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## YOUTH UNEMPLOYMENT AND THE MINIMUM WAGE *by Tom Larson*

In 1982 the unemployment rate for those aged 16 to 19 was 23.2%. With youth unemployment at record levels the Administration has been seeking support for a two-tiered minimum wage. President Reagan has proposed that summer workers aged 16 to 22 be paid a minimum of only \$2.50 per hour (75% of the current minimum of \$3.35 an hour). Ever since the Fair Labor Standards Act was passed in 1938, there has been controversy over the use of the minimum wage. Today the arguments are no different than those of 40 years ago, but we do have more evidence for evaluating the arguments.

Objections to the minimum wage center on its employment effects. Opponents argue that the minimum wage reduces total employment and that this reduced employment is concentrated among youth, especially minority youth. Opponents also argue that the minimum wage reduces on-the-job training, which is important for young people trying to move up in the labor market. Proponents of the minimum wage respond that it guarantees that workers are paid a "living wage" -- one that permits a worker to be self-supporting. Proponents add that, in the absence of full employment, a lower minimum wage will only trade youth unemployment for adult unemployment. Both sides raise important concerns; we need to go further and see which arguments can be supported by recent evidence.

**History** -- Reviewing the development of the youth labor market over the past century helps us understand the nature of youth unemployment. During the late 19th Century and the early 20th Century, many of the unskilled jobs which were filled by teenagers were displaced by technological change. For example, in the 1870s, children worked in department stores as "cash boys" running money and purchases between sales counters, cashiers, and wrapping tables. The cash register and the pneumatic tube ended these jobs. In other occupations, children were replaced by immigrants. This happened in the New England textile mills, where many children had been employed.

Around the turn of the century, concern over the welfare of children led to strict child labor laws, stronger compulsory education laws, and lengthening of the span of required school attendance. This resulted in more children being removed from the labor force and kept in school. Longer schooling has effectively delayed entrance to the full-time labor market, limiting young workers increasingly to part-time and summer employment. While restrictions on child labor were originally motivated largely by concern for the well-being of children, they came to be seen as protection for adults against competition from teenagers during periods of high unemployment in the economy.

By the 1930s, the youth labor market had largely acquired its modern form. Between 1920 and 1940, young workers became virtually excluded from the formal labor market and relegated to the low-wage informal sector, where job tenure is usually shorter. Then, as now, young people were employed in small stores and businesses, filling stations, garages, and by small contractors. During the 1930s, back-to-school drives were launched; intended, at least in part, to help reduce competition in the labor market. Minimum wage legislation and age restrictions were part of the effort to reduce competition from the young.

**The Causes of Youth Unemployment** -- The current concern over youth unemployment is prompted by high unemployment rates; in fact, the ratio between youth unemployment and adult unemployment has been improving in recent years. In 1968, the teenage unemployment rate was three and a half times the overall unemployment rate, while in 1981 it was two and a half times the overall unemployment rate. The major reasons for high youth unemployment are: 1) the current recession, 2) the high proportion of youth attending school, and 3) the nature of the informal job sector. While the minimum wage may contribute to youth unemployment, it is not a major factor.

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The informal sector, where students and most other young people work, is characterized by high turnover rates. This is due to the temporary or seasonal nature of many of the jobs in this sector. Students who work have a high unemployment rate because they, typically, are looking for temporary work, and they move in and out of the labor market frequently.

**Effects of the Minimum Wage** -- Research reviewed by Paul Osterman, in *Getting Started*, indicates that the minimum wage has a negative effect on youth employment, but the effect is quite modest. If we cut the minimum wage by 10%, we would only reduce youth unemployment by about 1% today. This means that the current unemployment rate of those aged 16-19 would only be reduced from 23% to 22%! At best, the Reagan plan could only expect to reduce youth unemployment to 20%. Even the complete elimination of the minimum wage would leave us with high unemployment rates.

Critics of the minimum wage also assert that it reduces the amount of training young workers receive. Training costs money and firms can try to reduce such expenses, as the wage rates increase, by simply hiring more experienced workers. Osterman found that the consequences of youth unemployment appear minimal, except for those who are chronically unemployed. For most people, occasional unemployment in one's youth does not seem to contribute, in itself, to unemployment as an adult. However, the cause of unemployment is important. There are chronically unemployed youth who have serious employment problems as adults, but their unemployment as adults is not caused by their previous unemployment. Instead, both periods of unemployment stem from the same roots. Unemployment may be simply a symptom of other problems, such as discrimination, a lack of education, poor health, or a stagnant local or national economy.

**Conclusion** - Having a dual minimum wage would do little to reduce youth unemployment. We can expect that much of the impact of a lower minimum wage for the school-age population will be on adults in casual employment (mostly women and minorities) who will simply be replaced by low-wage teenager workers. The main purpose of the minimum wage was, and still is, to provide a "living wage" for adults with families. Reducing the minimum wage would not only encourage the replacement of adult workers, but may also exert downward pressure on all wages. Do we really want to worsen the plight of millions of the working poor, in order to obtain a small improvement in teenage unemployment?

If the Administration is truly concerned with youth unemployment, the best policy would be to increase aggregate demand and thus reduce unemployment for everyone. For the hard-core unemployed (many of whom are school drop-outs) special programs are needed that address their specific problems. This may mean more education and training, as well as some government employment in projects like the proposed American Conservation Corps (HR 999, now before the Senate). Proposals for a dual minimum wage, or for no minimum wage, are not going to solve the unemployment problem, but they will reduce wages.

-- Tom Larson

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