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AGAINST THE MINIMUM WAGE

BY MATTHEW LAU

FRONTIER CENTRE FOR PUBLIC POLICY

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

The minimum wage in Canada is rising, with ambitious plans in three provinces to increase the wage floor to $15 per hour and calls from labour unions and activists in other provinces to do the same. Supporters of raising the minimum wage contend that a high minimum wage reduces poverty, and some even say that it would improve economic growth.

However, the best empirical research and basic economic theory paint a very different picture. According to empirical evidence and basic economics, three consequences of raising the minimum wage are:

- An increase in poverty, or in the best case no discernable effect on poverty;
- A decrease in employment, especially among young workers; and,
- Reduced economic growth.

These facts are confirmed by research carried out by the Ontario government. According to a study published four years ago by a think tank established and sponsored by the Ontario government, increasing "minimum wages results in greater unemployment, and unemployment reduces total family income, pushing more families into poverty or making those who were already poor, worse off."[1]

Basic economics teaches that the sure result of raising the minimum wage to $15 is that unskilled workers, whose productivity is less than $15 hourly, will not be employed unless they can find businesses willing to give them charity by paying a wage higher than their labour is worth. In addition, those currently unemployed are made worse off because the minimum wage is a barrier to employment, and the poor are harmed because the minimum wage raises consumer prices.

The bottom line is that minimum wage legislation is damaging to unskilled workers and the unemployed; it harms consumers and businesses, and the overall effect is to reduce economic growth while not reducing poverty. At the very least, provincial governments should freeze the minimum wage, and ideally minimum wage legislation should be scrapped.

INTRODUCTION

The minimum wage in Canada is increasing with the provincial governments of Ontario, Alberta, and British Columbia raising the wage floor to $15. Politicians and activists contend that the policy is necessary for poverty reduction, will have negligible or no negative impacts on employment, and will even increase economic growth.

These claims are contradicted strongly by empirical research, including research carried out by the Ontario government. Four separate analyses published by the Ontario government or related bodies, including three since 2014, have found that the minimum wage reduces employment and that, as an anti-poverty tool, the minimum wage is ineffective at best and counterproductive at worst.[2]

For example, a study published by a think tank established and sponsored by the Ontario government concluded that the "Canadian evidence is more in agreement that minimum wages have no effect on reducing poverty and may even exacerbate poverty slightly" and that raising the minimum wage would reduce employment among young adults.[3]

Further to the empirical evidence, economics teaches that the minimum wage necessarily reduces employment and harms the most disadvantaged workers. As this report later outlines, many of the claims made by minimum wage activists simply cannot be reconciled with basic economic facts, and are rooted in fallacy.

The purpose of this paper is to improve public understanding of minimum wage legislation and clear up misconceptions. The paper consists of five sections. Following this introductory section is a review of the empirical research and an explanation of how economic theory can be used to understand the effects of minimum wage legislation.

The third section of this paper identifies ten economic fallacies often cited by minimum wage proponents.[4] For example, it is often argued that minimum wage legislation protects workers from exploitation, does not necessarily reduce employment, and can be a form of economic stimulus. These claims, as well as others frequently made to support the minimum wage, are incorrect and based on poor economic logic.

The fourth section provides commentary on recent plans to raise the minimum wage to $15 in Ontario, Alberta, and British Columbia, along with recent evidence that shines a light on what the likely consequences of these increases will be. This is followed by a concluding section summarizing the main points in the paper.

EMPIRICAL EVIDENCE AND ECONOMIC THEORY

Empirical Evidence on Minimum Wages

Although there is some disagreement among empirical studies on the effects of minimum wages, two facts have emerged. The first is that the majority of studies find that minimum wages reduce employment; the second is that the negative employment effects are most pronounced among the studies that are most credible or that use the best data.

The most comprehensive review of minimum wage studies, by David Neumark and William Wascher in 2007, surveyed 102 studies. They found that "nearly two-thirds give a relatively consistent (although by no means always statistically significant) indication of negative employment effects of minimum wages, while only eight give a relatively consistent indication of positive employment effects."[5]

Furthermore, of the 33 most credible studies, Neumark and Wascher determined that 28 (or 85 percent) found negative employment effects. And "when researchers focus on the least-skilled groups most likely to be adversely affected by minimum wages, the evidence for disemployment effects seems especially strong."[6]

Economist Ryan Bourne observes that despite conflicting research in the past decade, "a few conclusions about the literature prior to 2017 are clear." Firstly, the majority of published papers find disemployment effects. Secondly, studies using more advanced methods and that examine longer time periods tend to find larger negative effects. Thirdly, low-skilled workers "absorbed the worst of the employment losses when minimum wages increased."[7]

Studies using Canadian data tend to find stronger negative employment effects than studies based on American data. According to Morley Gunderson, economist at the University of Toronto, the Canadian evidence is highly regarded since the variation in minimum wages across provinces and over time allows researchers to more clearly identify the effects of raising the wage floor.[8]

In a study commissioned by the Ontario Ministry of Finance in 2007 and another one published in 2014 for a think tank sponsored by the Ontario government, Gunderson wrote that according to the Canadian evidence, a 10 percent minimum wage hike is likely to reduce employment by 3 to 6 percent among teenagers, with a slightly smaller effect among young adults.[9]

Similarly, a study commissioned by the Ontario Ministry of Labour in 2014 concluded that in "the Canadian context, researchers have generally found an adverse employment effect of raising minimum wages especially for young workers" with recent studies finding larger negative effects.[10]

Summarizing the Canadian evidence, researchers from the Fraser Institute recently produced a list of 20 Canadian studies on minimum wage hikes, encompassing every study published in an academic journal since 1979 that they could find. "The consensus of these studies is that minimum wage hikes reduce employment opportunities for young workers. Not a single one of these studies contradicts this conclusion."[11]

Canadian studies find not only negative employment effects, but also conclude that the minimum wage is ineffective at best and counterproductive at worst when it comes to poverty reduction. A study last year by University of Alberta economist Joseph Marchand reviewed the Canadian evidence and concluded that "while a minimum wage increase should help to reduce wage inequality, it is not likely to reduce poverty and may even increase it."[12]

Morley Gunderson reached the same conclusion in his 2014 report. He wrote that the "Canadian evidence is more in agreement that minimum wages have no effect on reducing poverty and may even exacerbate poverty slightly." That is because increasing "minimum wages results in greater unemployment, and unemployment reduces total family income, pushing more families into poverty or making those who were already poor, worse off."[13]

As the Ontario government's advisory panel noted in 2014, raising the minimum wage would help some poor families but hurt others. It cited evidence that "higher minimum wages trigger higher unemployment, which results in more poverty as household incomes drop among low-income families."[14]

These insights generated by recent empirical research are not new, but rather decades old. "It is not a breakthrough on the frontiers of knowledge that minimum-wage laws reduce employment opportunities for the young and the unskilled of any age," wrote prominent American economist Thomas Sowell in the *National Review.* "It has been happening around the world, for generation after generation, and in the most diverse countries."[15]

Indeed, more than sixty years ago the late Nobel laureate Milton Friedman said in a lecture that the minimum wage is "about as clear a case as one could hope to find of a measure whose effects are precisely the opposite of those intended by the men of good will who support it."[16] While minimum wage proponents hope to reduce poverty by outlawing low wages, "insofar as minimum wages have any effect at all, their effect is clearly to increase poverty."[17]

Minimum wage legislation not only causes poverty by putting people out of work, Friedman observed, but in so doing it denies low-skilled workers—many of them youth—from the on-the-job training that would qualify them for better jobs in the future.[18]

Contrarian Studies

Changes in employment, poverty, and other economic outcomes are the results of decisions made independently by millions of individuals, based on innumerable factors which are difficult or impossible to identify or measure. This makes it difficult to measure precisely the effects of any policy—such as the minimum wage.

Therefore it is unsurprising that some disagreement exists among empirical studies on the effects of minimum wages. In particular, there is contrarian research suggesting that raising the minimum wage does not reduce employment. Recall that Neumark and Wascher's review of 102 studies found that around two-thirds indicated negative employment effects, which means that a substantial number of studies do not find such effects.

A few facts are important to consider when thinking about conflicting empirical studies. Firstly, according to the Neumark and Wascher review, more credible studies are more likely to find that the minimum wage has negative effects on employment. And the Canadian evidence, which is more conducive to identifying the effects of the minimum wage, tends to be more consistent and finds stronger negative employment effects.[19]

Interestingly, even the results of the most famous contrarian minimum wage study, written by David Card and Alan Krueger in the 1990s, were overturned by later research. The Card and Krueger study purported to show that after New Jersey raised the minimum wage in 1992, employment in fast food restaurants rose relative to stores in Pennsylvania, where the minimum wage had not been raised.[20]

Paul Krugman, the influential left-liberal economist who won the Nobel Prize in 2008, wrote in the *New York Times* that "until the Card-Krueger study, most economists, myself included, assumed that raising the minimum wage would have a clear negative effect on employment. But they found, if anything, a positive effect."[21]

However, according to the *Concise Encyclopedia of Economics,* because "telephone survey data are notoriously prone to measurement error, Neumark and Wascher repeated Card and Krueger's analysis using payroll records from a similar sample of restaurants over the same time period."[22] They found that the minimum wage hike indeed reduced jobs in New Jersey fast food restaurants relative to in Pennsylvania.

A second important point regarding conflicting empirical studies is that employment effects of the minimum wage depend on the time period considered. In some cases, higher labour costs might discourage future business activity while not immediately shutting down projects that are already underway. This means that measuring only the immediate impact of minimum wage increases will lead to underestimating negative employment effects.[23]

Thirdly, employment levels are determined by so many factors that it is difficult for empiricists to determine what changes in employment can be attributed to changes in the minimum wage. Even when empirical studies are unable to detect or determine the effects of minimum wages on employment, it would be incorrect to conclude that the minimum wage has not had an effect.

The Role of Theory

While the empirical studies are not all in agreement, the economic theory is unambiguous that minimum wages necessarily cause unemployment. If something is made more expensive, purchasers will buy less of it. The labour market is no different; employers buy less labour when it is artificially made more expensive. The result is a surplus of labour—in other words, unemployment.[24]

The people who become unemployed are those who are the least productive and who have the least skills, many of them youth. The sure result of the $15 minimum wage pursued by Ontario, Alberta, and British Columbia, is that workers who are not worth $15 hourly to employers will have difficulty finding work because they cannot profitably be hired by businesses.

A low-skilled worker may be worth, for example, $10 hourly and would like to be employed at such a wage in order to earn some income and improve his skills. Yet a $15 minimum wage makes it illegal for businesses to hire such a person unless the business is willing to give him a charitable donation of $5 hourly—the amount the worker would be paid above what his labour is worth.[25] But businesses are not charities and should not be expected to act as such.

As Henry Hazlitt put it, "you cannot make a man worth a given amount by making it illegal for anyone to offer him anything less. You merely deprive him of the right to earn the amount that his abilities and situation would permit him to earn, while you deprive the community even of the moderate services that he is capable of rendering. In brief, for a low wage you substitute unemployment. You do harm all around, with no comparable compensation."[26]

At bottom, writes George Mason University economist Don Boudreaux, the "classic economic argument against the minimum wage rests on the central pillar of modern economics: the law of demand. The law of demand says that if the cost of taking an action rises, people will take that action less frequently. Importantly, this law lies not only at the heart of economics; it's a proposition that every one of us accepts as a practical rule of reality."[27]

Why then do some people insist that raising the cost of employing workers will not reduce the number of workers employed? Don Boudreaux suggests that "were there to exist powerful political and ideological forces" that relied upon a public belief that dropping rocks into pools of water does not raise the water level, "there would be no shortage of physicists who conduct and publish studies allegedly offering evidence" to substantiate these claims.[28]

Just as some empirical studies fail to detect the negative employment effect of minimum wages, some physicists might measure the water level of a swimming pool before and after dropping rocks into it and—after controlling for factors like evaporation and swimmers' activities—fail to detect the effect of the rocks on the water level.[29]

But the law of demand cannot be overturned by a handful of minimum wage studies (which, again, are in the minority) purporting to show no negative employment effects, just as the failure of physicists to detect a rise in the water level would not be sufficient to conclude that dropping rocks into pools of water has no effect.

The only disagreement on the effects of minimum wages on employment levels should be as to the extent of the effects. As Milton Friedman explained in the *Wall Street Journal,* "raising by law the price of any commodity or service will reduce the quantity that purchasers of that commodity or service wish to purchase, whether the item in question is gasoline or wheat or milk or labor. The only issue is by how much."[30]

MINIMUM WAGE FALLACIES AND FACTS

Despite overwhelming evidence suggesting that the minimum wage harms workers by reducing employment, politicians continue to raise the minimum wage as labour unions and activists cheer on. However, many of the major arguments cited by minimum wage supporters are based on poor logic and cannot be reconciled with basic economic facts. Ten such fallacies are addressed here.

Fallacy #1: Minimum wage legislation protects low-skilled workers from business exploitation.

Fact: Minimum wage legislation reduces the protection available to low-skilled workers.

An example is helpful to illustrate why minimum wage legislation damages, rather than protects, low-skilled workers. Consider the case of a low-skilled worker whose labour is worth $12 hourly to employers—that is, his maximum productive output is $12 per hour. In the absence of minimum wage legislation, will this worker be exploited?

Suppose a business attempts to exploit this low-skilled worker by paying him only $8 hourly. In a competitive labour market where businesses must compete for workers, this is an unsustainable arrangement. If the worker's labour is worth $12 hourly, a competing business would find it profitable to lure him away from his current employer by offering a wage higher than $8 but not higher than $12.

Suppose this second employer offers the worker $10 hourly. Then a third business would find it profitable to bid the wage up to $11 in an attempt to gain his services, and so on, until the worker is paid the value of his services. From where does the worker get his protection? Why are employers not, in the long run, able to exploit the worker by paying less than he is worth?

The answer is competition among businesses. Workers are protected, explained Milton Friedman in a lecture in 1977, by the employers "who would like to hire him but for whom he doesn't work. The real protection that a worker gets is the existence of more than one possible employer. That's what gives him freedom, that's what enables him to get the full value of his services."[31]

Christina Romer, who was chair of the Council of Economic Advisers in the Obama administration, similarly argued that "basic economics shows that competition between employers for workers can be very effective at preventing businesses from misbehaving… Robust competition is a powerful force helping to ensure that workers are paid what they contribute to their employers' bottom lines."[32]

Returning to the case of the worker whose labour is worth $12 hourly, imagine the government attempts to protect the worker by instituting a $14 minimum wage. The result will not be to raise this worker's wages, but rather to put this worker into mandatory unemployment by making it impossible for him to be hired unless a business is willing to pay more than his labour is worth.

In other words, the minimum wage reduces the protection available to the worker. Workers are protected by the existence of employers "who would like to hire him but for whom he doesn't work." But what are the effects of the minimum wage? As Friedman noted, "minimum wages have been the most important factor that have created a large class of people who have no possible employer."[33]

Indeed, if workers are protected by government policies such as minimum wage legislation—as opposed to by business competition—the question we would then have to ask is why any worker, regardless of skill and productivity, is paid more than the legislated minimum. Clearly it is not government policy that keeps their wages at higher levels.

Fallacy #2: Minimum wage legislation is needed to curtail the effects of monopsony power.

Fact: Monopsony power is not nearly pervasive enough to justify minimum wage legislation, and in fact minimum wages contribute to monopsony power.

The monopsony power argument suggests that in some cases businesses do not compete for workers—that is, the employer has monopsony power (they are the only buyer in the market). Since workers are not then protected by the existence of alternative employers, there is a need for a wage floor to keep businesses from underpaying workers.

But who are the people who have only one possible employer? In communist countries where the government is the only employer, all workers fit into this category. In relatively free societies like Canada, most people with only one possible employer are highly skilled and highly paid. That is because workers demanded by only one or a few employers are most likely those with the most specialized skills.

Economist David Henderson provides the example of an astronaut, who has not many possible employers.[34] Similar examples of professions which require highly specialized skills tend not to be filled by poorly paid workers. On the other hand, low-skilled workers earning low wages are likely to have many potential employers, since many employers in many industries demand unskilled labour for unskilled tasks.[35]

Moreover, "monopsony power is merely a necessary condition for minimum wages not to destroy jobs; it's not sufficient," writes Don Boudreaux. A second necessary condition is that the same firms with monopsony power also make excessive profits from which to cover higher labour costs—in other words, they also have monopoly power. "It is plain, however, that monopoly power does not exist in reality in those industries that employ lots of low-skilled workers."[36]

Another nail in the coffin for the monopsony argument is that even where monopsony power does exist, it may well be the result of minimum wage legislation.[37] Minimum wage legislation, by reducing job opportunities for low-skilled workers, reduces the number of businesses that compete for low-skilled workers.

Fallacy #3: Minimum wage legislation increases the bargaining power of workers.

Fact: Minimum wage legislation reduces the bargaining power of workers.

In general, a price floor set above the market wage has two effects: it raises the quantity that suppliers would like to sell and reduces the quantity that buyers demand. In labour markets, the minimum wage increases the number of people competing for minimum wage jobs and reduces the number of minimum wage jobs available.

Consequently, the minimum wage causes businesses to have a larger pool of workers that would like to be employed at this wage, while workers have a smaller selection of businesses (if any) that would like to hire them. The clear result is to weaken the bargaining position of workers looking for jobs.

As Don Boudreaux has explained, a worker's "bargaining power is increased only if that worker is made more attractive to employers, which means only if that worker's skills are made less abundantly available to employers."[38] But raising the minimum wage only achieves the opposite by making low-skilled workers less attractive to employers.

Minimum wage legislation strips the most valuable bargaining chip from workers—the right to lower the price of their labour in order to make themselves more attractive to employers. Thus, raising the minimum wage, by impeding low-skilled workers from making themselves attractive to employers, is according to Boudreaux, "one of the cruellest things you can do for a lot of these workers."[39]

Fallacy #4: Minimum wage legislation doesn't necessarily reduce employment since the costs can be covered by business profits or by consumers.

Fact: Employment will necessarily be reduced because business owners and consumers cannot cover the entire cost of minimum wage increases.

Even if we imagine, completely unrealistically, that business owners responded to minimum wage increases simply by paying higher wages (rather than automating tasks), employment would still necessarily be reduced. This is because some business owners make little profit from which to cover the higher wages, and will be forced to shut their doors, putting their employees out of work.

For example, in the food service industry, where many low-wage workers are employed, the profit margin is only 2.8 percent, according to the Conference Board of Canada.[40] An industry association estimates the profit margin at 2.5 to 4 percent and Statistics Canada data for 2012 reports a 4.2 percent margin for food services and drinking places.[41]

Even in industries with higher profit margins, a reduced profit margin resulting from high minimum wages will cause some businesses to relocate to where labour costs are lower. Indeed, this is exactly what happens when the corporate tax rate is raised, leaving workers to suffer the incidence of the tax in the long run.[42] When businesses leave for greener pastures, whether due to higher labour costs or higher taxes, jobs are lost.

Furthermore, the entire costs of the minimum wage simply cannot be recovered by businesses by passing the costs on to consumers. As an example, consider a shop that sells sandwiches for $4.00, but reacts to a minimum wage increase by raising the price to $4.50. The result will be fewer sandwiches sold, since more people would buy sandwiches at $4.00 than at $4.50.

Fewer sandwiches sold means fewer employees are needed to prepare sandwiches. Since companies that pay workers to be idle will lose money, the inevitable result is that some workers will lose their jobs even when business owners try to protect their workers by passing the costs of the minimum wage on to consumers.

Before concluding, it is important to note that even if consumers and business owners paid the entire cost, this still would not justify minimum wage legislation. Higher consumer prices are most harmful to poor people and those on fixed incomes, so driving up prices is undesirable.[43] It is also not clear that an income transfer from business owners to workers is desirable. Most business owners are not rich and the vast majority of minimum wage earners are not poor.[44]

Fallacy #5: Minimum wage legislation stimulates the economy by increasing the income of workers, who will then have more money to spend.

Fact: Minimum wage legislation necessarily reduces economic growth.

The argument that the minimum wage acts as a stimulus is actually two enormous economic errors wrapped into one larger fallacy. In the first place, any wage increase resulting from the minimum wage corresponds to an equivalent decline in the incomes of those paying the higher wage. There is no increase in income in this case, but merely a transfer.

To make matters worse, because the minimum wage destroys jobs—as reason, theory, and empirical evidence show—the result is a loss in income. Notably, even ignoring completely the decline in incomes for those who pay the higher labour costs, the job losses may well result in a net reduction in the incomes of workers affected by the minimum wage hike.[45]

The second economic error baked into this fallacy is the idea that wealth is created through consumption. To see how this is the false, imagine if every Canadian decided tomorrow to double consumption—to spend twice as much on food, and entertainment, and automobiles, and so on. Would this doubling of consumption double the size of the economy? Surely not—the results would be disastrous.

The economy would double in size not if everybody decides to consume twice as much, but rather if everybody produced twice as much. It is production rather than consumption that drives economic growth. The question as to whether minimum wage legislation stimulates the economy is therefore answered by examining whether it increases economic production.

Notably, even those who erroneously argue for minimum wages as economic stimulus concede that the policy could at least reduce employment a little. Recently, 53 economists endorsed Ontario's $15 minimum wage policy, citing a "boost" to "aggregate demand." They wrote that "raising the minimum wage could play a role in economic revival, improving macroeconomic conditions."[46] But they also conceded that studies suggest job losses for teenagers.

In a separate commentary, one signatory of the letter endorsing Ontario's minimum wage admitted that "of course, there will be some job losses, and some smaller businesses that go under" as a result of the minimum wage increase.[47] So according to the stimulus argument, raising the minimum wage results in fewer teenagers working (costing them valuable job experience) and some businesses will fail—but the economy will somehow grow faster.[48]

Surely this is nonsense. As Milton Friedman explained, a higher minimum wage would "mean that fewer people would be employed. Fewer people would produce less than more people, so that the basic cost of a higher minimum wage would be smaller total output."[49] It cannot be otherwise.

Fallacy #6: Minimum wage legislation will not reduce employment, since it redistributes income to poor households that spend more money on goods and services produced by low-wage workers.

Fact: Job losses will occur even if the minimum wage redistributes income to households more likely to spend marginal income on goods and services produced by low-wage workers.

Before tackling the larger issues with this fallacy, it is important to first note that it suffers from empirical difficulties. It may very well be the case that raising the minimum wage decreases the purchasing power of poor households since the Canadian empirical research tends to agree that raising the minimum wage does not reduce poverty and could make poverty worse.[50]

As economist Stephen Gordon wrote recently in the *National Post,* the case for raising the minimum wage "has problems" because "the losses in total income are typically underestimated (when they are not being dismissed out of hand) and the putative reductions in income inequality are almost certainly being overstated."[51]

Compounding the empirical difficulties of this fallacy are the unrealistic assumptions that underlie it. In order for this fallacy to be true, the entire cost of the minimum wage increase must be absorbed into the prices of goods (and services) produced by the minimum wage workers—and, at the same time, the quantity demanded of these goods must not fall.[52]

But of course, if the prices of goods rise to accommodate higher labour costs, the result is that consumers will reduce the quantity of their purchases. This reduction cannot be offset by greater purchases of these goods by the minimum wage workers now receiving a higher wage. The gap is simply too large.

If the demand for these goods is elastic, then to keep the quantity demanded from falling, the minimum wage earners must spend more than their entire wage increase buying these goods. To repeat, the additional income these workers receive from a minimum wage hike, even assuming no job losses, is less than the amount of additional spending needed to keep quantity demanded from falling. Clearly this does not make sense.[53]

The demand for some goods produced by minimum wage workers might be inelastic, but this cannot always be so. In either case, the idea that the minimum wage, by redistributing income, might not reduce employment, is completely implausible. And it is worth noting that the "benefits" of raising the minimum wage are eroded if the additional income received by workers must be spent on goods artificially made more costly by the minimum wage hike.

Lastly, even if (completely implausibly) the quantity demanded of goods relying on minimum wage workers for production does not fall, some employers would replace workers with machines in order to meet the quantity demanded. There is simply no getting around the fact that raising the minimum wage destroys jobs for low-wage workers.

Fallacy #7: Raising the minimum wage helps all workers whose wages rise as a result.

Fact: Many workers whose wage rises as the result of the minimum wage are made worse off, since they prefer other forms of compensation.

If a mandatory wage increase makes it unprofitable for businesses to retain a worker, that worker may have to reduce his non-wage compensation demands in order to remain employed. For example, in order to pay for the wage increase, the worker may lose benefits such as paid breaks or free meals (for those who work in restaurants). Employers may become stricter or demand higher work effort.

The 2014 report commissioned by the Ontario Labour Ministry cited evidence showing that non-wage compensation "such as fringe benefits or hours worked or expenditures on on-the-job training and development opportunities for minimum wage workers" could be cut when the minimum wage is raised as some employers try to absorb the wage cost increase without losing too many workers.[54]

Perhaps the most consequential lost benefit is on-the-job training and development. One study by Wascher and Neumark found that "much of the evidence supports the hypothesis that higher minimum wages reduce formal training to improve skills on the current job." In particular, for "young workers in their early 20s, the estimated effects" imply "sizable deleterious effects of minimum wages."[55]

While it has been suggested that employers might increase training to make workers more productive, Wascher and Neumark found "little or no evidence that minimum wages raise the amount of training obtained by workers to qualify for their current job (and indeed there is some evidence that minimum wages reduce this type of training)."[56]

Other evidence points to the same effect. Morley Gunderson's report to the Ontario Finance Ministry noted that like "many (but not all) U.S. studies, minimum wages in Canada tend to have a small negative impact on training as the minimum wage may inhibit youths from accepting lower wages in return for training."[57] Those workers who prefer training or other benefits to higher wages can be made worse off by minimum wage hikes even if they keep their jobs.

Fallacy #8: Businesses that cannot afford to pay workers a "good" wage should not be in business.

Fact: Businesses that employ workers at low wages benefit low-skilled workers, consumers, and business owners.

If the minimum wage is raised—for example, to $15—then the businesses that cannot afford to pay this wage are the businesses that employ workers whose maximum productivity is below $15 hourly. In other words, to say that a business should be destroyed if it cannot afford to pay its workers $15 hourly is like telling people they should not be allowed to have jobs if their productivity is too low to justify a $15 wage.[58]

However, many people are content earning wages of $12, or $8, or even $0 (given that so many people voluntarily apply for unpaid internships). Others might not be content with the low wage, but the low wage is the best available alternative. Eliminating the low-wage job puts these workers in an even worse position.

As Henry Hazlitt wrote, putting a business or industry out of existence through a minimum wage law "is merely condemning the people who worked in that industry to unemployment." Even if the wages are low, "they were the best among all the alternatives that seemed open to the workers in that industry; otherwise the workers would have gone into another."[59]

Of course, destroying businesses by raising the minimum wage causes harm to not only the employees of those businesses, but to the business owners as well. Consumers are also made worse off, because when business closures occur, consumers have fewer shopping choices available.

Fallacy #9: Minimum wage legislation benefits businesses since higher wages can improve employee morale and productivity, and employee retention.

Fact: If higher wages benefited businesses, companies would voluntarily pay higher wages.

If raising wages is profitable for businesses, they would raise wages on their own. There would be no need for government action. Do politicians have stronger incentives and better information about the optimal wage rate each individual business should pay, than the people who actually own and manage these businesses? Surely not.

There is no politician, bureaucrat, economist, or businessman (or any group of these people) that knows the efficient wage rate for all workers, from each cashier in each retail store in Toronto, to each dishwasher in each restaurant in Windsor, to each barista in each coffee shop in rural Ontario. And it would be a coincidence of cataclysmic proportions if the optimal wage rate turned out to be $15 per hour (the minimum wage in Ontario as of next year) in each case.

Indeed, no one person or group of people has sufficient economic knowledge to legislate the optimal wage rates in a province, or even in a city or a town or a neighbourhood. Decisions on how to spend and invest money are best left to the private individuals to whom the money belongs, since they are the ones who ultimately reap the rewards or pay the consequences of their decisions.

Of course, people make mistakes. Some businesses pay wages too high and lose money due to excessive labour costs; some pay wages too low and lose money as they are outbid for labour and suffer high turnover. But the solution to inefficient wages is to rely on entrepreneurs and business owners motivated by profits to pay the efficient wage, rather than relying on government officials to legislate it.

Fallacy #10: Raising the minimum wage benefits immigrants and racial minorities.

Fact: Raising the minimum wage disproportionately harms immigrants and people of colour.

It has been argued by minimum wage advocates that raising the minimum wage is a good way to raise the incomes of new immigrants and people of colour—both groups of people who on average earn lower wages than others.[60] However, the historical evidence is completely against this claim, and shows the opposite to be true.

As Thomas Sowell has described, in the past, "when racial discrimination was both legally and socially accepted, minimum-wage laws were often used openly to price minorities out of the job market." Sowell noted that the minimum wage introduced in 1925 in British Columbia was passed "with the intent and effect of pricing Japanese immigrants out of jobs in the lumbering industry."[61]

American economist Walter Williams similarly wrote that the "minimum wage not only discriminates against low-skilled workers" but its effects on racial minorities made it "one of the most effective tools of racists."[62] When America's first minimum wage act was introduced in 1931, politicians and labour unions explicitly intended it to put people of colour out of work.[63]

The minimum wage legislation of 1931 "virtually eliminated blacks from federally financed construction projects when it passed."[64] Racism was similarly a motivation for the minimum wage in South Africa's apartheid era; labour unions in the building and nursing industries complained that white workers could not compete with black workers who offered to work at lower wages.[65]

Even when the racist motivations of minimum wage legislation disappeared, the effect remained the same. It continued to harm the least-skilled and lowest-paid workers; to the extent that these were people of colour, they were harmed most. Milton Friedman argued in 1979 that in America, "the people who have been hurt most by the minimum wage laws are blacks" and that the "most anti-black law on the books of this land is the minimum wage law."[66]

Indeed, the data show that raising the minimum wage, which had devastating consequences for American teenagers in the 1950's, disproportionately created joblessness among black male teenagers. Before 1956, the unemployment rate among black and white males aged 14 to 19 was around 8 to 11 percent, but two years after the minimum wage was increased, unemployment shot up to 24 percent for the black cohort and 14 percent for the white cohort.[67]

Looking at similar data, Thomas Sowell found that unemployment "among 16 and 17-year-old black males was no higher than among white males of the same age in 1948. It was only after a series of minimum wage escalations began that black male teenage unemployment rates not only skyrocketed but became more than double the unemployment rates among white male teenagers."[68] Extremely high levels of unemployment among black male teenagers in America persist to this day.[69]

More recently and in the Canadian context, a study published in the journal *Contemporary Economic Policy* found that raising the minimum wage reduces the employment of immigrants. The study, authored by economists Kathleen Rybcynski and Anindya Sen, covered 185 provincial minimum wage hikes in Canada from 1981 to 2011.

Sen wrote in a *Financial Post* column that the study found that a 10 percent minimum wage increase is linked to a decline of about 2 percent in the employment rates of immigrants between 25 and 54 years old. The result is not surprising, since a disproportionately high number of immigrants earn minimum wages.[70]

THE MINIMUM WAGE IN ONTARIO, ALBERTA, AND BRITISH COLUMBIA

Milton Friedman described minimum wage legislation as "a law requiring employers to discriminate against low-skilled people."[71] A minimum wage, of $15 per hour for example, requires employers to not hire any person whose skills do not allow them to contribute $15 hourly to the employer's bottom line—unless the employer is willing to give the worker charity by paying more than he is worth.

Every increase in the minimum wage is therefore an expansion in the discrimination against workers with low skills. Ontario and Alberta have been expanding such discrimination for over a decade, even before recent announcements to ratchet the minimum wage up to $15. In British Columbia the $15 minimum wage plan followed earlier increases in 2011 and 2012. The historical and planned increases in the minimum wage in these three provinces are shown in Figure 1, below.[72]

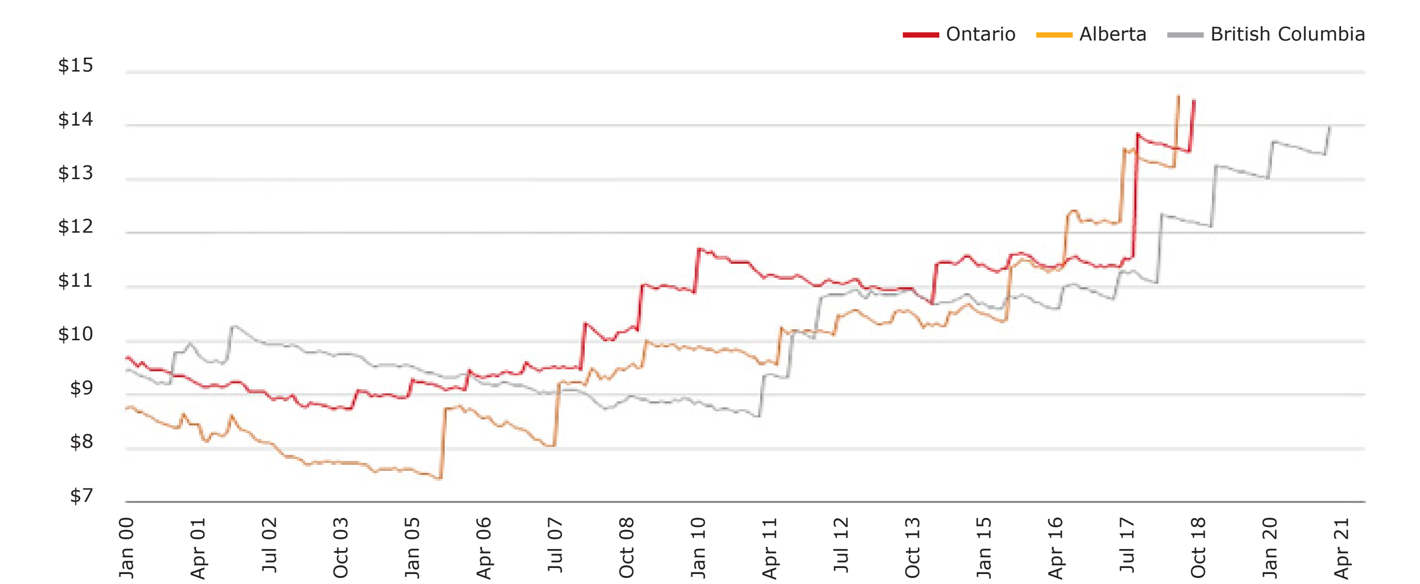
Ontario

The minimum wage has been raised significantly in Ontario since 2007. Notably, these minimum wage increases took place even after a report commissioned by the province's Ministry of Finance warned strongly against it. Author Morley Gunderson wrote that raising the minimum wage "could exacerbate" poverty, would reduce employment for young people, and could impede job training.[73]

When Ontario raised the minimum wage despite Gunderson's warnings, he bluntly stated, "I was surprised. I don't think it was the right thing."[74] In 2015, after a stream of minimum wage increases implemented by the Ontario government, former Statistics Canada chief economic analyst Philip Cross wrote that one "explanation for a particularly poor labour market for Ontario's youths is the steady increase in the minimum wage."[75]

Figure 1

Minimum Wage (CPI-Adjusted, 2017 $)



Note: Assumes 2 percent annual change in the CPI beginning in April 2018

Cross observed that the minimum wage increased "much faster" than median wages, and that the policy reflected "a confusion that high wages make for prosperity, when in reality 'prosperity makes high wages.' Mandated high wages not justified by productivity is a recipe for job loss and slower economic growth." The consequences of Ontario's past minimum wage increases has been, entirely predictably, lost jobs for young workers.[76]

With the minimum wage rising from $11.60 to $14 in January 2018, and then to $15 in January 2019, new analyses predict more job losses. Ontario's Financial Accountability Office (FAO) estimated that the policy "will result in a loss of approximately 50,000 jobs" and that "there is evidence to suggest that the job losses could be larger." Echoing previous research, the FAO also concluded that "higher minimum wages are not an effective way to alleviate poverty."[77]

Other projections are even gloomier. TD Bank forecasted that 80,000 to 90,000 jobs would be lost as a result of the minimum wage increase, and National Bank estimated that 124,000 jobs would be lost, slightly more than half of which would be for workers aged 15 to 24 years old.[78] The Canadian Federation of Independent Business (CFIB) estimated that 68,100 to 155,900 jobs would be lost for youth alone.[79]

Notably, the CFIB analysis assumed that employment would fall by 3 to 6 percent among workers aged 15 to 19, and 2 to 5 percent among workers aged 20 to 24, for every 10 percent increase in the minimum wage—estimates in line with Canadian evidence. According to Morley Gunderson, the recent Canadian evidence generally finds "that a 10 percent increase in the minimum wage reduces employment by about 3 to 6 percent for teens and slightly less for young adults."[80]

Alberta and British Columbia

The same CFIB report predicted similar job loss results for Alberta (16,300 to 37,100 jobs lost for youth) and British Columbia (29,600 to 67,700).[81] Another study, written by University of Alberta economist Joseph Marchand and published by the C.D. Howe Institute, estimated that the Alberta minimum wage policy would cost roughly 25,000 jobs.[82]

Marchand's report cited studies concluding that the minimum wage does not reduce poverty, with one of the studies providing evidence that the "minimum wage was associated with an increase in poverty due to the loss in employment." According to Marchand, "existing Canadian evidence points to a larger employment loss from a minimum wage increase than in the US" and it "is not likely to reduce poverty and may even increase it."[83]

Another analysis published by the Bank of Canada (before British Columbia's $15 minimum wage policy was announced) estimated that 60,000 jobs would be lost in Canada by 2019 due to minimum wage increases.[84] But according to economist Jack Mintz, the Bank of Canada study incorrectly based its analysis on marginal instead of large changes in the minimum wage, and furthermore, "most studies underestimate" job losses by examining only short-term effects.[85]

Mintz also noted that the Alberta Premier's claim that minimum wages increase employment was "based primarily on one study that was later refuted with better data" and was "intuitively nonsensical."[86] (The argument that minimum wages stimulate the economy was one of the ten fallacies debunked in the previous section of this paper).

As Nobel laureate James Buchanan once wrote, just as "no physicist would claim that 'water runs uphill,' no self-respecting economist would claim that increases in the minimum wage increase employment. Such a claim, if seriously advanced, becomes equivalent to a denial that there is even minimal scientific content in economics, and that, in consequence, economists can do nothing but write as advocates for ideological interests."[87]

CONCLUSION

Over time and across countries, empirical evidence has confirmed the textbook belief that raising the minimum wage causes unemployment and reduces economic growth, without reducing poverty. More than sixty years ago, Nobel laureate Milton Friedman described minimum wage legislation as "about as clear a case as one could hope to find of a measure whose effects are precisely the opposite of those intended by the men of good will who support it."[88]

Indeed, the empirical evidence shows the minimum wage hurts both unskilled workers and the poor. A study published four years ago by a government-sponsored think tank in Ontario concluded that the "Canadian evidence is more in agreement that minimum wages have no effect on reducing poverty and may even exacerbate poverty slightly" and that raising the minimum wage would reduce employment among young adults.[89]

What will be the consequences of Ontario, Alberta, and British Columbia instituting a $15 minimum wage? The sure result of raising the minimum wage to $15 is that unskilled workers whose productivity is less than $15 will not be employed, unless they are able to find businesses willing to pay more than their labour is worth. In addition, by causing unemployment, raising the minimum wage will necessarily damage economic growth in these provinces.

Supporters of the minimum wage contend that minimum wage legislation protects workers, and have conjured numerous explanations for why the minimum wage could actually improve economic growth while not causing unemployment. These arguments are, however, grounded in fallacy and cannot be reconciled with basic economic facts, as this paper has shown.

While this paper has focused primarily on the negative effects of the minimum wage on unskilled workers, others are also impacted. Business owners who provide jobs to unskilled workers are also made worse off and some businesses will be forced to close if they cannot absorb the higher labour costs. Consumers, especially the poor, are made worse off because consumer prices rise and shopping options are lost when businesses are forced to close.

The bottom line is that raising the minimum wage is economically damaging, and hurts unskilled workers as well as the poor. At the very least, provincial governments should freeze the minimum wage. In order to do most good to workers, to give workers the most freedom, and to give workers the greatest amount of protection by increasing the number of businesses competing for their services, the minimum wage should be scrapped completely.

ENDNOTES

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24. The surplus of labour that arises when a wage floor is instituted is exacerbated by an increase in the competition for employment. For instance, an artificially high wage rate might induce people to enter the labour market right after graduating from high school instead of going to college. This increases the labour supply pool, exacerbating the surplus and pushing the least-skilled workers out of jobs.

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