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Minimum wage boost produces bang for buck

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In case you couldn't tell from "going out of business" signs, the 80 percent discounts, and the gift cards being used to buy food, the latest retail sales data confirmed it: We're coming off the worst holiday shopping season in decades. Few observers were surprised. With rising costs and stagnant wages, even the most basic necessities – like food and clothing – are taking bigger chunks out of working families' budgets.

But another news item last week that received less attention points towards a key step for boosting consumer spending in the state: raise New Jersey's lagging minimum wage.

The state's minimum wage advisory commission, chaired by Gov. Corzine's labor commissioner, issued its 2008 report. It called on the legislature to restore New Jersey's minimum wage to \$8.50 – closer to its value before it started to slide – and to guarantee annual cost-of-living increases to prevent the minimum wage from falling each year.

New Jersey's minimum wage is just \$7.15 an hour, or \$14,782 a year for a full-time minimum wage worker. Despite the fact that New Jersey is one of the most expensive states in the nation (housing costs alone are, on average, 55 to 79 percent higher in New Jersey than the national average), workers in 13 other states and the District of Columbia are paid a higher minimum wage. Contrary to myth, minimum wage earners are overwhelmingly adults – in New Jersey, 85 percent are over the age of 20. And because neither New Jersey's minimum wage nor the federal minimum wage are indexed to increase when the cost of living rises (as is the case in 10 other states do), both have been falling in terms of buying power for more than 30 years.

A strong minimum wage is not only crucial for helping low-income families make ends meet, it is one of the best ways to stimulate the consumer spending that drives the state's economy. A minimum wage increase goes directly to those New Jerseyans who will spend it immediately – because they have to – on basic necessities like food,

fuel, rent, clothing and transportation. A recent study by Federal Reserve Bank of Chicago economists confirmed that minimum wage increases boost consumer spending substantially more than tax cuts do. This is spending that goes directly into local businesses and the local economy. Moreover, as the state grapples with a looming budget shortfall, a minimum wage boost represents one of the few forms of stimulus that will not worsen the deficit.

Business lobbyists will of course argue – as they always do, regardless of the economic climate – that raising New Jersey’s minimum wage will hurt businesses and worsen unemployment. But repeated studies – in good times and bad – have found no job losses resulting from minimum wage increases. As a result, in 2006 more than 650 economists, including five Nobel laureates and six past presidents of the American Economic Association, called for increasing the minimum wage, finding that it “significantly improve(s) the lives of low-income workers and their families, without the adverse effects that critics have claimed.” As Princeton economist and 2008 Nobel laureate Paul Krugman summarized, “All the empirical evidence suggests that minimum wage increases in the range that is likely to take place do not lead to significant job losses. True, an increase in the minimum wage to, say, fifteen dollars an hour would probably cause job losses But that is not what is on – or even near – the table. ”

In fact, the minimum wage’s twin functions as cushion for working families and fiscal stimulus have been recognized from the beginning. As the nation struggled through the Great Depression in 1938, Franklin Roosevelt called for adoption of the first federal minimum wage as “an essential part of economic recovery.” By increasing the purchasing power of those workers “who have the least of it today,” he explained, “the purchasing power of the Nation as a whole – can be still further increased, (and) other happy results will flow from such an increase.”

To help working families and New Jersey’s economy weather the worst economic downturn since that time, the Legislature should act swiftly to implement the advisory commission’s recent call to restore a robust state minimum wage.

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