Minimum wage hike will cost 110,000 jobs in Ontario, Alberta, economists say

By David Parkinson
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Two new economic papers predict that the $15-an-hour minimum wage plans of Ontario and Alberta will result in combined net losses of roughly 110,000 jobs – but argue that those losses could be mitigated by slower implementation and more favourable timing in the economic cycle.

A report released Tuesday by Toronto-Dominion Bank, assessing Ontario's proposed 32-per-cent minimum-wage increase by the start of 2019, predicted that the province would take a hit of about 80,000 to 90,000 jobs by the end of the decade, as the increased costs would likely motivate employers to reduce hiring and increase automation. A separate report, from economic think tank C.D. Howe Institute, projected that Alberta's job losses from its planned 23-per-cent hike by the fall of 2018 would be about 25,000, citing similar reasoning.

In both cases, the predicted job losses are equivalent to about 1 per cent of the provincial labour force. The losses are relative to the employment levels that would have been expected without the minimum-wage changes – they don't imply that the two provinces are expected to show declining overall employment as a result of the wage increases. (Indeed, TD predicted that Ontario employment would still grow over the next few years, "but at a tepid clip of about 0.5 per cent annually.")

Both papers based their rough projections on the findings of empirical studies measuring the impact of past minimum-wage increases in various jurisdictions. However, both noted that there are few if any historical case studies comparable to Alberta and Ontario, as both are poised to be the first Canadian province or U.S. state to increase to $15 an hour – and both are raising their minimums much faster than in the historical cases.

"It is difficult to find experiences in North America where the wage has been increased as sharply over such a compressed period of time," the TD report said.

The studies contribute to the growing debate about the wisdom of the minimum-wage increases planned in the two provinces, as well as in British Columbia, which has also pledged to raise its rate to $15 an hour, although it hasn't yet specified a timeline. Proponents argue that the higher rate will improve overall living standards, address income inequality and stimulate economic growth. Opponents charge that the increases will cripple small-business owners and will make those jurisdictions uncompetitive.

The studies both acknowledged that the potential upside effects of higher minimum wages – redistributing more disposable income to low earners, helping the working poor, and creating greater incentive for labour-force participation – could potentially outweigh the job losses. However, they argued that the high speed that the two provinces plan to implement their steep wage increases may well tip the scales to the negative.

"Changes implemented over longer time frames tend to reduce the adjustment costs faced by firms, especially smaller businesses," TD economists Derek Burleton, Michael Dolega and Dina Ignjatovic wrote in their report. "These estimated job impacts could be mitigated by extending the implementation timeline."

The reports also questioned the timing of the minimum-wage increases, arguing that their negative economic impact is much more easily absorbed when an economy is on the upswing, labour demand is strong and wages are rising anyway. After above-typical growth the past few years, Ontario's pace of economic expansion looks likely to slow in 2018 and 2019, the years the two-stage minimum-wage increase is scheduled to occur. And while Alberta's economy pulled out of its two-year recession this year, the muted outlook for oil and gas prices suggests it is unlikely to see the kind of growth it enjoyed in its boom years, which would much more easily support big minimum-wage increases.

Alberta is actually in the middle of its four-year plan to raise its minimum wage to $15 an hour from $10.20, which began in the fall of 2015 – in the teeth of the province's oil-shock recession. University of Alberta economics professor Joseph Marchand, the author of the C.D. Howe report, noted that the province has already lost about 25,000 low-wage jobs since the increases began.

"Given the trade-off between raising the minimum wage and potentially lowering employment, it would be best that increases to the minimum wage occur at a time when labour demand is expanding rather than contracting," Prof. Marchand wrote. "Without such a stimulation of labour demand, the potential employment loss is likely to be larger than it otherwise would be. This is as true for Alberta as it would be for any other province or state adopting such a large increase to their minimum wage."