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Most Minimum-Wage Jobs Lead to Better-Paying Opportunities

James Sherk

The minimum wage does not need to rise for minimum-wage employees to get a raise. Two-thirds of minimum-wage workers make above the minimum wage a year later. This happens because most minimum-wage jobs are entry-level positions. They teach unskilled and inexperienced workers basic employment skills. Without these skills, they cannot qualify for higher-paying jobs. As they acquire these skills, they become more productive and can command higher pay.

Raising the minimum wage reduces the availability of these entry-level jobs, making it harder for less-skilled employees to acquire the experience necessary to move up. A minimum-wage increase would hurt the very workers Congress wants to help.

Entry-Level Jobs for Less Experienced Workers. Congress increased the federal minimum wage to \$7.25 per hour on July 2009, and it has remained there since. Prominent Members of Congress argue that this means “millions of workers have been without a raise.”¹ Not so. Few workers who earned the minimum wage in 2009 still do so today. Minimum-wage jobs are the first rung on a career ladder that, for most, soon leads to higher-paying work.

This is because minimum-wage jobs are entry-level positions. Minimum-wage workers are typi-

cally low skilled and have little workforce experience. A majority are between the ages of 16 and 24.² Minimum-wage jobs teach these workers valuable employment skills, such as being a dependable employee, accepting direction from a supervisor, and working constructively with coworkers and customers.

Employers highly value these “soft skills,” and workers must acquire them before they can advance to higher-paying positions. Once workers gain these skills, they become more productive and earn higher wages. The notion that workers are trapped earning \$7.25 per hour ignores the role that minimum-wage jobs play in starting low-skilled workers’ careers.

Acquiring Experience and Productivity Leads to Higher Pay. Most American workers started out near the minimum wage: 55 percent began their careers making within a dollar of the minimum wage.³ However, most minimum-wage workers also experience rapid upward wage mobility. Two-thirds of minimum-wage workers make more than the minimum wage within a year.⁴ They either earn promotions at their existing jobs or accept higher-paying jobs at other companies.

Among those minimum-wage employees who earn a raise, the median worker makes 24 percent more a year later. The workers at the 75th percentile see their pay rise 66 percent.⁵ Once workers gain the skills and experience that make them more productive, they command higher pay.

Workers can also choose to become more productive more quickly—increasing their earnings in the process. Two-thirds of minimum-wage earners work part time; many are students and young adults who desire this flexibility.⁶ However, minimum-wage workers who work longer hours develop their skills

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

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and gain experience more rapidly than those only working part time. As a result, they become more dependable employees sooner, and it takes them less time to complete the same tasks. This makes them more productive on the job, and, consequently, they move up faster.

The typical minimum-wage employee who works full time (35 hours or more per week) has a 13 percentage point greater likelihood of earning a raise within a year than a minimum-wage worker putting in fewer than 10 hours per week.⁷ Increased productivity, not government fiat, raises wages.

Inequality of Opportunity. Raising the minimum wage causes employers to create fewer entry-level jobs. Employers will not pay their workers more than the value they produce. For example, a firm will not pay an employee \$10.10 per hour if his or her labor raises earnings by only \$9.00 per hour. Higher minimum wages mean fewer employment opportunities.

Econometricians have determined that employers respond to minimum-wage increases primarily by reducing hiring—not laying off existing employees (many of whom would soon earn raises regardless). In time, reduced hiring substantially reduces total employment. Over a five-year period, a 10 percent increase in the minimum wage reduces total employment by 1.2 percent.⁸

Reducing the number of entry-level job openings makes it harder for unskilled and inexperienced workers to get started in the job market. Few employ-

ers will offer workers \$15 or \$20 per hour until they have demonstrated their skills and reliability. College graduates can demonstrate this through their degrees. Workers without college degrees need job experience in order to qualify for better jobs.

Minimum-wage increases cut off the bottom rung of these workers' career ladders. They per- versely increase inequality of opportunity, making it harder for inexperienced workers to get started in the labor market.

The First Step on the Career Ladder. 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 jobs. They are entry-level positions filled by employees with limited work experience and often few job skills. These workers need to demonstrate their reliability and acquire basic workplace skills before they can qualify for higher-paying jobs. As they gain these skills, they become more productive and earn raises and promotions. Two-thirds of workers in minimum-wage jobs earn raises within a year. Employees who acquire more experience receive faster raises.

Minimum-wage jobs are the first step on a career path of upward mobility. Without access to entry-level jobs, employees remain stuck at the bottom.

—*James Sherk is Senior Policy Analyst in Labor Economics in the Center for Data Analysis at The Heritage Foundation.*

1. Press release, "On 4th Anniversary of Last Minimum Wage Increase, Harkin and Miller Point to New Poll Data Showing Broad, Bipartisan Support for Legislation to Raise the Minimum Wage to \$10.10," Office of Senator Tom Harkin (D-IA), July 24, 2013, <http://www.harkin.senate.gov/press/release.cfm?i=345407> (accessed January 15, 2014).
2. See James Sherk, "Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents," Heritage Foundation *Issue Brief* No. 3866, February 28, 2013, <http://www.heritage.org/research/reports/2013/02/who-earns-the-minimum-wage-suburban-teenagers-not-single-parents>.
3. William Carrington and Bruce Fallick, "Do Some Workers Have Minimum Wage Careers?," *Monthly Labor Review* (May 2001), Table 2, <http://www.bls.gov/opub/mlr/2001/05/art2full.pdf> (accessed January 15, 2014).
4. Jonathan Meer and Jeremy West, "Effects of the Minimum Wage on Employment Dynamics," National Bureau of Economic Research *Working Paper* No. 19262, August 2013 (revised December 2013), p. 8, http://econweb.tamu.edu/jmeer/Meer_West_Minimum_Wage.pdf (accessed January 15, 2014); and David Macpherson and William Even, "Wage Growth Among Minimum Wage Workers," Employment Policies Institute, June 2004, pp. 3 and 5, Table 1, http://www.epionline.org/studies/macpherson_06-2004.pdf (accessed January 10, 2014).
5. Meer and West, "Effects of the Minimum Wage on Employment Dynamics," p. 8.
6. See Sherk, "Who Earns the Minimum Wage?"
7. Macpherson and Even, p. 8, Table 4.
8. Econometricians have also found that studies looking at total employment in the short term—instead of long-term changes in hiring—contain serious statistical biases. See Meer and West, "Effects of the Minimum Wage on Employment Dynamics," pp. 19–20; and Isaac Sorkin, "Are There Long-Run Effects of the Minimum Wage?," unpublished working paper, October 7, 2013, <https://sites.google.com/site/isaacsorkin/papers/minwagesorkin.pdf> (accessed January 10, 2014).