# Youth Unemployment DA

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### Link

#### Literature consensus and the best economic models prove that higher minimum wages substantially increase unemployment in young workers.

#### GORRY 13 [Aspen Gorry, Scholar at the American Enterprise Institute and former economics professor at UC Santa Cruz, “Minimum Wages and Youth Unemployment”, Published by the American Enterprise Institute, July 31, 2013, DDA]

Youth unemployment is an important issue for economies around the world. The recent financial crisis and ensuing global downturn disproportionately impacted young workers. According to International Labour Organization (2013), youth unemployment worldwide peaked in 2009 at the highest level ever recorded and is nearing that peak again in 2013. In June 2010, the unemployment rate for young workers in the United States reached 20%. Jaimovich and Siu (2009) show that young workers account for the majority of employment fluctuations at business cycle frequencies. Additionally, early career outcomes are important to a worker’s development, and large cross country differences in employment outcomes are concentrated among young workers. This paper constructs a labor search model with worker experience that can replicate observed age patterns of unemployment. The model is then used to quantitatively assess the impact of minimum wages on unemployment rates for young workers with low levels of education. To replicate observed age patterns of unemployment, a standard labor search model is extended to include two types of workers: inexperienced and experienced. Young workers enter the labor market inexperienced and become experienced by working on the job. Experienced workers have higher average productivity and potentially different job finding and job separation rates that are targeted to match rates observed in data. Including minimum wages in the model constrains the Nash bargaining solution for inexperienced workers, preventing jobs at some productivity levels from being created and leading others to be established at the minimum wage. A novel finding is that minimum wages can have nonlinear effects on unemployment with low minimum wages not having large effects and high levels of minimum wages leading to large increases in unemployment. A key mechanism in the model is that inexperienced workers, who are typically young, are willing to take lower wages because employment gives them the possibility of gaining experience.2 The total surplus of a job includes both the value of their wage and the additional option value of experience. While investment in human capital is not treated as a decision, the effects of minimum wages are amplified as they prevent young workers from accepting low wage matches that allow them to gain skills in the labor market.3 This mechanism can also influence average unemployment for older workers as high minimum wages prevent individuals from gaining experience when young. To assess the quantitative importance of changes in the minimum wage on unemployment, the model features idiosyncratic productivity shocks for inexperienced workers and payroll taxes. It is important to include idiosyncratic productivity shocks so that changes in the minimum wage can influence the equilibrium job separation rate while payroll taxes have important interactions with the minimum wage level because they alter the firm’s cost of hiring a worker. The distribution of wages for young high school educated workers suggests that increases in the minimum wage could have substantial effects on unemployment. In 2006 the minimum wage in the U.S. was $5.15 per hour. In data from the Current Population Survey, 5.0% of 18-24 year old workers with a high school degree or less earned less than or equal to the minimum wage. The Fair Minimum Wage Act of 2007 increased minimum wages to $7.25 between 2007 and 2009. 28.9% of these young workers with low education earned less than $7.25 in 2006. European minimum wage levels are even higher. At the extreme, France had a minimum wage equivalent to $10.14 in 2006. In the U.S. that year, 72.1% of 18-24 year old workers with less than or equal to high school education earned less than that amount. Of course not all workers currently earning less than a new minimum wage level would become unemployed; if their productivity is high enough, firms may be able to adjust their wages to keep them employed. This paper uses an equilibrium model to understand the total effects of such changes in minimum wage policy. Simulating the effects of the Fair Minimum Wage Act, the model implies that the increase in minimum wages generated a 2.8 percentage point increase in the unemployment rate for high school educated workers between the ages of 15 and 24. One contribution of this approach is that the model disentangles the unemployment effects of the minimum wage changes from the overall increase in unemployment as a result of the recession. Between 2006 and 2010, unemployment for 15-24 year old workers with high school education increased by 3.3 percentage points more than the overall unemployment rate for individuals with high school education. The model implies that the increase in minimum wages accounts for 59.2% of this difference or 25.6% of the total increase in unemployment for 15-24 year old workers during this period when overall unemployment increased substantially.4 Finally, simulations of the model imply that if France reduced its minimum wage to levels in the U.S. its youth unemployment rate would decline substantially, nearly equaling that in the U.S. baseline simulation. Much of the macro-labor literature focuses on representative agent models that abstract from differences in labor market decisions over an individual’s life cycle.5 Including experience in a general equilibrium model is important to assess the effect of minimum wages on unemployment because the value of experience enters into the wage equation for inexperienced workers, changing the distribution of bargained wages. As a simple way to capture the returns to experience, experienced workers in the model have a high fixed productivity level, a lower rate of exogenous job separations, and are not subject to idiosyncratic productivity shocks that generate endogenous job separations.6 The model generates differences in employment outcomes by age because older workers are more likely to be experienced, making the basic framework ideal for evaluating the effect of policy on young workers. The way that minimum wages are modeled in this paper is closely related to recent search models that study the effects of minimum wages. Flinn (2006, 2010) studies the effects of minimum wages in a Mortensen-Pissarides equilibrium search environment and Rocheteau and Tasci (2008) study the effects of minimum wages in a variety of equilibrium search models. This paper follows Flinn (2006) by introducing minimum wages in a search model as a constraint on the Nash bargaining solution. His analysis is extended by considering a model where workers can improve their labor market outcomes by gaining work experience. As workers gain experience their wages increase and minimum wages become less binding. This implies that it is important to consider how minimum wages interact with experience accumulation as it can have equilibrium effects on the number of experienced workers.

#### He continues:

The empirical literature on minimum wages has looked at direct effects on unemployment, implications for the wage distribution, and future earnings of individuals who face high minimum wages. The model is consistent with empirical findings that minimum wages disproportionately harm young workers. Figure 4 shows the unemployment effects of minimum wages simulated from the model. The average unemployment rate by age is plotted in the baseline case where the minimum wage is at the U.S. levels in 2006 and for increases of 30%, 50%, and 70%. Given the baseline minimum wage level corresponds to $5.15 per hour, these increases correspond to hypothetical minimum wages of $6.70, $7.73, and $8.76. The effects of minimum wages are non-linear. As minimum wages rise, unemployment increases among young workers become more dramatic. The solid line depicts the unemployment rate in the model with minimum wages at the U.S. level. Raising the minimum wage by 30% has very little effect on unemployment while increases of 50% and 70% have increasing effects. Moreover, Figure 4 shows that the effects of a minimum wage are initially large and die out over time as workers gain experience. Higher levels of the minimum wage also generate differences in unemployment for older workers as it is harder for young workers become experienced. Table 3 shows the increase in the unemployment rate for each 10 year age band for various increases in the level of the minimum wage. From the simulated average unemployment rate of 11.8% for workers aged 15-24, the model predicts that a 30% increase in the minimum wage would only increase unemployment by 1.4 percentage points. Larger increases in the minimum wage of 50 and 70% increase unemployment for young workers by 4.5 and 15.4 percentage points respectively. Older workers are virtually unaffected by a 30% increase in the minimum wage while there are small effects for larger increases of the minimum wage that decline as workers age. The model helps explain the failure of some papers, such as Card and Krueger (1994), to find significant effects of minimum wage on employment. Since minimum wages are relatively low in the United States and have a non-linear effect on unemployment, it is unsurprising that small changes in the minimum wage might have insignificant effects. Larger increases in the minimum wage would be more likely to show up in higher unemployment rates. 4.3 Neumark and Nizalova (2004) document that exposure to high minimum wages at young ages has long-run effects. They show that exposure to high minimum wages at young ages implies that workers both work and earn less even into their late 20’s. Moreover, Keane and Wolpin (1997) show that human capital accumulation while on the job is important to understanding worker’s labor market decisions and outcomes. Missing skill accumulation early in life has long run implications for wage growth if the agent is unable to make up for the lack of skill accumulation while unemployed. The model can account for differences in wage outcomes as experienced workers have a higher reservation productivity level and earn higher wages than inexperienced workers. Workers who are exposed to high minimum wages early in life will have a lower probability of becoming employed and experienced. The left panel of Figure 5 presents the percentage of people who are experienced by age from the baseline model and the model with a 50% increase in the minimum wage. Under a higher minimum wage a worker is less likely to be experienced. The lower rate of experience shows up in higher rates of unemployment and lower wages later in life. The right panel of Figure 5 shows the effect of increasing minimum wages on the average wage of employed workers over their life cycle. The baseline model generates wages that grow from 0.86 to 1.6, slightly less than doubling between age 18 and 54. Wage growth mirrors the growth of the fraction of experienced workers, as wages grow most rapidly during the first 10 years of labor market participation then level off. In looking at the effects of an increase in minimum wages, young workers on average get slightly higher wages when employed, while older workers have on average lower wages. The higher wages for young workers come from the minimum wage itself while the lower wages for older workers come through workers having less experience. Both factors lead to a more compressed earnings profile by age. This section uses the model to evaluate the effects of changes to the minimum wage. First, the model is used to assess the effects of the Fair Minimum Wage Act of 2007. Second, the model is used to answer the counterfactual question of how much lower unemployment would be in France if it adopted the level of minimum wages and payroll taxes of the United States. The model can be used to calculate the extent to which observed differences in youth unemployment outcomes are explained by differences in minimum wages by simulating the model for each set of policy variables. For each set of parameters, the model is solved to generate job finding rates for inexperienced and experienced workers. These numbers along with job separation rates are used to simulate the model in continuous time. From the simulation, a worker’s employment status and experience are recorded at the end of each model period. For each specification, the model is simulated for 10,000 individual working careers. The data are then aggregated into annual data by age to make comparisons. 5.1. Fair Minimum Wage Act of 2007 The Fair Minimum Wage act of 2007 raised the minimum wage in the United States from $5.15 an hour to $7.25 an hour with three equally sized increases implemented between July 2007 and July 2009. While this large change in the minimum wage could have provided empirical evidence on the effects of minimum wage changes on unemployment, the recession and financial crisis that occurred over the same time period make it difficult to isolate the effects of the minimum wage. This section uses the model to compare predicted unemployment for the minimum wage level in 2006 with that in 2010 based on the observed increase in the minimum wage rate over that interval. Between 2006 and 2010, the unemployment rate for high school educated workers aged 15-24 went from 11.3% to 22.5% while the overall unemployment rate for high school educated workers increased from 5.5% to 13.4%. The increase in unemployment during the recession was disproportionately focused on young workers. The model is used to answer the question of how much of the increase in youth unemployment can be attributed to the change in minimum wages. This is done in two different ways. First, for each age group the percent of the change in the data that is accounted for by the model is computed. Second, because there were large increases in unemployment rates for all ages during the time period under consideration due to factors related to the great recession that are not accounted for by the model, the percentage of change in the unemployment rate for each group relative to the overall change in unemployment is computed. The simulation results are compared with observed unemployment outcomes in Figure 6. The figure shows that during the Great Recession there was a large increase in unemployment for each of the 10 year age bands under consideration in the US between 2006 and 2010. The increase in the unemployment rate was slightly larger for 15-24 year old workers and was smaller for the older age groups. The black dashed line shows the baseline simulation for the model parameterized to match unemployment rates for workers in 2006. The baseline does a good job of matching the age pattern of unemployment for that year. The figure also shows the increase in unemployment in the model from the increase in minimum wages between 2007 and 2009. The dashed line shows that the minimum wage increase led to an increase in unemployment from 11.8% to 14.6% for 15-24 year old workers and smaller increases for the other age groups. While not accounting for the majority of the increase in unemployment during the recession, minimum wages can account for a substantial portion of the increase in unemployment observed for young workers between 2006 and 2010. Solving the model under the new, higher level of the minimum wage for the baseline parameterization generates an aggregate unemployment rate of 7.7% compared with 6.9% in the baseline. The unemployment rate for 15-24 year-old workers increases by 2.8 percentage points from 11.8% to 14.6%. This 2.8 percentage point increase implies that minimum wages account for 25.6% of the 11.1 percentage point increase in unemployment rate observed in the U.S. data between 2006 and 2010. Alternately, the unemployment rate increased by 3.3 percentage points more for 15-24 year old workers than overall (from 11.3% to 22.5% compared to from 5.5% to 13.4%). The model generates a 2.0 percentage point increase in unemployment for 15-24 year old workers beyond the overall increase in unemployment. This implies that the model accounts for nearly 60% of the excess increase in youth unemployment during this period. Table 4 presents the results from the simulated model with each target for the fraction of experienced workers and computes the amount of the changes in unemployment that can be accounted for by the model for each age group. The percent of total changes explained is smaller for the older age groups as minimum wages have smaller effects on unemployment rates for older workers but unemployment increased for all groups. However, controlling for relative changes in unemployment compared to the total, the model accounts for a more sizable share of changes in unemployment for older groups. Table 4 also shows results for different targets of the share of experienced workers in the steady state model. With a target of 0.75 the changes in minimum wages generate larger increases in unemployment, accounting for 31% of the total increase and 71.4% of the relative increase in unemployment for 15-24 year old workers. When the model is targeted to have a share of experienced workers of 0.85 the effects of increased minimum wages are slightly smaller accounting for 19.5% and 50.7% percent of the total and relative changes in unemployment respectively for 15-24 year old workers. In all three parameterizations there is a substantial increase in the unemployment rate of young workers ranging from 2.2 to 3.4 percentage points. The robustness section in the appendix shows that these substantial changes in unemployment rates for young workers are robust to changes in the parameterization of the model. The model can also be used to assess the effects of cross country differences in minimum wages on unem- ployment outcomes. Significant attention has been paid to explaining large discrepancies in unemployment between the U.S. and Europe. Differences in unemployment rates across countries are concentrated among young and old workers. However, much of the research on cross country unemployment rates focuses on older workers. Minimum wages complement other explanations such as unemployment benefits, taxes, struc- tural change, and firing costs. While these other explanations generate level differences in unemployment, this paper contributes to the literature on European unemployment by showing that minimum wages help account for unemployment rates of young workers. France has among the highest minimum wages and payroll taxes found in Europe, making it a good country to study for comparison with the U.S. Converting French minimum wages to their value in U.S. dollars in 2006 gives a French minimum wage of $10.14 per hour. Payroll taxes in France are 17.6% compared to 8.2% in the U.S. To conduct the simulations, the model is re-parameterized to account for lower job finding and job separation rates found in France. Worker flows are much higher in the U.S. than in many European countries. For instance, Elsby et al. (2013) find an average monthly job separation rate of 3.6% in the U.S. compared with 0.8% in France, and Cohen et al. (1997) find that there are much lower job loss rates among French workers. Since France has lower average job separation rates than the U.S., workers can gain experience even with a very low job finding rate. To compute rough estimates of job finding and job separation rates, OECD data on Labor Force Statistics by Sex and Age are used.14 First, the implied separation rates based on the OECD reported average duration of unemployment for 15-24 year old workers of 6.7 months and for 25-54 year old workers of 12.8 months are used to construct targets for job finding rates for inexperienced and experienced workers respectively. These values imply job finding rates of 0.15 and 0.078 for inexperienced and experienced workers. Using the identity that relates the steady state unemployment rate to job finding and separation rates, u∗ = s , means that the separation rates can be computed using unemployment rates s+f for each group. Average unemployment rates for 15-24 and 25-54 year old French workers between 1983 and 2007 are 22.7 and 8.5% respectively. Using these values, the implied separation rate targets for inexperienced and experienced workers are 0.044 and 0.007. As there are not separate targets for French wage data, the following steps are taken to parameterize the model and assess the changes in unemployment that would arise from France adopting the level of minimum wages and payroll taxes found in the U.S. First, the model is parameterized with the same targets as in the U.S. baseline case to fix the values of σ, ye, α, b, and w ̄. Next, keeping those parameters fixed, the model is solved to target the levels of job finding and separation rates in France with the minimum wages and payroll taxes set to levels observed in France and no productivity shocks for young workers (λ = 0). This generates the baseline simulation for France. Finally, the model is solved again using the parameters in the French baseline with policy parameters set to the U.S. level. With the lower job finding and job separation rates found in France, the U.S. levels of minimum wages and payroll taxes mean that the minimum wage no longer binds in the model (but unemployment is still higher than in the U.S. baseline). This means that another way to interpret the policy simulation is that it shows the effects of France eliminating their minimum wage. The results from both simulations along with the original baseline simulation are presented in Figure 7. The baseline simulation for France has higher unemployment rates for young workers at 21.5 percent for those aged 15-24 and 12.3 percent for those aged 25-34 and eventually dropping to 8.8 percent for those aged 45-54. The figure shows that when the model with French job finding and separation rates is solved with U.S. levels of policy parameters, the unemployment rates for young workers are substantially lower with slight reductions in unemployment for older ages. Indeed, the level of unemployment for 15-24 year old workers declines to 12.2 percent, nearly as low as the 11.8 percent in the baseline US simulation. The unemployment rates for older ages remain higher to be consistent with the worker flow data in France. To get a better sense of the magnitude of the results, Table 5 shows the unemployment rates from each simulation along with data from the OECD Labor Force Statistics by sex, age, and educational attainment for workers with below upper secondary education by age group for France and the United States in 2006. Even though the educational groupings are slightly different than those used in the baseline parameteri- zation, the data provide comparable measures of unemployment across countries. The OECD only reports unemployment outcomes by age group for workers aged 25 and above. Unemployment rates in both countries are higher among young workers with low levels of education at 20.2% for France and 11% for the U.S. While both countries show large declines in unemployment rates as workers age, about 8% of prime aged males in France are still unemployed compared with about 6% in the U.S.15 Table 5 shows the results for the model simulations, first reproducing the baseline simulation for the U.S. in 2006, then showing the baseline simulation for France and the simulation for France with U.S. policy parameters. The results of the simulations show that reducing the minimum wage to U.S. levels (where it does not bind in the model) would lead to substantial reductions in unemployment in France, especially for young workers. To get a better sense of the magnitude of these declines, the table shows calculations of the percent of the difference in unemployment rates between France and the U.S. that can be accounted for by the model. The results indicate that the reduction of minimum wages and payroll taxes to U.S. levels can account for 42.0, 57.0, and 39.4 percent of the observed differences in unemployment rates for workers aged 25-34, 35-44, and 45-54, respectively. Finally, the Table 5 reports the percent of the difference in unemployment rates between the baseline France simulation and the baseline U.S. simulation accounted for by reducing minimum wages and payroll taxes in the model. This comparison is reflected in the simulations presented in Figure 7. In this case, the reduction in minimum wages accounts for over 95 percent of the difference in unemployment between the baseline simulations for France and the U.S. The percentage explained declines steadily with age before reaching 22.6 percent for 45-54 year old workers. The reduction in minimum wages and payroll taxes can account for 42.4 percent of the difference in steady state outcomes between the simulations. Overall, the results suggest that minimum wages play a major role in driving up unemployment rates for young French workers, and reducing or eliminating them could bring down youth unemployment rates in France close to U.S. levels. However, such policy changes are unlikely to change overall worker flows across countries so substantial differences in unemployment remain among older workers. This paper constructs a labor search model that accounts for early life cycle changes in unemployment and explores the effects of minimum wages. The model shows that the interaction of experience and minimum wages can generate large increases in the unemployment rate for young workers. While the interaction of minimum wages with optimal human capital accumulation has been recognized at least since Rosen (1972), this paper applies such a distortion to a dynamic general equilibrium setting. Inexperienced workers are unable to pay for their training through reductions in their wages. To gain experience, they must maintain employment in a segment of the labor market characterized by high job separation rates. The equilibrium model is used to understand the effects of minimum wages on the aggregate labor market. The model is used to assess the effects of recent minimum wages increases in the U.S. and to compare cross-country outcomes between the U.S. and France. The model predicts that the U.S. minimum wage increases between 2007 and 2009 increased unemployment for 15-24 year old workers by 2.8 percentage points. This increase accounts for 25.6% of the increase in youth unemployment for high school educated workers between 2006 and 2010 and almost 60% percent of the increase in the unemployment for this group compared to the overall increase in unemployment. Moreover, parameterizing the model to French levels of worker flows implies that if France reduced its minimum wages and payroll taxes to U.S. levels, it would generate substantial reductions in their unemployment rate, especially for young workers.

### Impact- Poverty/Long-term Unemployment

#### Even brief unemployment spells for young people can lead to lower wages and lower chances of employment years later.

#### MROZ AND SAVAGE 01 [Dr. Thomas A. Mroz and Dr. Timothy H. Savage, UNC Chapel Hill and Welch Consulting Economists, Published by the Employment Policies Institute (The Employment Policies Institute (EPI) is a non- profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment), October 2001, DDA]

Early unemployment delays gains in experience and training that usually lead to increased earnings. Prior work experience has been found to have a large and positive effect on future earnings, which is disrupted by an unemployment spell. A 13-week unemployment spell last year reduces wages this year by 3.4%, or about $900 (in 1993 dollars) for a full-time employee. A similar unemployment spell as long as four years ago reduces average hourly earnings by over 1%. At full-time in 1993, this amounted to over $300. A six-month unemployment spell experienced as long as four years ago reduces wages by 2.3%, equivalent to forgoing about one-quarter of a year of schooling. Past Unemployment and Future Unemployment In addition to suffering from lower wages after experiencing an unemployment spell, many are subject to increased likelihood of future unemployment. Not only do they have higher chances of being unemployed, but also those spells are shown to be longer for those who were previously unemployed. Those previously unemployed as long ago as four years have a higher probability of being unemployed in the present year. A 13-week unemployment spell last year increases the duration of a contemporaneous unemployment spell by over 1.5 weeks annually. A term of unemployment last year decreases annual hours worked this year by approximately 5 hours annually for every week unemployed.

#### They continue:

The results produced by Drs. Mroz and Savage show that policies causing youth unemployment (even unintentionally) lead to tougher roads for those youths that are most vulnerable. Those experiencing unemployment at an early age have years of lower earnings and an increased likelihood of unemployment ahead of them. Policies that may cause job loss can inadvertently lead to decreased wages, increased chances of unemployment and longer future unemployment spells for the most vulnerable.

#### Strong future unemployment effect.

#### MROZ AND SAVAGE 01 [Dr. Thomas A. Mroz and Dr. Timothy H. Savage, UNC Chapel Hill and Welch Consulting Economists, Published by the Employment Policies Institute (The Employment Policies Institute (EPI) is a non- profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment), October 2001, DDA]

Like many previous studies, here we examine how the duration of prior unemployment affects the incidence and duration of future unemployment. In general, the literature shows that controlling for unobserved heterogeneity greatly reduces measured persistence in unemployment. The evidence presented here generally supports that particular finding. Many of these previous studies also find that no persistence remains after the use of controls for unobserved heterogeneity. This study disagrees with that finding. We find that there is strong and statistically significant evidence of persistence in unemployment. Table 4 displays estimates of the effects of prior unemployment on the probability of experiencing unemployment and on annual weeks of unemployment. Unemployment as long as four years ago has a positive and significant effect on the likelihood of a contemporaneous spell of unemployment. This effect is quite pronounced for the first lag. In terms of a relative effect, it is equivalent to a 2.7088 (0.4582) percentage-point increase in the local unemployment rate.45 There is over a 22-fold decrease in this effect after the first year. By the second lag, the effect is equivalent to a mere 0.1205 (0.0637) percentage-point increase in the local unemployment rate. By the fourth lag, the relative effect has all but vanished: 0.1125 (0.0613). This lag structure indicates that the effect of contemporaneous unemployment on the probability of experiencing future unemployment is initially very large and significant. This effect then fades very rapidly. The positive effect of prior unemployment on the duration of a current spell is quite short- lived but significant.46 A 13-week spell experienced last year increases the duration of a contemporaneous unemployment spell by over 1.5 weeks annually.47 With OLS regressions of cur- rent unemployment on prior unemployment, Ellwood (1982) finds strong evidence of state dependence in weeks of unemployment. With the use of FE specifications, however, he finds that all evidence of state dependence vanishes upon controlling for unobserved heterogeneity. In this study, the OLS and FE estimates are qualitatively similar to those in Ellwood’s study: 0.2402 (0.0087) and 0.0212 (0.0132), respectively. The OLS estimate indicates strong persistence, while the use of an FE specification eliminates all persistence. This inference is due to a large decrease in the point estimate (over a 90 percent decline in the point estimate). Given the standard error of this FE estimate, however, one cannot exclude the possibility of considerable persistence in unemployment spells.

#### Youth unemployment harms future earnings

#### MROZ AND SAVAGE 01 [Dr. Thomas A. Mroz and Dr. Timothy H. Savage, UNC Chapel Hill and Welch Consulting Economists, Published by the Employment Policies Institute (The Employment Policies Institute (EPI) is a non- profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment), October 2001, DDA]

One of the most important measures of the long-term impact of youth unemployment is the effect of a spell on future earnings. Forgone work experience may reverberate throughout a young person’s life. Perhaps this is because each job leapfrogs into future employment, and early unemployment would delay some of the first jumps. It may also be because lost experience, as posited by dual labor market theorists, permanently tracks young people into jobs characterized by low wages and little room for advancement.48 Ellwood (1982), for example, finds that prior work experience has a large and positive earnings effect. Forgone experience, therefore, represents lost earnings. This observation is, in fact, the motivation for the theoretical model discussed earlier. Table 5 displays DFML estimates of the effects of prior unemployment on log average hourly earnings. This earnings equation, as with the others in this study, controls extensively for the observed human capital stock. Even with these controls, there is evidence that the impact of prior unemployment on earnings is rather more long-lived than previous studies have shown. The initial earnings effect of unemployment is large and quite precisely estimated. A 13-week unemployment spell experienced last year reduces wages by 3.4%.49 In terms of 2,000 hours worked at the average nominal wage rate in 1993, this is a reduction of nearly $900.50 A two-standard- error lower bound amounts to a 2.3% reduction in hourly earnings or over $600. A six-month spell experienced as long ago as four years reduces wages by 2.3%. To put this magnitude into con- text, this reduction is equivalent to forgoing one quarter of a year of school. As predicted by the theoretical model, the earnings effect of prior unemployment tapers off over time. Because it fully disappears after four years, the impact of unemployment on earnings is not permanent, as suggested by a scar analogy. The magnitude and duration of this effect, however, make it much more than a simple blemish. Unemployment experienced by a young man today will depress his earnings for several years to come. Ideally, one would also like to obtain the effect of reduced human capital on earnings. If the theoretical model is correct and one could perfectly observe the human capital stock, there would be no independent effect of prior unemployment on earnings. The results presented here do not include this additional avenue for how unemployment can reduce earnings. In future extensions of this work, we will simulate the change in the human capital stock due to unemployment in order to obtain the “total” earnings effect. Given the evidence of a rational catch-up response, a crucial result would be whether this total earnings effect is smaller than the effects presented here. It is important to note that the negative earnings effect of prior unemployment remains after extensive controls for the observed (and potentially endogenous) human capital stock. At first glance, this effect suggests that unemployment does not simply represent forgone human capital, as suggested by dual labor market theorists. There is a more plausible argument, however, for the magnitude and duration of this earnings effect. The human capital variables used in this study are imperfect measures of young men’s human capital stock. The “residual” earnings effect that we find could be capturing these imperfectly measured human capital variables.

#### Youth unemployment causes long-term poverty and joblessness- multiple studies prove.

#### KARAIM 12 [Reed Karaim, Journalist and author who has written for National Geographic, Smithsonian, Congressional Quarterly Researcher, Architect, US News and World Report, and other publications. He won the Robin Goldstein Award for Outstanding Regional Reporting among other journalism honors, “Youth Unemployment: Are High Youth Jobless Rates Creating A “Lost” Generation?”, CQ Global Researcher, Volume 6, Number 5, Pages 105-128, March 6, 2012, DDA]

Analysts say the high unemployment rates for young people do not capture the full extent of the problem, because large numbers of young people have stopped looking for work. In a report on youth employment, the ILO suggested the situation could lead to a “ ‘lost generation’ made up of young people who detach themselves from the labour market altogether.” And even those who eventually find work can suffer lasting consequences, the study said. “Numerous studies show how entering labour markets during recession can leave permanent scars on the generation of youth affected.” 9 The report touched off a wave of international commentary about the possibility that the lives of today’s jobless youths could be permanently blighted. A delayed entry into the job market or a sustained period of un- employment early in someone’s working life can have long-term consequences, which economists call “scarring.” Scarring occurs because wages rise for most people as they gain experience and seniority. Being unable to find work at the beginning puts people behind in their career track. “They will have lost precious time. Their skills will have depreciated. They’re likely to have to accept jobs below their qualifications,” says Glenda Quintini, an economist with the Organisation for Economic Co-operation and Development (OECD), a Paris-based coalition of 34 developed nations that works to promote democracy and free markets. According to a British study, people who were unemployed for a year before age 22 were still earning 12 to 15 percent less — 20 years later — than they would have been earning if they’d not been unemployed. Shorter bouts of unemployment resulted in a smaller wage scar, but repeated periods of joblessness early in life had a cumulative effect that persisted for decades. 10 “There are definitely going to be long-term consequences,” Quintini says of the current rates of youth unemployment in many OECD nations.

### Impact- Crime/Political Instability

#### Global youth unemployment is on the rise now- if the issue isn’t addressed, youth unemployment will cause crime and political instability.

#### KARAIM 12 [Reed Karaim, Journalist and author who has written for National Geographic, Smithsonian, Congressional Quarterly Researcher, Architect, US News and World Report, and other publications. He won the Robin Goldstein Award for Outstanding Regional Reporting among other journalism honors, “Youth Unemployment: Are High Youth Jobless Rates Creating A “Lost” Generation?”, CQ Global Researcher, Volume 6, Number 5, Pages 105-128, March 6, 2012, DDA]

Across the globe, the economic crisis has led to soaring youth unemployment — above 50 percent in Spain, nearly that high in Greece and above 30 percent in many other countries. The crisis also has exacerbated already-high levels of youth unemployment in the Middle East and North Africa, where frustrated, unemployed college graduates were at the forefront of last year’s Arab Spring revolutions. Angry, jobless youths have taken to the streets in other countries, as well, including the U.K. Countries are grappling with the problem, but solutions remain elusive. Youth unemployment is seen both as a matter of demographics — disproportionately higher numbers of young people in many countries — and structural problems in labor markets, such as laws protecting older workers’ jobs. Many observers believe if the issue isn’t addressed, further upheavals will occur, while others worry that the world could be facing a “lost generation” of discouraged workers whose earnings will be diminished for decades. The line of hopeful South Africans stretched for more than a mile. Many of the thousands standing out- side the University of Johannesburg in January had come long distances and been waiting since the middle of the night. But when the campus gate finally opened, the crowd surged forward so violently that a woman was trampled to death; several others were seriously injured. In a country with a youth unemployment rate of 70 percent, the chance to get one of a few hundred openings at a South African public university is intensely competitive. For the prospective students — many accompanied by their parents — who rushed the gate, a college education is a crucial requirement for getting a decent job. 1 The incident capped a year in which the frustrations of young people were on display from Tahrir Square in Cairo to the streets of Athens, Madrid and London. With youth unemployment stuck at staggering levels in many countries, finding work for an ever-growing number of jobless youths has become a pressing international issue, with economic prosperity, regime survival and social stability at stake. While the average unemployment rate for people ages 15 to 24 stood at 12.6 percent worldwide in 2011, it was much higher in some individual countries, according to the International Labour Organization (ILO). The latest statistics for Spain and Greece, for instance, show youth joblessnessrates of about 50 percent, and parts of the Middle East and North Africa had rates of more than 30 percent. 2 In both Europe, with a rate of 20.9 percent, and the United States, with an 18.4 percent rate, youth unemployment was about double the overall levels of joblessness. 3 (See graph, p. 113.) The difficulties facing young people looking for work are so severe that analysts describe the prospect of “a lost generation,” whose delayed entry into the job market will leave them far behind, even after the world economy recovers. 4 But experts disagree on how closely youth unemployment can be tied to social unrest. (See “At Issue,” p. 121.) Most analysts see at least some link. “There is a demonstrated link between youth unemployment and social exclusion that can translate into political and social instability,” says Susana Puerto Gonzalez, officer- in-charge of the Geneva- based Youth Employment Network, a joint effort by the World Bank, ILO and United Nations to promote jobs for young people. “The inability to find employment creates a sense of uselessness and idleness that can trigger crime, mental health problems, violence and conflicts.”

#### High youth unemployment leads to violence and political instability.

#### URDAL 12 [Henrik Urdal, SENIOR RESEARCHER, PEACE RESEARCH INSTITUTE, OSLO, NORWAY, AND RESEARCH FELLOW, HARVARD KENNEDY SCHOOL, “Does high youth joblessness lead to political instability?”, Written for CQ Global Researcher, March 2012, DDA]

When Tunisian vegetable vendor Mohamed Bouazizi self-immolated in December 2010, he set fire to a movement that transformed the Arab world. Frustrated young people — like the underemployed 26-year old Bouazizi — fueled the Arab Spring with their rage against un-democratic governments whose failed policies have created some of the world’s highest youth joblessness rates. Demography links youth unemployment to political instability. Statistical studies indicate that exceptionally large youth populations — or “youth bulges” — are associated with an elevated risk of armed conflict and other forms of instability. Studies also have shown that large youth bulges experience higher rates of joblessness, on average, than smaller ones. And when the labor market cannot absorb a sudden surplus of young job seekers, a large pool of unemployed youths will generate high levels of frustration that could morph into protest movements or rebel organizations. What can governments do to avoid instability in the face of youth bulges? Notably, a plentiful youth population can be a demographic bonus, given the right conditions. For instance, large youth bulges accounted for a third of the miraculous economic growth of the “Asian Tiger” economies of South Korea, Taiwan and Singapore. The bonus opportunity arises as fertility declines, if that decline is accompanied by stable political conditions and the availability of educated workers. Governments often respond to youth bulges by expanding education, which works, to some degree. An empirical analysis of 120 countries over 40 years showed that boosting secondary education significantly lowered a country’s risk that a youth bulge would ignite conflict. But expanding education also can lead to “elite overproduction” if such expansion is not matched by job opportunities. The result can be a large group of politically and economically alienated but highly mobilizable youth. Arguably, that may have contributed to last year’s Arab Spring, since the most educated Arab youths experienced the highest unemployment rates. Youth bulges will continue to challenge frail governments. In troubled countries such as Afghanistan, Yemen and the Palestinian areas, the number of youth ages 15 to 24 will grow by more than 40 per cent over the next 10 years. Providing greater economic opportunities to youth will not only build the economy of these countries but also significantly reduce the risk of political instability.

#### Weak states breed terrorism, international crime, weapons proliferation, and regional instability.

#### WYLER 08

[Liana Sun Wyler, August 28, 2008 Analyst in International Crime and Narcotics Foreign Affairs, Defense, and Trade Division. “Weak and Failing States: Evolving Security Threats and U.S. Policy” Congressional Research Service]

Analysts identify numerous links between weak and failing states and transnational security threats, ranging from terrorism and nuclear proliferation to the spread of infectious diseases, environmental degradation, and energy security. U.S. national security documents generally address weak states in relation to four key threat areas: (1) terrorism, (2) international crime, (3) nuclear proliferation, and (4) regional instability. Other analysts caution, however, that despite anecdotal evidence supporting a potential nexus between state weakness and today’s security threats, weak states may not necessarily harbor U.S. national security threats. Furthermore, the weakest states may not necessarily be the most significant threats to U.S. national security; relatively functional states, characterized by some elements of weakness rather than complete state collapse, may also be sites from which threats can emerge Terrorism. According to several analyses, weak and failing states are perceived as “primary bases of operations” for most U.S.-designated foreign terrorist organizations, including Al Qaeda, Hamas, Hezbollah, Islamic Jihad, and Jaish-IMohammed. Terrorists can benefit from lax or non-existent law enforcement in these states to participate in illicit economic activities to finance their operations and ease their access to weapons and other equipment. As with Afghanistan in 2001, weak and failing states can also be ideal settings for terrorist training grounds, when the host country’s government is unable to control or govern parts of its territory. States mired in conflict also provide terrorists with opportunities to gain on-theground paramilitary experience. Researchers find, however, that not all weak states serve as safe havens for international terrorists. Terrorists have been known to exploit safe havens in nonweak as well as weak states. The Political Instability Task Force, a research group commissioned by the Central Intelligence Agency, found in a 2003 report that terrorists operate in both “caves” (i.e., failed states, where militant groups can exist with impunity) and “condos” (i.e., states that have the infrastructure to support the international flow of illicit people, funds, and information). The preference for “condos” suggests that countries most devoid of functioning government institutions may sometimes be less conducive to a terrorist presence than countries that are still weak, but retain some governmental effectiveness.15 International Crime. As with terrorist groups, international criminal organizations benefit from safe havens that weak and failing states provide. According to the U.S. Interagency Working Group report on international crime, weak states can be useful sites through which criminals can move illicit contraband and launder their proceeds, due to unenforced laws and high levels of official corruption.16 Since the Cold War, the international community has seen a surge in the number of transnational crime groups emerging in safe havens of weak, conflict-prone states — especially in the Balkans, Central Asia, and West Africa. Criminal groups can thrive off the illicit needs of failing states, especially those subject to international sanctions; regimes and rebel groups have been known to solicit the services of vast illicit arms trafficking networks to fuel deadly conflicts in countries such as Afghanistan, Angola, Liberia, Sierra Leone, and Sudan when arms embargoes had been imposed by the United Nations and other members of the international community.17 Links between transnational crime and terrorists groups are also apparent: Al Qaeda and Hezbollah have worked with several criminal actors, ranging from rebel groups in the West African diamond trade to crime groups in the Tri-Border region of Argentina, Brazil, and Paraguay, among others.18 In 2008, a U.S. Drug Enforcement Administration (DEA) official stated that at least 19 of 43 Foreign Terrorist Organizations (FTOs) listed by the State Department have established links to drug trafficking.19 Some researchers contend, however, that the weakest states are not necessarily the most attractive states for international criminals. This may be because some illicit transnational groups might be too dependent on access to global financial services, modern telecommunication systems, transportation, and infrastructure that do not exist in weak states. Researchers also find that some forms of international crime are more associated with weak states than others. Narcotics trafficking and illicit arms smuggling, for example, often flow through weak states. However, other types, such as counterfeiting and financial fraud, may be more prevalent in wealthier states.20 Weapons Proliferation. Weak and failing states, unable or unwilling to guarantee the security of nuclear, chemical, biological, and radiological (CBRN) materials and related equipment, may facilitate underground networks that smuggle them. Endemic corruption and weak border controls raise the possibility of these states being used as transshipment points for illicit CBRN trafficking. Porous international borders and weak international controls have contributed to 1,080 confirmed nuclear and radiological material trafficking cases by member states from 1993 to 2006, according to the International Atomic Energy Agency.21 The majority of smuggled nuclear material reportedly originates in Central Asia and the Caucasus where known stockpiles are said to be inadequately monitored.22 Other sources of concern include poorly secured materials in research, industrial, and medical facilities. A relatively new region of concern for the United States is Africa, where more than 18% of the world’s known recoverable uranium resources exist. Lax regulations, weak governments, and remotely located mines that are difficult to supervise combine to make the removal and trafficking of radioactive substances in Africa “a very real prospect.”23 Analysts also contend that while the potential for weapons of mass destruction (WMDs) trafficking through weak states is considerable, most weak states may be unlikely destinations for smuggled WMD devices. Such equipment requires a certain level of technological sophistication that may not exist in some weak and failing states.24 Regional Instability. According to recent research, states do not always become weak or failed in isolation — and the spread of instability across a region can serve as a critical multiplier of state vulnerability to threats. Instability has a tendency to spread beyond a weak state’s political borders, through overwhelming refugee flows, increased arms smuggling, breakdowns in regional trade, and many other ways.25 The National Intelligence Council acknowledges that state failure and its associated regional implications pose an “enormous cost in resources and time” to the United States.26

### Impact- Health

#### Youth unemployment leads to long term mental and physical harms to workers and causes large economic losses for the overall economy.

#### KARAIM 12 [Reed Karaim, Journalist and author who has written for National Geographic, Smithsonian, Congressional Quarterly Researcher, Architect, US News and World Report, and other publications. He won the Robin Goldstein Award for Outstanding Regional Reporting among other journalism honors, “Youth Unemployment: Are High Youth Jobless Rates Creating A “Lost” Generation?”, CQ Global Researcher, Volume 6, Number 5, Pages 105-128, March 6, 2012, DDA]

But as the global economic downturn drags on in Europe and elsewhere, some fear that when employers finally do return to hiring they will look toward the newest crop of graduates, bypassing those with lengthy periods of unemployment or a series of “make-do” jobs on their resumes. “There is some concern they will be skipped over,” notes ILO economist Elder. That’s what happened in Japan, which experienced rising youth un- employment in the 1990s and early 2000s. 11 In effect, many employers chose to start fresh with unscarred young workers. And even if they return to the job force, workers may be “lost” as fully productive members of society in others ways. Studies show that prolonged joblessness can have long-term mental health and even physical implications. A study in the 1980s found that many of the formerly unemployed suffered lingering feelings of failure and doubts about their abilities, which persisted after they returned to work. 12 “The long-term scars of unemployment can be cruel, particularly as regards mental health, confidence and assertiveness,” says Gonzalez, at the Youth Employment Network. Unemployment also can affect life expectancy. A study of workers who lost their jobs in the 1970s and ’80s found that they had a lower life expectancy, and the impact was greater for young unemployed workers. 13 Other researchers say the mental-health impact of unemployment has been overstated and that even those who are unemployed for a lengthy period usually recover over time. 14 “In fact, most people cope well with this event and report few long-term effects on their overall well-being,” said lead author Isaac Galatzer-Levy, a psychiatric researcher now at the New York University Langone Medical Center. 15 However, Galatzer-Levy and his col- leagues confined their study to the un- employed who were at least 21 years old. Younger people, they found, responded more poorly to not being able to find work. In any case, lasting effects limiting the ability of younger workers to realize their full potential in life have ramifications that go beyond their individual struggles, say several analysts. “You can imagine that there’s a generation of young people in some countries that is scarred in this way, and that’s very expensive for all of us,” says Mattias Lundberg, senior economist in the Human Development Net- work at the World Bank. “If we have to sacrifice the economic gains from productive employment of young people, that’s an enormous loss to the entire country.”

## 2NR

### Link Wall

#### Best studies prove substantial youth unemployment

#### NEUMARK AND WASCHER 03 [David Neumark and William Wascher, eumark is Senior Fellow, Public Policy Institute of California, Professor of Economics at Michigan State University, and Research Associate of the NBER. Wascher is Assistant Director in the Division of Research and Statistics at the Board of Governors of the Federal Reserve System, “MINIMUM WAGES, LABOR MARKET INSTITUTIONS, AND YOUTH EMPLOYMENT: A CROSS-NATIONAL ANALYSIS”, March 2003, DDA]

We have attempted to exploit the substantial differences across countries in minimum wage laws and other labor market policies and institutions to obtain new estimates of the employment effects of the minimum wage. Although reference is often made to the importance of such differences in explaining labor market outcomes across countries, there have been relatively few studies that attempt to test such propositions directly. Using a panel data approach similar to recent studies that exploit regional or industry differences within a country, we investigate the role that minimum wages play in determining youth employment rates in 17 industrialized countries, and how labor market policies and institutions influence minimum wage effects. In general, our results provide evidence that minimum wages tend to reduce employment rates among the youth population. A clear negative correlation between the level of the minimum wage and youth employment-to-population ratios appears both in the raw data, and in time-series cross-section regressions relating employment rates to minimum wages, with controls for overall economic conditions and cross- country variation in labor market policies and institutions. The disemployment effects also appear in models that control for country-specific factors (including country-specific time trends), indicating that the results are not solely driven by cross-country differences in minimum wage levels and youth employment rates.

#### Studies of US economic data over the past 45 years proves that consistently spikes in minimum wage coincide with spikes in youth unemployment

#### MATTHEWS 12 [Merrill Matthews, Merrill Matthews, Ph.D., is a resident scholar with the Institute for Policy Innovation, a research-based, public policy “think tank.” He is a health policy expert and weekly contributor at Forbes.com. He also serves as Vice Chairman of the Texas Advisory Committee of the U.S. Commission on Civil Rights. Dr. Matthews is a past president of the Health Economics Roundtable for the National Association for Business Economics, the largest trade association of business economists. Dr. Matthews also served for 10 years as the medical ethicist for the University of Texas Southwestern Medical Center’s Institutional Review Board for Human Experimentation, and has contributed chapters to several books, including Physician Assisted Suicide: Expanding the Debate and The 21st Century Health Care Leader and, in 2009, Stop Paying the Crooks (on Medicare fraud). He has been published in numerous journals and newspapers, including The Wall Street Journal, Investor’s Business Daily, Barron’s, USA Today, Forbes magazine and the Washington Times. He was an award-winning political analyst for the USA Radio Network. Dr. Matthews received his Ph.D. in Humanities from the University of Texas at Dallas, “The Correlation Between Minimum Wage Increase and Youth Unemployment”, The Institute for Policy Innovation, March 4, 2012, DDA]

Minimum wage-increase critics assert that arbitrarily hiking the cost of labor has its largest negative impact on the least skilled workers, which tend to be younger people just entering the workforce. If that’s true, we should be able to see some correlation between U.S. minimum wage increases and a rise in youth unemployment—and we do. The accompanying Federal Reserve Bank of St. Louis graph tracks youth unemployment since 1970. According to the Bureau of Labor Statistics, Congress increased the minimum wage, which had been $1.60, in 1974 ($2.00), 1975 ($2.10) and 1976 ($2.30). Congress skipped 1977 and started a run of four successive years: 1978 ($2.65), 1979 ($2.90). 1980 ($3.10) and 1981 ($3.35). Correspondingly, youth unemployment began rising in 1974. The next minimum wage increase came in 1990 ($3.80) and 1991 ($4.25). You will see on the graph that youth unemployment starts to rise in 1990 and peaks around 1992. There was a minimum wage increase in 1996 ($4.75) and 1997 ($5.15), but youth unemployment continued a several-year decline, making this increase the anomaly. The last minimum wage increase came in 2007 ($5.85), 2008 ($6.55) and 2009 ($7.25), and so did an increase in youth unemployment. Thus there is an identifiable correlation between minimum wage increases and rising youth unemployment. The 1996-7 anomaly is likely explained by strong economic growth, which can mitigate the damage normally caused by bad economic policies. Interestingly, every recession since 1970—the gray areas in the chart—was preceded by a rise in youth unemployment. Indeed, rising youth unemployment looks like a leading indicator of a coming recession. Now, correlation does not mean causation. There are a lot of factors that affect unemployment and recessions. But the minimum wage-increase/rising-unemployment correlation is so close that dismissing any connection, as Team Obama wants to do, is economic blindness or political spin.

### AT- Alt Causes

#### MROZ AND SAVAGE 01 [Dr. Thomas A. Mroz and Dr. Timothy H. Savage, UNC Chapel Hill and Welch Consulting Economists, Published by the Employment Policies Institute (The Employment Policies Institute (EPI) is a non- profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment), October 2001, DDA]

This research presents policy-relevant estimates of the effects of youth unemployment on labor market outcomes later in life. We jointly model the endogenous schooling, training and labor market decisions and outcomes of young men over time using a sample from the 1979 National Longitudinal Survey of Youth (NLSY). The econometric framework used in this study includes detailed controls for the endogeneity of a wide range of human capital behaviors, including prior unemployment.

### Prefer Mroz

#### My studies are better than past literature

#### MROZ AND SAVAGE 01 [Dr. Thomas A. Mroz and Dr. Timothy H. Savage, UNC Chapel Hill and Welch Consulting Economists, Published by the Employment Policies Institute (The Employment Policies Institute (EPI) is a non- profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment), October 2001, DDA]

The current literature on the long-term effects of youth unemployment contains many shortcomings. These include the use of small or non-random samples; the failure to control adequately for unobserved heterogeneity and endogeneity; insufficient time horizons to evaluate the full impacts of early unemployment; the imposition of unnecessarily restrictive statistical assumptions; and an absence of specific and meaningful policy conclusions.

This research addresses these deficiencies directly. It uses a large sample representative of the young male US population in 1979. The labor market, schooling and training decisions and outcomes of this sample are followed for 16 years. We jointly model and estimate these outcomes using a permanent/transitory error-components specification for unobserved determinants. This specification controls for the contaminating effects of unobserved heterogeneity and endogeneity. The estimates from this research can be used to gauge the long-term impacts of policies that affect the youth labor market.

### Mroz Methdology

#### MROZ AND SAVAGE 01 [Dr. Thomas A. Mroz and Dr. Timothy H. Savage, UNC Chapel Hill and Welch Consulting Economists, Published by the Employment Policies Institute (The Employment Policies Institute (EPI) is a non- profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment), October 2001, DDA]

Using the National Longitudinal Survey of Youth (NLSY) Drs. Mroz and Savage study young men and their labor market reactions over time. The NLSY tracked the employment, education and demographic status of young men from the ages of 14 to 19 beginning in 1979 through 1993. Several factors describing the sample workforce change as the sample ages. From 1979 to 1993 the percentage of the sample experiencing any unemployment during the year decreased from 30% to 19%. Annual hours worked increased from an average of 628 in 1979 to 2,026 in 1993. Not surprisingly, average level of education and training increased over time, while the number in school decreased steadily. These statistics all show that human capital increased steadily over the sample period for the average male of that age. The core subject of the research, however, is an examination of the effects of a period of unemployment on future employment.

## Extra

#### Empirics prove that minimum wage hikes significantly harm employment opportunities for teens and entry-level jobs.

#### ECONOMIC POLICIES INSTITUTE 10 [Economic Policies Institute, The Employment Policies Institute (EPI) is a nonprofit research organization dedicated to studying public policy issues surrounding employment growth. EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors nonpartisan research that is conducted by independent economists at major universities around the country, “New EPI Analysis Shows Teen Unemployment Rate Averages 32.7 Percent in Washington: At Seventh Highest in the Country, EPI Points to Consequences of Recession and Minimum Wage Hikes”, June 2010, DDA]

WASHINGTON, DC – A new EPI analysis of Bureau of Labor Statistics (BLS) data estimates that the average unemployment rate for teens in Washington was 32.7 percent as of April 2010 – the seventh highest in the country. Economists point to the consequences of the worst economic downturn since the Great Depression, and increases in state and federal minimum wages. BLS data also show that the overall unemployment rate in Washington was 9.1 percent in May 2010, from 9.3 percent in April 2010. “More than one in four teens in Washington is looking for work without success, and it’s not just because of the recession,” said Michael Saltsman, research fellow at the Employment Policies Institute. “This summer, minimum wage mandates are keeping teens from finding a job.” Economists confirm the harm caused by minimum wage hikes. Most recently, a study from Ball State University attributed the loss of 310,000 teen jobs to the 40 percent increase in the federal minimum wage between July 2007 and July 2009. By increasing labor costs, higher minimum wages force employers to raise prices or cut costs. Consumers pinched by the recession aren’t willing to pay a higher price, so employers cut back on customer service instead – meaning fewer hours and fewer opportunities for entry-level employees like teens. “It’s the least-skilled and least-experienced that are hit hardest as a result of increases in the minimum wage,” Saltsman continued. “They’re missing out on the valuable career skills that come from a first job.”

#### Higher minimum wages shut out young workers from the labor market—multiple studies prove.

#### COOPER 15 [Preston Cooper, contributor to Economics21, “Exemption from Minimum Wages Would Help Younger Workers”, Economics21, January 6, 2015, DDA]

The highest minimum wage for young people belongs to Washington State, which does not create an exemption for youth workers and subjects all employees in the state to the same minimum of $9.47 per hour. The unemployment rate for teenagers in Washington State was 31 percent in 2013, almost 10 percentage points higher than the national rate. In Washington and other states with high minimum wages, young aspiring workers are finding themselves shut out of the labor force. The link between higher minimum wages and youth unemployment is well-documented. A 2013 paper by Texas A&M University professors Jonathan Meer and Jeremy West found that the negative effects of higher minimum wages on job growth are strongest for young workers—while seeing hardly any effect for workers over 35. A December 2014 study by University of California (San Diego) professors Jeffrey Clemens and Michael Wither concludes that increases in the minimum wage reduce the likelihood that low-wage workers will make it into the middle class, since higher minimum wages deprive many workers of jobs and experience. Over half of workers who earn at or below the federal minimum wage are below the age of 25, meaning that unemployed youth would benefit immensely from programs that allow them to earn subminimum wages. Unfortunately, state laws do not reflect this reality. Increasing youth employment should be a top priority for policymakers at the state and federal levels. The labor force participation rate among 16 to 24-year-olds in 2013 was 55 percent, and the Bureau of Labor Statistics projects this number to slip below 50 percent in 2022. Employers are increasingly looking for work experience rather than college major when hiring, making that first job all the more important for upward income mobility. Rather than “protecting” young workers from “unfairly” low wages, policymakers should recognize that low-paying jobs are the first stepping-stone for young people on the way to a better life. It is not too late for states to add special minimum wages for youths or teens to their legislation. In addition, new state minimum wage legislation should include a youth minimum wage exemption in line with the federal law. At the national level, Congress should consider raising the age cap for the youth minimum wage and lengthening its 90-day limit, to allow as many young people as possible to take advantage of the law. While increasing the wages of America’s lowest-paid workers is an admirable goal, it shouldn’t come at the cost of massive youth unemployment and an out-of-reach first rung on the economic ladder.

#### TagTag

#### MROZ AND SAVAGE 01 [Dr. Thomas A. Mroz and Dr. Timothy H. Savage, UNC Chapel Hill and Welch Consulting Economists, Published by the Employment Policies Institute (The Employment Policies Institute (EPI) is a non- profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment), October 2001, DDA]

Research on the youth labor market did not end with the NBER volume, however.11 Michael and Tuma (1984) examine the labor market effects of early labor force experience.12 Regressing wages and schooling on lagged experience, they find that early employment does not affect wages or schooling likelihood two years later. They treat early experience as exogenous, however, and do not control for possible unobserved heterogeneity. Ghosh (1994) also examines the effects of early experience.13 Using proxies such as test scores to control for heterogeneity, he regresses hours worked and wages at ages 22 and 23 on early schooling and labor force experience. He finds that early experience has positive long-run effects on hours worked and wage rates. While he has the advantage of a longer time horizon, Ghosh also treats early decision-making as exogenous. He finds larger effects than Michael and Tuma, however. This indicates that additional panel-years of data are necessary to uncover these long-term impacts.

### Separate Highlighting

#### The best economic models prove that higher minimum wages substantially increase unemployment in young workers, which leads to lower long-run earnings as young workers don’t accumulate skills.

#### GORRY 13 [Aspen Gorry, Scholar at the American Enterprise Institute and former economics professor at UC Santa Cruz, “Minimum Wages and Youth Unemployment”, Published by the American Enterprise Institute, July 31, 2013, DDA]

Youth unemployment is an important issue for economies around the world. The recent financial crisis and ensuing global downturn disproportionately impacted young workers. According to International Labour Organization (2013), youth unemployment worldwide peaked in 2009 at the highest level ever recorded and is nearing that peak again in 2013. In June 2010, the unemployment rate for young workers in the United States reached 20%. Jaimovich and Siu (2009) show that young workers account for the majority of employment fluctuations at business cycle frequencies. Additionally, early career outcomes are important to a worker’s development, and large cross country differences in employment outcomes are concentrated among young workers. This paper constructs a labor search model with worker experience that can replicate observed age patterns of unemployment. The model is then used to quantitatively assess the impact of minimum wages on unemployment rates for young workers with low levels of education. To replicate observed age patterns of unemployment, a standard labor search model is extended to include two types of workers: inexperienced and experienced. Young workers enter the labor market inexperienced and become experienced by working on the job. Experienced workers have higher average productivity and potentially different job finding and job separation rates that are targeted to match rates observed in data. Including minimum wages in the model constrains the Nash bargaining solution for inexperienced workers, preventing jobs at some productivity levels from being created and leading others to be established at the minimum wage. A novel finding is that minimum wages can have nonlinear effects on unemployment with low minimum wages not having large effects and high levels of minimum wages leading to large increases in unemployment. A key mechanism in the model is that inexperienced workers, who are typically young, are willing to take lower wages because employment gives them the possibility of gaining experience.2 The total surplus of a job includes both the value of their wage and the additional option value of experience. While investment in human capital is not treated as a decision, the effects of minimum wages are amplified as they prevent young workers from accepting low wage matches that allow them to gain skills in the labor market.3 This mechanism can also influence average unemployment for older workers as high minimum wages prevent individuals from gaining experience when young. To assess the quantitative importance of changes in the minimum wage on unemployment, the model features idiosyncratic productivity shocks for inexperienced workers and payroll taxes. It is important to include idiosyncratic productivity shocks so that changes in the minimum wage can influence the equilibrium job separation rate while payroll taxes have important interactions with the minimum wage level because they alter the firm’s cost of hiring a worker. The distribution of wages for young high school educated workers suggests that increases in the minimum wage could have substantial effects on unemployment. In 2006 the minimum wage in the U.S. was $5.15 per hour. In data from the Current Population Survey, 5.0% of 18-24 year old workers with a high school degree or less earned less than or equal to the minimum wage. The Fair Minimum Wage Act of 2007 increased minimum wages to $7.25 between 2007 and 2009. 28.9% of these young workers with low education earned less than $7.25 in 2006. European minimum wage levels are even higher. At the extreme, France had a minimum wage equivalent to $10.14 in 2006. In the U.S. that year, 72.1% of 18-24 year old workers with less than or equal to high school education earned less than that amount. Of course not all workers currently earning less than a new minimum wage level would become unemployed; if their productivity is high enough, firms may be able to adjust their wages to keep them employed. This paper uses an equilibrium model to understand the total effects of such changes in minimum wage policy. Simulating the effects of the Fair Minimum Wage Act, the model implies that the increase in minimum wages generated a 2.8 percentage point increase in the unemployment rate for high school educated workers between the ages of 15 and 24. One contribution of this approach is that the model disentangles the unemployment effects of the minimum wage changes from the overall increase in unemployment as a result of the recession. Between 2006 and 2010, unemployment for 15-24 year old workers with high school education increased by 3.3 percentage points more than the overall unemployment rate for individuals with high school education. The model implies that the increase in minimum wages accounts for 59.2% of this difference or 25.6% of the total increase in unemployment for 15-24 year old workers during this period when overall unemployment increased substantially.4 Finally, simulations of the model imply that if France reduced its minimum wage to levels in the U.S. its youth unemployment rate would decline substantially, nearly equaling that in the U.S. baseline simulation. Much of the macro-labor literature focuses on representative agent models that abstract from differences in labor market decisions over an individual’s life cycle.5 Including experience in a general equilibrium model is important to assess the effect of minimum wages on unemployment because the value of experience enters into the wage equation for inexperienced workers, changing the distribution of bargained wages. As a simple way to capture the returns to experience, experienced workers in the model have a high fixed productivity level, a lower rate of exogenous job separations, and are not subject to idiosyncratic productivity shocks that generate endogenous job separations.6 The model generates differences in employment outcomes by age because older workers are more likely to be experienced, making the basic framework ideal for evaluating the effect of policy on young workers. The way that minimum wages are modeled in this paper is closely related to recent search models that study the effects of minimum wages. Flinn (2006, 2010) studies the effects of minimum wages in a Mortensen-Pissarides equilibrium search environment and Rocheteau and Tasci (2008) study the effects of minimum wages in a variety of equilibrium search models. This paper follows Flinn (2006) by introducing minimum wages in a search model as a constraint on the Nash bargaining solution. His analysis is extended by considering a model where workers can improve their labor market outcomes by gaining work experience. As workers gain experience their wages increase and minimum wages become less binding. This implies that it is important to consider how minimum wages interact with experience accumulation as it can have equilibrium effects on the number of experienced workers.

#### He continues:

The empirical literature on minimum wages has looked at direct effects on unemployment, implications for the wage distribution, and future earnings of individuals who face high minimum wages. The model is consistent with empirical findings that minimum wages disproportionately harm young workers. Figure 4 shows the unemployment effects of minimum wages simulated from the model. The average unemployment rate by age is plotted in the baseline case where the minimum wage is at the U.S. levels in 2006 and for increases of 30%, 50%, and 70%. Given the baseline minimum wage level corresponds to $5.15 per hour, these increases correspond to hypothetical minimum wages of $6.70, $7.73, and $8.76. The effects of minimum wages are non-linear. As minimum wages rise, unemployment increases among young workers become more dramatic. The solid line depicts the unemployment rate in the model with minimum wages at the U.S. level. Raising the minimum wage by 30% has very little effect on unemployment while increases of 50% and 70% have increasing effects. Moreover, Figure 4 shows that the effects of a minimum wage are initially large and die out over time as workers gain experience. Higher levels of the minimum wage also generate differences in unemployment for older workers as it is harder for young workers become experienced. Table 3 shows the increase in the unemployment rate for each 10 year age band for various increases in the level of the minimum wage. From the simulated average unemployment rate of 11.8% for workers aged 15-24, the model predicts that a 30% increase in the minimum wage would only increase unemployment by 1.4 percentage points. Larger increases in the minimum wage of 50 and 70% increase unemployment for young workers by 4.5 and 15.4 percentage points respectively. Older workers are virtually unaffected by a 30% increase in the minimum wage while there are small effects for larger increases of the minimum wage that decline as workers age. The model helps explain the failure of some papers, such as Card and Krueger (1994), to find significant effects of minimum wage on employment. Since minimum wages are relatively low in the United States and have a non-linear effect on unemployment, it is unsurprising that small changes in the minimum wage might have insignificant effects. Larger increases in the minimum wage would be more likely to show up in higher unemployment rates. 4.3 Neumark and Nizalova (2004) document that exposure to high minimum wages at young ages has long-run effects. They show that exposure to high minimum wages at young ages implies that workers both work and earn less even into their late 20’s. Moreover, Keane and Wolpin (1997) show that human capital accumulation while on the job is important to understanding worker’s labor market decisions and outcomes. Missing skill accumulation early in life has long run implications for wage growth if the agent is unable to make up for the lack of skill accumulation while unemployed. The model can account for differences in wage outcomes as experienced workers have a higher reservation productivity level and earn higher wages than inexperienced workers. Workers who are exposed to high minimum wages early in life will have a lower probability of becoming employed and experienced. The left panel of Figure 5 presents the percentage of people who are experienced by age from the baseline model and the model with a 50% increase in the minimum wage. Under a higher minimum wage a worker is less likely to be experienced. The lower rate of experience shows up in higher rates of unemployment and lower wages later in life. The right panel of Figure 5 shows the effect of increasing minimum wages on the average wage of employed workers over their life cycle. The baseline model generates wages that grow from 0.86 to 1.6, slightly less than doubling between age 18 and 54. Wage growth mirrors the growth of the fraction of experienced workers, as wages grow most rapidly during the first 10 years of labor market participation then level off. In looking at the effects of an increase in minimum wages, young workers on average get slightly higher wages when employed, while older workers have on average lower wages. The higher wages for young workers come from the minimum wage itself while the lower wages for older workers come through workers having less experience. Both factors lead to a more compressed earnings profile by age. This section uses the model to evaluate the effects of changes to the minimum wage. First, the model is used to assess the effects of the Fair Minimum Wage Act of 2007. Second, the model is used to answer the counterfactual question of how much lower unemployment would be in France if it adopted the level of minimum wages and payroll taxes of the United States. The model can be used to calculate the extent to which observed differences in youth unemployment outcomes are explained by differences in minimum wages by simulating the model for each set of policy variables. For each set of parameters, the model is solved to generate job finding rates for inexperienced and experienced workers. These numbers along with job separation rates are used to simulate the model in continuous time. From the simulation, a worker’s employment status and experience are recorded at the end of each model period. For each specification, the model is simulated for 10,000 individual working careers. The data are then aggregated into annual data by age to make comparisons. 5.1. Fair Minimum Wage Act of 2007 The Fair Minimum Wage act of 2007 raised the minimum wage in the United States from $5.15 an hour to $7.25 an hour with three equally sized increases implemented between July 2007 and July 2009. While this large change in the minimum wage could have provided empirical evidence on the effects of minimum wage changes on unemployment, the recession and financial crisis that occurred over the same time period make it difficult to isolate the effects of the minimum wage. This section uses the model to compare predicted unemployment for the minimum wage level in 2006 with that in 2010 based on the observed increase in the minimum wage rate over that interval. Between 2006 and 2010, the unemployment rate for high school educated workers aged 15-24 went from 11.3% to 22.5% while the overall unemployment rate for high school educated workers increased from 5.5% to 13.4%. The increase in unemployment during the recession was disproportionately focused on young workers. The model is used to answer the question of how much of the increase in youth unemployment can be attributed to the change in minimum wages. This is done in two different ways. First, for each age group the percent of the change in the data that is accounted for by the model is computed. Second, because there were large increases in unemployment rates for all ages during the time period under consideration due to factors related to the great recession that are not accounted for by the model, the percentage of change in the unemployment rate for each group relative to the overall change in unemployment is computed. The simulation results are compared with observed unemployment outcomes in Figure 6. The figure shows that during the Great Recession there was a large increase in unemployment for each of the 10 year age bands under consideration in the US between 2006 and 2010. The increase in the unemployment rate was slightly larger for 15-24 year old workers and was smaller for the older age groups. The black dashed line shows the baseline simulation for the model parameterized to match unemployment rates for workers in 2006. The baseline does a good job of matching the age pattern of unemployment for that year. The figure also shows the increase in unemployment in the model from the increase in minimum wages between 2007 and 2009. The dashed line shows that the minimum wage increase led to an increase in unemployment from 11.8% to 14.6% for 15-24 year old workers and smaller increases for the other age groups. While not accounting for the majority of the increase in unemployment during the recession, minimum wages can account for a substantial portion of the increase in unemployment observed for young workers between 2006 and 2010. Solving the model under the new, higher level of the minimum wage for the baseline parameterization generates an aggregate unemployment rate of 7.7% compared with 6.9% in the baseline. The unemployment rate for 15-24 year-old workers increases by 2.8 percentage points from 11.8% to 14.6%. This 2.8 percentage point increase implies that minimum wages account for 25.6% of the 11.1 percentage point increase in unemployment rate observed in the U.S. data between 2006 and 2010. Alternately, the unemployment rate increased by 3.3 percentage points more for 15-24 year old workers than overall (from 11.3% to 22.5% compared to from 5.5% to 13.4%). The model generates a 2.0 percentage point increase in unemployment for 15-24 year old workers beyond the overall increase in unemployment. This implies that the model accounts for nearly 60% of the excess increase in youth unemployment during this period. Table 4 presents the results from the simulated model with each target for the fraction of experienced workers and computes the amount of the changes in unemployment that can be accounted for by the model for each age group. The percent of total changes explained is smaller for the older age groups as minimum wages have smaller effects on unemployment rates for older workers but unemployment increased for all groups. However, controlling for relative changes in unemployment compared to the total, the model accounts for a more sizable share of changes in unemployment for older groups. Table 4 also shows results for different targets of the share of experienced workers in the steady state model. With a target of 0.75 the changes in minimum wages generate larger increases in unemployment, accounting for 31% of the total increase and 71.4% of the relative increase in unemployment for 15-24 year old workers. When the model is targeted to have a share of experienced workers of 0.85 the effects of increased minimum wages are slightly smaller accounting for 19.5% and 50.7% percent of the total and relative changes in unemployment respectively for 15-24 year old workers. In all three parameterizations there is a substantial increase in the unemployment rate of young workers ranging from 2.2 to 3.4 percentage points. The robustness section in the appendix shows that these substantial changes in unemployment rates for young workers are robust to changes in the parameterization of the model. The model can also be used to assess the effects of cross country differences in minimum wages on unem- ployment outcomes. Significant attention has been paid to explaining large discrepancies in unemployment between the U.S. and Europe. Differences in unemployment rates across countries are concentrated among young and old workers. However, much of the research on cross country unemployment rates focuses on older workers. Minimum wages complement other explanations such as unemployment benefits, taxes, struc- tural change, and firing costs. While these other explanations generate level differences in unemployment, this paper contributes to the literature on European unemployment by showing that minimum wages help account for unemployment rates of young workers. France has among the highest minimum wages and payroll taxes found in Europe, making it a good country to study for comparison with the U.S. Converting French minimum wages to their value in U.S. dollars in 2006 gives a French minimum wage of $10.14 per hour. Payroll taxes in France are 17.6% compared to 8.2% in the U.S. To conduct the simulations, the model is re-parameterized to account for lower job finding and job separation rates found in France. Worker flows are much higher in the U.S. than in many European countries. For instance, Elsby et al. (2013) find an average monthly job separation rate of 3.6% in the U.S. compared with 0.8% in France, and Cohen et al. (1997) find that there are much lower job loss rates among French workers. Since France has lower average job separation rates than the U.S., workers can gain experience even with a very low job finding rate. To compute rough estimates of job finding and job separation rates, OECD data on Labor Force Statistics by Sex and Age are used.14 First, the implied separation rates based on the OECD reported average duration of unemployment for 15-24 year old workers of 6.7 months and for 25-54 year old workers of 12.8 months are used to construct targets for job finding rates for inexperienced and experienced workers respectively. These values imply job finding rates of 0.15 and 0.078 for inexperienced and experienced workers. Using the identity that relates the steady state unemployment rate to job finding and separation rates, u∗ = s , means that the separation rates can be computed using unemployment rates s+f for each group. Average unemployment rates for 15-24 and 25-54 year old French workers between 1983 and 2007 are 22.7 and 8.5% respectively. Using these values, the implied separation rate targets for inexperienced and experienced workers are 0.044 and 0.007. As there are not separate targets for French wage data, the following steps are taken to parameterize the model and assess the changes in unemployment that would arise from France adopting the level of minimum wages and payroll taxes found in the U.S. First, the model is parameterized with the same targets as in the U.S. baseline case to fix the values of σ, ye, α, b, and w ̄. Next, keeping those parameters fixed, the model is solved to target the levels of job finding and separation rates in France with the minimum wages and payroll taxes set to levels observed in France and no productivity shocks for young workers (λ = 0). This generates the baseline simulation for France. Finally, the model is solved again using the parameters in the French baseline with policy parameters set to the U.S. level. With the lower job finding and job separation rates found in France, the U.S. levels of minimum wages and payroll taxes mean that the minimum wage no longer binds in the model (but unemployment is still higher than in the U.S. baseline). This means that another way to interpret the policy simulation is that it shows the effects of France eliminating their minimum wage. The results from both simulations along with the original baseline simulation are presented in Figure 7. The baseline simulation for France has higher unemployment rates for young workers at 21.5 percent for those aged 15-24 and 12.3 percent for those aged 25-34 and eventually dropping to 8.8 percent for those aged 45-54. The figure shows that when the model with French job finding and separation rates is solved with U.S. levels of policy parameters, the unemployment rates for young workers are substantially lower with slight reductions in unemployment for older ages. Indeed, the level of unemployment for 15-24 year old workers declines to 12.2 percent, nearly as low as the 11.8 percent in the baseline US simulation. The unemployment rates for older ages remain higher to be consistent with the worker flow data in France. To get a better sense of the magnitude of the results, Table 5 shows the unemployment rates from each simulation along with data from the OECD Labor Force Statistics by sex, age, and educational attainment for workers with below upper secondary education by age group for France and the United States in 2006. Even though the educational groupings are slightly different than those used in the baseline parameteri- zation, the data provide comparable measures of unemployment across countries. The OECD only reports unemployment outcomes by age group for workers aged 25 and above. Unemployment rates in both countries are higher among young workers with low levels of education at 20.2% for France and 11% for the U.S. While both countries show large declines in unemployment rates as workers age, about 8% of prime aged males in France are still unemployed compared with about 6% in the U.S.15 Table 5 shows the results for the model simulations, first reproducing the baseline simulation for the U.S. in 2006, then showing the baseline simulation for France and the simulation for France with U.S. policy parameters. The results of the simulations show that reducing the minimum wage to U.S. levels (where it does not bind in the model) would lead to substantial reductions in unemployment in France, especially for young workers. To get a better sense of the magnitude of these declines, the table shows calculations of the percent of the difference in unemployment rates between France and the U.S. that can be accounted for by the model. The results indicate that the reduction of minimum wages and payroll taxes to U.S. levels can account for 42.0, 57.0, and 39.4 percent of the observed differences in unemployment rates for workers aged 25-34, 35-44, and 45-54, respectively. Finally, the Table 5 reports the percent of the difference in unemployment rates between the baseline France simulation and the baseline U.S. simulation accounted for by reducing minimum wages and payroll taxes in the model. This comparison is reflected in the simulations presented in Figure 7. In this case, the reduction in minimum wages accounts for over 95 percent of the difference in unemployment between the baseline simulations for France and the U.S. The percentage explained declines steadily with age before reaching 22.6 percent for 45-54 year old workers. The reduction in minimum wages and payroll taxes can account for 42.4 percent of the difference in steady state outcomes between the simulations. Overall, the results suggest that minimum wages play a major role in driving up unemployment rates for young French workers, and reducing or eliminating them could bring down youth unemployment rates in France close to U.S. levels. However, such policy changes are unlikely to change overall worker flows across countries so substantial differences in unemployment remain among older workers. This paper constructs a labor search model that accounts for early life cycle changes in unemployment and explores the effects of minimum wages. The model shows that the interaction of experience and minimum wages can generate large increases in the unemployment rate for young workers. While the interaction of minimum wages with optimal human capital accumulation has been recognized at least since Rosen (1972), this paper applies such a distortion to a dynamic general equilibrium setting. Inexperienced workers are unable to pay for their training through reductions in their wages. To gain experience, they must maintain employment in a segment of the labor market characterized by high job separation rates. The equilibrium model is used to understand the effects of minimum wages on the aggregate labor market. The model is used to assess the effects of recent minimum wages increases in the U.S. and to compare cross-country outcomes between the U.S. and France. The model predicts that the U.S. minimum wage increases between 2007 and 2009 increased unemployment for 15-24 year old workers by 2.8 percentage points. This increase accounts for 25.6% of the increase in youth unemployment for high school educated workers between 2006 and 2010 and almost 60% percent of the increase in the unemployment for this group compared to the overall increase in unemployment. Moreover, parameterizing the model to French levels of worker flows implies that if France reduced its minimum wages and payroll taxes to U.S. levels, it would generate substantial reductions in their unemployment rate, especially for young workers.