Submission to
Ontario's Minimum Wage Review Panel

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Toronto, September 6, 2013

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About Unifor

Unifor is a new Canadian union formed on August 31, 2013 as a result of the combination of the former Canadian Auto Workers (CAW) and the Communications Energy and Paperworkers' union (CEP). Unifor represents over 300,000 members working in at least 20 sectors of the economy (including all stages of the economic value chain, from resources to manufacturing to transportation to private and public services). Over half of Unifor's members live and work in Ontario.

Unifor is committed to the principles of social unionism: our goal is to improve the lives of all working people, their families, and communities, whether they are presently union members or not. In our judgment, a fair and secure society requires a combination of progress through collective bargaining for unionized workers, with stronger labour market regulations, income security policies, and other initiatives to enhance inclusion and equity in the overall labour market and broader society. Our interest in strengthening Ontario's minimum wage policies is fully consistent with that vision of a stronger, fairer labour market for all working people.

The Importance and Effect of Minimum Wages

Minimum wages are not just an anti-poverty measure (although they have positive impacts on incomes among lower-wage workers and their families). They have a broader importance in regulating labour market outcomes and supporting wage determination and income distribution across the labour market.

Minimum wages play a structural and even cultural role in lifting wages throughout the labour market. Wages in many occupations are traditionally set with some reference to the prevailing minimum: that is, workers are paid an increment over and above the statutory minimum (to recognize their productivity, elicit retention, and meet other goals). Higher minimum wages thus have a "trickle-up" impact on wages in a larger segment of the labour market, reaching well beyond those workers who work for the minimum.

Minimum wages also help to influence broad social expectations among workers and employers alike regarding what is "decent" or "expected" in wage determination and income distribution. Again, this impact is experienced at many levels (not just among very low-wage workers). In so doing, they help to influence the overall distribution of income in the labour market. Historically, more interventionist labour market measures (including minimum wages) were associated with a more egalitarian factor distribution of income between labour and capital (Brennan, 2012). The reverse has occurred as labour market regulations have been weakened in recent decades – and as a result Canada has experienced a dramatic shift in income distribution away from workers and in favour of employers.

Some have argued that since some minimum wage workers are young people living with their families (and hence may not experience poverty despite their low wages), minimum wages. We reject this argument for several reasons. Any worker's relationship with their employer should not depend on their family status: whether you live with someone else who earns a higher income should not undermine your ability to attain fair compensation for your own efforts in the labour market. Many workers employed at or near the minimum wage do live on their own, and many have dependents. Challenging economic conditions have in fact led many young workers to stay at home longer with their parents; this trend carries lasting negative consequences for them and their families, and should hardly be celebrated. And as we have noted, minimum wages carry a broader economic significance (in affecting the whole macroeconomic distribution of income), and should not be understood solely or primarily as an anti-poverty measure.

Minimum Wage Benchmarks

Minimum wages in Ontario have been frozen for three-and-a-half years at $10.25 per hour. Minimum wages had been increased in several stages prior to March 2010; it has been frozen ever since. During the subsequent period, consumer prices in Ontario have increased by over 7 percent (measured by Statistics Canada's all-items CPI for Ontario). The resulting decline in real incomes for low-wage workers in Ontario (those working at the statutory minimum, but also those whose wages are determined with reference to the minimum) is very unfair, and has undermined household finances and consumer spending in the province.

In real terms, minimum wages in Ontario are about as high today as they were in the mid-1970s, and higher than in some previous periods (notably during the long 9-year freeze in minimum wages that was the result of former Ontario government policies between 1995 and 2004). However, it is important to measure the real level of minimum wages not solely in relation to some historical benchmark, but also in reference to overall labour market outcomes. The broad indirect impact of minimum wages described above on income distribution, must be understood in reference to the overall level of wages and productivity demonstrated in the labour market.

Relative to average wages, and relative to average hourly productivity, minimum wages in Ontario are significantly lower today than they were even in the 1970s (when minimum wages could be said to exert their greatest influence). Internationally, too, while Ontario's (and Canada's) minimum wages are in the middle of the pack of industrial economies, they are low relative to average wages and hourly productivity (Battle, 2011). In this regard, the real economic power of minimum wages has clearly been eroded in Ontario since the 1970s – even inflation-adjusted minimum wages seem to be as high now as they were then.

Relative to minimum standards of living for Ontario families, it is also clear that minimum wages are too low. Even working full-time year-round, the existing minimum wage would leave a single worker in Ontario (with no dependents) well below low-income cut-off for a single resident (the low-income cut-off is a measure of relative poverty). Even the proposal to raise the Ontario minimum wage to $14 per hour (which we support) would barely lift a single worker (once again, working full-time year-round) past that poverty line.

However, the problem is much worse than that, due to the preponderance of precarious, part-time, and seasonal working arrangements in our labour market. For example, Lewchuk et al. (2013) found that close to half of all workers in the Greater Toronto and Hamilton area experience some dimension of precarity in their employment patters, including irregular and inadequate hours of work. For precarious workers, therefore, even a $14 per hour minimum wage would leave them facing continued poverty and insecurity.

Moreover, we must also consider the fact that workers must reproduce themselves and their families. The concept of a "living wage" takes into account the expenses associated with a family's normal activity, and the requirements of full participation in economic and social life (Brennan, 2012). Studies in Ontario have indicated that the living wage benchmark for a family of four (with two year-round breadwinners and two children) is in the range of $18 per hour (see, for example, Mackenzie and Stanford, 2008) – far higher than the existing minimum wage.

In this context, it is clear that the existing minimum wage in Ontario is highly inadequate to allow working people the opportunity to provide for themselves and their dependents at a secure, socially acceptable standard. Increasing the statutory minimum to $14 would begin to address this inadequacy. Even that would need to be combined with other measures (including employer-specific policies, training and placement initiatives, and other policy tools) aimed at lifting wages to what could genuinely be considered a "living wage."

Minimum Wages and Employment

There is a vast economic literature regarding the impact of minimum wage laws on employment, which we will not attempt to summarize here. Many different theoretical and empirical approaches have been utilized in this research, and there has been no clear consensus in the scholarly findings. Some studies find that higher minimum wages have small negative impacts on employment (in particular segments of the labour market); others find that higher minimum wages have no impact, or potentially even a small positive impact, on employment levels. Several recent papers have reviewed the vast literature on the employment effects of minimum wages, and concluded that the relationship between minimum wages and employment is very weak, especially in conditions of macroeconomic stagnation and weak spending power (see, for example, Bunker et al., 2012; Hall and Cooper, 2012; and Schmitt, 2013).

Some economists, following a traditional neoclassical theoretical approach, assume that left to its own devices, the labour market will automatically settle at a position of full employment (defined as a situation where every willing worker can find work). Fluctuations in the wage rate will motivate changes in labour demand and supply until the two are equal. In a general equilibrium context, this partial equilibrium in the labour market is held to be consistent with complementary outcomes in other factor and product markets, achieving a general equilibrium that is efficient and socially optimal, and utilizes all available factor resources.

For several reasons, we reject this analysis of how the labour market (and indeed the whole economy) functions – and hence we do not accept the conclusion that minimum wages, by lifting wages above this supposed market-clearing equilibrium, necessarily reduce employment and create unemployment. (Ivanova, 2011, provides a complete critique of the standard neoclassical model of minimum wages.) Employment cannot be explained in a partial equilibrium labour-market context. To the contrary, the demand for labour is a *derived* demand that depends fundamentally on the expectations of employers regarding how much output they will be able to sell. Demand constraints typically limit the level of output and hence employment in the overall economy.

In this understanding, the impact of minimum wages (and wages more generally) on employment needs to take into account the state of demand conditions (which are the dominant determinant of employment levels), and the impact of wages on aggregate demand. Wages have complex and often contradictory impacts on demand, reflecting their dual character: wages are both a cost of production (for employers) and the most important source of purchasing power (for households). Higher wages may discourage investment and employment – especially if investment is very sensitive to profitability, and production (such as in the export sector) is very sensitive to cost competitiveness. At the same time, higher wages may encourage more output and employment through the resulting increment to consumer spending. The net impact of these contrasting effects can vary over time. Economists have identified "profit-led" and "wage-led" regimes, depending on whether the former or the latter effects predominate.

Ontario, Canada, and much of the world economy have experienced especially painful and chronic shortfalls in aggregate demand in the last half-decade, as the lasting result of the 2008 global financial crisis and resulting worldwide recession. The sluggishness of the resulting recovery reflects the continuing negative impact of financial uncertainty and balance sheet issues on spending by consumers, businesses, and governments alike. In this context, most economists agree that consumer spending is an especially important source of demand and growth. Indeed, both theoretical and empirical evidence suggest that it is in recessionary conditions that wage-led dynamics are likely to be strongest. Lavoie and Stockhammer (2012) provide comparative evidence suggesting that wage-led mechanisms are indeed very strong in the OECD countries in the present economic conjuncture. The positive impact of minimum wages (and wages in general) on consumer spending is amplified by the fact that households can use the extra income to strengthen their balance sheets and repair debt burdens, hence leveraging additional spending capacity over and above the extra income that is generated by higher wages (Aaronson et al., 2012).

The fact that business investment spending in the Ontario and Canadian economies has been notably insensitive to strong profitability levels (leading to the perverse phenomenon of private companies accumulating excess hoards of liquid assets, or so-called "dead money") also reinforces the conclusion that wage-led linkages are likely to predominate in today's economy. Higher profit margins in Canada (at historically high levels) have not translated strongly into new business capital spending (Stanford, 2011), and hence any reduction in profit margins resulting from higher minimum wages cannot be credibly predicted to result in any notable reduction in capital spending.

In our judgment, therefore, higher minimum wages in Ontario will have no discernible negative impact on employment in Ontario, and may very well have a net positive effect (once the direct and indirect impacts of stronger family incomes on aggregate demand are experienced).

We accept that higher minimum wages help to effect a shift in the broad economic distribution of income from capital to labour (and in this light it is not surprising that business groups generally oppose minimum wages). However, there are some offsetting effects which should be taken into account in considering the net impact on business. There are also benefits of higher minimum wages for business, including:

- Better recruitment and retention outcomes.
- A correlation between higher minimum wages and higher realized productivity.
- Stronger consumer spending power which supports stronger demand conditions.

Conclusion and Recommendations

Unifor supports the proposal to increase the minimum wage in Ontario to $14 per hour.

We do not believe that this increase would, on its own, have any measurable negative impact on employment in Ontario. In fact, empirical evidence indicates very little connection at all between minimum wage levels and employment outcomes, and in current weak macroeconomic circumstances the net effect on employment is likely to be positive.

However, at the same time as minimum wages rise (and other policy tools are utilized to lift labour incomes), Ontario also needs a shift in the general stance of macroeconomic policy (in

Ontario and elsewhere in Canada) to a more expansionary footing: using tools such as expansionary fiscal policy, public sector infrastructure spending, and strategies to boost private sector capital investment and exports. Those are the key factors that will determine whether employment strengthens in Ontario, not any changes in the minimum wage.

A more regular and transparent system should be developed to evaluate and adjust minimum wages as a normal feature of labour market policy (instead of adjusting the minimum wage in an ad-hoc and necessarily politicized fashion).

Over time, the minimum wage should rise to reflect rising consumer prices, the growth of labour productivity, and the growth of average incomes.

We support higher minimum wages as part of a broader labour market strategy, including statutory regulations, employment policies within particular firms or agencies, training and placement services, and other measures to lift wages in Ontario toward a "living wage" level consistent with the ability of workers and their families to enjoy greater security and full participation in economic and social life.

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