

# Living Wage Laws Can Hurt the Most Vulnerable Workers



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**Charles Lamnam**

**W**hat a world it would be if governments could simply legislate higher pay for low-wage workers without any ill effects. But we live in the real world and here public policy should be informed by evidence, not just good intentions. The reality that many labour activists fail to realize is that when

governments mandate wage floors, there are real adverse effects. And the people hurt are often the most vulnerable with the least skills.

The latest call for a higher wage floor in Canada comes from the Members of Health Providers Against Poverty, a group of doctors and nurses who are lobbying the Ontario government to increase the provincial minimum wage. The group claims that by hiking the minimum wage to \$14 per hour from the current \$10.25 rate, the government can “legislate low-wage workers out of poverty.”

If history is any indication, the actual outcome would be quite different.

When governments impose a wage floor higher than what would prevail in a competitive market, employers find ways to operate with fewer workers. While the more productive workers who keep their jobs gain through higher wages, their gain comes at the expense of other workers who lose as a result of fewer employment opportunities. Young and low skilled workers usually end up as collateral damage in the process.

Don't take my word for it. Consider a comprehensive review of independent, academic research on minimum wages and employment by University of California Professor David Neumark, the foremost expert in the area. The review looked at more than 100 studies covering 20 countries and found the overwhelming majority of studies concluded that minimum wage hikes negatively affect employment.

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In Canada, more than a dozen studies have examined the impact of provincial minimum wage hikes. Based on those findings, a 10% increase in the minimum wage decreases employment for workers aged 15 to 24 by an average of 3% to 6%. For young workers most affected—those earning between the current minimum wage and the proposed higher wage—the impact can

be more acute, with job losses of up to 20%.

It gets worse; minimum wage policies have other unintended consequences.

Evidence shows that employers also respond by cutting back on hours, providing less on-the-job training, and giving employment priority to the most productive and experienced workers.

As for the link between minimum wages and

poverty, labour activists may be surprised to find a growing body of evidence that shows minimum wage increases actually do little to help households in need.

One recent Canadian study examined minimum wage increases across provinces from 1981 to 2004 and found that raising the minimum wage by 10% was associated with a 4% to 6% increase in the percentage of families living below Statistics Canada's low income cut-off.



Michael Fleshman

## **Labour activists continue to demand higher government-legislated pay**

A 2012 study by leading minimum-wage researchers in Canada, including University of Toronto's Morley Gunderson, analyzed provincial data from 1997 to 2007 and found that raising the minimum wage did nothing to reduce measures of relative poverty.

A key reason for these findings is that the bulk of those working for the minimum wage do not actually belong to low-income households. In a 2009 study researchers used Statistics Canada data to profile minimum-wage earners in Ontario and found that "over 80% of low-wage earners are not members of poor households."

Yet despite scores of economic studies that contradict claims about minimum wages reducing poverty, labour activists continue to trot out demands for even higher government-legislated pay. The newest fad is "living wage" laws.

These laws require private employers who do contract work for a city and in some cases who receive city government subsidies to pay their workers a wage promoted by labour activists. Unlike minimum wage legislation, living wage laws cover smaller groups of workers and typically require a much higher wage. The living wage in New Westminster, B.C. (Canada's only city to adopt such a law) is currently \$19.62, almost double the prevailing minimum wage of \$10.25.

According to research from the United States (where more than 140 municipalities have such legislation), leading scholars in the field have determined a 100% increase in the living wage (say going from an hourly minimum wage of \$10 to \$20) reduces employment among low-wage workers by 12% to 17%. Like minimum wages, living wages also result in employers hiring more qualified workers to justify the wage increase while passing over those with fewer skills.

And living wage laws often don't help the most poverty-ridden families, in part because the overwhelming proportion of beneficiaries tends not to be poor. In fact, a study of seven major U.S. cities found 72% of workers benefitting from living wage laws were not poor. Of the 28% who were considered poor, only one-third moved above the poverty line.

All this should be a hard pill for activists to swallow since the most impoverished and least skilled workers are presumably the very people they want to help by increasing the minimum wage or imposing living wage laws. Yet the notion that we can, by government decree, increase people's pay and stamp out poverty remains a strong belief. The real world shows otherwise. ■



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Read the study **HERE**

