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Title: SUBMINIMUM WAGE FOR YOUTH

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### I. BACKGROUND

Youth unemployment has long been a problem in the United States. For our minority youth, the problem has reached disastrous proportions. In April 1984, the Black youth unemployment rate was recorded at 40%, and Hispanic youth unemployment at 20%. The federal government has tried to address this problem with a variety of programs such as targeting 40% of funds under the Job Training Partnership Act (JTPA) for youth and providing tax credits to employers who give jobs to certain targeted groups via the Targeted Jobs Tax Credit.

The Reagan Administration has introduced the Youth Employment Opportunity Wage Act of 1984. The proposal would amend the Fair Labor Standards Act by allowing an employer to employ a youth under 20 years of age from May 1 through September 30 at a wage of not less than either 75% of the otherwise applicable minimum wage or \$2.50 per hour, whichever is less, without certification. This program would terminate on September 30, 1987, and thus the Administration considers it a "demonstration" effort.

The minimum wage was last raised in 1981 to \$3.35. However, due to inflation, \$3.35 today is worth only \$2.87 in 1981 dollars. In essence, therefore, a minimum wage of \$3.35 amounts to a subminimum wage because it falls well short of the figure necessary for maintaining the purchasing power it provided when it was enacted.

The National Council of La Raza (NCLR) cannot endorse the Administration's proposal for the following reasons:

- . The proposal should be a stipend and not a wage;
- . The proposal lacks a targeting and certification process;
- . The proposal should be limited to a few sites because the effects of the subminimum wage are not yet known;



- . The proposal lacks a limited application provision;
- . The proposal lacks an exemption for agricultural workers;
- . The proposal lacks a mechanism for independent evaluation which is essential for conducting a meaningful test of the concept; and
- . The proposal lacks strict enforcement procedures.

## II. ANALYSIS

### A. Stipend

NCLR believes that a subminimum wage sets an undesirable precedent. The proposal should be a stipend and not a wage. NCLR suggests calling it a "Job Opportunity Stipend." All efforts must be made to ensure that youths receive as much money as possible since they will be earning very little. Therefore, this stipend should not be subject to the withholding of Social Security payments. For the protection of working youth, the stipend should be subject to the withholding of Workmen's Compensation, but nothing else. The employer will benefit from this modification because he/she will save time (less record-keeping) and money (does not have to make any Social Security payments). In essence, the program will provide a work experience stipend with the employer paying the stipend.

### B. Certification

In an effort to ensure that disadvantaged youth, who are most likely to need special employment assistance, will be the targeted beneficiaries of the job-creating potential of the proposed project, youths must be certified as economically disadvantaged prior to being hired under the project. The certification criteria should be that of JTPA, which has several criteria for "economically disadvantaged." In the interest of coordination among state agencies, the Employment Service should be responsible for carrying out such certification. The employer may also identify a potential participant and send him/her to the Employment Service for certification.

### C. Limited Sites

An experiment can only be effective if it is adequately controlled. Therefore, this experiment should take place only in 25 to 50 cities or counties where the youth unemployment rate is highest.

### D. Limited Applicability

Youth should be subject to the opportunity stipend for only one summer. Since the intended effect of the effort is to create jobs and give work experience to youth, once youth have worked for one summer at this wage and have received some work experience, it should be easier for them to bridge the gap to regular employment. Furthermore, the proposal should only apply to youth 14 through 18 years of age. Otherwise, the program may simply lead to depressed wages for youth with job experience and skills.

### E. Exemption of Agricultural Workers

In 1978, agricultural workers earned the right to receive the minimum wage. Youth involved in agricultural work often have years of experience by the time they

are 16 or 17 years old. Thus, lack of work experience is not applicable in their case. The fact that migrant farmworkers work for several growers during one summer leads to an unusual scenario. For example, prior to May 1, a youth may work for a grower at minimum wage. Once his/her employment with that grower terminates, the youth is searching for employment once again. If the youth is looking for a job during the summer, under the current proposal he/she faces earning less than the minimum wage for the same work that he/she was previously doing at minimum wage. Thus, the legislation should specifically exclude agricultural workers.

#### F. Independent Evaluation

An independent evaluation entity should be contracted to assess the implementation and success/non-success of this initiative during its two-year implementation period. Questions that should be answered include:

- . How many jobs were created due to this initiative? In what fields?
- . How many of these new jobs went to minority disadvantaged youth?
- . Were there any substitution effects? If so, what kind and to what extent?
- . Did the experience lead to regular jobs for the participating youth?

This independent evaluation entity should monitor program implementation and report any problems promptly. An Interim Report should follow the end of the first summer, and a Final Report should be issued at the end of the project. In addition, a report from the General Accounting Office (GAO) should analyze this demonstration and report to the Congress so that the appropriate policy responses may be formulated.

#### G. Enforcement

The proposal should provide for a tight enforcement mechanism in which Department of Labor (DOL) inspectors will make field site inspections and investigate any substitution cases, either on their own initiative or in response to reports from the independent evaluation entity. Furthermore, if substitution does arise, the legislation must specify procedures to assure that these substitution cases will be litigated by the Department of Labor.

### III. CONCLUSION

The National Council of La Raza (NCLR) supports the efforts to improve job opportunities for minority and disadvantaged youth in the private sector. However, NCLR believes that the Administration's Youth Employment Opportunity Wage Act, as currently proposed, contains serious flaws which could lead to significant negative consequences for Hispanic adults and youth and other minorities. NCLR would support a carefully designed, targeted, limited experiment which involves a work experience stipend paid by employers to disadvantaged youth lacking prior job experience. This approach would be designed to test the basic assumptions behind the concept, and provide a better understanding of possible negative consequences. Since the current proposal does not have the characteristics NCLR deems essential, the Council must withhold its support.