The many ways of counting the cost of a minimum wage

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Canadians in the 21st century can be pretty self-congratulatory about our social progressiveness. But on the issue of the minimum wage, maybe our parents and grandparents could teach us a thing or two.

Fifty years ago, when Ontario's Progressive Conservative government passed legislation to raise the minimum hourly wage by a whopping 30 per cent – to $1.30 an hour from $1 – the opposition parties were up in arms. Not because of the potential cost to the economy, or the unfair burden on struggling business owners, or the damage it might do to the province's competitiveness. No, the opposition's biggest complaint was that the increase was far too small.

Contrast that with the dramatic headlines and audible collective gasps generated by a research paper released by the Bank of Canada on Dec. 29 – the last business day before Ontario's substantial minimum-wage increase took effect. The study projected, among other things, that planned minimum-wage increases in this country would reduce employment in Canada by about 60,000 jobs over the next two years. (It mainly addresses the two big minimum wage hikes in the pipeline – Ontario, whose minimum rose to $14 from $11.60 effective Jan. 1, and will rise to $15 at the start of 2019; and Alberta, which raised it to $13.60 an hour from $12.20 last October, and will raise it to $15 next October. The two provinces together account for more than half of Canada's labour force. The research paper also incorporates much smaller cost-of-living increases planned in other provinces.)

The study said other things, too, but almost no one heard them.

The report was seized upon – not just by long-standing critics, but in the broader public discourse – as damning evidence, from an official source in high places, that the policy is a job killer. (Never mind that it was essentially a discussion paper from Bank of Canada economic staff, not the central bank's official position.) Bottom line, the knee-jerk reaction went, the increase of minimum wages in Alberta and Ontario is about to hurt the very people it's supposed to help. It's about to leave them unemployed.

Perhaps the 60,000 figure made good headlines and fit nicely into tweets, but let's stop yelling that the sky is falling and grasp some perspective.

First, the Bank of Canada study isn't predicting that total employment in the country would decline by 60,000 over the next two years, only that the effects of the minimum-wage hikes imply 60,000 fewer jobs than the economy might have had without the hikes. That means a slowing of net annual job creation of 30,000 a year – in an economy that has added an average of about 210,000 jobs a year since the Great Recession. It's not going to make or break job growth in this country.

More to the point, a 30,000 annual hit amounts to just 0.1 per cent of Canada's working-age population (those 15 and over). That's a tiny sliver being shaved off the labour market over each of the next two years.

Of course, if you're one of those 60,000 people unemployed who would otherwise have had a job, it's obviously not a small thing at all. But it's also no small thing to the roughly 1.6 million Ontarians and Albertans who earn less than $15 an hour, and are in line for a raise.

Indeed, lost in the hand-wringing was the other key conclusion of the Bank of Canada paper: That total real wages will climb about 0.7 per cent in the next two years as a result of the minimum-wage increases. Canadian workers, as a whole, will have more money in their pockets.

And the people who will specifically have more are at the low end of the income spectrum – who are generally more likely to spend most of their income increase – largely out of necessity. The working poor aren't big savers. The result, in theory, is a bump in consumer spending – from which business owners and the broader economy would benefit.

All of this is a reminder that the debate surrounding minimum wages is about acceptable trade-offs.

Few would argue that minimum wages haven't been a good thing for Canada's economic and social well-being; we have a hundred years of history with minimum-wage laws that have proved their value. Nevertheless, it would be delusional to say that the benefits don't come at a cost – to business owners and, yes, to the hiring of low-paid, low-skilled workers. It's a matter of finding the balance point, where you maximize the benefits relative to the costs. And as minimum wages climb rapidly, as they are doing in Ontario and Alberta, there's a question of going beyond that point, pushing the costs up while eroding the benefits. How much is too much?

The answer isn't the same for the two provinces – even if their minimum-wage target of $15 an hour is identical.

A critical metric for minimum wages is their ratio to average earnings. While it's hard to pinpoint the exact optimal ratio, some research suggests it might be in the 50-per-cent area – i.e. a minimum wage approaching 50 per cent of average earnings. Creep too much above that, and you may erode the net benefits of your benevolence. (Nationally, Canada's ratio has hovered in the mid-40s for the past decade.)

Alberta's average hourly earnings were $30.78 an hour in December, the highest in the country. So for Alberta, a $15-an-hour minimum wage will mean about a 48-per-cent minimum-to-average-wage ratio (assuming some modest wage growth over the next 10 months). But Ontario's average hourly earnings last month were $26.98 an hour; its $15 minimum wage a year from now (assuming average wage growth in line with inflation) will be close to 55 per cent.

In a report last fall, economists at National Bank of Canada noted that in the mid-1970s, Quebec raised its minimum wage to 54 per cent of its average hourly earnings. Within two years, unemployment among youth (age 15-24, who make up roughly 60 per cent of Canada's minimum-wage earners) had soared by six percentage points, to nearly 20 per cent, at the same time as neighbouring Ontario's youth unemployment had held stable. A study commissioned by the Quebec government concluded the province needed to ratchet back its minimum-to-average wage ratio to below 50 per cent.

Ontario's youth unemployment rate, at 11.1 per cent, is already above the national average of 10.3 per cent. Does giving these workers a better living wage outweigh the risks to their overall employment prospects?

If the Bank of Canada study's projections prove accurate, maybe the trade-off is a reasonable one. But in Ontario, more so than in Alberta, the risk is there that they'll push that trade-off too far.