

Should we jack up minimum wage?

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The minimum wage is getting a good deal of attention in Ontario today, which is a good thing. But is it a silver bullet when it comes to helping the working poor, or should we be approaching increases to the minimum wage as just one part of a broader income security strategy?

Much of the recent debate has been spurred by the recognition that someone working full-time for the current minimum wage would have great difficulty making ends meet. Many community and labour groups have called for raising the minimum wage from \$8 to \$10, and a private member's bill to that effect is now before the Ontario Legislature.

In response, the Ontario Minister of Finance has indicated concerns about the impact on jobs if increases in the minimum wage are implemented too abruptly. The Toronto Star has talked about a moral imperative: an emphasis on principles of fairness.

In its series on vulnerable workers, the **Canadian Policy Research Networks** cited evidence that most Canadians believe work should pay - someone working full-time ought to be able to live decently. The task force on Modernizing Income Security for Working-Age Adults agreed that a core principle of our society should be that "individuals working full-time, full-year should not live in poverty." And in his recent review of federal labour standards, Harry Arthurs, professor emeritus at York University, recommended that the federal minimum wage should be benchmarked to a standard above poverty.

However, whenever people talk about increasing the minimum wage, two counter-arguments are raised. One is that the minimum wage is a job killer. The other is that it is a blunt instrument that benefits many people who aren't poor.

But how well do these arguments hold up to scrutiny? Regarding the impact on employment, one often hears that minimum wage increases must destroy jobs as a basic implication of the theory of supply and demand. In fact, economic theory is not so clear on this issue. If buyers of low-wage labour have enough clout in the market to influence wage rates (as could be possible in the case of large retail or fast-food chains), economic theory predicts that imposing or raising a minimum wage could actually increase employment. If decent wages lead to greater employee commitment, less turnover and higher productivity (as could be the case among adult workers, in particular), then higher minimum wages don't necessarily raise costs. Most economists don't much like the latter argument because it implies businesses can be short-sighted. However, some of us are willing to admit that possibility.

So to assess the effect of raising minimum wages on employment, one needs to look at the evidence. Unfortunately, the findings of research on this question are not all that clear either. Beware those who claim a black and white conclusion from the research. The fact is there have been hundreds of studies on the effects of raising the minimum wage, using different research methods, with results that are all over the map: from a large negative impact, to a small negative impact, to no impact, and even, in some cases, to a positive impact on employment. It would be easy to select from the literature studies that support any position one might want to take on the issue.

In a background paper for **Canadian Policy Research Networks'** vulnerable workers series, we asked the author, Olalekan Edagbami, to disregard the outliers (studies that find extreme results, at either end of the spectrum) and focus on what the preponderance of research says about minimum-wage increases. His conclusion? There is evidence of a significant negative impact on teenage employment, a smaller negative impact on young adults and little or no evidence of a negative impact on employment for workers aged 25 or older.

Other recent reviews of this literature, as well as a 1998 study published by the Organization for Economic Co-

operation and Development (OECD), come to similar conclusions. Particularly noteworthy, and not challenged in the literature, is the finding that jurisdictions that set a lower minimum wage specifically for youth have been able to mitigate or avoid job loss.

This research suggests that there is room for the Ontario minimum wage to go much higher than the current rate with little risk of job loss, provided there is a youth rate that is lower than that for adults. Few studies, however, explicitly consider the effects of large one-time increases versus more moderate, phased increases. And we don't have much history of large, one-time increases in Ontario, or in other provinces. Given the risks involved, it makes sense to look to a phased approach to a \$10 per hour minimum wage, achieved within two or, at most, three years.

What of the argument that the minimum wage is a blunt instrument, benefiting rich teenagers as well as low-wage workers? Canadian researchers Nicole Fortin and Thomas Lemieux found that the benefits flow disproportionately to individuals in families that are less well off than the average. Also, if we only use highly targeted instruments to help the working poor, that means big clawbacks (and high effective tax rates) when they try to rise above poverty.

The minimum wage is a somewhat blunt instrument for alleviating poverty among working people, but it helps and it should be part of a larger toolkit. A federal tax credit for the working poor, along the lines proposed by the Modernizing Income Security for Working- Age Adults task force, should be a complement to (but not a replacement for) higher minimum wages. Putting more effort into helping our young people succeed in high school (as the Ontario government has begun to do) and move on to post-secondary education is also important, as is ensuring that adult workers have opportunities to raise their skill levels. And proper child benefits, quality child care and affordable housing should also be part of the mix.

The bottom line is that Ontario needs a multi-faceted strategy to tackle poverty. Increasing the minimum wage is not a silver bullet. But it is a crucial part of the mix that could make a big difference to the working poor.

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