

THE APPEAL—AND FOLLY— OF A MINIMUM WAGE

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This is an election year and the New Democratic Party of Canada will include as part of its platform a federal minimum wage, which the party says will increase to \$15/hour within its first term in government if elected (New Democratic Party of Canada, 2014). This policy will undoubtedly be backed by numerous students' unions in Canada. Over the past two years, students' unions have poured significant time and resources into a campaign organized by unions and activists to lobby the Ontario Government to increase the minimum wage.

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In November 2013, the Canadian Federation of Students–Ontario, an organization composed of 38 students' unions and more than 300,000 students, called for an immediate minimum wage increase to \$14. The CFS-Ontario presented two primary arguments in favour of a minimum wage hike. Firstly, it argued that an increased minimum wage “should help ensure that students can afford to pay for tuition fees, books, supplies, and living expenses,” as many students work to put themselves through university (Canadian Federation of Students–Ontario, 2013a). Minimum wage hikes would help students, the CFS-Ontario argued, because 60 percent of minimum wage workers are youth

under the age of 25 and many of them attend school. The second argument the CFS-Ontario gave for an increased minimum wage was that a hike to \$14 would put a full-time worker earning the minimum wage 10% above the poverty line.

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Unfortunately, the CFS-Ontario's analysis was devoid of any behavioural changes that would arise as a result of a minimum wage hike. The Canadian Federation of Independent Business points out that "experience has shown that large jumps in the minimum wage tend to hurt the very people they are supposed to help: low-skilled and low-income Canadians," (Braun-Pollon, DeMarco, and Wong, 2011). Indeed, if the minimum wage rises above an employee's capacity to produce, "employers adjust their affairs accordingly. Employers not only respond by decreasing the number of jobs, but also by reducing the hours employees work, cutting non-wage benefits like on-the-job training... and/or finding ways to operate with fewer workers and more automation" (Lammam and MacIntyre, 2013).

The job losses and reduction in future job growth from even a small minimum wage increase are not trivial. The CFIB estimates that increasing the minimum wage in each province by 10% would result in between 92,300 and 321,300 job losses in Canada (Braun-

Pollon, DeMarco, and Wong, 2011). An American study published by the National Bureau of Economic Research in 2013, and cited by Charles Lammam and Hugh MacIntyre in a 2013 Fraser Forum article, "found that a 10% increase in the minimum wage led to about a one-quarter reduction in the rate of net job growth" (Lammam & MacIntyre, 2013).

Furthermore, another paper from the National Bureau of Economic Research that examined close to 100 studies on the minimum wage concluded that that a "sizable majority of the studies" indicated that minimum wages had a negative effect on employment and that there were "very few—if any—studies that provide convincing evidence of positive employment effects of minimum wages" (Neumark and Wascher, 2007). It is clear that the evidence overwhelmingly disproves the Canadian Federation of Students' claim that increasing the minimum wage creates jobs (Canadian Federation of Students, 2014).

There are very few—if any—studies that provide convincing evidence of positive employment effects of minimum wages

The damaging effects of minimum wage hikes on employment prospects disproportionately affect students and youth who, as previously stated, hold the majority of minimum wage positions. Canadian studies estimate that "a 10 percent increase in the

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minimum wage is likely to decrease employment by an average of three to six percent for young workers (aged 15 to 24). For young workers most directly affected—those earning between the current minimum wage and the proposed minimum wage—the impact is more acute, with employment losses of up to 20 percent” (Veldhuis and Karabegovic). The three to six percent reduction in employment among young workers estimated by the Canadian studies is “consistent with that from most other industrialized countries when comparable methodologies are used” (Gunderson, 2008).

If such substantial job losses are expected as a result of a 10% minimum wage hike, it is easily imaginable that a national minimum wage of \$15 (as proposed by the NDP), which represents a 36 to 50 percent increase depending on the province, would result in significant employment reduction among youth and students. Furthermore, contrary to popular belief, the minimum wage hike would likely not improve the standard of living for poor households. Only 17.1 percent of low-income earners belong to a poor household, and only 23.2 percent of poor households contain a low-

income earner (Mascella, Teja, and Thompson, 2009).

Lastly, any plan to implement a national minimum wage should be rejected because it would do away with Canada’s current provincial minimum wage laws, which are likely less damaging because they allow provinces to take into account regional economic factors when setting a minimum wage policy.

In sum, while a national minimum wage of \$15 may sound appealing to students who are looking for better-paying jobs or who care about poverty alleviation, such a plan should not be supported due to the damaging effects it would have on youth employment and because minimum wage hikes do not generally benefit low-income households. Students’ unions, which have in the past poured large amounts of financial and other resources into election campaigns and into campaigns to hike the minimum wage (Canadian Federation of Students-Ontario, 2013b), should not support any plans by any political party to hike the minimum wage. Doing so would only be a waste of students’ money and would damage the employment prospects of the students the union is supposed to represent. ©



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