

## The “Training Wage” Scam:

# A Lower Minimum Wage for Teens or New Hires Hurts Young Workers and Undermines Responsible Employers

### Summary

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When states or cities raise the minimum wage, industry groups frequently urge them to create a “training wage” allowing employers to pay a lower minimum wage to teen workers or to new hires (for example, for a worker’s first ninety days on the job). Industry lobbyists argue that otherwise teens or new workers will be shut out of job opportunities – or that teens are working for spending money and do not need to earn a higher wage. Sometimes they urge such exemptions as a way of cushioning the impact of a higher minimum wage on employers, especially small businesses.

None of these arguments hold up under closer scrutiny. Specifically:

- A teen training wage would benefit even fewer employers, since 89.3 percent of low-wage workers are age 20 or older and the average low-wage worker is 36 years old.
- Low-wage teen workers are likely to be from struggling households who depend on the teens’ additional incomes to make ends meet; or to be students working their way through college with limited family support. These teens, and all others regardless of family income, deserve a higher minimum wage, too.
- A training wage for new hires creates a loophole that mainly benefits fast food and retail chains with high-turnover staffing models, and incentivizes more employers to shift to this model and to favor hiring teens over adults.
- The research on the impact of the minimum wage on teens – which compares teen employment levels across regions and states with differing minimum wage rates – shows that higher minimum wage rates do not cause employers to hire fewer teens.
- Teen employment levels have been declining for decades regardless whether the minimum wage has gone up or stayed flat. This trend is driven by many factors – including increased labor market competition from older workers in their 50’s and beyond, more of whom work in low-wage jobs today because they cannot afford to retire.

## Analysis

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### **1. Adopting a “Training Wage” Would Impact Very Few Teen Workers and Benefit Even Fewer Employers**

- Teens represent a very small portion of low-wage workers – nationally just 10.7 percent of low-wage workers.<sup>1</sup> Moreover, the median age of low-wage workers has been increasing and is now 35, reflecting the fact that more adults are spending their careers in low-wage jobs.<sup>2</sup>
- This means that adopting a sub-minimum wage for teens would result in very little savings for most low-wage employers.

### **2. Low-Wage Teen Workers Are Likely to be from Struggling Households or Employed College Students – and They Deserve a Higher Minimum Wage, Too**

- A substantial portion of teen workers are from struggling low- and middle-income households and their earnings provide essential income. Census data show that the average low-wage worker who would benefit from raising the minimum wage contributes 50.3 percent of her or his household’s income.<sup>3</sup>
- Additionally, in the U.S., nearly 50 percent of students pursuing a 2-year degree, and over 40 percent of students pursuing a 4-year degree work more than 35 hours per week,<sup>4</sup> as they struggle with high tuition and debt (both of which influence their ability to start a family and to buy a home). These young workers deserve a higher minimum wage, which will allow them to cover more of tuition costs, finish school more quickly, and take out fewer loans.

### **3. Fast Food and Retail Chains with High-Turnover Staffing Models Would Be the Main Beneficiaries Under a Training Wage**

- The employers who would benefit substantially under a training sub-minimum wage are those who have chosen a high-turnover staffing model. This is chiefly low-road employers in fast food and chain retail employers, which have disproportionately high rates of employee turnover, ranging up to 200 percent on an annual basis.<sup>5</sup> This means that fast-food and chain retail employers often replace their entire staff once every six months on average.
- A sub-minimum training wage essentially creates a loophole that allows low-road fast food and chain retailers to pay their employees less than the state’s minimum wage for roughly half of their average short, six-month job tenures – a very substantial savings for these employers, but a loss to low-wage workers.
- The training wage loophole is unfair to small businesses and to conscientious employers, who already struggle to compete with big businesses while treating their employees (of any age) well. It is also unwarranted, since the fast-food and major retail chains are seeing record corporate profits, and can readily afford to pay a higher minimum wage.<sup>6</sup>

#### **4. The Training Wage Loophole Creates Harmful Incentives for More Employers to Shift to a High-Turnover Model and to Favor Hiring Teens Over Adults**

- A sub-minimum training wage for teens rewards employers for hiring teens in the place of adult workers, and creates an incentive for more employers to churn their workforces and shift to the high-turnover staffing model.
- Incentivizing these practices is harmful for the workforce and economy, and will hurt adult workers – especially in high unemployment areas – who are struggling to find jobs.

#### **5. Raising the Minimum Wage Does Not Cost Teens Jobs**

- Opponents of minimum wage increases often suggest that teens – especially teens of color – are particularly vulnerable to unemployment when the minimum wage is increased. However, economic research does not support these claims.
- Economists from the University of California reviewed the impact of the minimum wage on teen employment in a state-of-the-art, peer reviewed study, “Do Minimum Wages Really Reduce Teen Employment?”<sup>7</sup> The study carefully examined the impact of all U.S. minimum wage increases between 1990 and 2009 on teen workers, including minimum wage increases implemented during times of high unemployment such as the national recessions of 1990-1991, 2001 and 2007-2009.
- After analyzing the economic data, and after controlling for economic factors – such as regional economic shocks and varying regional growth rates for low-wage jobs that can bias the results – the researchers concluded that raising the wage floor does not lead to reductions in employment among teens.
- This holds true for Black teens. It is an unfortunate – though not surprising – fact that unemployment among African American teens is significantly higher than their peers. Black teen unemployment rate has ranged from 1.6 to 2.4 times the overall teen unemployment rate over the past four decades. This trend reflects the overall unemployment gap between Black and white workers of all ages that has existed for more than 60 years, which persists across all education levels, and which cannot be attributed to increases in the minimum wage.<sup>8</sup>
- Bloomberg News wrote in summarizing the study that “[This study is part of] a wave of new economic research [that] is disproving those arguments about job losses and youth employment. Previous studies tended not to control for regional economic trends that were already affecting employment levels, such as a manufacturing-dependent state that was shedding jobs. The new research looks at micro-level employment patterns for a more accurate employment picture. The studies find minimum-wage increases even provide an economic boost, albeit a small one, as strapped workers immediately spend their raises.”<sup>9</sup>

#### **6. Reasons for Decline in Teen Employment Are Completely Unrelated to Minimum Wage Levels**

- Teen employment levels have been falling for decades, including a dramatic decline since 2000.<sup>10</sup> Overall, teens 16 to 19 years old represent a very small portion of the state’s total workforce – just 1.97 percent in 2014, and hovering around the 2 to 3 percent range since 2005.<sup>11</sup>

- This trend is unrelated to the minimum wage and has continued regardless of whether the minimum wage has been flat or increasing – making it clear that this decline has nothing to do with the minimum wage.
- There are multiple reasons for this decline, including the fact that today more teens are full-time students than in the past, that fewer upper income teens work than in past decades, and that working class teens seeking jobs face increasing competition from adult workers over 55, many of whom cannot afford to retire and are turning to low-wage jobs.<sup>12</sup>

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<sup>1</sup> David Cooper, *Raising the Minimum Wage to \$12 by 2020 Would Lift Wages for 35 Million American Workers*, July 14, 2015. Accessed January 29, 2016. <http://www.epi.org/publication/raising-the-minimum-wage-to-12-by-2020-would-lift-wages-for-35-million-american-workers/>

<sup>2</sup> John Schmitt and Janelle Jones, *Low-wage Workers Are Older and Better Educated Than Ever*, Center for Economic and Policy Research, April 2012. Accessed January 22, 2016. <https://cepr.net/documents/publications/min-wage3-2012-04.pdf>. See also David Cooper, *ibid.*

<sup>3</sup> David Cooper, *ibid.*

<sup>4</sup> U.S. Department of Education, *Profile of Undergraduate Students, 2011-2012*, October 2014. Accessed January 22, 2016. <http://nces.ed.gov/pubs2015/2015167.pdf>.

<sup>5</sup> Wayne F. Cascio, "The High Cost of Low Wage," *Harvard Business Review*, December 2006, <https://hbr.org/2006/12/the-high-cost-of-low-wages/ar/1>. See also Erin White, "To Keep Employees, Dominos Decides It's Not All About Pay," *Wall Street Journal*, February 2005, <http://www.post-gazette.com/business/businessnews/2005/02/18/To-keep-employees-Domino-s-decides-it-s-not-all-about-pay/stories/200502180276>. Both accessed January 22, 2016.

<sup>6</sup> National Employment Law Project, *Big Business, Corporate Profits, and the Minimum Wage*, July 2012. Accessed January 22, 2016. [http://nelp.3cdn.net/e555b2e361f8f734f4\\_sim6btdzo.pdf](http://nelp.3cdn.net/e555b2e361f8f734f4_sim6btdzo.pdf).

<sup>7</sup> Sylvia Allegretto, Arindrajit Dube and Michael Reich, "Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data," *Industrial Relations* 50: 205-240, 2011. Accessed January 22, 2016. <http://www.irl.berkeley.edu/workingpapers/166-08.pdf>.

<sup>8</sup> Ann Thompson, *What Is Causing Record-High Teen Unemployment? Range of Economic Factors Drives High Teen Unemployment, But Minimum Wage Not One of Them*, National Employment Law Project, October 2011. Accessed January 29, 2016. [http://nelp.3cdn.net/5f5063b72229a9081a\\_lym6bkbrw.pdf](http://nelp.3cdn.net/5f5063b72229a9081a_lym6bkbrw.pdf). See also Allegretto et al., *ibid.*

<sup>9</sup> Bloomberg View Editorial Board, "Raise the Minimum Wage," *Bloomberg*, April 16, 2012. Accessed January 22, 2016. <http://www.bloombergview.com/articles/2012-04-16/u-s-minimum-wage-lower-than-in-lbj-era-needs-a-raise>.

<sup>10</sup> Teresa Morisi, "The Early 2000s: A Period of Declining Teen Summer Employment Rates," *Monthly Labor Review*, Bureau of Labor Statistics, May 2010, <http://www.bls.gov/opub/mlr/2010/05/art2full.pdf>. Accessed January 22, 2016.

<sup>11</sup> NELP estimates based on U.S. Census, *American Community Survey 1-Year Estimates* from 2005 to 2014, [http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_14\\_1YR\\_B23001&prodType=table](http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_14_1YR_B23001&prodType=table).

<sup>12</sup> Anne Thompson, *What is Causing Record-High Teen Unemployment?*, National Employment Law Project, October 2011. Accessed

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