Why the Minimum Wage Is so Bad for Young Workers

In today's political discourse, the minimum wage is frequently mentioned by the more progressive members of Congress. On a basic level, raising the minimum wage appears to be a sympathetic policy for low-income wage earners. Often kept out of the conversation, however, are the downstream effects of this proposal. The consensus among economists has always been that a price floor on "low-skilled labor" leads to unemployment "among the very people minimum wage legislation allegedly helps." Surely those who retain their employment will reap the higher hourly pay but not without consequence to the rest of the "low-skilled" labor market.

Government-mandated minimum wage increases directly result in a higher price floor for hourly labor. The more indirect consequences include reductions in hours worked, layoffs, automation, operational changes, and loss of opportunity. In Economics 101, students are taught about trade-offs. A trade-off, as defined by the *Business Dictionary*, is "a technique of reducing or forgoing one or more desirable outcomes in exchange for increasing or obtaining other desirable outcomes in order to maximize the total return." We incur trade-offs every day, such as the decision to buy dinner from a restaurant for $10 or to eat our holiday leftovers. Businesses incur trade-offs as well.

For example, let's consider your local grocery store. The grocer may employ ten people, including one manager and nine employees. The manager makes well over the current minimum wage, but six of the nine other employees make the current minimum wage. If the current minimum wage is increased from $7.25 to $12.50 per hour, the rate of increase is 72.4 percent. While this increase may sound reasonable from the perspective of some readers, this is a large increase given the relatively low profit margins in this industry. What are the downstream effects?

The employer may either reduce the hours worked for employees or lay off staff. Several things result:

- Those who are not laid off will reap the benefits of a higher minimum wage, but they will have to work harder to make up for less staff.
- Staff making a wage higher than the old minimum wage but lower than the new rate will also request that their wages be increased to distinguish them from their peers (those who retained their jobs at the higher minimum wage) and to compensate them for their skills.
- Those who are laid off will be forced to find other employment.
- There may be a lack of employment due to these employees being priced out of the market.

The Effects on Youth Employment

Meanwhile, rapid advancements in technology may result in fewer job opportunities when the cost of labor is higher. Think of your local Kroger's self-checkout line or Chick-fil-A's mobile-ordering application.

Not surprisingly, American Action Forum's evidence indicates that minority youth may be the most negatively affected by wage price floors. Various studies have analyzed the impact of minimum wage increases, most of which have been gradual increases implemented over a period of years. In an *EconTalk* podcast with Russ Roberts, Jacob Vigdor shared his main findings about Seattle's minimum wage increase: "First of all, the minimum wage did appear to raise wages. … That's what we expected to see. But when we looked at employment, we actually saw a reduction." Vigdor further mentions that hours worked decreased as wages went up.

The study showed that the amount of money paid in the low-wage labor market declined overall, or in the aggregate. The results varied depending on the level of experience of the worker; those with the most work experience came out ahead. Vigdor's study shows that on average their paychecks were twenty dollars higher per week. But the biggest loss "in terms of much lower pay would be amongst the workers who hadn't even entered the labor market yet when the minimum wage started to increase, because they were finding it harder to find any work at all."

The key takeaway from Vigdor's study was the minimum wage's effect on workers who had yet to enter the labor market. In effect, the higher minimum wage created a barrier to entering the hourly labor market for those without experience. Who tends to lack experience? Young individuals and immigrants.

As any young individual seeking an internship or their first job knows, the hardest thing about the search is having sufficient experience. Experience means that the individual needs less training and can be productive on the first day. Businesses understand that "on-the-job training is an investment, and at $15 an hour that investment doesn't make sense from the business owner's perspective." This investment makes even less sense when it is understood that the teenager will only work for a few months and then leave, a dilemma that many employers face during summer and winter breaks.

The Employment Policies Institute addresses teen unemployment in an article titled "The Teen Unemployment Crisis: Questions and Answers." It notes that one of the goals of the Fair Labor Standards Act (FLSA) is to "protect the educational opportunities of minors." Problematically, increasing the cost of labor disincentivizes companies from hiring workers, especially those who require training. Additionally, as technology rapidly advances, easily automated functions may become obsolete for workers. Policymakers must consider the interests of ensuring a viable labor market for our nation's youth while promoting policies that incentivize businesses to pay decent wages.

Although many teenagers may be predisposed to sympathize with progressive policies like minimum wage increases, they ought to understand the larger implications of such proposals. Markets can withstand gradual change, but they may be unable to adequately adjust to steep increases in the cost of labor. In *New State Ice Co. v. Liebmann*, US Supreme Court justice Louis Brandeis famously described how a "state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country"; Justice Brandeis coined the phrase "laboratories of democracy." Twnety-nine states and the District of Columbia, as of 2019, have experimented with minimum wage increases. But studies have demonstrated that these progressive "successes" do not come without unintended consequences.

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