WALL STREET JOURNAL

The Lost Wages of Youth

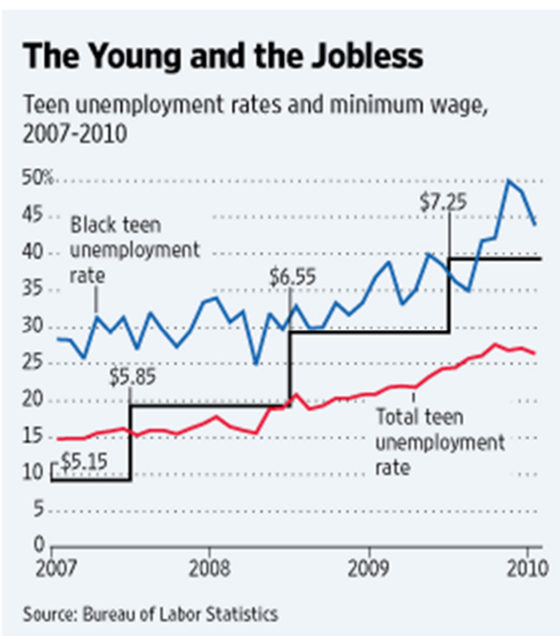
Raising the minimum wage has put teens out of work.

Updated March 5, 2010 12:01 a.m. ET

There's plenty of competition, but our vote for the recent act of Congress that has caused the most economic hardship goes to the May 2007 law raising the minimum wage in three stages to $7.25 an hour from $5.15. Rarely has a law hurt more vulnerable people more quickly.

A higher minimum wage has the biggest impact on those with the least experience or the fewest skills. That means in particular those looking for entry-level jobs, especially teenagers. And sure enough, as nearly all economic models predict, the higher minimum has wreaked havoc with teenage job seekers, well beyond what you would expect even in a recession.

The nearby chart compares the three-stage increase in the minimum wage with the jobless rate for teens age 16 to 19 since 2007. The first increase, to $5.85 from $5.15, came after a decade of no increases and when the overall jobless rate was below 5% and the teen rate was 14.9%. The demand for labor was sufficiently strong in many areas that most employers were probably willing to absorb the higher wage.



But as the minimum wage increased even as the overall job market began to worsen, the damage to teen job seekers became more severe. By the time the third increase to $7.25 from $6.55 took effect in July 2009, the teen jobless rate was 24.3%, and by October it peaked at 27.6% before dropping to 26.4% in January.

The story is even worse for black teens, who often have lower than average education levels or live in areas with fewer job prospects. Their jobless rate climbed from 38.5% before the third wage hike to 49.8% in November 2009, before falling back to 43.8% in January. For black male teens, the rate climbed to 52.2% in December from 39.2% in July. The difference between the jobless rates for black teens and the entire population widened by six percentage points from June 2007 to January 2010. Even assuming those rates fall as the job market improves this year, they will remain destructively high.

The third increase was especially ill-timed because it hit while the recession was ending but before employers have felt confident to rehire. To raise the cost of unskilled labor precisely when the jobless rate is heading toward 10% is an act of almost willful economic stupidity. A Congress that has spent $862 billion to create jobs thus managed with its wage increase to harm tens of thousands of entry-level job seekers. And it did so in the name of "compassion" and a "living wage." In many cases that wage has since become zero.

The evidence is clear that increasing the minimum wage is an expensive and misguided way to try to move working families out of poverty. According to the Employment Policies Institute, 85% of people who earn the minimum wage aren't the primary bread winner in a family.

Most readers remember the work habits they learned from their first job. Showing up on time, being courteous to customers, learning how to use technology—such habits are often more valuable than the actual paycheck. Studies have confirmed that when teens work during summer months or after school they have higher lifetime earnings than those who don't work. So raising the minimum wage may inadvertently reduce lifetime earnings.

Most Democrats won't bend on the minimum wage because it is a core union demand, but free thinkers ought to at least consider the teenage job problem. The long-term danger is that we are building in a higher level of structural unemployment as our least-skilled workers find it harder to climb onto the first rung of the job market.

Washington could at least establish a teenage, or sub-minimum, wage closer to $5 an hour. More than half of all minimum wage workers get a pay raise within one year on the job, so wages will rise naturally with experience and talent. More young people will be hired, and more will learn what it takes to get ahead in America.