



Bartlett Brief:

Minimum wage hikes hurt the lowest-skilled workers

Legislators on Thursday are preparing to vote on bills to mandate that employers raise wages to levels some politicians find morally appealing. These mandates will hurt the lowest-skilled workers. They also have the potential to raise costs for consumers and taxpayers.

- House Bill 186 would raise the minimum wage by \$2 to \$9.50 an hour immediately, then to \$10.75 in 2021 and \$12 in 2022. Teens younger than 17 could be paid \$1 per hour less than the statutory minimum.
- Senate Bill 271 would mandate that contractors on state public works projects pay all their workers the prevailing federal wage for the particular construction project. The federal prevailing wage for construction projects in New Hampshire is \$10.60 an hour.

Though intended to benefit low-wage workers, these bills together are likely to harm Granite Staters who are trying to grab that first rung of the economic ladder.

Minimum wage

- A 2015 Federal Reserve Bank of San Francisco review of minimum wage studies confirmed that “the most credible conclusion is a higher minimum wage results in some job loss for the least-skilled workers—with possibly larger adverse effects than earlier research suggested.”
- The authors of Seattle’s famous minimum wage study reported last fall that the city’s wage hike raised pay for the most experienced workers but produced a significant reduction in employment among the lowest-skilled workers. “The entirety of these gains accrued to workers with above-median experience at baseline; less-experienced workers saw no significant change to weekly pay.”
- A recent follow-up to the Seattle study found that the higher minimum wage raised the price of day care. “Providers’ most commonly responded to higher labor costs by raising tuition and reducing staff hours or headcount—strategies that may negatively impact low-income families and staff.”

- This podcast [interview](#) with University of Washington professor Jacob Vigdor provides a great analysis of the negative effects the wage increase had on Seattle's lowest-skilled restaurant workers and those trying to enter the job market for the first time.
- A 2013 [study](#) for the National Bureau of Economic Research showed how minimum wage increases harm lower-skilled workers by eliminating many job opportunities for them. It found that "the minimum wage reduces net job growth, primarily through its effect on job creation by expanding establishments." Businesses hire fewer people in the long run after governments mandate that they pay low-skilled employees an artificially high wage.

Prevailing wage

Prevailing wage laws mandate that construction companies pay higher hourly wages to low-skilled employees than they otherwise would. Research on the effects of these laws on total construction costs are mixed. But much of the research is consistent with minimum-wage research showing that the mandates lead to a preference for higher-skilled employees.

- Some studies find increased costs for public works projects, as did a recent University of Kentucky [study](#) on West Virginia's repeal of its prevailing wage law and a 2005 [study](#) of low-income housing construction costs in California.
- Other studies, however, show that contractors adjust to mandated labor cost increases by hiring more high-skill, high-productivity employees and using capital to reduce the need for lower-skilled workers. Similar findings have been produced in minimum wage studies of specific industries. Many businesses respond to mandatory labor cost increases by hiring more productive workers and finding ways to reduce their need for the lowest-skilled labor.
- As [automation](#) takes off in the construction industry, government-mandated higher wages could increase the incentives for contractors to replace lower-skilled workers with machines. A [study](#) last year suggested that automation could replace 49 percent of America's blue collar construction workforce. Self-driving graders and brick-laying robots are among the technologies already making their way onto construction sites.

Summary

By artificially inflating the price of low-skilled human labor, prevailing wage and minimum wage laws have the unintended effect of reducing employment opportunities for the lowest-skilled workers while artificially raising pay for people who have had the good fortune to have greater workforce experience.

Though these wage mandates are intended to be a forced wealth transfer from businesses to low-income employees, they wind up creating a forced wealth transfer from the lowest-skilled workers to higher-skilled competitors.