent	9%
Married Sole Earner	8%
Married Dual Earner	22%
Living with Family or Relative	41%

Despite proponent's claims, a recent study also suggests that a higher wage would do little to save taxpayers money. A recent study conducted by Dr. Joseph Sabia and Thanh Tam Nguyen of San Diego State University examines 35 years of government data across a number of different data sets to explore the effects of minimum wage increases on government assistance. The results find that, on net, minimum wage increases have little to no net effect on spending on – or participation in - a range of social welfare programs.

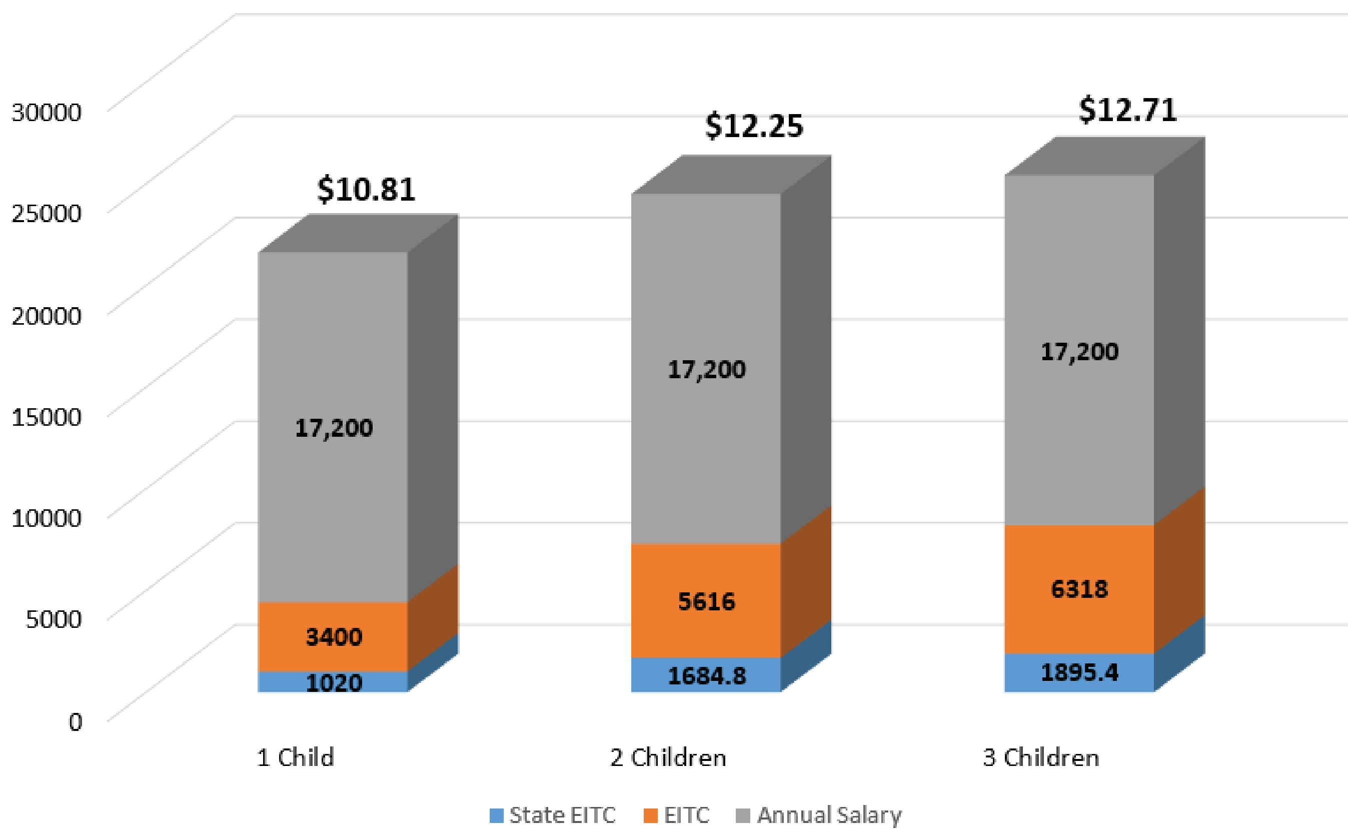
BETTER ALTERNATIVES

A survey conducted by the University of New Hampshire found that only five percent of surveyed economists believe a $15.00 per hour minimum wage would be a very efficient way to address the income needs of poor families. In contrast, the majority of surveyed economists (71 percent) believe that the Earned Income Tax Credit (EITC) is a very efficient way to address the matter.

Evidence supporting the EITC as an effective anti-poverty program doesn't stop there. A recent study from economists at San Diego State University and the University of Georgia found a one percent reduction in a state's poverty rate for each one percent increase in its supplement to the EITC.

New Jersey currently offers a significant state supplement to the federal Earned Income Tax Credit (EITC) of 30 percent, raising the effective minimum wage above $12 an hour.

EITC BENEFIT FOR A SINGLE MINIMUM WAGE EARNER IN NEW JERSEY



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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 businesses, foundations, and individuals.