



FASTFACTS



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Minimum Wage Laws Make Sense: Peter Holle and Frontier Centre Don't!

Does it make sense to have an active minimum wage policy in Manitoba that reduces inequalities, alleviates poverty and contributes to greater social justice?

We said "Yes" in our submissions to the Minister of Labour. Holle and the Frontier Institute said "No" in an attack on our views (*WFP 2/2/05*) in a piece titled "Minimum-wage laws don't make sense."

Before we turn to a detailed response to Holle's little piece, we believe it is important to note for the record that the Frontier Institute's position on the minimum wage is, like everything else it produces, a repetition of views that have been asserted over the last 100+ years in defence of a creed that is best summed up in the 1950 song by Billie Holiday titled, *God Bless The Child*: "Them that's got shall get. Them that's not shall lose."

This creed justifies, on the one hand, the plunder of society's resources and wealth by the owners of big business and the CEO's of large corporations who are obsessed with wringing bloated salaries and benefits out of their employees, and, on the one hand, the acceptance of pervasive and deep poverty manifested in growing dependence on food banks, homelessness and exploitation of impoverished individuals and families by loan sharks.

In his article, Holle argues that minimum wages penalize the poor and have other destructive effects. In 1994, David Card and Alan B. Krueger published an article and subsequently a book (*Myth and Measurement: The New Economics of the Minimum Wage*) in which they reported that an increase in the minimum wage in New Jersey "had no effect on total employment in New Jersey's fast food indus-

try, and possibly had a small positive effect." According to Holle, Card and Krueger's data "were erroneously gathered and analysed." Unfortunately, Holle doesn't give us a source for his claim, although we suspect it is David Neumark and William Wascher, whose work he acknowledges further on.

In 2000, *The American Economic Review* (December), published an exchange between Neumark-Wascher and Card-Krueger. Neumark-Wascher criticized the work done by Card-Krueger and suggested that, in fact, their analysis provided "a reasonable basis for concluding that [the increase in the minimum wage in New Jersey] reduced fast-food employment" in the industry. Clearly, there is nothing definitive in this conclusion. After a careful review of their original research, the Neumark-Wascher analysis and data gathered by the U.S Bureau of Labour Statistics, Card-Krueger stood by their 1994 findings.

Holle shows a similar bias and selectivity in the other sources he cites. For example, he draws on the work done by Ken Battle of the Caledon Institute (*Minimum Wages in Canada: A Statistical Portrait With Policy Implications – 2003*) to make a trivial point regarding the percentage of minimum wage workers in Manitoba. In his article in the *Free Press*, Gonick used a figure of 7.4%, Battle uses 5.2%. The discrepancy simply lies in the fact that the Caledon Institute punched up the numbers for 2000 whereas the number cited by Gonick is from an Alberta Human Resources and Employment study covering the period July 2003 – June 2004. It can be added that the percentages are much higher for particular industries such as agriculture, where minimum wage legislation does not even apply (14.5%), trade (8.8%) and accommodation and food services (23.9%).



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But the point we would stress is that beyond today's pathetic minimum wage, a target living wage of \$10.00 an hour would affect 20-25% of Manitoba's workforce. This is another way of saying that a fifth to a quarter of today's workforce earn less than what a full-time worker would require for a very basic standard of living.

Holle also ignores the most significant findings in Battle's work. Amongst other things, Battle demonstrates that minimum wages are significantly lower now both in real terms and in relation to wages in general than they were in the 1970s and 1980s. This is true of all provinces including Manitoba, where the minimum wage in real terms (measured in 2002 dollars) peaked in 1976 at \$8.73/hr. After that it declined to a low of \$5.78 in 1994. In 2002, it was \$6.83. In sum, between 1976 and 2002 minimum wage earners had their *real* wages cut by more than 20 per cent.

Battle further reports that in relation to average earnings, the minimum wage in Manitoba declined from 52.9% in 1976 to 41.8% in 2001 – a 20 per cent decline. Given Holle's assertions, we would have expected both a dramatic rise in employment and a similarly dramatic decline in poverty as a result of the decline in the minimum wage. In fact, we got neither. What we got instead were precisely the results we would expect, namely, rising inequality in the distribution of incomes and growing poverty in the 1980s and 1990s.

The rest of Holle's arguments, such as the minimum wage is responsible for the underground economy, kids are induced to drop out of school by high minimum wages, and that a high minimum wage is responsible for the high unemployment rates of Aboriginal people in Winnipeg, are either counterintuitive or nonsensical.

We do not claim that raising the minimum wage towards a living wage will have no job displacement effect in the industries most affected by increases. Our position is that the immediate impact will be muted because most of the employers affected by increases are oriented to the Manitoba market and, therefore, not nearly as mobile as some firms in the manufacturing sector. These low wage employers would be confined to a level playing field and barred from trying to improve their competitive position by beating down the wages of their employees. In the aggregate, we would suggest that the employment effect would be positive. Public investment in improved job training and an active labour market policy would further mitigate any negative impacts in low-wage industries.

Finally, it is important to recognize that at no time in our work have we suggested that increases in the minimum wage are the "silver bullet" that will resolve the poverty problem. On the contrary, our position is that minimum wage increases are but one piece of a broader strategy to reduce income inequalities and poverty, a broader strategy

that includes a more progressive income tax system, a restoration of unemployment insurance benefits to pre-Martin/pre-Axworthy levels, universal and affordable day care, an expansion in public and co-operative housing and enhanced training and educational opportunities.

Considered in this broader context, the issue that matters is the impact that improvements in the minimum wage have on inequalities in the wage distribution and poverty. And here there is a consensus that the results are positive; inequalities and poverty are reduced.

The reason Holle and the Frontier Institute focus almost exclusively on the supposed negative employment consequences of increases in the minimum wage is because their patrons have, as is noted by Oren M. Levin – Waldman (*Do Institutions Affect the Wage Structure?*, The Jerome Levy Economics Institute, '99), a vested interest in keeping things just the way they are.

We would suggest that it is time to break out of this narrow perspective and to start to look at what we need to do to create a better and fairer society that serves the interests of all of its members.

By Errol Black and Cy Gonick

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