

## Job Loss A Major Concern As NJ Raises Minimum Wage

Law360, New York (November 18, 2013, 6:37 PM ET) -- Along with Gov. Chris Christie's reelection on Nov. 5, 2013, New Jersey residents voted to increase the state's minimum wage from \$7.25 to \$8.25, effective Jan. 1, 2014, as well as an amendment to the New Jersey Constitution that will tie future minimum wage increases to cost-of-living increases. The amendment also provides that if the federal minimum wage rate is raised above the state rate, the state rate would adjust to match the federal rate, with future cost-of-living increases based on the new rate.

Going forward, each year on September 30, New Jersey will reassess its minimum wage rate based on the consumer price index for all urban wage earners and clerical workers (CPI-W), as calculated by the federal government.

According to the U.S. Department of Labor, New Jersey joins nine sister states with minimum wages linked to the consumer price index. Residents in Arizona, Colorado, Florida, Nevada, Missouri, Montana, Ohio, Oregon and Vermont previously amended their state constitutions to include indexed minimum wages, and increased paychecks, for more than 1 million workers, according to the Economic Policy Institute.

New Jersey also becomes the 20th state to establish a minimum wage higher than the federal minimum. It joins states like California, Florida, Michigan, Illinois, Ohio and Washington. While New Jersey falls short of the \$9 minimum wage suggested by President Barack Obama, this is still a significant step for the Garden State.

The increase of the minimum wage has been a contested issue in New Jersey with the concerns of both "Main Street" and "Wall Street" intersecting, and supporters and opponents spending in excess of \$1 million each in an effort to steer voters.

This is not surprising, as minimum wage increases and the procedure for effecting those increases can have significant implications. For instance, a March 2012 study by the Center for Economic and Policy Research revealed that the minimum wage would have reached \$21.72 an hour in 2012 had it kept up with increases in worker productivity.

Alternately, if the minimum wage kept up with inflation using the CPI-U, low-wage workers would be earning a minimum of \$10.52 an hour with increases over the same span of time. A decision to tie the minimum wage to an outside determinant may thus have significant long-term implications.

On the local level, the New Jersey Policy Perspective released findings on Jan. 28, 2013, regarding the effects that the minimum wage increase would have in New Jersey. Over 300,000 New Jerseyans, most of whom are full-time employees, will see a pay increase. The NJPP also concluded that New Jersey's wages would increase by \$429 million as a result.

Further, the NJPP found that the almost 80 percent of New Jerseyans affected by the increase are either working full-time (40 hours) or mid-time (20-30 hours). According to U.S. Bureau of Labor Statistics data, of the 1.8 million hourly workers in New Jersey, an estimated 49,000 — nearly 3 percent — are paid the minimum wage and will thus see a direct and immediate impact.

Advocates for the wage increase have stated that employees receiving a higher minimum wage will help businesses by reducing absenteeism and worker turnover. They also predict that the economy will see gains since consumers are the same employees who now have an extra \$1 per hour in their paycheck. However, it is unclear how the minimum wage may be directly tied to some of the notions outlined by the proponents.

Challengers have argued that the minimum wage increase and the CPI scale would create both long-term and short-term concerns. For example, as labor costs surge, employers may be forced to reconcile increased labor costs with the sustainability of their business. Employers may thus consider cutting employees' hours in an effort to offset the wage increase, or alternately reducing certain employee benefits.

Hiring freezes, terminations and staff reductions may become necessary to control labor costs in light of the increases. Another alternative employers may be encouraged to explore is the employment of technology to replace employees. Thus, New Jersey employers are likely to feel an increase in pressure of being able to sustain their businesses by passing the costs to consumers, while staying competitive with companies in other parts of the country and world who may have a less expensive workforce.

In evaluating whether minimum wage boosts employment and helps the economy, a study by economists David Neumark and William Wascher of the National Bureau of Economic Research showed the opposite. When the minimum wage increased in New Jersey in 1992, employment levels actually decreased. Neumark and Wascher also concluded that 85 percent of the most credible studies on the subject in the past two decades have pointed to job loss following an increase in the minimum wage in states.

According to a July 2013 study written by EPI, approximately 218,000 people in New Jersey would be impacted overall by the minimum wage increase to \$8.25. Under various assumptions about the impact of the initiative on employment, as measured in past studies on the minimum wage, job loss in New Jersey could range from approximately 1,600 to 4,700 jobs lost. Therefore, job loss is a major concern.

As states work on a local level, in March 2013, the Fair Minimum Wage Act was introduced in the U.S. Senate and House of Representatives. If enacted, the federal minimum wage would be increased to \$10.10 per hour in three 95 cent steps over three years.

The act would also raise the minimum wage for tipped employees for the first time in more than 20 years. Tipped employees, who currently earn a minimum of \$2.13 an hour, would see a gradual increase to 70 percent of the regular minimum wage. The bill was referred to the U.S. Senate Committee on Health, Education, Labor and Pensions, where it currently remains.

Changes in New Jersey warrant a look to its immediate neighbors, such as New York and Pennsylvania. Interestingly, New York's recent legislation set in place a gradual increase over the next three years from the current minimum wage of \$7.25 per hour to \$8 per hour as of Dec. 31, 2013, \$8.75 as of Dec. 31, 2014, and then \$9 per hour as of Dec. 31, 2015.

Pennsylvania, on the other hand, has no plans or pending legislation to increase from its current minimum wage, which matches the federal minimum wage of \$7.25 per hour. As mentioned, there is no certainty that Pennsylvania (or any other state) will maintain their minimum wage at the federal rate as the nationwide trend to raise the minimum wage spreads.

It is clear that the implications for employers are many. While it may be too early to tell if minimum wage increases will become the “new normal” as other states follow this movement, this trend is worth tracking.

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