

Insight



The Job Implications of New Jersey's Proposed \$15 Minimum Wage Law

BEN GITIS | JUNE 2, 2016

Recently, the New Jersey Assembly [passed](#) a bill that would raise the state's minimum wage from \$8.38 per hour to about \$15 per hour. The state's Senate is also expected to pass the bill. With Governor Chris Christie expected to veto the measure, the issue will likely be posed as a ballot question to New Jersey voters during the November election. While proponents hope this measure will improve the welfare of low-wage workers, American Action Form (AAF) [research](#) has consistently shown that proposals to raise the minimum wage often hurt those they intend to help by increasing joblessness among low-skilled workers and failing to deliver income gains to those who actually need assistance. Could this happen in New Jersey? Yes. This massive minimum wage increase could cost the state almost 200,000 jobs.

Under the [bill](#) passed by the New Jersey Assembly, the state's minimum wage would increase to \$10.10 on January 1, 2017. Then over the following four years the minimum wage would increase annually by the larger of \$1.25 or \$1 plus any increase in inflation (as measured by the Consumer Price Index or CPI). This means that by 2021, the minimum wage in New Jersey would be at least \$15.10. After 2021, the minimum wage would increase with the CPI. This proposal comes after New Jersey raised its minimum wage in 2014 from \$7.25 to \$8.25 and indexed it by inflation (as measured by the CPI). It also comes shortly after [New York](#) and [California](#) both approved increasing their minimum wages to \$15 per hour.

While proposals to raise the minimum wage are well intended, it is important to take into account the negative labor market consequences. Recently, [Meer & West \(2015\)](#) found that raising the minimum wage reduces job creation. Specifically, they found that a 10 percent increase in the real minimum wage is associated with a 0.3 to 0.5 percentage-point decrease in the net job growth rate. As a result, three years after a minimum wage increase is implemented, employment becomes 0.7 percent lower than it would have been absent the minimum wage increase.

This may not seem all that dramatic, but the bill approved by the New Jersey Assembly would mandate at least a 64.7 percent increase in the minimum wage from current law.^[1] This means that if the minimum wage were to be \$15.10 by 2021, by 2024 employment would be 4.5 percent lower than under current law. Using New Jersey Department of Labor and Workforce Development [projections](#) as a baseline, this comes out to a loss of 192,852 jobs.^[2]

Previously we applied the Meer & West (2015) estimate to [New York's](#) and [California's](#) \$15 minimum wage proposals and found they could cost those states 432,500 and 692,235 jobs, respectively. This means that the \$15 minimum wage proposals in New York, California, and New Jersey combined could cost about 1.3 million jobs total.

Although raising the minimum wage is a very popular proposal, it is important to understand that it does have a cost. Specifically, evidence consistently shows that low-wage, low-skill workers are the very workers who tend

to bear this cost by being unable to maintain their current job or attain a new one. In 2015, for instance, major cities that began implementing minimum wage increases experienced significant [declines](#) in restaurant employment growth. These labor market consequences are likely to be no different in New York, California, and New Jersey, where policymakers are rushing to implement the most aggressive minimum wage increases in the country.

[1] Note that the estimated 64.7 percent increase is smaller than an increase from \$8.38 to \$15.10, which is 80.2 percent. Although New Jersey's minimum wage is currently \$8.38 per hour, the state's current law mandates that the minimum wage increases each year with the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which is reported by the Bureau of Labor Statistics. This means that by 2021 the minimum wage in New Jersey under current law will likely be higher than \$8.38. To project the minimum wage under current law in 2021, we calculate the compounded annual growth rate in the CPI-W from 2006 to 2015 and assume the same growth rate would continue until 2021. This yields a projected minimum wage of \$9.17 in 2021 under current law.

[2] The New Jersey Department of Labor and Workforce Development projects how many jobs will be created from 2012 to 2022. It did not, however, indicate total employment levels in 2012 and 2022. We address this by utilizing the Bureau of Labor Statistics' Current Employment Statistics to find total employment in New Jersey in 2012. We then add the New Jersey Department's projected job growth to the 2012 level to project employment in 2022. Finally, to project baseline employment to 2024, we calculate the compounded annual total employment growth rate from the 2012 to 2022 projection and assume the same growth rate will continue until 2024.