

Testimony of Paul K. Sonn

National Employment Law Project

Hearing Before the New Jersey Senate Committee on Labor on S. 15 to Raise New Jersey's Minimum Wage to \$15 by 2021

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Thank you for the opportunity to testify today on Senate President Sweeney's proposal to gradually phase New Jersey's minimum wage up to \$15 by 2021. My name is Paul Sonn and I am General Counsel and Program Director at the National Employment Law Project.

The National Employment Law Project (NELP) is a non-profit, non-partisan research and advocacy organization specializing in employment policy. We are based in New York with offices in Washington, and California. We partner with federal, state, and local lawmakers on a wide range of workforce issues ranging from unemployment insurance, to the on-demand economy, to raising the minimum wage.

NELP testifies today in support of the Senate President's proposal to raise New Jersey's minimum wage to \$15 or more by 2021. Such an increase would raise pay for 1 in 4 New Jerseyans – nearly 1 million in total, according to analysis by New Jersey Policy Perspective. The typical worker earning less than \$15 in New York is a woman over 25 who works full-time and provides on average half of her household's income.¹ And the typical raise these workers would receive, once the wage was phased in by 2021, would be several thousands of dollars per year – enough to make a very real difference in their standard of living.

As for the impact on jobs and businesses, the economic evidence shows that gradually phasing in such an increase by 2021 statewide would be manageable for the state's businesses. This is illustrated both by the research and by the growing numbers of employers and employer organizations that are weighing in in support of raising the minimum wage nationwide. In this testimony I'll summarize the evidence on these and other key points.

1. Nationally There Is Growing Momentum for a \$15 Minimum Wage

New Jersey's proposal is part of a wave of national action for significantly higher minimum wages. After a half dozen cities including Los Angeles, San Francisco and Seattle passed \$15 minimum wages, earlier this year New York and California approved the nation's first \$15 states minimum wages.² As those measures are phased in over the next several years, they will raise pay broadly for more than one in three workers in those two states and begin to reverse decades of growing wage inequality.

Now other states and cities, including, Connecticut, Massachusetts, Washington, D.C., Baltimore, Minneapolis and Cleveland are proposing similar measures. More background on \$15 minimum wages is available on the National Employment Law Project's Raise the Minimum Wage website at <http://raisetheminimumwage.org/pages/movement-for-15>

2. Most Employers in the U.S. Support Raising the Minimum Wage and Growing Numbers Support Raising It to \$15

Some business lobbyists can be counted on to oppose any minimum wage increase, whether large or small. But what is striking today is the fact that business community support for raising the minimum wage is stronger than we have ever seen it, reflecting a broad recognition that the

minimum wage, and wages in general, are far too low, and that raising the minimum wage is fair, manageable for employers, and beneficial for the broader economy.

This was vividly demonstrated last month when a poll and briefing webinar prepared by conservative pollster Frank Luntz for the national network of state chambers of commerce was leaked. The poll of business owners and executives across the United States showed that they support raising the minimum wage by a stunning 80%-to8% margin.³ Asked during the webinar specifically about whether the surveyed business executives “are worried about raising [the minimum wage], or do they actually want to see it raised,” LuntzGlobal managing director David Merritt answered “No, they actually support raising it,” adding “it’s undeniable that they support” raising the minimum wage.” Merritt continued, “If you’re fighting against the minimum wage increase, you’re fighting an uphill battle, because most Americans, even most Republicans are okay with raising the minimum wage.”⁴

Even the \$15 minimum wage proposals, which are now the norm in the nation’s high cost states like New Jersey, have received very significant amounts of business community support. For example, in neighboring New York where Governor Andrew Cuomo championed and negotiated passage of a \$15 minimum wage, business organizations representing more than 32,000 small businesses from across the state backed the proposal. The business organizations supporting the \$15 wage included the Greater New York Chamber of Commerce,⁵ the Brooklyn Chamber of Commerce,⁶ the Northeast Organic Farmers Association – New York Chapter,⁷ and the Long Island and Westchester/Putnam African-American Chambers of Commerce,⁸ among others.

Equally significant, a diverse range of business leaders that were not public supporters confirm that transitioning to a \$15 minimum wage is entirely feasible. “‘Everybody in retail is dealing with an increase in minimum wage,’ said Popeyes CEO Cheryl Bachelder to CNN Money. ‘We will adjust to increased costs just like we have before. Life will go on. There’s been too much hubbub about it.’”⁹

As Rochester-based restaurant owner Dennis Kessler who teaches at the University of Rochester’s Simon School of Business told the *Washington Post* last year, “This \$15 thing is being phased in over quite a few years, so I don’t think it’s going to have much of an impact. ... People are going to have to pay a little more. It really isn’t too much more complicated than that.”¹⁰

3. \$15 Is Not That High a Minimum Wage for New Jersey Given the State’s Higher Than Average Cost of Living and Median Wages

While there is a strong economic case for phasing the minimum wage up to \$15 nationally, the case is especially easy to make for New Jersey because of the state’s very high cost of living and high median wages. As a result, a \$15 minimum wage is simply not that high a minimum wage for New Jersey.

New Jersey has one of the highest costs of living in the U.S. Cost of living data show that even in the least expensive regions of southern New Jersey, a single worker will need \$15 or more by 2018 just to cover the basics – and workers in northern New Jersey and workers supporting children will need even more.

For example, in Ocean City – which is one of the least expensive regions of New Jersey – a single worker will by 2018 need \$31,515 just to cover basic living costs at a modest level, according to the

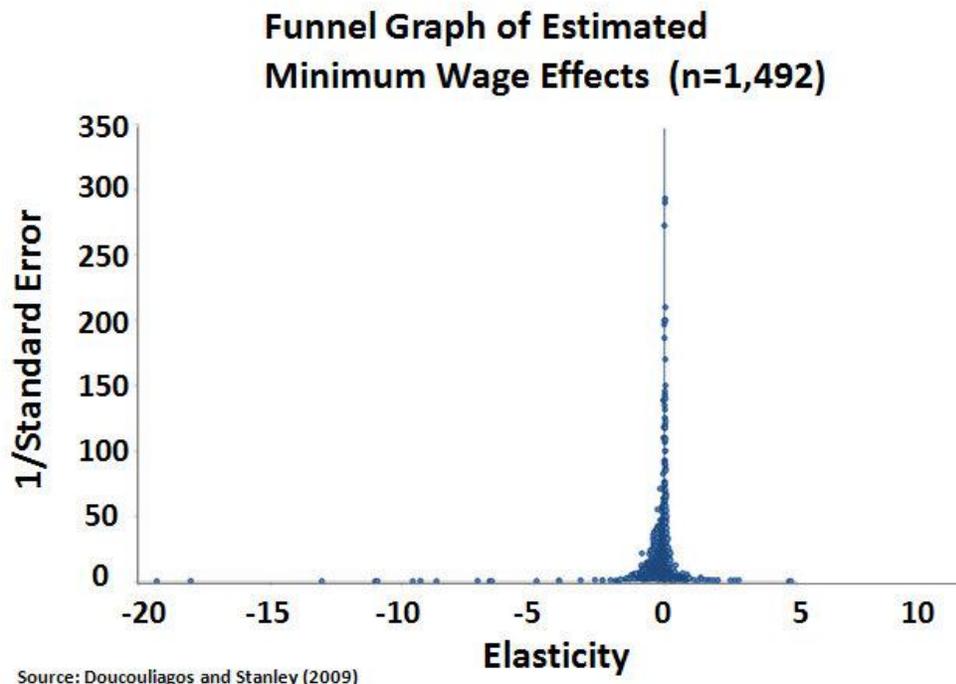
Economic Policy Institute's Family Budget Calculator.¹¹ These living costs mean that a single, full-time worker will need to earn at least \$15.15 per hour in Ocean City by 2018. And in all of the remaining metro areas of the state, living costs for a single worker already exceed that level today in 2016. The Senate President's proposed \$15 wage by 2021 is therefore in line with what single workers across New Jersey really need to rent an apartment and pay the bills.

Another benchmark that shows that a \$15 minimum wage is not that high for New Jersey is a comparison of the minimum wage to the median wage for a full-time worker, also known as the "Kaitz Index." New Jersey has one of the highest median wages in the United States. As a result, a \$15 minimum wage by 2021 in New Jersey is projected to be approximately 57% of the state's median full-time wage. That's barely higher than the level that the U.S. minimum wage was in 1968, when it was 55% of the median wage – and which was a period when the nation enjoyed low unemployment and strong growth.¹²

4. The Most Rigorous Research Shows That Raising the Minimum Wage Boosts Incomes for Low-Wage Workers with Only Very Small Adverse Impacts on Jobs

Over the past twenty years, the bulk of credible minimum wage research in the U.S. has found that minimum wage increases boost worker pay with little if any adverse impacts on jobs. As Goldman Sachs analysts summarized recently, "the economic literature has typically found no effect on employment [of recent U.S. minimum-wage increases]."¹³

This is best illustrated by "meta-studies" that survey and aggregate the findings of scores of minimum wage studies. The two leading meta-studies—by economists Hristos Doucouliagos and T.D. Stanley (2009)¹⁴ and Dale Belman and Paul Wolfson (2014)¹⁵ — show that the vast majority of recent studies find minimum wage increases have little to no effect on employment levels or job growth.¹⁶ The following funnel graph from the first of these meta-studies illustrates how the job impact findings from most minimum wage research are clustered very close to zero ("elasticity" in the graph refers to a measure of the change in employment resulting from an increase in the minimum wage). It also shows that the most rigorous studies (those higher up on the vertical axis) found close to zero effect on jobs:



For an overview of the minimum wage research literature, see National Employment Law Project, *Employment and Business Effects of Minimum Wage Increases* (Sept. 2015).¹⁷

5. State-of-the-Art Analysis of a Phased In \$15 Minimum Wage Shows Far-Reaching Benefits and a Modest Impact on Jobs

As the national minimum-wage debate has shifted toward more significant wage increases, with California and New York recently approving plans to gradually phase in \$15 minimum wages, economists have begun analyzing the impacts of these higher wages. University of California economists have conducted the most sophisticated research to date on the new, phased-in \$15 minimum wages.¹⁸ The research shows that in New York, more than one in three workers will see their pay rise by close to \$4,900 per year, a far-reaching increase that will begin to reverse decades of wage inequality. The corresponding figures for New Jersey would be somewhat smaller, raising pay for 1 in 4 workers instead since, as noted, New Jersey is a higher wage state overall than New York.

Significantly, the University of California study finds that, unlike small wage increases, a \$15 minimum wage generates billions in new consumer spending that offsets most of the higher costs to businesses.¹⁹ As a result, the researchers project that a phased-in \$15 wage would lead to no reduction in employment levels and, quite possibly, a very small net gain. And because more workers would get a raise in lower-paying rural areas, the consumer spending increase would be greatest there, providing an extra boost to sales at rural businesses.²⁰

More than 75 economists have endorsed the findings of the University of California study,²¹ and another 200 economists have endorsed a \$15 federal minimum wage by 2020, finding that raising the minimum to \$15 an hour “will be an effective means of improving living standards for low-wage

workers and their families and will help stabilize the economy. The costs to other groups in society will be modest and readily absorbed.”²²

6. The NFIB Projection Is Not Based on the Best Available Research and Is Not Reliable

Last week, the National Federation of Independent Business (NFIB) released a projection that a \$15 minimum wage in New Jersey would cost the state 70,000 jobs over ten years.²³ However, the conclusions of the NFIB analysis are not based on the best available research and so should not be relied on by the legislature as it evaluates the impact of a \$15 minimum wage.

First, the NFIB analysis is based on the Regional Economic Models, Inc. (REMI) forecasting model. The assumption that a higher minimum wage results in reduced employment levels is one of the assumptions of the REMI model – it is “baked into” the REMI formula. As detailed in the appendix to the NFIB analysis, REMI and NFIB defend that assumption by citing research claiming that past U.S. minimum wage increases – such as the \$5.05 increase that Governor Florio approved in the early 1990’s, the \$7.15 increase that Governor Codey approved in 2005, and the \$8.25 increase that New Jersey voters approved in 2013 – cost a lot of jobs. However, as outlined earlier in my testimony, that body of research is the minority view. As summarized by Goldman Sachs and illustrated by meta-studies of the whole field of minimum wage research, most rigorous minimum wage studies find little if any adverse effect on job levels.

Second, the only existing research that takes into account the full range of likely impacts of a \$15 minimum wage is the University of California study: its model includes the impact of higher wage costs on business operations, on rates of mechanization, on consumer prices, and on consumer spending levels, and projects the net impact on jobs and the economy of gradually transitioning to a \$15 minimum wage. As noted above, it finds that the increased consumer spending generated by a \$15 minimum wage roughly offsets the higher costs to businesses, with the result that the significant increases in wages under a phased in \$15 minimum wage are achievable with little adverse effect on employment levels.

7. Job Growth Has Thrived in Areas That Are Phasing in High Minimum Wages; Predictions That Businesses Would Close or Lay-Off Workers Have Not Materialized

Real world experiences in places that have actually raised wages substantially show that these increases are manageable and have not led to job losses, as documented both by reports in the business press and by rigorous academic studies.

For example, in Seattle, the first major city to adopt a \$15 wage, the region’s unemployment rate hit an eight-year low of 3.6 % in August 2015, significantly lower than the state unemployment rate of 5.3 percent, following the initial wage increase in April 2015.²⁴ In a front-page story titled “Apocalypse Not: \$15 and the Cuts that Never Came,” the *Puget Sound Business Journal* reported on “The minimum wage meltdown that never happened,” explaining that Seattle’s restaurant industry has continued to expand and thrive as the \$15 wage phases in.²⁵ King County, where Seattle is located, is on track to break last year’s record for the number of business permits issued to food service establishments. And business owners who had publicly opposed the \$15 minimum wage are in the process of expanding operations.

In San Francisco, a University of California study found, as reported by *Bloomberg Business*, that after the city phased in what was at the time the highest minimum wage in the nation, “[a]mong food-service workers, who are more likely to be affected by minimum-wage laws, employment grew 17.7 percent in San Francisco, faster than either of the other [neighboring] Bay Area counties.”²⁶ Now as the \$15 minimum wage is phasing in there, unemployment has fallen to just 3.2% -- far below California’s 5.7% state-wide rate – and restaurant job growth remains strong.²⁷

And in SeaTac, Washington – where the minimum wage today is already \$15 – *The Puget Sound Business Journal* reported that “none of these dire warnings [of business closures or job cuts] have come to pass,” and the *Washington Post* reported that a major hotel that predicted it would have to lay workers off instead decided to expand.²⁸

Other regions of the country implementing significant minimum wage increases have had similar experiences. In San Jose, *The Wall Street Journal* reported, “Fast-food hiring in the region accelerated once the higher wage was in place. By early this year, the pace of employment gains in the San Jose area beat the improvement in the entire state of California.”²⁹

8. Tipped Workers

Finally, one issue that has not received significant attention to date around the proposal to raise New Jersey’s minimum wage to \$15 is the question of tipped workers. While New Jersey has regularly raised its minimum wage, the state is an outlier among northeastern states in that it has very weak protections for tipped workers. New Jersey law imposes no requirement that employers must pay tipped workers a base cash wage. As a result, workers can effectively be forced to work almost entirely for tips.

We respectfully urge that the legislature should use the occasion of raising New Jersey’s minimum wage to \$15 to adopt stronger protections for tipped workers. There are many well-established reasons why having a lower minimum wage for tipped workers just doesn’t make sense.

First, many of the sectors where workers are paid in part with tips are notorious sweatshop industries such as nail salons, car washes, pizza delivery and airport personal services for seniors and persons with disabilities. Workers in these sectors barely scrape by and should be paid the full minimum wage with any tips on top of that.

Second, the lower tipped minimum wage – under which employers are supposed to monitor weekly total compensation and make up the difference if tips fall short of bringing workers up to the full minimum wage – is widely recognized by enforcement authorities to be difficult to enforce. As explained in a 2014 report by the White House National Economic Council and the U.S. Department of Labor, “The rules for tipped workers are complicated and can be confusing for employers and employees alike. One of the most prevalent violations is the failure to keep track of employee tips and therefore the failure to ‘top up’ employees if their tips fall short of the full minimum wage.”³⁰

Third, tipped workers are overwhelmingly low-income women, many of them supporting children, and the lower tipped wage is a significant reason that tipped workers like waitresses have more than twice the poverty rate of the workforce as a whole.³¹

Fourth, the evidence is indisputable that the tipped wage can be phased out without harming the restaurant industry, which employs the greatest number of tipped workers. This is very clear from the fact that eight U.S. states have eliminated the tipped wage – or never had one – and their

restaurant business and job growth patterns are indistinguishable from the rest of the nation. In fact, the first three major cities to raise the minimum wage to \$15 – Los Angeles, San Francisco and Seattle – are all places with no lower tipped minimum wage.

Fifth, these findings are confirmed by the new report published last month by researchers at Cornell's Hospitality Research Center titled "*Have Minimum Wage Increases Hurt the Restaurant Industry? The Evidence Says No.*" It shows that higher tipped wages have not harmed restaurant business or job growth.³²

The main argument raised by the restaurant industry for not raising the tipped minimum wage is the contention that many tipped workers are employed at high end restaurants where they receive significant amounts in tips and so do not need an increase in their base wage. But while there certainly are such workers, they represent a very small segment of tipped workers and are not representative. Instead, the typical tipped worker in the state is a waitress at a diner or at a chain restaurant like Applebee's. Across the state their median wage, including tips, while a little higher than the minimum wage, is still very low.

Thank you so much for the opportunity to testify today. I'd be happy to answer any questions that you may have.

For more information, please contact Paul Sonn at psonn@nelp.org. For more about NELP, visit www.nelp.org or www.raisetheminimumwage.org.

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² "[\\$15 Laws and Current Campaigns](#)," RaisetheMinimumWage.org.

³ <http://www.nelp.org/blog/leaked-poll-for-chambers-of-commerce-shows-business-execs-overwhelmingly-support-raising-the-minimum-wage/>

⁴ http://www.prwatch.org/files/03-31-16_luntz_poll_transcript_re_business_support_for_increasing_minimum_wage_and_other_policies.pdf

⁵ <https://www.governor.ny.gov/news/governor-cuomo-joined-vice-president-biden-announces-push-raise-new-yorks-minimum-wage-15-hour>

⁶ <http://www.brooklyneagle.com/articles/2016/3/16/chamber-brings-brooklyn-business-concerns-albany>

⁷ <https://www.morningagclips.com/15-minimum-good-for-ny-farmers/>

⁸ http://www.huffingtonpost.com/phil-andrews/long-island-15-minimum-wage_b_9538916.html

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¹⁰ "[Businesses are getting steamrolled on the minimum wage. Here's why](#)," Washington Post, July 24, 2015.

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¹⁴ John Schmitt, [Why Does the Minimum Wage Have No Discernible Effect on Employment?](#), Center for Economic and Policy Research (2013).

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