It’s Time To Give Millennials A Raise
How A Stagnant Minimum Wage Impacts Young Americans

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Introduction

Wages for Americans, and particularly young adults, have stagnated. Many workers are struggling to pay their bills, rent, student loans, and save for retirement despite working harder than ever. From 2000 to 2012, the real median wage declined nearly 30 percent, and the decay in wages was worse for young adults, falling by 33 percent for workers aged 25-34. Without appropriate wage growth, demand in the economy stalls, businesses become less profitable, and fewer jobs are created. The current trend is unsustainable if we intend to have a robust recovery from the Great Recession.

It is no surprise then that raising the minimum wage has gained political traction and public support. The current federal minimum wage of $7.25 is inadequate and, as a result, efforts to increase the minimum wage are taking root across the country. Seventy-one percent of minimum wage workers are Millennials so it is not surprising that 85 percent of our generation supports increasing the minimum wage and ensuring it continues to rise with inflation. Moreover, America’s young adults generally believe that full-time workers should be able to earn enough to support the basic needs of their families. Along with Millennials, the vast majority of the American population—regardless of their political association—supports raising the federal minimum wage. Despite the policy’s extraordinary support among young Americans and the general public, intense partisan gridlock in Congress has currently stalled attempts to raise the federal minimum wage.

Accordingly, President Obama is taking executive action to raise the minimum wage for federal contract workers to $10.10 and some state and local governments have taken it upon themselves to pass laws that raise the minimum wage. Voters in New Jersey recently overwhelming supported a minimum wage increase with automatic cost-of-living adjustments. California passed a bill in 2013, becoming the first state to raise the minimum wage to $10 and tie it to
inflation. In SeaTac, WA, a successful ballot measure raised the minimum wage to $15 for hospital and transportation workers near the Seattle-Tacoma International Airport. And in late 2013, the city council in Washington, D.C., unanimously passed an $11.50 minimum wage. Nationally, the majority of voters in other cities like Albuquerque, San Jose, and Long Beach also approved minimum wage increases in recent years.

The movement to raise the minimum wage has been advantageous for Millennials, as the majority of minimum-wage workers are young adults. But progress on raising the minimum wage at the state and local level has prompted some critics to argue that the benefits of a higher minimum wage would not go to genuinely low-income workers, but rather to part-time, teenage workers who are earning spending money instead of supporting their family. Critics also argue that raising the minimum wage will kill jobs, but these claims do not stack up against the data.

In this brief, we pushback on these criticisms and outline how a stagnant minimum wage disproportionately affects young adults, why the current federal minimum wage is inadequate for our generation, why raising the minimum wage supports job creation, and outline the broader economic benefits of increasing the federal minimum wage.

Most Minimum-Wage Workers Are Young Adults

Opponents of raising the minimum wage say the policy will primarily assist part-time teenage workers earning spending money. An increase would certainly assist these young workers, but they are not the primary beneficiaries. In fact, 88 percent of workers who would be affected by a minimum-wage increase are over the age of 20, according to an analysis by the Economic Policy Institute. Additionally, more than half of minimum-wage workers are full-time employees.

Analysis from the Bureau of Labor Statistics shows that 47 percent of workers earning the minimum wage or less are between the ages of 20 and 34. A quarter (24 percent) of minimum-wage earners are between the ages of 16-19, and 27 percent are between the ages of 35-64. Additionally, minimum-wage workers are more educated than the stereotype.
More than four in 10 minimum-wage workers are college graduates or have at least some college education. Post-recession, this should not be a surprise: More than half of the jobs created since the recession have been low-wage jobs and the slack in the labor market has forced a historic number of college graduates to take minimum-wage employment. In 2012 alone, nearly 300,000 college graduates were working a minimum-wage job—70 percent more than were doing so a decade earlier.

The Current Minimum Wage Is Not Enough

Full-time workers who earn the federal minimum wage are not achieving the most basic living standard for their families. A full-time minimum wage worker working 40 hours per week earns just $15,080 a year—$430 less than the official poverty line for a family of two, $4,450 less than the poverty line for a family of three, and $8,470 below the poverty line for a family of four. Furthermore, there are no states in the United States where a full-time minimum wage worker can afford to pay the average rent for a two-bedroom apartment.

According to a research project conducted by the Massachusetts Institute of Technology, if the minimum wage were to reflect a living wage—one that, at the minimum, covered the costs to provide basic necessities such as food, shelter, medical care, transportation, and childcare—it would be significantly higher than the current level. A living wage for a single parent of one in Washington, D.C., would be $26.37 per hour; in New York County, the same parent would see a living wage of $24.69 per hour. Even counties with low cost of living, like Cuyahoga County in Ohio, a living wage for a single parent of one would amount to $17.63 per hour.

To make matters worse for full-time minimum-wage workers who already struggle to or cannot make ends meet, inflation is eroding their incomes and making it even more difficult to purchase basic necessities. In fact, the value of the minimum wage, adjusted for inflation, is less today than it was in 1968. If the value of the minimum wage had kept pace with inflation after its peak in 1968, minimum-wage employees in 2012 would have made $10.52 per hour—$3.27 per hour more than the current rate.

In addition to personal impact, the declining value of the minimum wage has also contributed to America’s income inequality crisis. Minimum wage deterioration over the past three decades has contributed to more than half of the existing pay...
gap between the middle-income and lower-income scales.\textsuperscript{27}

It’s worth noting that the minimum wage’s real value has declined despite the American worker becoming more productive over time. Since the minimum wage’s peak in 1968, labor productivity has more than doubled\textsuperscript{28}, but a declining minimum wage has prevented the lowest-paid workers from enjoying a slice of the economic growth to which they’ve contributed. There has not always been this disconnect between the nation’s productivity and the value of the minimum wage. Between World War II and 1968, the minimum wage tracked the growth in the country’s productivity. If minimum-wage workers had continued to experience wage increases at the rate of the economy’s productivity gains after 1968, their wages would have reached $22 per hour.\textsuperscript{29}

Additionally, the bill raises the minimum wage of tipped workers, which has been unchanged for more than 20 years at a meager $2.13, to 70 percent of the minimum wage. An increase for tipped workers is long overdue and is particularly helpful for young Americans because approximately 43 percent of young Americans ages 20 to 29 are tipped workers.

Unfortunately, due to the slack in the labor market, it will be difficult for workers to fix these trends by bargaining for higher wages on their own. Desmond Lachman, a scholar at the conservative American Enterprise Institute and a former Wall Street banker, told the \textit{New York Times}: “Corporations are taking huge advantage of the slack in the labor market—they are in a very strong position and workers are in a very weak position. They are using that bargaining power to cut benefits and wages, and to shorten hours.”\textsuperscript{30} The lack of an adequate minimum wage is failing too many hardworking Americans who continue to work harder and produce more, but simply are not reaping the rewards. Thus, the country has a moral and economic imperative of ensuring that its lowest paid workers are compensated with a decent wage.

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\textbf{Raising The Minimum Wage Does Not Kill Jobs}
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A popular argument against raising the federal minimum wage is that businesses—small businesses in particular—will either fire workers or hire fewer to make up for increased compensation, effectively hurting those the policy is intended to help. Critics also argue that young people are already going through an unemployment crisis and raising the minimum wage would only
exacerbate that crisis. But these arguments do not hold up against the data.

First, there is a significant body of academic research that shows raising the minimum wage does not result in job loss, even during hard economic times.\footnote{31} This research indicates that the relationship between an employer and an employee is more complex than just wages. For example, employers also care about the productivity of their workers. An increase in pay has been empirically proven to make workers more productive, in part, because they are more motivated when they are paid more.\footnote{32} Additionally, recent research shows that minimum-wage increases can reduce employee turnover, which encourages employers to invest in training for their employees.\footnote{33}

Historically, minimum-wage hikes have not resulted in job losses. In 1996, President Clinton passed a 20 percent increase for minimum-wage workers, bringing the rate from $4.25 to $5.15 per hour. Empirical studies on the policy found no negative impact on job opportunities and that most of the gains went to low-income workers.\footnote{34} Moreover, a landmark study conducted in 2010 compared employment differences between contingent U.S. counties with different minimum wages and found that increases did not cost jobs.\footnote{35} When Britain introduced a national minimum wage in 1999, critics perpetuated the same arguments or fewer jobs, but there is consensus today that Britain’s policy has done no harm\footnote{36} and may have actually reduced income inequality.\footnote{37}

Recently, critics have pointed to a study conducted by the Congressional Budget Office (CBO) that estimated a minimum-wage increase would cost 500,000 jobs.\footnote{38} First, it is important to point out that the 500,000 figure is a median estimate with the low-end estimate near zero. Further, we believe that CBO overstated the employment affect because they derived this estimate from a wide range of past studies but did not specify how it weighted those studies. This information is key because more modern and accurate studies show no employment affect.

For example, the Center for Economic and Policy Research shows that minimum-wage studies since the 2000s, provide a far better estimate of the effects of the minimum wage on employment and point to little or no employment response to modest increases in the minimum wage.\footnote{39}

Additionally, meta-study, which are a studies of studies,
of 64 minimum wage studies measuring the impact of raising the minimum wage on employment found that the best estimates clustered near no effect.

Even if you accepted the CBO analysis, the report still showed that raising the minimum wage would have a net positive effect stating “Most [workers] would receive higher pay that would increase their family’s income, and some of those families would see their income rise above the federal poverty threshold.” Specifically the report outlined that if the minimum wage is increased to $10.10 by 2016, 16.5 million workers will have a pay increase and workers whose income is below or near poverty will see a change in real income of $17 billion.

Opponents of minimum-wage increases also say that small businesses cannot afford to pay higher wages. However, research shows that the majority of America’s lowest paid workers are actually employed by large corporations, which have recovered from the recession. Three-quarters of the 50 largest low-wage employers have higher revenue now than before the recession, and more than three-quarters have been profitable for the last three years.

When it comes to small business, a majority can support a higher minimum wage. According to a poll conducted by Small Business Majority, which oversampled Republicans, the majority (57 percent) of small business owners said they support raising the minimum wage to $10.10 per hour and with annual adjustments for inflation. Additionally, the poll found that more than half of small business owners believed a minimum-wage hike would decrease the need for government assistance for low-wage employees.

Even larger businesses are recognizing the benefits of giving their workers higher wages. Recently, clothing retailer Gap, Inc. announced it raised its minimum wage from $10 affecting 65,000 employees. Gap Chairman and CEO Glenn Murphy said regarding the company’s minimum-wage increase, “Our decision to invest in frontline employees will directly support our business, and is one that we expect to deliver a return many times over.” The company believes that raising their minimum wage will help attract and retain talent and improve their customer’s experience with the company.

In 2013, Costco CEO Craig Jelinek came out in support of raising the national minimum wage. Costco practices what it preaches and already pays its employees far above the minimum at $11.50 per hour. Jelinek stated that it is bad for business to not pay your employees well. Instead, Jelinek argues, “we know it’s a lot more profitable in the long term to minimize employee turnover and maximize employee productivity, commitment, and loyalty. We support efforts to increase the federal minimum wage.”

Murphy and Jelinek’s belief that raising the minimum wage is an investment
in his company is not wishful thinking. It has proven to work in the past. Henry Ford, the American business tycoon and founder of Ford Motor Company, wrote in his memoir *My Life and Work* about how his business benefitted from fair wages. In 1914, Ford famously announced that he would pay his workers $5 a day—effectively doubling the average wage of his workers—and shortened their workdays from nine hours to eight hours. The announcement was received as a philanthropic policy for Ford’s workers, but it was actually a shrewd business decision as it reduced employee turnover and boosted morale, allowing the company to grow and hire more workers. Moreover, increasing the wages of his workers coincidently allowed those same employees to afford the company’s vehicles and increased demand throughout the economy.

Competing businesses criticized Ford for the policy change after some workers left their jobs and came from all over the world to work for his company. Ford responded that that his critics “condemned us because we were … violating the custom of paying a man the smallest amount he would take.” Those standards, Ford said, “have to be wiped out … otherwise we cannot abolish poverty.” Ultimately, the policy was hugely successful and Ford said it was “one of the finest cost-cutting moves we have ever made.”

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**Economic Benefits Of Raising The Minimum Wage For Millennials**

**Raising The Minimum Wage Increases Demand**

Millennials are going through an unemployment crisis. The cost of unemployment among our generation is projected to cost $20 billion over the next decade. High youth unemployment is robbing young Americans of wages and time to build crucial skills, in addition to the anxiety and depression that can afflict the long-term unemployed. The high level of youth unemployment is one of the most urgent economic crises facing our country. The Federal Reserve Bank of San Francisco found that the main reason unemployment has remained high is because of weak demand. According to a poll conducted by the *Wall Street Journal*, the majority of economists agreed that insufficient demand is contributing to weak hiring. To reduce youth unemployment and unemployment in general, we need to enact policies that increase demand.

Raising the minimum wage has already proven an effective way to increase demand. Raising the minimum wage puts money directly into the pockets of cash-strapped workers who are likely to put that extra money back into the economy. A study by Federal Reserve Bank of Chicago economists found that
increasing the minimum wage by $1 an hour results in an increase in spending by affected families of about $800 a quarter—a vital boost for an economy that has a slack in demand. If the minimum wage was increased to $10.10 over three years, as Senator Tom Harkin (D-IA) and Representative George Miller (D-CA) propose in their legislation, it could result in the creation of 85,000 new jobs.

Raising The Minimum Wage Is Smart Fiscal Policy

Currently, 73 percent of enrollees in public assistance programs are working families. Although, these families are productive members of society, they are still reliant on public benefit programs because their employers simply do not provide adequate wages. This is not just problematic for these workers, but the rest of the country. Effectively, taxpayers are being asked to subsidize labor costs for corporations so they can have higher profits.

For a long time, progressives and fiscal conservatives have made the case that raising wages of our lowest paid workers would give them a hand up while also reducing the implicit subsidy to corporations. A recent study conducted by the Center for American Progress (CAP) confirmed this argument.

The study examined the effects of the minimum wage on the Supplemental Nutrition Assistance Program (SNAP), commonly known as food stamps. It found that raising the minimum wage to $10.10 would reduce enrollment in the program by between 3.6 million and 3.1 million people representing 7.5 percent to 8.7 percent of current enrollment and would generate $4.6 billion in savings for taxpayers.

Conservatives passionately argue that we cannot leave America’s next generation with high deficits and piles of debt. This new research confirms that the best way to reduce spending on social safety net programs like SNAP is to raise wages, not to cut benefits to families in need.

Raising The Minimum Wage Increases Wages For Other Low-Wage Earners

Increasing the minimum wage benefits more than just those working in minimum-wage jobs. In fact, there is a “spillover effect,” in which minimum-wage increases subsequently elevate the wages of workers who earn slightly above the minimum wage.

It is especially important to consider this spillover effect in today’s economy as most of the job creation since the recession has been in low-wage jobs. These lower wage occupations accounted for 21 percent of recession losses but 58 percent of jobs recouped in the recovery; meanwhile, middle-income
occupations made up 60 percent of recession losses but only 22 percent of he jobs recovered.\textsuperscript{61}

Millennials in particular are affected by this positive spillover, since the majority of low-wage workers are young adults: 58 percent of low-wage\textsuperscript{62} workers are between the ages of 16-34.\textsuperscript{63} Since 1979, the share of young adults who are low-wage workers has increased 7 percent while the share of teenaged low-wage workers has declined 14 percent. Additionally, many college graduates have been funneled into low-wage jobs, with almost half of graduates working jobs that do not require a college degree.\textsuperscript{64}

The Way Forward

A proposal by Senator Tom Harkin (D-IA) and Representative George Miller (D-CA) to increase the minimum wage to $10.10 per hour and link it to inflation could lift up hardworking Americans and boost our country’s economy. Studies have shown that raising the federal minimum wage to $10.10 could lift 4.6 million people out of poverty\textsuperscript{65}, raise GDP by $22 billion, and create 85,000 new jobs.\textsuperscript{66}

Further, the bill raises the minimum wage of tipped workers, which has been unchanged for more than 20 years at a meager $2.13, to 70 percent of the minimum wage. An increase for tipped workers is long overdue and is particularly helpful for young Americans because approximately 43 percent of young Americans ages 20 to 29 are tipped workers.\textsuperscript{67} Although there are other proposals, Harkin-Miller is the most comprehensive. It increases the minimum wage to $10.10 and then annually indexes it inflation and raises the tipped workers minimum wage to 70 percent of the minimum wage.\textsuperscript{68} Thus, we support Harkin-Miller proposals.

Conclusion

As Millennials, we have been told that if we work hard and play by the rules, we too can achieve the American Dream. Yet even after the recession, Millennials who graduated from college are facing a tough labor market, and our generation continues to represent a growing share of low-wage workers.
Failing to raise the minimum wage will cause young Americans to fall further behind economically. For our country’s future, we cannot accept these trends. Lawmakers should focus on putting more money in the pockets of hardworking Americans instead of allowing the failed “trickle-down” policies of the last decade to continue.

We need to build an economy that works for everyone. Raising the minimum wage is a strong step in that direction. It’s common sense: We should reward hard work and keep a level playing field by giving Americans a raise. Further, it reduces income inequality and increases economic growth. Simply put, raising the minimum will leave Millennials and our families better off.
END NOTES

1 The real median wage is calculated by the author in inflation adjusted 2012 dollars

http://www.census.gov/hhes/www/income/data/historical/people/


5 http://nelp.3cdn.net/3531e7b3f2017ff5f3_xwm6br84.pdf


9 Recently, a King County judge ruled that the $15 minimum wage cannot be enforced at the airport, but is legally binding at nearby hotels and parking lots.


13 Author’s calculation of Bureau of Labor statistics data

http://www.bls.gov/cps/minwage2012tbs.htm#7

14 http://www.epi.org/publication/bp357-federal-minimum-wage-increase/

15 http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/

16 According to the Department of Labor, there are various circumstances where employers can pay below the minimum wage. The exemptions are under specific circumstances regarding workers with disabilities, full-time students, youth under age 20, and in the first 90 days of employment for tipped employees and student learners.

17 http://www.bls.gov/cps/minwage2011tbs.html#7


21 Author’s calculation of an annual minimum wage salary assuming work is done 52 weeks a year and a 40 hour work week.


22 http://nlihc.org/sites/default/files/oor/2012-OOR.pdf

23 http://livingwage.mit.edu/counties/11001

24 http://livingwage.mit.edu/counties/39035

25 http://www.cepr.net/documents/publications/min-wage1-2012-03.pdf

26 http://www.bls.gov/data/inflation_calculator.htm - insert minimum wage’s nominal value of $1.60


34 http://www.epi.org/publication/studies_stmwp/
It's Time To Give Millennials A Raise

Low-wage jobs, as defined by the National Employment Law Project, are jobs with median hourly wages from $7.69 to $13.83.

Low wage is defined $10 per hour or less by the authors of Low-wage Workers Are Older and Better Educated than Ever from the Center for Economic and Policy Research

Publications:
- Economic Letter: 2013/February/Aggregate Demand State Level Employment
- Online Magazine: 2010/11/05/Study Long Term Unemployment
- Washington Post: 2013/03/04/59428/The High Cost of Youth Unemployment
- ThinkProgress: 2014/02/19/3306841/Gap Raising-Minimum-Wage-10/