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Preface

The Guarini Institute for Government and Leadership White Paper Series (GWPS) is designed to stimulate timely and relevant discussion around key public policy topics germane to New Jersey. The series will provide contributors a unique opportunity to share their opinions related to critical public policy issues. This is the fifth paper in a series of white papers sponsored by the Guarini Institute. On behalf of the institute, we thank Drs. Marcillo-Gomez and Naatus for their contribution.

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Leila Sadeghi, Ph.D.
Executive Director
Guarini Institute for Government and Leadership
Saint Peter's University

About the Authors

Dr. Marilu Marcillo-Gomez is an Assistant Professor of Business at Saint Peter's University. She is also the Director of the Office for Diversity, Inclusion & Equity as well as Chair of the Advisory Council The Center for Undocumented Students (TCUS) at Saint Peter's.

Dr. Marcillo-Gomez can be reached at (201)761-6387 or by email at mmarcillogomez@saintpeters.edu.

Dr. Mary Kate Naatus is an Associate Professor of Business and Chair of the Department of Business Administration at Saint Peter's University. In addition, she is the director of research for the Ignite Institute at Saint Peter's.

Dr. Naatus can be reached at (201)761-6393 or by email at mnaatus@saintpeters.edu.

The Minimum Wage Debate

Abstract: The issue of mandating increases in minimum wage around the country is one that is hotly debated with experts on both sides of the issue. There are many complexities and nuances to the debate far beyond the dollar amount that cloud the issue. While most people would likely agree that it is unjust when people working full time are living in poverty or below the poverty line (in 2016, according to Federal poverty guidelines this would be a family of four earning $24,300 annually)(Amadeo, 2016), and that on the surface, society and communities would benefit from people earning a living wage, there is evidence that increasing the minimum wage by mandate may have a negative economic effect on the "at risk individuals" that these very laws are attempting to help.

This paper broadly outlines the many nuanced issues surrounding the minimum wage debate over many decades, including the benefits and drawbacks to minimum wage legislation and implementation, unintended economic consequences, alternative solutions to impact worker prosperity, and an analysis of varied experiences around the country that resulted from minimum wage increases. The paper concludes with a synopsis of the $15 minimum wage proposal and legislative process in New Jersey, as well as the potential impacts on communities, particularly small business and other employers.

Introduction

Heralding back to the Fair Labor Standards Act in 1938, supporters of minimum wage have lauded it as an important tool in fighting poverty. In 1937, President Franklin Roosevelt gave a famous speech, imploring Congress to help the one-third of Americans who were "ill-housed, ill-clad, and ill-nourished" with the establishment of a 25 cent minimum federal wage standard (at the time, this was about 40% of the average manufacturing worker salary) (Lindauer, 1999). Today's federal minimum wage is $7.25 an hour (Department of Labor, 2016), and more than half of the states in the USA have state minimum wages set above this federal minimum. Not many people would argue that it is good to have working adult Americans, many whom are head of household, earning poverty wages, forcing them to receive government benefits to survive or relying on food pantries to make ends meet, while many of the companies they are working for are raking in profits. This clearly opens up an issue of equity and fairness, one that has created an atmosphere of discord among Americans leading to protests around the country and a move by many states to reconsider increasing the minimum wage.

Many anti-poverty advocates support minimum wage legislation as a key tool in increasing incomes alongside consumer spending, reducing reliance on government assistance, and even creating positive health outcomes (Krisberg, 2015). In regards to the proposed $15 minimum wage currently moving through the NJ state legislature, the advocacy group, NELP (National Employment Law Project), estimates that the NJ law could means thousands of income dollars more annually for nearly 1 million workers in New Jersey alone. This is a seemingly positive outcome, but numbers published by advocates opposed to a mandated increased minimum wage, paint a different picture, including significant job losses (Sherk, 2016).

Who is Impacted by Minimum Wage Increases?

While many academic studies have examined the impact of minimum wage increases in different states around the U.S. it is important to note that many of these studies have focused on minimum wage and the impact on teenagers and/or young adults, for whom these jobs represent primarily money for miscellaneous expenses since many still have parents who provide food, shelter, clothing and educational support and do not represent the adult worker for whom this income is their "bread and butter" sustenance. Moreover, other studies have relied on simulation models, rather than actual empirical research which do not always reflect the realities of cost of living changes, inflation or rising healthcare costs. It is, therefore, important to examine the demographics of the populations who would be most affected by changes in minimum wage laws and study specifically how different populations: minority groups, women, the elderly, the handicapped, etc. would be impacted.

Many businesses contend that forcing them to raise their wages will mean in the short term having to downsize their workforce and in the long term, among other strategies, raise the price of goods in order to absorb the increase in wages. As one economist has put it, "there is no "free lunch" (Wilson, 2012) when the government mandates a minimum wage there will be a ripple effect. This notion illustrates that the mandated increase in minimum wage, can likely result in adjustments by employers to pay for added costs, including reductions in hiring, cutting employee work hours, reducing benefits, and charging higher prices. While larger employers and companies may be able to comply with minimum wage increases without significant financial stress, many small businesses cannot absorb the cost of minimum wage increases, and as a result may make decisions that have negative economic consequences, in order to pay for these increases.

In New Jersey, "almost all firms with employees are small. They make up 98.3 percent of all employers in the state and employed 1.7 million workers in 2015 (Small Business Administration Office of Advocacy, 2105, p. 125). These small businesses have the most difficult time adjusting to minimum wages changes because many of them operate on slim margins of profitability. Therefore when minimum wages laws change many of these small business in the short term downsize by a couple of workers or cut hours in order to comply with the new law and in the long term may invest in automation, updated technology, streamlining processes (or worse, offshoring labor) which enable them to do more with less people and through this process cut costs.

Unintended Consequences of Minimum Wage Hikes

In addition to possible drops in employment, another unintended consequence of minimum wage mandates may drive employers to substitute low-skill workers with high-skill workers, which may adversely affect workers that are most likely to experience discrimination in the labor market (Farris & Bujanda, 2008). Over time, economic studies on impact of mandated increases in minimum wage taking a traditional view of labor demand curves, often support the premise and provide evidence that increases in minimum wage reduce employment. However, a number of more recent economic studies provide evidence that this negative employment impact in some of the previous literature is not the only valid perspective on the issue. Card and Kreuger's

(1995) book called “Myth and Measurement: The New Economics of the Minimum Wage provided evidence as well as a useful methodology showing that minimum wage increases do not inherently affect employment negatively. Card and Kreuger focused on the 1992 increase in minimum wage in NJ from $4.25 to $5.05, and compared employment levels in fast food outlets on the NJ said of the border to a similar group of outlets and workers on the Pennsylvania side of the border, with a lower minimum wage rate that had not changed due to mandate. Their study found that increasing minimum wage had no visible impact on reducing employment.

While the intent of minimum wage legislation is to help the working poor, in some cases it has deleterious impact on these same workers. One quantitative approach to examining this effect is that with the proposed $15 minimum wage, companies looking to hire workers may determine that the additional earnings required would exceeds the cost of employing them. A starting salary of $15.00 an hour would translate into the notion that every full-time employee must create at least $38,700 a year in value for their employers in order to justify the expense (Sherk, 2016). This significant bar would make it much harder for less experienced and less skilled workers to find full-time jobs, and it makes it more likely for higher skilled workers, who are likely to have other options to replace them in the labor market. Included in this group are younger workers, low-skilled and less educated workers, immigrants and other possibly at risk populations. On the other side of this argument, the current annual take-home pay for full-time workers earning minimum wage in NJ is about $17,430, which is extremely low considering the cost of living in most of the state, and likely to require most minimum wage workers to rely on government benefits to make ends meet. Estimates by The United Way of Northern New Jersey show workers would need to earn at least $13.78 an hour to meet have basic needs met, and $19.73 per hour for "better food and shelter, plus modest savings (Marcus, 2016). Both of these amounts are well above the current $8.38 an hour NJ minimum wage.

EITC: An Alternative Approach to Fight Poverty

An alternative to minimum wage legislation, is the earned income tax credit (EITC), which was implemented in 1975 and subsequently expanded via the tax code in 1987, 1991 and 1996 and provides another avenue for the federal and state governments to help middle to low income people, couples with children, single parent households and widowers the opportunity to increase their annual income if they meet the federal and state guidelines. Currently these guidelines apply to “working families with children earning up to about $39,000 to $52,000 (depending on marital status and the number of children in the family)... with the largest benefits going to families with incomes between about $10,000 and $23,000. Workers without children can also qualify in most states, but only if their income is below about $15,000 ($20,000 for a married couple), and the benefit is small”(Center on Budget & Policy, 2016).

Research in this area finds that EITC can serve as a significantly effective mechanism for helping reduce the poverty gap with the greatest impact on single parent households, followed by married couples with children (Simpson, Tiefenthaler & Hyde, 2010). On the other hand, EITC has negligible impact on single childless households and this is due to income threshold guidelines and the smaller percentage of credit earned. Further as an economic tool EITC, “… induces labor market entry for poor families” (Simpson, Tiefenthaler & Hyde, 2010, p. 283) suggesting that this program is a more effective anti-poverty tool than minimum wage increases and is credited with lifting 6.2 million people-over half of them children-out of poverty in 2013 (Center on Budget & Policy Priorities 2016).

Minimum Wage around the USA

The proposed $15 minimum wage in NJ would not be the first in the nation, since California, New York and Washington D.C. have all voted on implementing a $15 minimum wage over time. There is also a growing advocacy movement pushing the adoption of a $15 federal minimum wage mandate as well, which would affect states around the country differently, based on cost of living. A $15 federal mandate would have a greater effect in states with lower costs of living. It would also be more likely to adversely affect employment in states that would experience the highest increases with such a federal mandate (those with the lowest state minimum wages). States should retain some autonomy in setting minimum wage, since $15 can be used to purchase considerably more goods and services in states like Mississippi and Texas, than in high cost states like NJ and California. Decision-makers must consider purchasing power in different states or regions, which is exactly what New York is doing by, creating different minimum wage levels near NYC, with very high population density and high cost of living vs a lower rate in rural New York State with a much lower cost of living. Even within NJ, a $15 minimum wage will affect organizations as well as the broader labor market differently in the areas outside New York City and northern NJ, than it would the regions on the Pennsylvania border as well as near Delaware, states with minimum wages nearly $8 and $7 below the $15 minimum wage.

Recommendations

It is important when analyzing the impacts of minimum age increases to put aside politics and be objective about the true impacts and consequences of significant increases, such as the $15 increase in NJ. It has been said that minimum wage increases are not targeted enough to make a significant impact on the majority of people living in poverty or on the margins. With just under half of minimum wage workers under age 24, many of them living at home with parents (Sabia & Burkhauser, 2010), nearly half of the potential beneficiaries may fall outside of the intended population of this wage legislation. In order to benefit from minimum wage legislation, people need to be employed, and with disproportionately high unemployment rates among poor and less-educated individuals aged 16-64, some of the most vulnerable population is left out of the potential benefits. In addition, if the wage increase causes businesses to decrease employment and lay people off which is more likely with a very large minimum wage increase, the negative effect is compounded, with more people unemployed, the exact opposite of the intended impact. NJ legislators and advocates should consider phasing in less severe increases over a longer period of time to allow those employers who are still challenged by the 2013 wage increase to maintain stable employment levels and stay afloat.

In addition to the Earned Income Tax Credit (EITC) as an alternative mentioned above, other ways to address the very real problem of poverty and individuals and families struggling to make ends meet include workforce development and training for individuals earning minimum wage as well as unemployed individuals to help them develop more marketable skills in today's evolving work landscape. Another very real concern for Americans even above poverty rates is the increasing cost of health insurance premiums even after the Affordable Care Act, so providing some relief for these rising costs is applicable. Providing tax incentives to small businesses, particularly in economically challenged areas, may help to provide some relief to prevent layoffs and maintain stability on the employer side. There is no one silver bullet that will solve the issue of poverty and inequality, and it will require sincere cooperation among politicians and advocates on both sides of the issue to take a more nuanced and comprehensive approach. We also recommend allowing businesses, especially small businesses, to phase in any new minimum wage requirements over a longer period of time so they can better adapt and maintain their employment levels.

Conclusion

Considering these expert findings and recommendations on minimum wage increases over time, the New Jersey proposal that has recently moved ahead by the New Jersey State Assembly and the New Jersey Senate Budget and Appropriations Committee and also approved by the State Senate in June of this year to incrementally increase the minimum wage from $8.38 today to $15 by 2021, an increase of 80%, may not have the intended impact pushed by advocates. The law is expected to be vetoed by Governor Christie. Putting aside the political motivations and perspectives, there would be many economic ramifications of this legislation passing and the intended positive consequences of reducing poverty may not be fully realized. Some businesses would simply consider leaving the state, laying off NJ workers, leading to greater unemployment. NJ is following a similar path as California and New York, which each recently passed their own $15 minimum wage increases, and similarly, the increase would be implemented gradually over a number of years. While the idea of living wages for all workers is compelling and sounds like it would enhance equity in society, caution needs to be exercised since minimum wage increases may not be the panacea lauded by many. In deciding how to proceed it is necessary to consider not just the income inequities of the low to middle income families but to balance that with the impact it will have on all of our small business in the state of New Jersey.

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