WASHINGTON POLICY CENTER

LEGISLATIVE MEMO

Training Wage Bills Would Increase Job Opportunities for Teen Workers

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Introduction

This legislative memo provides an overview and analysis of two bills, SB 6471 and SB 6495. These proposals would help alleviate our state's high teen (16-19 years-old) unemployment rate, and create job opportunities for young Washingtonians across the state.

SB 6495 would extend to 16-19 year-olds the current law that allows businesses to pay 14-15 year-old workers 85 percent of the state minimum wage.

SB 6471 would allow employers to pay the federal minimum wage to workers 14-19 years old during the summer months of June 1 to August 31.

Based on Washington Policy Center's research and analysis, and our longstanding recommendation to allow businesses to pay young workers a temporary training wage, these bills would serve the public interest by expanding job opportunities for young workers and improving the state's overall business climate.

Background

The federal minimum wage is $7.25 per hour. Washington state mandates a significantly higher minimum wage, which increases annually by the rate of inflation.

Washington's minimum wage of $9.32 is currently the highest in the nation. The state Department of Labor and Industries allows businesses to pay workers 14-15 years old 85 percent of the state minimum wage. Workers age 16 and older must be paid the same minimum wage as adults. As a result, it often makes more sense for an employer to hire an older worker with more skills and experience, since the employer must pay a higher wage anyway, leaving the younger job applicant unemployed.

At 29.5 percent, the teen unemployment rate in Washington is the 6th highest in the nation.[1] This high rate does not include those 16-to-19 year-olds who have given up looking for work. Such pessimism is not unfounded; in 2010 the U.S. Bureau of Labor Statistics predicted that young people would be unlikely to regain their pre-recession (2007) employment levels.[2]

The Great Recession cannot be blamed for our state's poor teen employment ranking, however. Since 2002, well before the recession, in all but one year Washington has ranked among the top ten states with the highest teen unemployment rate. The single exception was 2007, when Washington briefly broke out of the top ten to rank 12th.[3]

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1 "Youth Unemployment Rates By State: 2012 Annual Data," *Governing* Magazine at www.governing.com/gov-data/economy-finance/youth-employment-unemployment-rate-data-by-state.html.

2 "No End In Sight? The Long-Term Youth Jobs Gap and What It Means for America," by Rory O'Sullivan and Alistair Johnston, Young Invincibles, July 2012, at http://younginvincibles.org/wp-content/uploads/2012/07/No-End-In-Sight-7.9.12.pdf.

3 Analysis of Current Population Survey data from the U.S. Census Bureau, 2002–2012.

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Policy Analysis

SB 6495 and SB 6471 both seek to improve our state's high teen unemployment rate and create more job opportunities for young people.

SB 6495 would allow employers to pay 16-19 year-old workers 85 percent of the state minimum wage($7.92 this year), or the federal minimum wage, (currently $7.25 per hour), whichever is greater. Employers are already allowed to pay this training wage rate to 14 and 15 year-old workers.

SB 6471 would allow employers to pay workers 14-19 years of age a training wage equal to the federal minimum wage. The training wage could only be paid to new employees hired on a temporary or seasonal basis, and for work performed during the summer months from June 1 to August 31.

The simplicity of SB 6495 would make it easy for employers to comply with and for state official to enforce, and the broad application of the training wage would make it an effective policy for encouraging employers to hire teen workers.

The narrower focus of SB 6471 in allowing the training wage only during summer months would provide limited incentive for employers to hire teen workers. The summer month limitation would also add some complexity for employers who employ both temporary or seasonal teen workers and teens who work throughout the year. Such employers would be required to pay teen workers different minimum wage rates, depending on whether they are employed on a temporary or seasonal basis during the specified summer months, or work year-round.

While SB 6495 would have a greater benefit in boosting teen employment, either bill would help solve the pressing problem of Washington's high minimum wage discouraging job opportunities for young workers.

According to two decades of research on the job-killing impact of a high minimum wage, the great majority of economic studies conclude that a high minimum wage reduces employment for the very people it is supposed to help—those with low-skills, such as teen workers just entering the workforce.[4] The general consensus of decades of minimum wage research is that a 10 percent increase in the minimum wage reduces teen employment by one to three percentage points.[5]

Numerous studies show that when policymakers artificially increase the cost of creating jobs they reduce the number of jobs available and decrease job opportunities for young and unskilled workers. Here are examples.

- Economists from Miami and Trinity University found the 2007–2009 increase in the federal minimum wage reduced teen employment by 6.9 percent.[6]
- Labor policy researchers at Cornell University found a 10 percent increase in the minimum

4 "Minimum Wages and Employment," by David Neumark, Department of Economics, University of California, Irvine; and William L. Wascher, Board of Governors of the Federal Reserve System, Division of Research and Statistics; 2007, at www.socsci.uci.edu/~dneumark/min_wage_review.pdf.

5 "The Effect of the Minimum Wage of Employment and Unemployment," by Charles Brown, Curtis Gilroy and Andrew Kohen, *Journal of Economic Literature*, Vol. 20, No. 2 (June 1982), p. 524.

6 "The Teen Employment Crisis: The Effects of the 2007–2009 Federal Minimum Wage Increases on Teen Employment," by William E. Even, Miami University, and David A. Macpherson, Trinity University; Employment Policies Institute, July 2010, at epionline.org/studies/even_07-2010.pdf.

wage causes four times more employment loss for employees without a high school diploma and for African American young adults than it does for more educated and non-black employees.[7]

- Economists at the University of California, Irvine, and the Federal Reserve reviewed 102 studies analyzing the impact of minimum wage and found the majority confirms "the view that minimum wages reduce the employment of low-wage workers."[8]

High youth unemployment is not simply a matter of young workers unable to find work. Economists have shown there are significant long-term effects of youth unemployment, particularly a "wage scar" that leaves a lasting impact on a worker's employment prospects and future earnings trajectory. The longer a young person remains unemployed, the greater the long-term scarring effect.

- Research published in the *Journal of Labor Economics* found high school students who worked part-time had a greater likelihood of higher wages and better benefits in future employment, compared to classmates that had not had a part-time job.[9]
- Economists at Bristol University concluded the wage scar from youth unemployment into middle age is significant, with "persistently lower wages from a person's youth unemployment experience." [10]
- Research published in the *Journal of Human Resources* estimates that early unemployment affects both wages and future unemployment. The research showed a six-month spell of unemployment at age 22 would result in an 8 percent lower wage rate, on average, one year later. The effects of this early spell persist; at age 26, wages would be 5 percent lower than what they would have otherwise been, and wages would be 2 percent to 3 percent lower at ages 30 and 31.[11]
- A study of youth unemployment in the United Kingdom determined that one year of unemployment at

7 "Why Raising the Minimum Wage Is a Poor Way to Help the Working Poor: An Analysis of Senators Kerry and Kennedy's Minimum Wage Proposal," by Richard V. Burkhauser and Joseph J. Sabia, Cornell University, Employment Policies Institute, July 2004, at epionline.org/studies/burkhauser_07-2004.pdf.

8 "Minimum Wages and Employment," by David Neumark, Department of Economics, University of California, Irvine; and William L. Wascher, Board of Governors of the Federal Reserve System, Division of Research and Statistics; 2007, at www.socsci.uci.edu/~dneumark/min_wage_review.pdf.

9 "Minimum Wages and Employment," by David Neumark, Department of Economics, University of California, Irvine; and William L. Wascher, Board of Governors of the Federal Reserve System, Division of Research and Statistics; 2007, at www.socsci.uci.edu/~dneumark/min_wage_review.pdf.

10 "The Wage Scar from Youth Unemployment," by Paul Gregg and Emma Tominey, Department of Economics, University of Bristol; February 2004, at www.bristol.ac.uk/cmpo/publications/papers/2004/wp97.pdf.

11 "The Long-Term Effects of Youth Unemployment," by Thomas A. Mroz, Department of Economics, The University of North Carolina at Chapel Hill and The Carolina Population Center; and Timothy H. Savage, Charles River Associates; *Journal of Human Resources*, July 2003, at www.econ.yale.edu/seminars/labor/lap03/mroz-030912.pdf.

age 22 reduced wages by 13 percent to 21 percent 20 years later.[12]

The Organization for Economic Cooperation and Development (OECD) said in a 2010 report that teen unemployment could be reduced by "lowering the cost of employing low-skilled youth" by allowing a "sub-minimum training wage" for teenagers.[13]

In addition, former Chief Economic Advisor to President Obama Larry Summers has endorsed a teen training wage as a way to combat youth unemployment.[14] A study by Federal Reserve economist David Neumark found having a starter wage well below the minimum counteracts much of the negative impact on employment for teens.[15]

Conclusion

Washington's policy of imposing a high minimum wage on the labor market contributes significantly to the state's high youth unemployment rate. For over a decade, Washington has consistently ranked among the top ten states with the highest teen unemployment. Washington also has had the nation's highest minimum wage. A multitude of studies show there is a cause-and-effect relationship between the two.

Washington's high minimum wage clearly creates a barrier to teens trying to enter the workforce. A temporary training wage would serve the public interest by providing employers with the economic incentive to take a risk on a young, unskilled teenager just entering the labor market, compared to an older applicant with more job skills and a work history.

Washington Policy Center has long recommended lawmakers allow employers to pay a temporary training wage of 85 percent of minimum wage for more teen workers. Given Washington's history of ranking in the nation's top ten highest teen unemployment rates almost every year since 2002, it is clear a much larger segment of workers would benefit from expanding the training wage beyond 14 and 15 year-olds.

SB 6495 and SB 6471 are good public policy that would expand youth employment by making it economical for employers to hire low-skill workers just entering the work force. The result would be more young adults hired and receiving valuable work skills and experience, reducing the long-lasting "wage scarring" and other harmful consequences created by prolonged periods of unemployment among young workers.

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12 "Rising Youth Unemployment During The Crisis: How to Prevent Negative Long-Term Consequences on a Generation?" by Stefano Scarpetta, Anne Sonnet and Thomas Manfredi, OECD Social; Employment and Migration Working Papers, No. 106, OECD Publishing, 2010, at www.oecdilibrary.org/docserver/download/fulltext/5kmh79zb2mmv.pdf?expires

13 Ibid.

14 "The Young and the Jobless," *The Wall Street Journal*, October 3, 2009, at http://online.wsj.com/news/articles/SB10001424052970203440104574402820278669840.

15 "Minimum Wages, Labor Market Institutions, and Youth Employment: A Cross-National Analysis," by David Neumark, Michigan State University and William Wascher, Board of Governors of the Federal Reserve System, 2004, at http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1058&context=ilrreview.