

Higher minimum wages will have a positive impact on Canadian economy

By Andrew Jackson

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Due to the strong lobbying efforts of labour and social activists, Canada's minimum wage floor is rising significantly from the current level of between \$11 and \$12 per hour, depending upon the province. A new norm of \$15 per hour will be in place, in Alberta by October, 2018, in Ontario by January, 2019, and very likely in British Columbia under the terms of the NDP-Green Party agreement.

A phased-in \$15 per hour minimum wage standard will undeniably have a major impact on the Canadian job market. But, employer protestations of doom and claims of large job losses notwithstanding, the change will be for the better.

Canada stands out in international comparisons as a low-wage country. The OECD provides data on the proportion of full-time workers who earn less than the national median or midpoint wage. More than one in five Canadian workers (22.2 per cent) earn low wages by this definition, and close to a third of private-sector workers are low paid if one includes part-timers.

While Canada does slightly better than the United States, where 25 per cent of full-timers are low paid, low-wage work is less prevalent in many European countries due to higher minimum wages and/or higher rates of unionization in low-wage sectors of the economy. The incidence of low-wage work is around 8 per cent in Scandinavian countries such as Denmark and Finland (8.4 per cent), and 18.4 per cent in Germany.

It is often claimed that a higher minimum-wage floor comes at the cost of jobs, but the employment rate (the percentage of the working-age population with jobs) is higher in the Scandinavian countries (Denmark, 74.5 per

cent, Sweden, 76.4 per cent) and in Germany (75.1 per cent) than it is Canada, where it stands at 72.9 per cent. The United States has lots of low-wage jobs, and the employment rate in that country is just 69.5 per cent, well below that of Canada and many European countries.

The comparative data suggest that, at a minimum, there is no consistent, long-term, economy-wide tradeoff between a decent wage floor and jobs. Indeed, very low wages may discourage workers from accepting jobs, as seems to be the case for the many low-skilled, male workers in the United States who have abandoned the job market in recent years.

The main way the economy responds to a higher wage floor is through higher labour productivity or higher output per hour worked. OECD data show that productivity in the Scandinavian countries and Germany is much higher than in Canada. Canadian output per hour worked is just 73 per cent of the level in Denmark and 76 per cent of the level in Germany (and we lag badly behind the United States, too.)

Countries with high wage floors tend to have somewhat fewer jobs in labour intensive private services such as restaurants and retail trade, but these jobs are better paid and more productive due to higher investment in machinery and equipment, higher skills and much lower worker turnover. Higher business-sector productivity sustains higher wages and boosts overall demand for goods and services as well as the tax base to fund more public-service jobs.

Here in Canada, studies suggest that higher minimum wages set at the reasonable level of about two-thirds of the median wage or about \$15 an hour may lead to a modest reduction in

hours worked. But the vast majority of low-wage workers will be better off. (It is far better to work 35 hours at \$15 per hour than 37 hours at \$12 per hour.)

Businesses in low-wage industries will not be placed at a competitive disadvantage compared with one another since they will all need to adjust. Likely, there will be some price increases to cover higher labour costs and some long-term shift of employment out of very labour-intensive, low-wage sectors. That is a good thing.

The goal of economic policy makers should be to secure high employment at decent wages. Having lots of low-wage jobs is just as much a sign of failure as is high unemployment. What we need is higher productivity in low-wage industries, and a higher minimum-wage floor will help to do the job.

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