

# NELP

**National Employment  
Law Project**

TESTIMONY  
OF  
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NATIONAL EMPLOYMENT LAW PROJECT

ON  
S- 3: INCREASES THE MINIMUM WAGE TO \$8.50, THEN MAKES ANNUAL ADJUSTMENTS  
BASED ON CPI INCREASES

BEFORE THE  
NEW JERSEY SENATE  
LABOR COMMITTEE

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Good afternoon Chairman Madden, and Senators of the Labor Committee, and thank you for the opportunity to testify today on S. 3, which would raise the minimum wage to \$8.50 per hour and thereafter provide for annual, inflation-based adjustments. My name is Tsedeye Gebreselassie, and I am a staff attorney at the National Employment Law Project. The National Employment Law Project is a non-profit, non-partisan research and advocacy organization specializing in employment policy. We are based in New York with offices across the country, and we partner with federal, state and local lawmakers on a wide range of workforce issues.

Across the country, our staff are recognized as policy experts in areas such as unemployment insurance, wage and hour enforcement, and, as is relevant for today's hearing, minimum wages. We have worked with dozens of state legislatures across the country and with the U.S. Congress on measures to restore a strong minimum wage.

Raising New Jersey's minimum wage to \$8.50 and indexing it to inflation will help New Jersey's frontline workers who are being squeezed by flat wages and rising prices. It will also help accelerate the recovery by boosting the consumer spending that New Jersey's economy needs in order to keep growing. In my testimony I will address some of the key economic and policy questions raised by this proposal, and respond to some of the arguments that opponents of the proposal are likely to make. In an effort to make it as accessible and useful as possible, my written testimony is presented in bullet point format.

I would also like to mention as a resource for the legislature our website on the minimum wage, [www.raisetheminimumwage.org](http://www.raisetheminimumwage.org), which is a central location on the web for the latest research news and policy development related to the minimum wage.

## ***New Jersey's Minimum Wage Is Out of Date, and Lags Behind 18 Other States***

- At \$7.25 per hour, New Jersey's minimum wage matches the federal minimum wage and is just \$15,080 a year for a full-time, year round worker. If the federal minimum wage had kept up with inflation since the late 1960s, it would be more than \$10.40 today.<sup>1</sup> Instead, Congress has acted just 3 times in the last thirty years to raise the minimum wage. And New Jersey's minimum wage has increased just 10 cents since 2007.
- By contrast 18 states plus Washington D.C. have higher minimum wages than New Jersey, including many low-wage sunbelt states such as Florida, Arizona, and Nevada, and Midwestern states like Illinois and Ohio where the cost of living is much lower than in New Jersey.
- Additionally, 10 states index their minimum wage to inflation so that the real value of the minimum wage does not fall every year. These states include Washington, where the minimum wage is already \$9.04 per hour, and Oregon, where the minimum wage is \$8.80 per hour.
- Raising New Jersey's minimum wage to \$8.50 and indexing it to inflation would provide a modest increase that will help restore the value of the minimum wage to its historic buying power.
- And just to reiterate this for emphasis. Indexing the minimum wage simply maintains the real value of that wage rate – its buying power. Therefore, it is critical to index off of a wage rate that is actually meaningful, since inflationary adjustments simply maintain that wage rate's buying power.

## ***More Workers Nationally and in New Jersey Are Spending Their Careers in Low-Wage Jobs, Making the Minimum Wage More Important Than Ever to the State's Economy***

- For decades, the economies of New Jersey and the nation have been reorienting towards low-wage jobs. Current Bureau of Labor Statistics detail this

transformation, and show that seven of the top ten growth occupations for the next decade are low-wage occupations.<sup>2</sup>

- The recession and tepid recovery have only accelerated this shift toward low-wage jobs. A NELP analysis shows that while the majority of jobs lost during and after the recession were in mid-wage occupations such as manufacturing and construction, roughly three-quarters of the jobs added since job growth resumed are in low-wage occupations like cashiers and food preparation.<sup>3</sup>
- To make matters worse, workers in lower-wage occupations (with median wages under \$13.52) have seen a 2.3 percent decline in real wages since the start of the recession.<sup>4</sup>
- As more New Jersey residents are spending their careers in low-wage industries, the minimum wage is playing a bigger role in the state's economy, since it is one of the major factors shaping pay scales in those jobs.
- Indeed, nationwide, a stunning 35 million Americans – 26 percent of our workforce – earn less than \$10.55 an hour. These workers are disproportionately women and people of color.<sup>5</sup>
- And contrary to stereotypes, the overwhelming majority of low-wage workers are adults, not teens, and they contribute a substantial portion of their households' incomes. Seventy-seven percent of minimum wage workers are 20 or older.<sup>6</sup> In fact, in some of the top growth occupations like home health care, the median age is far higher – close to 40 years of age.

***Most Low-Wage Employees Work for Large Corporations and Minimum Wage Increases Do Not Affect Small Business Growth.***

- Despite misconceptions, the majority of low-wage workers are, in fact, employed by large chains, not small mom-and-pop businesses. Two-thirds of all employees work in firms of at least 100 workers (and half of all employees work in firms with more than 500 workers).<sup>7</sup>

- Moreover, research shows that small businesses have not been hurt in states that raise their minimum wages above other states. A 2006 study by the Fiscal Policy Institute compared job growth for small businesses in states with higher and lower minimum wages from 1998 to 2003. The study found that jobs at small businesses, as well as the total number of small businesses, actually grew faster in states with higher minimum wages. This highlights how the minimum wage is ultimately a very small factor affecting job growth, including at small businesses.<sup>8</sup>

***The National Chains That Employ Most Low-Wage Workers Are Enjoying High Profits and Can Afford to Pay Higher Wages***

- Corporate profits are now the largest share of GDP since 1950, while wages and salaries are now the lowest share of GDP since 1955.<sup>9</sup>
- For example, in July 2011, J.P Morgan chase reported to its banking clients that profit margins of the S&P 500 companies are at their highest levels in almost 50 years – due to cuts in pay and benefits. “Reductions in wages and benefits explain the majority of the net improvement in margins,” wrote the J.P. Morgan CIO. “US labor compensation is now at a 50-year low relative to both company sales and US GDP.”<sup>10</sup>
- At the five largest low-wage employers in the nation – Wal-Mart, McDonald’s, Sodexo, Target and Yum Brands (the operator of fast food chains like Pizza Hut, KFC and Taco Bell) – profits, cash holdings and dividends have not only rebounded but are now substantially higher than before the 2007 recession.
- The largest corporations are sitting on \$1.9 trillion in cash, refusing to expand and rehire, because demand for goods and services remains weak.
- Worker productivity has increased since the recession as companies squeeze more work out of a thinned workforce, but companies are not rewarding workers with higher pay.

- What this means is that the major low-wage companies that employ most workers in New Jersey earning less than \$8.50 per hour can afford to pay a modestly higher minimum wage.

### ***Raising the Minimum Wage Boosts the Consumer Spending that New Jersey's Economy Needs in Order to Grow***

- Consumer spending drives our economy, making up 70 percent of GDP. But consumer demand remains weaker than we need it to be, as too many workers across New Jersey and the nation are either out of work, or have found new work at lower pay than in the sectors where job growth is now concentrated.
- Economists and business owners from across the political spectrum have been stressing the seriousness of this problem:
  - “Small business-owners are worried because sales are falling and there’s no pickup in sight” (*The Wall Street Journal*, Sept. 13, 2011)
  - “An increase in consumer spending would be the best imaginable stimulus right now” (National Federation of Independent Business, Oct. 11, 2011)
  - A Wall Street Journal survey of 53 economists showed that 65 percent cited lack of demand as the primary impediment to increased hiring. (*The Wall Street Journal*, July 11, 2011)
- Raising wages for the nation’s lowest-paid workers is a key way of boosting consumer demand. It puts money into the pockets of working families who spend it on necessities at neighborhood businesses, pumping it back into the economy.
- According to an analysis by the Economic Policy Institute, the increased consumer spending generated by raising the federal minimum wage to \$10 in three steps over the next three years would generate more than \$25 billion in additional GDP and create the equivalent of more than 100,000 full-time jobs.
- This research highlights how, far from killing jobs, raising the minimum wage in fact promotes job growth.

## ***Growing Numbers of Business and Conservative Voices Are Recognizing the Need to Raise the Minimum Wage***

- There have always been business leaders that have recognized the importance of the minimum wage.
  - This includes Margot Dorfman of the U.S. Women’s Chamber of Commerce, who recently testified in support of raising Connecticut’s minimum wage to \$9.75 per hour.<sup>11</sup>
  - In 2006, nearly 1,000 business leaders nationally, including the CEO’s of major companies like Costco, supported raising the federal minimum wage.<sup>12</sup>
- But the minimum wage is now so out of date that in recent months, we have been seeing new and diverse business and conservative leaders endorse raising the minimum wage. These include:
  - Mitt Romney, who says he supports indexing the minimum wage to inflation<sup>13</sup>;
  - Michael Bloomberg who has called for raising the minimum wage in New York and nationally<sup>14</sup>;
  - Crain’s New York Business, which has endorsed raising the minimum wage to \$8.50 and indexing it<sup>15</sup>; and
  - Even Governor Chris Christie has said he would consider signing an increase in New Jersey’s minimum wage.<sup>16</sup>

## ***Research Shows That Raising the Minimum Wage Does Not Slow Job Growth, or Push Businesses Across State Lines to Lower Wage States***

- The [most rigorous research](#) over the past 15 years, examining dozens of minimum wage increases over the past two decades, find that these increases have increased workers’ income without reducing employment of low-wage workers. These

studies compare job growth trends in neighboring counties across state lines with different minimum wages, has found that higher minimum wages do not result in job losses. Significantly these trends are the same for minimum wage increases implemented [even during weak economic periods](#).

- This important body of research was pioneered more than 15 years ago by economists Alan Krueger, now the Chair of President Obama’s Council of Economic Advisors, and David Card at Princeton University, when they found increases in New Jersey’s minimum wage, when neighboring Pennsylvania did not raise its minimum wage, did not reduce employment among low-wage workers in New Jersey.<sup>17</sup>
- A 2010 study in the prestigious *Review of Economics and Statistics* carefully analyzed minimum wage impacts across state borders. It compared employment patterns in more than 250 pairs of neighboring counties in the U.S. that had different minimum wage rates between 1990 and 2006, and found no difference in job growth rates in the neighboring counties despite the different minimum wages, and no evidence that states’ with higher minimum wages had pushed businesses across the state line.<sup>18</sup>
- And a 2011 study published in the *Journal Industrial Relations* examined every minimum wage increase over the past two decades—including increases that took place during protracted periods of high unemployment, such as the Great Recession of 2007 to 2009—and found that higher minimum wages boost incomes without reducing employment or slowing job creation, even for teen workers.<sup>19</sup>
- Indeed, as Crain’s New York Business recently explained, a higher minimum wage does not put one state at a competitive disadvantage compared with neighboring states because “Businesses employing many minimum-wage workers tend to be in the service sector and must set up shop near their customers.”<sup>20</sup>
- Another important contribution of these two recent studies is that they also demonstrate how previous research relied on by corporate interests failed to control for key variables, resulting in faulty conclusions. That erroneous research failed to control for basic differences in population and job growth trends across regions of the country, such as population shifts from the Rust Belt to the Sun

Belt. The new research shows that when those trends are controlled for – for example, by focusing on neighboring counties (which by their nature have similar economies) with different minimum wage rates – any correlation between higher minimum wages and slower job growth vanishes. Detailed summaries of this and other new research can be found on our website, [www.RaisetheMinimumWage.org](http://www.RaisetheMinimumWage.org).

***There is Strong, Bi-Partisan Public Support for Raising the Minimum wage to a Level Greater Than \$8.50***

- In a new, soon-to-be released national poll conducted in February 2012 by Lake Research Partners, nearly three-quarters of likely voters support increasing the minimum wage to \$10 per hour and indexing it to inflation (73% to 20%).
- Support for a \$10 minimum wage spans all demographic and partisan divides. In particular:
  - Democrats support it 92% to 4%.
  - Independents support it 74% to 18%
  - Republicans support it 50% to 41%, with levels even higher for Republican women
- Far more voters believe that increasing the minimum wage would help the economy rather than hurt it: 56% to 21% (another 16% say it would have no impact)
- The minimum wage is also a voting issue for the public. Voters are prepared to award candidates who support raising the minimum wage (56% are more likely to vote for that candidate vs. 18% less likely).
- The full results of the poll will be released shortly.

***Fixing New Jersey's Minimum Wage for Tipped Workers***

- Before I conclude, I would like to address one important group of workers that this bill will not help: workers who receive tips. New Jersey is one of just a handful of states that have no minimum wage at all for tipped workers. Under New Jersey law,

workers like waitresses, car wash attendants and nail salon workers could in theory be paid no wages at all and forced to work entirely for tips. Now technically, federal law requires that they be paid at least \$2.13 in wages (for those workers covered by the federal law). But that's still a paltry sum – and one that has been frozen for more than twenty years.

- Because tips are notoriously unpredictable and can fluctuate widely, most states do not allow workers to be forced to work just for tips. Instead, they establish a minimum wage for tipped workers—usually between 50 and 100 percent of the full minimum wage—that employers must pay in cash wages to tipped workers. Many states in the Northeast provide much better protection for tipped workers. New York and Connecticut require that tipped workers be paid 69% of the full minimum wage. New Jersey's minimum wage for tipped workers should similarly be raised to 69% of the full minimum wage, comparable to the rates in New York and Connecticut.

Thank you so much for the opportunity to testify today in support of raising the minimum wage to help working families and promote economic recovery. I'd be happy to answer any questions that you may have.

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<sup>1</sup> See <http://www.raisetheminimumwage.com/facts/entry/amount-with-inflation/> for calculation.

<sup>2</sup> U.S. Department of Labor, Bureau of Labor Statistics, "Occupational Employment Projections to 2018," published in the November 2009 Monthly Labor Review, *available at* [http://www.bls.gov/emp/ep\\_table\\_104.htm](http://www.bls.gov/emp/ep_table_104.htm)

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<sup>3</sup> National Employment Law Project, “The Good Jobs Deficit: A Closer Look at Recent Job Loss and Job Growth Trends Using Occupational Data”, Data Brief, July 2011, *available at* <http://www.nelp.org/page/-/Final%20occupations%20report%207-25-11.pdf?nocdn=1>

<sup>4</sup> Ibid.

<sup>5</sup> Economic Policy Institute, State of Working America 2011, Table: Low-paying jobs not spread evenly across workforce, *available at* <http://www.stateofworkingamerica.org/charts/view/185>

<sup>6</sup> Bureau of Labor Statistics, *available at* <http://www.bls.gov/cps/minwage2010tbls.htm#1>

<sup>7</sup> <http://jaredbernsteinblog.com/what-may-be-the-most-commonly-misunderstood-fact-about-the-job-market/>

<sup>8</sup> Fiscal Policy Institute, “States with Minimum Wages above the Federal Level have had Faster Small Business and Retail Job Growth,” March 30, 2006, *available at* <http://www.fiscalspolicy.org/FPISmallBusinessMinWage.pdf>

<sup>9</sup> MarketWatch, July 29, 2011 *available at* <http://www.marketwatch.com/story/corporate-profits-share-of-pie-most-in-60-years-2011-07-29>

<sup>10</sup> Michael Cembalest, “Eye on the Market” July 11, 2011, *available at* [http://www.investorvillage.com/uploads/44821/files/07-11-11 - EOTM - Twilight of the Gods\\_PWM.pdf](http://www.investorvillage.com/uploads/44821/files/07-11-11 - EOTM - Twilight of the Gods_PWM.pdf)

<sup>11</sup> <http://www.raisetheminimumwage.com/media-center/entry/supporters-testify-to-raise-connecticut-minimum-wage-to-9.75-and-index-to-i/>

<sup>12</sup> <http://www.businessforafairminimumwage.org/signatories>

<sup>13</sup> <http://management.fortune.cnn.com/2012/01/24/a-new-day-for-the-minimum-wage/>

<sup>14</sup> [http://articles.nydailynews.com/2012-02-02/news/31019164\\_1\\_minimum-wage-free-market-child-care](http://articles.nydailynews.com/2012-02-02/news/31019164_1_minimum-wage-free-market-child-care)

<sup>15</sup> <http://www.crainsnewyork.com/article/20120205/SUB/302059999#ixzz1nf6bGs5b>

<sup>16</sup> [http://www.nj.com/news/index.ssf/2012/01/christie\\_will\\_consider\\_raising.html](http://www.nj.com/news/index.ssf/2012/01/christie_will_consider_raising.html)

<sup>17</sup> David Card and Alan B. Krueger, “Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania,” NBER Working Paper, October 1993, *Available at* <http://www.nber.org/papers/w4509>

<sup>18</sup> Arindrajit Dube, T. William Lester, and Michael Reich, “Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties,” *The Review of Economics and Statistics*, 92(4): 945–964 (November 2010), *available at* <http://www.irle.berkeley.edu/workingpapers/157-07.pdf>

<sup>19</sup> Sylvia A. Allegretto, Arindrajit Dube, and Michael Reich, “Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data,” *Journal of Industrial Relations* (April 2011), *available at* <http://www.irle.berkeley.edu/workingpapers/166-08.pdf>.

<sup>20</sup> <http://www.crainsnewyork.com/article/20120205/SUB/302059999#ixzz1nf6bGs5b>