

A Training Wage in Oregon: A Harmful Policy that Opens Loopholes, Hurts Workers and Local Economies

I. Introduction

Oregon has never adopted a lower sub-minimum wage for teens or new workers, and it would be a mistake to do so now. So-called training wages are harmful policies that treat younger workers and new employees differently from the rest of the workforce; mainly benefit big businesses with high turn-over staffing models, often at the expense of mom and pop shops and more conscientious employers; provide incentives for other businesses to adopt high-turnover business models; and hurt low-wage adult workers who may be replaced with a cheaper and younger workforce.

Lobbyists for low-wage industries sometimes argue that training wages are sensible policies that avoid putting teens out of work, encourage employers to hire teens despite many teens' limited work experience and skill sets, and cushion the impact on employers of a higher minimum wage. However, a review of the economic evidence shows that none of these rationales holds up under closer scrutiny. Specifically:

- Rigorous 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 with little correlation to the state of the minimum wage. 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.
- Adopting a training wage in Oregon would impact very few workers and benefit even fewer employers, since 90.7 percent of low-wage workers are age 20 or older.
- A training wage 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.
- 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.

II. What the Data and Economic Evidence Suggests

1. Raising the Minimum Wage Does Not Cost Teens Jobs

- 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?”¹ 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.
- The study found that the even during downturns in the business cycle and in regions with high unemployment the impact of minimum wage increases on employment is the same: negligible.
- As Bloomberg News wrote in summarizing the study, “[This study is part of] a wave of new economic research 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.”²

2. 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 2000.³
- 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.⁴

3. 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 in Oregon – just 9.3 percent of workers affected by a minimum wage increase.⁵ 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.⁶
- This means that adopting a sub-minimum wage for teens would result in very little savings for most low-wage employers who employ them, outside of the fast-food and retail chains.

4. Fast Food and Retail Chains with High-Turnover Staffing Models Would Be the Main Beneficiaries If Oregon Adopts a Training Wage

- The employers who would benefit substantially if Oregon adopts a training sub-minimum wage are those low-wage employers that have chosen a high-turnover staffing model. This is chiefly fast food and chain retail employers, which have disproportionately high rates of employee turnover, ranging up to 200 percent on an annual basis.⁷ 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 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.⁸

5. 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 Oregon's workforce and economy, and will hurt adult workers – especially in high unemployment areas – who are struggling to find jobs.

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

- Although teens are just 9.3 percent of Oregon's low-wage workforce,⁹ they deserve a minimum wage increase too, and exempting them with a teen sub-minimum wage would be harmful.
- While teen workers are virtually never heads of households – no worker can support a household on minimum wage – a substantial portion are from struggling low- and middle-income households and their earnings provide essential income. Census data shows that the average low-wage worker in Oregon who would benefit from raising the minimum wage contributes 59.3 percent of her or his household's income.¹⁰
- 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,¹¹ as they struggle with high tuition and debt (both of which influence their ability to start a family and to buy a home). They deserve a higher minimum wage, which will allow them to cover more of tuition costs, finish school more quickly, and take out fewer loans.

¹ 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.irle.berkeley.edu/workingpapers/166-08.pdf>.

² 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>.

³ 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.

⁴ Anne Thompson, *What is Causing Record-High Teen Unemployment?*, National Employment Law Project, October 2011. Accessed January 22, 2016. http://nelp.3cdn.net/5f5063b72229a9081a_lym6bkbrw.pdf.

⁵ David Cooper, *State Tables: Characteristics of Workers Who Would Be Affected by Increasing the Federal Minimum Wage to \$12 by July 2020*, Economic Policy Institute, May 7, 2015. Accessed January 22, 2016. <http://www.epi.org/files/2015/revised-minimum-wage-state-tables.pdf>.

⁶ John Schmitt and Janelle Jones, *Low-wage Workers Are Older and Better Educated Than Ever*, Center for Economic and Policy Research, April 2012, <https://cepr.net/documents/publications/min-wage3-2012-04.pdf>. See also David Cooper, *Raising the Minimum Wage to \$12 by 2020 Would Lift Wages for 35 Million American Workers*, Economic Policy Institute, July 14, 2015, <http://www.epi.org/files/2015/raising-the-minimum-wage-to-12-dollars-by-2020-would-lift-wages-for-35-million-american-workers.pdf>. Both accessed January 22, 2016.

⁷ 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.

⁸ National Employment Law Project, *Big Business, Corporate Profits, and the Minimum Wage*, July 2012. Accessed January 22, 2016. http://nelp.3cdn.net/e555b2e361f8f734f4_sim6btazo.pdf.

⁹ David Cooper. *State Tables*, op. cit.

¹⁰ David Cooper, *Raising the Minimum Wage to \$12 by 2020 Would Lift Wages for 35 Million American Workers*, op. cit.

¹¹ U.S. Department of Education, *Profile of Undergraduate Students, 2011-2012*, October 2014. Accessed January 22, 2016. <http://nces.ed.gov/pubs2015/2015167.pdf>.