

# A “Training Wage” for Teens or New Hires Would Hurt New York’s Workers and Undermine Responsible Employers

## Summary

New York has never had a sub-minimum “training wage” for teens or new workers, and it would be harmful to adopt one now. Industry lobbyists typically argue that otherwise teens or new workers will be shut out of job opportunities – and suggest that teens are working for extra 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:

- Adopting a sub-minimum wage in New York would offer little benefit for employers, since 94.7 percent of low-wage workers earning less than \$15 are adults 20 or older and teens are just 2 percent of New York’s overall workforce.
- Teen workers are likely to be from struggling households that depend on the teens’ additional income to make ends meet. Moreover, significant numbers of employed teens are students working their way through two or four year colleges – in fact, nearly half of college students today work full time while going to school. Including teen workers in a higher minimum wage is essential for allowing working students to take on less student debt, work fewer hours, and graduate faster.
- A training wage for new hires would create a loophole that mainly benefits big chains with high-turnover staffing models, and incentivizes more employers to shift to this model. It would put responsible, local employers that offer stable long term jobs at an unfair disadvantage.
- 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 wages do not affect teen employment levels. Instead, teen employment has been declining for decades regardless of 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 of the decline in mid-paying jobs and the fact that they cannot afford to retire.

- Finally, New York already provides a variety of targeted tax credits to promote hiring young workers and to subsidize training costs. These include: New York’s Urban Youth Jobs Program refundable \$5,000 tax credit for hiring disadvantaged youth ages 16-24 in eligible cities; a \$1.35 per hour tax credit for hiring student workers ages 16-19; and the state’s newly enacted Employee Training Incentive Program (ETIP) that provides a refundable tax credit of up to \$10,000 per employee receiving eligible training, as well as 50 percent of the stipend paid to an intern in an advanced technology field, up to a credit of \$3,000 per intern.

## **Analysis**

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### ***1. Adopting a “Training Wage” Would Offer Little Benefit for Employers***

- Teens represent a very small portion of New York’s workforce – just 5.2 percent of workers affected by a minimum wage increase,<sup>1</sup> and 2 percent of the state’s workforce overall.<sup>2</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>3</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 Who Need a Higher Minimum Wage as They Struggle with High Student Debt***

- 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 New York who would benefit from raising the minimum wage contributes 50.3 percent of her or his household’s income.<sup>4</sup>
- Additionally, 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>5</sup> as they struggle with high tuition and debt (both of which limit 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. Chain Employers with High-Turnover Staffing Models Would Be the Main Beneficiaries If New York Adopted a Training Wage***

- The employers that would benefit most if New York adopted a training sub-minimum wage are those who have chosen a high-turnover staffing model. This is chiefly chain retail and fast food employers, which have disproportionately high rates of employee turnover, ranging up to 200 percent on an annual basis.<sup>6</sup> This means that many fast-food and chain retail employers replace their entire staff every six months.
- A sub-minimum training wage for teens or new employees would create a loophole allowing low-road chain retailers to pay their employees less than the state's minimum wage for much of their short job tenures. Since retail is New York's largest low wage industry, such an exemption would deny thousands of working New Yorkers a badly needed raise. Over 550,000 retail workers will benefit from an increase in the statewide minimum wage and 60 percent are employed by large chains averaging over 500 employees each and that pay average wages one-fourth less than mid-size retailers.<sup>7</sup>
- Such an exemption would put responsible, local employers that offer long-term employment at an unfair disadvantage as they compete with the big chains. And it would amount to an unwarranted subsidy to the largest low-wage employers that readily afford to pay a higher minimum wage.<sup>8</sup>

### ***4. A Training Wage Would Create Harmful Incentives for More Employers to Shift to a High-Turnover Staffing 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 New York's 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***

- Industry opponents often argue that teens – especially teens of color – will be locked out of job opportunities if the minimum wage is increased. However, the research does not back up those claims
- As Bloomberg News summarized, “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>

- The state-of-the art research on the topic was conducted by economists from the University of California (“Do Minimum Wages Really Reduce Teen Employment?”<sup>10</sup>). It analyzed the impact of all federal and state 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, as is true for adult workers, higher minimum wages do not lead to reductions in teen employment levels, including African-American teen employment. While African American teens suffer from much higher unemployment than their white peers – ranging from 1.6 to 2.4 times the overall teen unemployment rate – this trend has nothing to do with the minimum wage. It has persisted whether the minimum wage has gone up or stayed flat and reflects the overall unemployment gap between African-American and white workers of all ages and education levels.<sup>11</sup>
- Overall, teen employment levels have been falling for decades, including a dramatic decline since 2000.<sup>12</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>13</sup>

## **6. New York Already Provides Tax Credits for Hiring Young Workers and to Subsidize Training**

- New York already provides various incentives and does not need a new one in this area. The Urban Youth Jobs Program Tax Credit provides up to a \$5,000 refundable tax credit for hiring disadvantaged youth ages 16-24 in eligible cities. The program has been expanded in recent years.
- Until January 1, 2019, New York also has a Minimum Wage Reimbursement Tax Credit that provides a \$1.35 per hour tax credit for hiring a student ages 16-19 who is paid the state minimum wage. This program has been criticized because of the potential to displace adult workers and needs to be carefully evaluated.

- Last year the state enacted the Employee Training Incentive Program (ETIP) that provides a refundable tax credit of up to \$10,000 per employee receiving eligible training and 50 percent of the stipend paid to an intern in an advanced technology field, up to a credit of \$3,000 per intern. To be eligible, businesses need to operate in what the state considers a “strategic industry,” must create at least 10 net new jobs and meet other requirements.

## Endnotes

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<sup>1</sup> David Cooper, *Raising the New York State Minimum Wage to \$15 by July 2021 Would Lift Wages for 3.2 Million Workers*, Economic Policy Institute, January 5, 2016. Accessed January 29, 2016. <http://www.epi.org/publication/raising-new-york-state-minimum-wage-to-15/>.

<sup>2</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>3</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>4</sup> David Cooper, *ibid*.

<sup>5</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>6</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>7</sup> Fiscal Policy Institute, *The Retail Sector—New York’s Biggest Low-wage Employer Needs to Provide Higher Wages*, March 22, 2016. <http://fiscalspolicy.org/wp-content/uploads/2016/03/FPI-Retail-15-report-March-2016.pdf>

<sup>8</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>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> 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>.

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<sup>11</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>12</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>13</sup> 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](http://nelp.3cdn.net/5f5063b72229a9081a_lym6bkbrw.pdf).