

# WebMemo



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## Minimum Wage Workers' Incomes Rise When the Minimum Wage Does Not

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Congress has not raised the federal minimum wage since 1997, and some Members of Congress say that a raise is overdue to help low-income workers get ahead.<sup>1</sup> These lawmakers appear to believe that low-income workers will not get a raise unless the government steps in to help them. But most minimum wage jobs are entry-level positions, and as workers gain skills and experience on the job they move up the career ladder and earn substantial raises. And the most productive workers earn the largest raises. The market works and rewards those who work to get ahead; the government does not need to step in for minimum wage earners to get a raise.

### Starting at the Bottom Rung

The federal minimum wage increased to \$5.15 an hour on September 1, 1997, and has remained there since. Over the past nine years, the inflation-adjusted value of the minimum wage has fallen to a fifty-year low.<sup>2</sup> Many Members of Congress say that this means low-income worker's wages have failed to keep up and that Congress needs to raise the minimum wage to help them get ahead. Senator Edward Kennedy (D-MA), for example, argues, "There's no state in America where \$5.15 an hour meets the basic needs of a working family. We have waited far too long to give these hardworking men and women a raise."<sup>3</sup>

Senator Kennedy implies that hundreds of thousands of low-income American workers have gone nine years without a raise. But that is not the case. Minimum wage jobs are the first rung on a career

ladder that soon leads to higher paying work. The workers who earned the minimum wage a decade ago are not the same workers who earn it today.

This is because minimum wage jobs are entry-level positions. Fully 40 percent of minimum wage workers did not have a job the year before.<sup>4</sup> Minimum wage workers are typically low skilled and have little workforce experience. The majority are under 25.<sup>5</sup> Minimum wage jobs teach these workers valuable job skills, such as how to interact with customers and coworkers—expertise that is difficult to learn without actual job experience. Once workers have gained these skills, they become more productive and earn higher wages. The notion that workers are trapped earning \$5.15 an hour ignores the role that minimum wage jobs play in starting low-skilled workers out the workforce.

### Effort Earns Raises in Short Order

The evidence shows that minimum wage workers experience rapid upwards mobility. Between 1998 and 2003—a time when the federal minimum wage did not rise—the median minimum wage worker earned a 10 percent raise within a year of starting work. During this period, over two-thirds of workers starting out at the minimum wage

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earned more than the minimum a year later.<sup>6</sup> Once workers have gained the skills and experience that make them more productive, they can command higher wages.

The government cannot force employers to pay their workers more than they are worth in terms of their productivity. A firm will not pay an employee \$7.25 an hour if his labor only raises profits by \$6.00 an hour. However, workers can and do choose to become more productive—increasing their earnings in the process.

Three-fifths of minimum wage earners work part time, and many are students and young adults who desire this flexibility.<sup>7</sup> But minimum wage workers who choose to work longer hours gain more skills and experience than those who work part time, and as expected, they earn larger raises. A typical minimum wage employee who works 35 hours or more a week is, within a year, 13 percent more likely to be promoted and, on average, will enjoy a raise worth five percentage points more than that of a minimum wage worker putting in fewer than 10 hours per week.<sup>8</sup>

Likewise, better-educated employees are more productive and so more likely to receive raises. Workers with college degrees who start at the minimum wage earn ten percentage points more one

year later than those who have not graduated from high school.<sup>9</sup>

Increased productivity, not government fiat, raises wages, and employees can choose to work harder and become more productive in order to earn larger raises. Minimum wage earners who work longer hours and improve their education have more skills and earn larger raises sooner.

## Conclusion

Many members of Congress argue that the government needs to increase the minimum wage to give American workers a raise. But they misunderstand the nature of minimum wage work. These jobs are entry-level positions filled by employees with limited work experience and often few job skills. As workers become more productive, they earn raises and promotions. Over two-thirds of workers in minimum wage jobs earn a raise within a year. Employees who become more productive by gaining experience and improving their education earn larger raises. Minimum wage jobs do not trap low-income workers in poverty. They are the first step on a career path of upward mobility.

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1. See, e.g., the remarks of House Minority Leader Nancy Pelosi on the floor of the House of Representatives on July 19, 2006, at <http://www.house.gov/pelosi/press/releases/July06/PledgeBill.html>.
2. Jared Bernstein and Isaac Shapiro, "Buying Power of the Minimum Wage at 51-year low," The Center for Budget and Policy Priorities and the Economic Policy Institute, June 20, 2006, at <http://www.epinet.org/issuebriefs/224/ib224.pdf>.
3. "Democrats Fight to Raise the Minimum Wage," Senate Democrat Caucus Press Release, June 29, 2006, at <http://democrats.senate.gov/newsroom/record.cfm?id=258213>.
4. David Macpherson and William Evan, "Wage Growth Among Minimum Wage Workers," The Employment Policies Institute, June 2004, p. 3, at [http://www.epionline.org/studies/macpherson\\_06-2004.pdf](http://www.epionline.org/studies/macpherson_06-2004.pdf).
5. A total of 53.3 percent of minimum wage earners are between the ages of 16 and 24. Department of Labor, Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers: 2005," Tables 1 and 6, at <http://www.bls.gov/cps/minwage2005tbls.htm>.
6. Macpherson and Evans, p. 3, 5, Table 1. Wage figures are inflation-adjusted.
7. Characteristics of Minimum Wage Workers: 2005
8. Macpherson and Evans, p. 8, Table 4, and p. 11, Table 5. Note that the "typical" minimum wage earner is defined as the median minimum wage earner.
9. Ibid.