

LEGISLATIVE MEMO

Training wage job bills would increase opportunities for young workers

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Key Findings

1. *SB 5421 and SB 5422 seek to improve our state's high teen unemployment rate and create more job opportunities for young people.*
2. *SB 5421 and SB 5422 would allow employers to pay young workers (ages 16-19) a teen training wage below the current state minimum wage.*
3. *The unemployment rate for 16-19 year-olds in Washington in 2014 was 23.2 percent, higher than the national average of 19.6 percent and the 10th highest in the nation.*
4. *Numerous studies show a high minimum wage decreases job opportunities for young and unskilled workers.*
5. *Washington's high minimum wage creates a barrier to teens trying to enter the workforce by discouraging employers from hiring young, unskilled workers.*
6. *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.*
7. *SB 5421 and SB 5422 are good public policy that would expand youth employment by making it economical for employers to hire workers just entering the work force.*

Introduction

This Legislative Memo provides an overview and analysis of two bills, SB 5421 and SB 5422. These proposals would help alleviate our state's chronically high teen unemployment rate (ages 16-19), and create fair job opportunities for young Washingtonians across the state.

SB 5421 would allow employers to hire workers ages 14-19 years old at the federal minimum wage during the summer months of June 1 to August 31.

SB 5422 would allow employers to hire 16-19 year-olds under the current law that

allows 14-15 year-olds to earn 85 percent of the state minimum wage.

Based on WPC's research and analysis, and our longstanding recommendation to create youth jobs by allowing businesses to pay a temporary training wage, these proposals would serve the public interest by expanding voluntary 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 \$9.47 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.

The unemployment rate for 16-19 year-olds in Washington in 2014 was 23.2 percent, higher than the national average of 19.6 percent. Idaho, which has a much lower minimum wage than Washington, and also allows a temporary teen training wage, ended 2014 with a much lower teen unemployment of 14.7 percent.¹ Ironically, Washington's rate was the 10th highest in the nation, while Idaho's was the 10th lowest.

There does, however, appear to be some good news for our state's teens. According to the Bureau of Labor Statistics, Washington's teen unemployment rate dropped from 30.7 percent in 2013 to 23.2 percent in 2014. Though it is noteworthy that the unemployment rate for 16-19 year old women last year was unusually low at 17.5 percent, while the rate for men was a much higher 29.8 percent. In comparison, in 2013 the unemployment rate for teen men was 29.4 percent and 32 percent for women.² In fact, the 17.5 percent

unemployment rate for teen women in 2014 is the lowest since the years just before the Great Recession (2005-2007).³

Based on these figures, it would seem the jump in employment for teen women single-handedly accounts for the fairly significant decrease in our state's overall teen unemployment rate. What cannot be accounted for is the explanation for such a dramatic rebound in employment for teen women in just one year, while the number of unemployed teen men remained virtually unchanged.

At 23.2 percent, the teen unemployment rate in Washington is the 10th highest in the nation.⁴ This high rate does not include 16-19 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.⁵

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 was 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 10 to rank 12th.⁶

1 "Employment status of the civilian noninstitutional population by sex, race, Hispanic or Latin ethnicity, and detailed age, 2014 annual averages," U.S. Bureau of Labor Statistics, at www.bls.gov/lau/table14full2014.pdf.

2 "Employment status of the civilian noninstitutional population by sex, race, Hispanic or Latino ethnicity, and detailed age, 2014 annual averages," U.S. Bureau of Labor Statistics, at www.bls.gov/lau/table14full13.pdf.

3 "Local Area Unemployment Statistics/Employment status of the civilian noninstitutional population by sex, race, Hispanic or Latino ethnicity, and detailed age/1999-2014 Annual Averages," U.S. Bureau of Labor Statistics, at www.bls.gov/lau/#ex14.

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

5 "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>.

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

Policy Analysis

SB 5421 and SB 5422 both seek to improve our state's high teen unemployment rate and create more job opportunities for young people.

SB 5421 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, for work performed during the summer months from June 1 to August 31.

SB 5422 would allow employers to pay 16-19 year-old workers 85 percent of the state minimum wage (\$8.05 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. Employees earning the teen training wage could not comprise more than 10 percent of a businesses' workforce. An employer with less than 20 employees could employ two teen training wage employees.

The simplicity of SB 5422 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 5421 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 5422 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.⁷ 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.⁸

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.⁹
- Labor policy researchers at Cornell University found a 10 percent increase in the minimum wage causes four times more

⁷ “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.

⁸ “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.

⁹ “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.

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.¹⁰

- 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.”¹¹

High youth unemployment is not simply a matter of young workers unable to find work.

A new study by economists from the University of Virginia and Middle Tennessee State University suggests that entry-level, first jobs for young workers play a significant role in career development. Tracking the career progress of high school graduates in the late 1970s and early 1980s, the study found clear evidence that those who worked part-time while in high school spent less time out of work and earned higher wages nearly 30 years later:

“Even for workers who were high school students in the late 1970s and early 1980s, 20 hours of senior-year work experience per week is associated today with annual earnings that are seven

percent higher as compared to those who didn’t work.”¹²

This supports other studies that 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.¹³
- 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.”¹⁴
- 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

10 “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 [www.epionline.org/studies/burkhauser_07-2004.pdf](http://epionline.org/studies/burkhauser_07-2004.pdf).

11 “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.

12 “The Lasting Benefits of Early Work Experience,” by Charles L. Baum, Middle Tennessee State University, and Christopher J. Ruhm, University of Virginia, Employment Policies Institute, August 2014, at www.epionline.org/wp-content/uploads/2014/08/EPI_LastingBenefitofEarlyWorkExperience2.pdf.

13 “Youth Employment: Does Life Begin at 16?” by Robert T. Michael, University of Chicago and NORC, and Nancy Brandon Tuma, Stanford University and NORC; Journal of Labor Economics, 1984, at www.jstor.org/discover/10.2307/2534809?uid=3739960&uid=2&uid=4&uid=3739256&sid=47699071804007.

14 “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.

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 31.¹⁵

- A study of youth unemployment in the United Kingdom determined that one year of unemployment at age 22 reduced wages by 13 to 21 percent, 20 years later.¹⁶

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.¹⁷

In addition, former Chief Economic Advisor to President Obama Larry Summers has endorsed a teen training wage as a way to combat youth unemployment.¹⁸ 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.¹⁹

15 “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.

16 “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.oecdlibrary.org/docserver/download/fulltext/5kmh79zb2mmv.pdf?Expires=134579687&id=id&accname=guest&checksum=BCED3A048D8EC5200ACD532B7FEFB6B3.

17 Ibid.

18 “The Young and the Jobless,” *The Wall Street Journal*, October 3, 2009, at <http://online.wsj.com/news/articles/SB10001424052970203440104574402820278669840>.

19 “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>.

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Conclusion

Washington’s policy of imposing a high minimum wage on the labor market contributes 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 creates a barrier to teens trying to enter the workforce. A temporary training wage would serve the public interest by providing employers with an 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 allowing 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 5421 and SB 5422 are good public policy that would expand youth employment by making it economical for employers to hire workers just entering the work force. The result would be more young adults hired and receiving valuable skills and experience, reducing the long-lasting “wage scar” and other harmful consequences created by long periods of unemployment among young workers.