

WASHINGTON'S MINIMUM WAGE AND TEENAGE UNEMPLOYMENT

BRIEFLY

In every year since voters approved Initiative 688 increasing the state minimum wage, Washington's unemployment rate for teenagers has exceeded the national rate.

Washington state's \$9.32 minimum wage is the nation's highest statewide minimum. Some lawmakers have proposed to boost the minimum to \$12.00. Such an increase would make it more difficult for low-skilled individuals to find employment in the state.

The extensive academic literature on the effects of minimum wage laws provides a wide range of estimates of the effect of them. Nevertheless, the preponderance of evidence indicates that minimum wage laws do have a negative effect on employment. A recent report by the Congressional Budget Office (CBO) analyzed the impact of increasing the U.S. minimum wage in three steps from the current value of \$7.25 per hour to \$10.10 in 2016 and from that point forward adjusting the wage annually for inflation as measured by the consumer price index. When fully implemented, CBO estimated that this would decrease total employment by about 500,000, while it would decrease the number of people below the poverty threshold by 900,000.

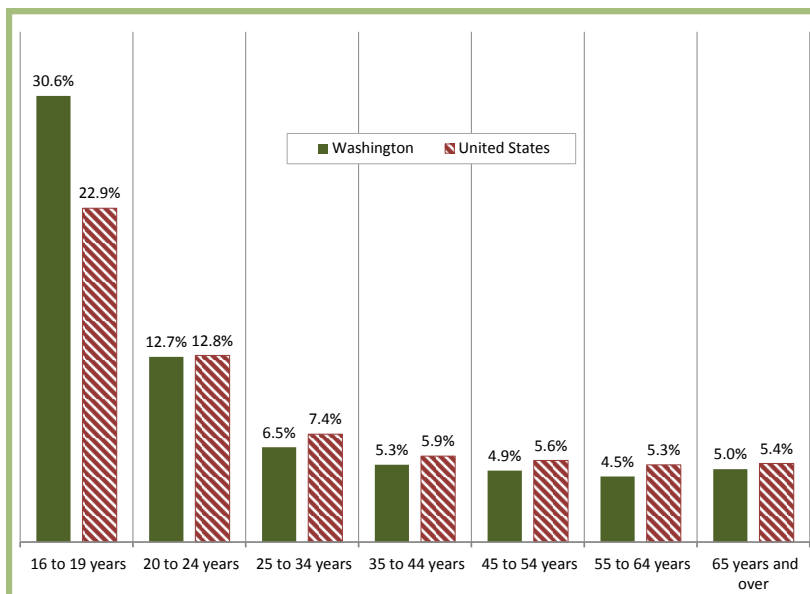
Based on their survey of the literature on the employment effects of minimum wages, economists David Neumark and William Wascher conclude:

the oft-stated assertion that recent research fails to support the traditional view that the minimum wage reduces the employment of low-wage workers is clearly incorrect. A sizable majority of the studies surveyed ... give a relatively consistent (although not always statistically significant) indication of negative employment effects of minimum wages. In addition, among the papers we view as providing the most credible evidence, almost all point to negative employment effects, both for the United States as well as for many other countries. ... the studies that focus on the least-skilled groups provide relatively overwhelming evidence of stronger disemployment effects for these groups. (Neumark and Wascher 2007)

Because younger workers are disproportionately low skilled, the disemployment effects of the minimum wage should be most visible in teenagers.

Chart 1 compares 2013 unemployment rates by standard age groupings for Washington state to those for the nation as a whole. For 2013, Washington's overall unemployment rate of 7.0 percent was better than the overall national rate of 7.4 percent. For the 16 to 19 age category, however, Washington's unemployment rate was quite a bit higher than the national rate, 30.6 percent versus 22.9 percent, while for each of the other six categories, Washington's rate was lower than the national rate. Combining these six categories, the employment rate for age 20 and older individuals was 6.1

Chart 1. Unemployment rates by age cohort in 2013



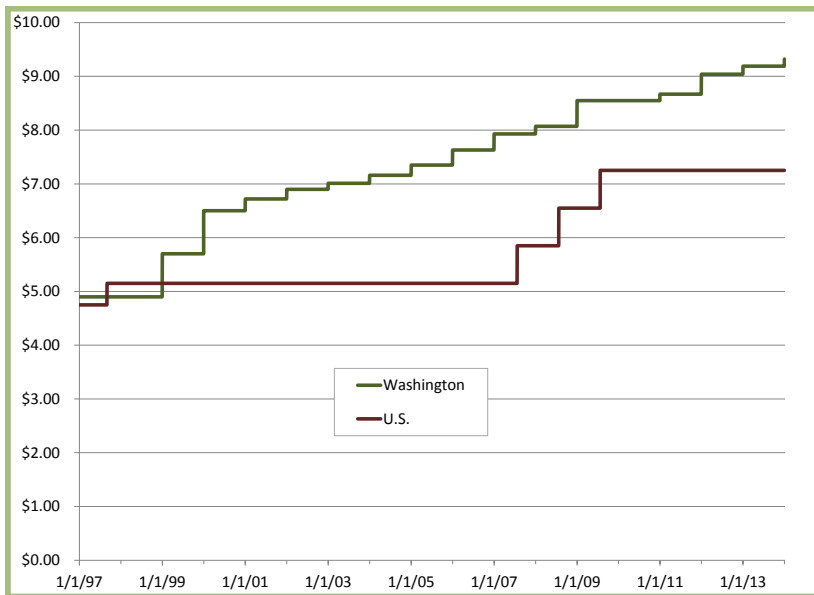


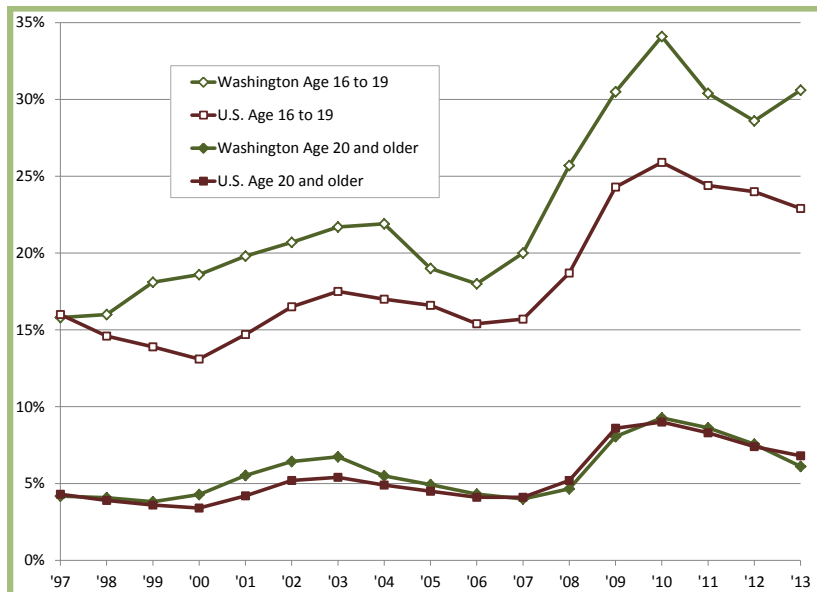
Chart 2. Minimum wages, Jan. 1, 1997 to Jan. 1, 2014

percent in Washington compared to 6.8 percent for the nation as a whole.

Unemployment rates are calculated by the Bureau of Labor Statistics from data collected through the Census Bureau's monthly Current Population Survey. For a narrow category such as 16- to 19-year-old residents of Washington, the small number of such individuals captured in the survey means that the unemployment rate is not precisely estimated. For that reason, it is useful to examine the data from additional years.

As Chart 2 shows, Washington's minimum wage has been greater than the national minimum wage since 1999. In November 1998, Washington voters approved Initiative 688, increasing the

Chart 3. Unemployment rates, 1997 to 2013



state minimum wage to \$5.70 on January 1, 1999 and to \$6.50 on January 1, 2000. On each January 1 thereafter, the initiative provides a percentage increase to the minimum wage equal to the (August to August) percentage increase in the consumer price index for urban wage earners and clerical workers. This has resulted in an increase in every year from 2001 to 2014 except for 2010. The U.S. minimum wage increased from \$4.75 to \$5.15 on September 1, 1997, to \$5.85 on July 24, 2007, to \$6.55 on July 24, 2008, and \$7.25 on July 24, 2009.

Chart 3 shows unemployment rates for the 16 to 19 category and the 20 and older category for Washington and the nation as a whole for the years 1997 through 2013. In 1997, Washington's 16 to 19 unemployment rate was slightly below the national value (15.8 percent versus 16.0 percent), while in 1998 it was somewhat above the national value (16.0 percent versus 14.6 percent). In 1999, after I-688 came into effect the gap between the Washington and national 16 to 19 unemployment rates expanded to 4.2 percentage points (18.1 percent versus 13.9 percent). In every year after I-866, Washington's 16 to 19 unemployment rate is greater than the national value. The average gap between the rates is 5.1 percentage points.

References

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