POLICY BRIEF

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Employment Policies INSTITUTE

The Impact of an $8.25 Minimum Wage in New Jersey

This fall, New Jersey voters will be asked to decide whether to alter the state constitution to raise the minimum wage to $8.25 and then put it on autopilot to rise in most years thereafter.

Supporters claim that the higher wage is needed to alleviate poverty in the state. But a large body of economic research has found little to no relationship between a higher minimum wage and a decrease in poverty or family hardship.

Three factors help explain this:

- The rising cost of labor will cause some less-experienced employees to lose hours or their jobs, leaving them worse off than before;
- A majority of the individuals in poverty don't have a job and thus cannot benefit from a higher minimum wage;
- The benefits of a rising minimum wage are poorly-targeted to families in poverty.

This analysis from the Employment Policies Institute draws on Census Bureau data for New Jersey and past economic research to demonstrate why an increase in the state's minimum wage is bad policy.[1]

Age, Family Status, and Family Income of Affected Employees

A recent study from the Bureau of Labor Statistics reported that minimum wage earners "tend to be young."[2] Census data show that this is also the case in New Jersey. Just over half of the people directly impacted by an increase in the minimum wage to $8.25 an hour are age 25 and under; approximately 37 percent are age 21 and under. The median age of an affected employee is 25.

Age of New Jersey Employees Affected by an $8.25 Minimum Wage	
Age 25 and Under	50.1%
Age 21 and Under	37.5%
Age 22 - 25	12.6%
Age 26 - 50	32.6%
Age 51 – 65	14.7%
Older than Age 65	2.6%

A portion of the beneficiaries are older. However, these employees don't neatly fit the image of a minimum wage earner that advocates have put forth.

Campaigns for a higher minimum wage tend to focus on difficult cases that elicit public sympathy—for instance, a single parent supporting children on his or her own. But the data show that very few people who would be impacted by a higher minimum wage in New Jersey fit that description. Just over seven percent—or about 1 in 14—are single parents supporting children. By contrast, nearly 70 percent are either living at home with family (e.g. a teen a living with a parent or relative) or have a spouse that also works.

As a result, the family income of an employee covered by an increase in New Jersey's minimum wage is far higher than the $15,080 full-time, year-round income figure cited by the proposal's advocates.

A Majority of Employees Live With Family or Have a Working Spouse	
Single Adults	16.6%
Unmarried Single Earners with Children	7.3%
Married Single Earners with/without Children	6.8%
Married Dual Earners with/without Children	15.2%
Living with Family (e.g. Parent(s) or Relative)	53.9%

Note: Percentages are rounded. The last category includes minimum wage earners living with directly-related parent(s) or relatives, as well as sub-family members living at home.

The average family income of an employee affected by the proposed wage increase is above $76,000 a year. Even the median income of a beneficiary is $53,554 per year—more than three times the family income figure that advocates are relying on. One quarter of the affected employees are in households with a yearly income of $120,000 or higher.

Family Income of Affected Employee in New Jersey	
Average (Mean) Family Income	$76,078
Median Family Income	$53,554

These data are consistent with a report from economists at Cornell and American University, which found that more than 60 percent of minimum wage earners are in households with incomes over twice the poverty line—and more than 40 percent are in households with incomes over three times the poverty line.[3]

By contrast, a majority of the families that are living below the poverty line don't have a job. Recent data from the Census Bureau show that sixty percent of people living below the poverty line aren't employed.[4] A similar trend holds for individuals in hardship (e.g. people who have missed a rent payment, or had difficult meeting monthly expenses).[5]

This demonstrates why a higher minimum wage doesn't reduce poverty: A majority of the people who are affected are not living in poor families, and the intended beneficiaries frequently don't have a job.

Industries Affected By a $8.25 Minimum Wage

Because minimum wage employees tend to be young and/or less-experienced, they're often employed in industries that require less formal education and prior work experience. In New Jersey, 27.6 percent of the people impacted by an increase in the minimum wage to $8.25 an hour work in the retail trade (e.g. grocery stores or gas stations). Another 22.2 percent work at recreation, food service, and accommodations-related businesses (e.g. restaurants or hotels).

This industry composition provides some insight as to why a loss of hours or employment occurs following a minimum wage increase. For instance, in a typical full-service restaurant, profit margins are about three percent; at a typical grocery store, that figure is just over one percent.[6] When labor costs rise due to a new labor cost mandate, businesses can't just absorb the increase: They either have to raise prices, or provide the same service at a lower cost (i.e. fewer employees).

Top 5 Industries Impacted by $8.25 Minimum Wage, by Employee Concentration	
Retail Trade (e.g. grocery stores, gas stations, hardware)	27.6%
Arts, Entertainment, Recreation, Accommodations, and Food Services (e.g. restaurants, hotels)	22.2%
Professional Services (e.g. landscaping, building services)	11.2%
Health Care (e.g. nursing care)	8.5%
Manufacturing (e.g. retail bakeries, electronic components)	6.4%

Note: For a list of more specific industries and definitions, see Census Bureau industry codes. http://www.bls.gov/cps/cenind.pdf

Employment and New Jersey's Minimum Wage

Projected Employment Loss from an $8.25 Minimum Wage in New Jersey	
Low Estimate	1,556 jobs
Mid Estimate	4,359 jobs
High Estimate	4,668 jobs

Over the last two decades, the vast majority of the most credible empirical studies on the minimum wage have found that raising it causes job loss for the least-skilled and least-experienced employees.[7] Although studies vary on the magnitude of the employment loss, the estimates generally fall in the one to three percent range—that is, employment for the target population falls by one to three percent for each 10 percent increase in the minimum wage.

In New Jersey, approximately 218,000 people would be directly impacted by the minimum wage increase to $8.25. Under various assumptions about the impact of the initiative on employment, as measured in past studies on the minimum wage, job loss in New Jersey would range from approximately 1,600 jobs lost on the low end to approximately 4,700 jobs lost on the high end.[8] Note that these estimates only represent employment loss associated with the first stage of the increase. Other research from the NFIB Research Foundation has taken a different approach and modeled the impact of an

indexed minimum wage increase over a ten-year period, and finds employment loss in the range of 31,000 total jobs using certain assumptions about the cost of living in the state.

The table below provides a breakdown of the industries that the lost jobs will be concentrated in, using the mid-range job loss estimate presented above.

Lost Jobs By Industry, $8.25 Minimum Wage	
Construction	-112
Manufacturing	-370
Wholesale Trade	-15
Retail Trade	-1,294
Transportation and Warehousing	-102
Information and Communications	-18
Finance and Insurance	-75
Professional, Scientific, and Technical Services	-377
Educational Services	-158
Health Care	-178
Social Assistance	-92
Arts, Entertainment, Recreation, Accommodations, and Food Services	-1,275
Other Services (Except Public Administration)	-203
Public administration	-90
Total	**-4,359**

The unemployment rate for less-educated young adults in New Jersey is presently averaging 26 percent.[9] The New Jersey wage hike initiative, which makes this vulnerable group even more expensive to hire and train, could have a devastating impact on their career development.

Common Objections

Proponents of a higher minimum wage in New Jersey and elsewhere have put forth a series of talking points in favor of their proposal. Three of the most common arguments in favor of a higher minimum wage are briefly answered below:

- **The minimum wage would be over $10 an hour today if indexed for inflation since 1968**

  Advocates point to the inflation-adjusted minimum wage in 1968 and argue that public policy should aim to link the minimum wage to that benchmark. But that particular year was selected for political reasons, not economic ones. If the minimum wage had been properly indexed for inflation since it was first created, in 1938, it would only be $4.07 an hour today—44 percent less than the current minimum of $7.25.

  The inflation adjustment argument also presumes that minimum wage employees are stuck at that wage. The research shows otherwise. Two-thirds of minimum wage employees earn a raise in their first 1-12 months on the job.[10]

- **Most studies show that the minimum wage has no impact on employment**

  Though proponents reference a handful of outlying studies in their defense of a higher minimum wage, the economic consensus on the subject is clear: Raising the minimum wage reduces employment for the least-skilled and least-experienced jobseekers.

  This consensus was documented by economists David Neumark of the University of California-Irvine and William Wascher of the Federal Reserve Board. Reviewing the literature on the subject, they found that 85 percent of the most credible studies on the minimum wage from the last two decades point to job losses after a wage increase.[11] Newer studies that claim to overturn this consensus are without merit, according to a comprehensive examination forthcoming in Cornell University's labor economics journal.[12]

- **Raising the minimum wage would provide a boost to the economy**

  A team of three economists at the Federal Reserve Bank of Chicago found that an increase in the minimum wage leads to a temporary spending increase in vehicle purchases—specifically, an increase in debt-financed vehicle purchases. The economists found no relationship between a higher minimum wage and the purchase of nondurable goods (e.g. groceries), and noted that their findings said nothing about the net effect of a minimum wage. In particular, they pointed to "compelling" evidence that a higher minimum wage reduces employment for young adults.[13]

Advocates for a higher minimum wage have taken this modest result, ignored the authors' caveat about lost jobs, and used it to claim that raising the minimum wage will boost the economy. But the evidence doesn't back it up. Most recently, research from an economist at San Diego State University found no relationship between increases in the minimum wage and changes in Gross Domestic Product.[14]

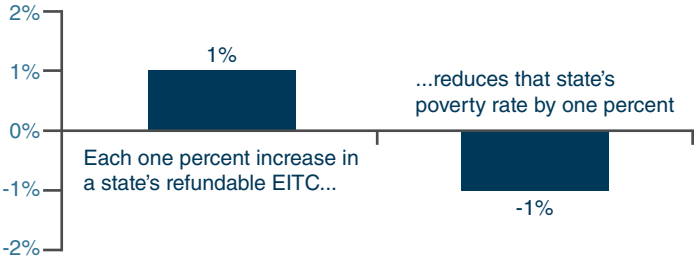
Implications for New Jersey

The data suggest that raising the minimum wage in New Jersey to $8.25 would not be well-targeted to the families that proponents are trying to help. There's also strong evidence to suggest that a higher minimum wage would reduce employment among the state's youth and other less-experienced jobseekers.

There are more effective and less harmful alternatives for policymakers interested in reducing poverty. Economists have praised the Earned Income Tax Credit (EITC), which is better-targeted at low-income families and doesn't risk the same unintended consequences (such as a loss of hours or jobs) associated with a higher minimum wage.[15] The federal EITC was increased as part of the American Recovery and Reinvestment Act of 2009. Recent research shows that a one percent increase in the EITC is associated with a one percent drop in state poverty rates.[16]

A Better Alternative for Poverty Reduction

The Earned Income Tax Credit



New Jersey presently offers an earned income tax credit of 20 percent of the federal credit. That means, for a single parent family in the state with two children, the full-time minimum wage for this family is already $10.27 an hour. To better address the needs of low-income families, the state could strengthen this credit—either restoring it to its previous 25 percent level, or raising it further to the 30 percent level that currently exists in New York.

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1. The data for this analysis was taken from monthly Current Population Survey files, January 2011-December 2012.
2. Report available here: http://www.bls.gov/cps/minwage2012.htm
3. Burkhauser and Sabia (2010), available here: http://www.people.vcu.edu/~lrazzolini/GR2010.pdf
4. Report available here: http://www.census.gov/prod/2011pubs/p60-239.pdf
5. See Sabia (2012), available here: http://epionline.org/study_detail.cfm?sid=141 2010 Restaurant Industry Operations Report and Food Marketing Institute, available here (http://www.restaurant.org/esdpdf/2010_ops_report_under15.pdf) and here (http://www.fmi.org/docs/facts-figures/net-profit-percent-sales-2011.pdf)
7. See Neumark and Wascher (2007), available here: http://www.socsci.uci.edu/~dneumark/min_wage_review.pdf
8. The middle-range elasticity (.6 for young dropouts, .2 for all others) comes from Burkhauser and Sabia (2010). Available here: http://www.people.vcu.edu/~lrazzolini/GR2010.pdf. Low-range elasticity is .1, and high-range elasticity is .3.
9. EPI analysis of Current Population Survey data, May 2012-April 2013
10. Even and Macpherson (2004). Available here: http://epionline.org/studies/macpherson_06-2004.pdf
11. See Neumark and Wascher (2007), available here: http://www.socsci.uci.edu/~dneumark/min_wage_review.pdf
12. See Neumark, Salas, and Wascher (2013), available here: http://www.nber.org/papers/w18681
13. See Aaronson et al (2007). Available here: http://www.chicagofed.org/webpages/publications/working_papers/2007/wp_23.cfm
14. Sabia (2011), available here: http://epionline.org/study_detail.cfm?sid=131
15. See discussion in Neumark & Wascher (2008) on pages 182-189.
16. Sabia (2012), available here: http://epionline.org/study_detail.cfm?sid=141

The Employment Policies Institute is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI focuses on issues that affect entry-level employment.

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