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The Minimum Wage: Teen-age Job Killer

Congress appears likely to raise the minimum wage again this year, probably from $5.15 per hour to $6.15 over three years. This will be the second minimum wage increase passed by the Republican Congress. The last increase was enacted in 1996, raising the minimum wage from $4.25 to $4.75 on October 1, 1996, and to the present $5.15 per hour on September 1, 1997.

During the previous debate, the principal argument was that the minimum wage had fallen sharply in real (inflation-adjusted) terms since the last increase from $3.80 to $4.25 on April 1, 1991. That argument cannot be made today, since inflation has been virtually nonexistent in the 19 months since the minimum wage was last raised. Indeed, this time supporters offer few substantive arguments for a higher minimum wage. They seem to feel (correctly) that they have the votes and do not need to justify their action.

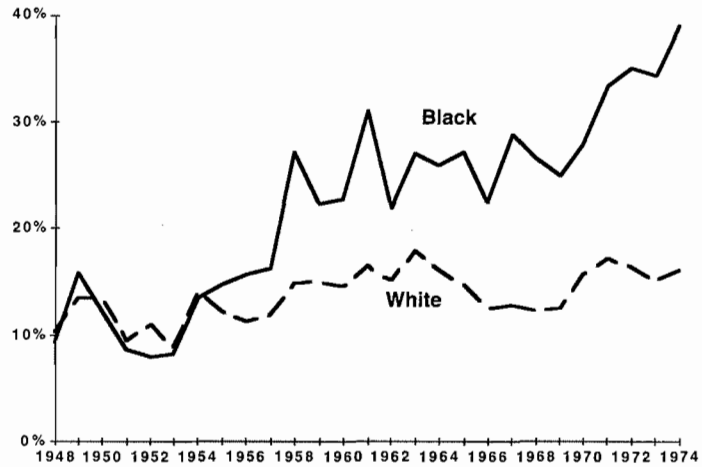
During the last debate, supporters of a higher minimum wage sought to counter the extensive economic research showing that higher minimums reduce employment, especially among minority youth. Citing research by economists David Card and Alan Krueger, many argued that a higher wage would actually increase jobs. However, since 1995, virtually every study of the minimum wage has confirmed the pre-1995 research showing its negative effects. Moreover, the Card-Krueger study has been extensively criticized as flawed.

Increasing Black Unemployment. The federal minimum wage was first enacted in 1938, but it applied only to workers engaged in interstate commerce. This meant that the vast majority of workers were exempt from the law. The first data we have on teen-age unemployment is from 1948. As the figure shows, from then until the minimum wage was significantly expanded in 1956, teen-age unemployment was quite low by today's standards and actually lower for blacks than for whites.

- As late as 1954, the unemployment rate for black teen-age males ages 16 and 17 was still below that of their white counterparts: 13.4 percent vs. 14 percent.
- Over the 1948-55 period, unemployment averaged 11.3 percent for black teen-age males and 11.6 percent for whites.

Beginning in 1956, when the minimum wage was raised from 75 cents to $1, unemployment rates for the two groups began to diverge. Soon, unemployment rates were significantly higher for both black and white teen-age males, but moreso for blacks. By 1960, the unemployment rate for black teen-age males was up to 22.7 percent, while the white rate stood at 14.6 percent.

Unemployment Rates: Males, Ages 16 & 17



Source: Bureau of Labor Statistics.

In 1961, Congress enacted another major expansion of the minimum wage, bringing employees in large retail and service enterprises under its coverage. Previously, workers in trades such as construction and in establishments such as service stations had been exempt from the federal minimum wage. The rate was also increased from $1 to $1.15 and in 1963 to $1.25. These actions caused a further rise in teen-age unemployment, with blacks again bearing the brunt. By 1963, the unemployment rate for black teen-age males was up to 27 percent and for whites to 17.8 percent.

Despite such evidence, supporters continued to push for ever higher minimum wage rates. The minimum wage was further increased in 1967, 1968, 1974, 1975, 1976 and annually from 1978 through 1981. At each point, the unemployment rate for black teen-agers tended to ratchet higher. By 1981, the unemployment rate for black teen-age males averaged 40.7 percent — four times its early 1950s level, when the minimum wage was

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much lower and its coverage less extensive. That year, the federally mandated Minimum Wage Study Commission concluded that each 10 percent rise in the minimum wage reduces teen-age employment by 1 percent to 3 percent.

Confirming the Effect. Subsequent research, based on the effects of 1990-91 and 1996-97 minimum wage increases, continues to confirm this estimate. A study of the 27 percent increase in 1990-91 by economists Donald Deere, Kevin Murphy and Finis Welch, published in the *American Economic Review* (May 1995), found that this action reduced employment for all teen-agers by 7.3 percent and for black teen-agers by 10 percent. A study of the 1996-97 increase by economists Richard Burkhauser, Couch and David Wittenburg found a decline in employment of 2 percent to 6 percent for each 10 percent increase in the minimum wage.

In a study published by the Federal Reserve Bank of San Francisco, Kenneth Couch translated these conclusions into raw numbers.

- At the low end of the range, at least 90,000 teen-age jobs were lost in 1996 and another 63,000 jobs were lost in 1997.
- At the high end, job losses may have equaled 268,000 in 1996 and 189,000 in 1997.
- Couch estimates that a $1 rise in the minimum wage will further reduce teen-age employment by at least 145,000 and possibly as many as 436,000 jobs.

The Latest Evidence. The vast bulk of economic research continues to show that the minimum wage has extremely harmful effects on the very people it is designed to aid, i.e., the poor. Following are highlights from the latest academic studies.

The minimum wage unambiguously reduces employment. The September 1998 issue of the *Journal of Economic Literature*, an official publication of the American Economic Association, contains a survey of labor economists asked to estimate the impact of raising the minimum wage. The average effect was estimated at minus .21 percent, meaning that a 10 percent rise in the minimum wage will reduce youth employment by 2.1 percent. This puts to rest any notion that economists have changed their view that higher minimum wages reduce employment.

The impact on teen-agers and the poor is disproportionate. The minus 2.1 percent figure is an overall impact. For those currently earning less than the new minimum wage, the impact is much greater. For example, before the last increase in the minimum wage in 1996, 74.4 percent of workers between the ages of 16 and 24 already earned more than $5.15, and 4.3 percent were legally exempt from the minimum wage law. Thus the employment losses were concentrated among the 21.3 percent of workers making the minimum wage or slightly more. When one attributes total employment losses entirely to this group, their employment loss figure is not .21 percent, but 1.0 percent, according to economists David Neumark, Mark Schweitzer and William Wascher. This means a 10 percent rise in the minimum wage reduces their employment by 10 percent.

Increases in the minimum wage add almost nothing to the incomes of poor families. There are two reasons. First, employment losses reduce the incomes of some workers more than the higher minimum wage increases the incomes of others. Second, the vast bulk of those affected by the minimum wage, especially teen-agers, live in families that are not poor. A study by economists Richard Burkhauser and Martha Harrison found that 80 percent of the net benefits of the last minimum wage increase went to families well above the poverty level. Almost half the benefits went to those with incomes more than three times the poverty level. (The poverty level is about $17,000 for a family of four.) Similar results have been found by economists Neumark, Schweitzer and Wascher.

The minimum wage reduces education and training and increases long-term unemployment for low-skilled adults. Neumark and Wascher found that higher minimum wages cause employers to reduce on-the-job training. They also found that they encourage more teen-agers to drop out of school, lured into the labor force by wages that seem high to them. These teen-agers often displace low-skilled adults, who frequently become semi-permanently unemployed. Lacking skills and education, these teen-agers pay a price for the minimum wage in the form of lower incomes over their entire lifetime.

Raising the minimum wage may be good politics, but it is still bad policy.

This Brief Analysis was prepared by NCPA Senior Fellow Bruce Bartlett.