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## FINANCIAL POST

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### William Watson: Ontario's fact-free minimum wage policy

By William Watson

*Even Ontario's own study says higher minimum wages trigger higher unemployment, which results in more poverty*

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The report of Ontario's Minimum Wage Advisory Panel that led to the Ontario government's decision Thursday to index its \$10.25 minimum wage retroactively to 2010 and add a few cents to round it up to \$11 even was actually not a bad piece of work.

#### **Ontario tied with Nunavut for Canada's highest minimum wage after 75 cent hike<sup>1</sup>**

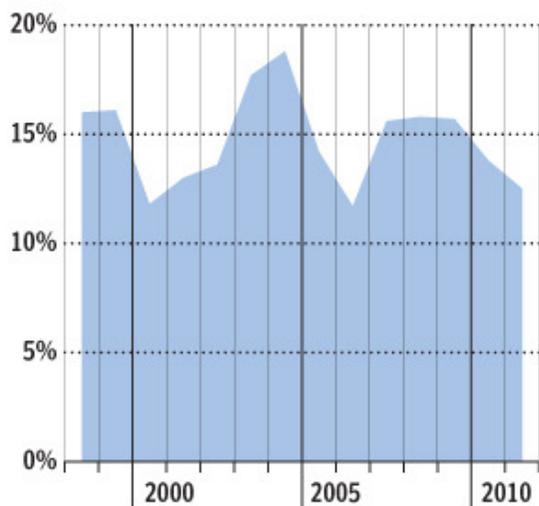
Ontario's Liberal government is raising the minimum wage to \$11 an hour effective June 1, while introducing legislation to tie future increases to the rate of inflation, a key recommendation of an expert panel. Read on<sup>2</sup>

To begin with, it didn't recommend what the government decided to do. The panel's chair, Anil Verma, a professor of human resources at the University of Toronto's Rotman School of Management, chose to interpret his mandate narrowly and to examine how decisions about the minimum wage are made rather than what the level of the minimum wage should be. The panel's only recommendations were to: Index the minimum wage to the Consumer Price Index, adjust it every April 1st (which for some reason the government decided to change to October 1st), do an overall review every five years and, as you'd expect from a panel headed by a professor, "establish an ongoing research program for data and information gathering," not necessarily at the Rotman School, I suppose, but doubtless paying much more than minimum wage.

It would have been better, of course, had the panel heeded this page and recommended doing away with the minimum wage altogether. But if you've got a minimum wage, as Ontario does, and the government is centre-left and not very imaginative (if that's not redundant), the chance of that happening is pretty much zero. So on balance, a report that says index the minimum wage to the CPI and change it annually is probably the most jobs-friendly outcome possible.

## ***PER CENT OF ONTARIO MINIMUM WAGE EARNERS WHO ARE POOR***

*Poor is classified as having income less than Statistics Canada's "Low Income Measure."*



SOURCE: MINIMUM WAGE ADVISORY  
PANEL REPORT

ANDREW BARR / NATIONAL POST

Moreover, thanks to tables and charts provided by the Ontario ministries of labour and finance, the report provides lots of great ammunition against the minimum wage. Two-thirds of minimum wage workers (compared to only 15% of workers overall) are 24 years old or younger. Fifty-six percent are still living with their parents and very unlikely to be the sole earner in their family. Only 12% are single individuals or lone parents. Only 12.5% live in poor households, using Statistics Canada's "Low Income Measure," to define poverty. If you change the minimum wage, you're not generally affecting poor people. You're mainly affecting kids living in households situated in all segments of the income distribution, including the topmost.

Higher minimum wages trigger higher unemployment, which results in more poverty

Two other interesting tidbits of data are that 6,200 Ontario workers in the "public administration" sector work for minimum wage (out of a total of 382,700 workers in that sector in 2012) and that 10% of minimum wage workers, 53,600 in total, are either unionized or covered by a collective agreement. Given the moral depredation usually attributed to businesses paying the minimum wage, it's nothing less than shocking (isn't it?) that in some parts of Virtuous Ontario's public sector workers make only minimum wage. Does Premier Kathleen Wynne know about this? Presumably, it won't be more than a few minutes after somebody tells her that she raises these workers up to a "living wage" of \$14 or \$15 an hour.

As for unions, how could they possibly consent to collective agreements in which workers earn only minimum wage? Are Ontario's union leaders corrupt? Somebody should check their Facebook pages for photos of parties on employers' yachts, of the sort Quebec union leaders regularly frequent. In fact, a more likely explanation is that union leaders understand some workers' productivity is not high enough - whether because they're inexperienced, recent immigrants, or uneducated - to justify more than minimum wage. If so, insisting on a higher wage will cause low-skilled jobs to disappear. Minimum wage legislation tells employers the least they can pay the people they do employ. It doesn't force them to actually employ anybody. Not yet, at least.

The panel report is excellent on that fundamental point, too: "In the Canadian context, researchers have generally found an adverse employment effect of raising minimum wages especially for young workers... More recent studies find larger adverse employment effects... Typically those studies find that teen employment would drop by 3%-6% if the minimum wage is raised by 10%... The adverse employment effects were substantially larger when they involved a large minimum wage increase [such as would be involved in providing four years of catch-up indexing, for instance?] compared to a cumulative series of smaller increases of the same magnitude."

Aha! The rationale for the minimum wage becomes clearer. It helps hasten the disappearance of low-skill jobs

The panel also summarized research suggesting that in addition to cutting jobs businesses may cut the number of hours of work they offer after an increase in the minimum wage. It even quoted Canadian research suggesting "that a higher minimum wage leads to an increase in poverty." That's right. An increase in poverty. The reason? Higher minimum wages trigger higher unemployment, which results in more poverty as household incomes drop among low-income families." Premier Wynne clearly missed this section of the report. Her news release Thursday pumped the new policy as part of the province's anti-poverty program.

Given the emphasis these days on "evidence-based policy," especially among Liberals, it's passing strange that Ontario's Liberal government chose to disregard so much evidence collected by its own ministries for its own advisory panel.

Unfortunately, one research area the panel did not report on concerns CPI bias. It's well understood that because consumers can respond to higher prices for one good or service by shifting their spending to others the CPI tends to overstate increases in the cost of living- maybe not by much but by some non-zero amount. Over time, therefore, indexing to the CPI will lead to real increases in the minimum wage and that may end up producing larger disemployment effects than would otherwise be expected.

And the panel report ends with a weird final paragraph about "a high wage strategy to maintain and foster [Ontario's] prosperity." Never mind that nobody in the policy universe, not even the federal Tories, is recommending a low-wage strategy. The idea is to improve people's skills so their productivity rises, thus justifying the higher wage that everyone in Ontario would like to see everyone in Ontario paid. "In such a scenario, certain types of low-skill jobs would be lost..." Aha! The rationale for the minimum wage becomes clearer. It helps hasten the disappearance of low-skill jobs. Which is a great thing for a society unless, for whatever reason, you happen to be a low-skill person. Then what do you do?

## References

1. [news.nationalpost.com/2014/01/30/ontarios-minimum-wage-to-rise-to-11-an-hour-this-june-an-increase-of-75-cents-an-hour](http://news.nationalpost.com/2014/01/30/ontarios-minimum-wage-to-rise-to-11-an-hour-this-june-an-increase-of-75-cents-an-hour)
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