Why the minimum wage debate isn’t going to go away

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There is a good reason why the minimum wage has fired up so much debate lately. It has to do with how a “trickle-away” recovery has dogged so many advanced economies since the 2008 global crisis hit.

For most people today, growth is happening somewhere else, for someone else. The result is a crescendo of frustration.

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The accompanying chart [http://www.theglobeandmail.com/report-on-business/economy/economy-lab/the-relative-recovery-of-major-economic-factors-in-canada-and-ontario-since-2009/article16710731/#dashboard/follows/] shows relative rates of recovery in Canada for capital and labour, and for top earners and others, since the recovery began. The most rapid post-crisis improvement has been enjoyed by Canada’s primary stock market, the Toronto Stock Exchange. Although it hasn’t yet surpassed its 2008 record high, the TSX has risen 81 per cent since 2009. Canadians, as a group, are a lot richer: The value of equity is up by $2-trillion since 2009. Profits have been rising faster than gross domestic product and GDP growth has outpaced wage growth since 2009.

Within the wage share of the economy – which includes everyone from chief executive officers to servers – only the average top-1-per-cent earner saw enough income growth to outpace inflation between 2009 and 2011. (Statistics Canada hasn’t yet published 2012 data for top earners.) The further down the income ladder you go, the smaller the income increase. Average incomes have grown more rapidly in Ontario than Canada-wide for top earners and the bottom 50 per cent alike; but so has inflation. (The consumer price index grew by 9.3 per cent in Ontario since 2009, 8.3 per cent Canada-wide.)
Hourly wages provide a more up-to-date assessment of recovery. In Ontario — where the minimum-wage debate is raging — the average industrial wage (everyone from bosses to barmaids) increased by $1.87 an hour from 2009 to 2013, an 8.2-per-cent rise. The minimum wage rose by 75 cents (7.9 per cent), but that increase happened in 2010. Inflation has since stripped away its purchasing power.

The 2008 financial crisis brought income inequality to the centre stage of public discourse. Talk of curbing the rising share of top-level incomes has been likened to threatening class warfare. Everyone agrees there is no easy solution to replacing the good jobs, wages, benefits and pensions lost in recent years. Raising the minimum wage is, then, perhaps the most acceptable and ready measure on the menu of ways to reduce income inequality, while materially improving the lives of some people. Bonus points for not costing the taxpayer more.

Ontario raised the minimum wage by 75 cents in each of 2008, 2009 and 2010 — right through the recession — but then stopped. The longer you leave something unchanged, the hotter the debate to change it.


Talk has turned from minimum wages to living wages. A growing share of workers are finding themselves in jobs at or near the legal minimum; jobs that are not a stepping stone to something else, but their meal ticket for the foreseeable future. In the United States, the people on the street say they need $15 an hour. In Ontario, the target is $14.

Why $14? We explain in the Canadian Centre for Policy Alternatives paper Making Every Job a Good Job [https://www.policyalternatives.ca/publications/reports/making-every-job-good-job], where we argue that the target value for the minimum wage should be 60 per cent of the average industrial wage ($14.75), a goal to be achieved by regular increments of 75 cents. (If we had continued to raise the minimum wage since 2010 by 75-cent increments annually, we would have reached $14 next year.)


Perhaps a generational change is afoot. Certainly momentum is escalating.


Ontario announced last week that the minimum wage will rise to $11 in June [http://news.ontario.ca/opo/en/2014/01/ontario-increasing-minimum-wage.html] and that it will tie annual increases thereafter to inflation, integrating the key element of predictability that Premier Kathleen Wynne hopes will “depoliticize” the minimum-wage issue.

But the issue is unlikely to go away yet, for four reasons:

- The provincial “solution” locks in the minimum wage’s purchasing power in 2010, the time of the last increase. Inflation adjustment is likely not enough. Future increases of 13 cents an hour or less won’t cover rising housing and transit costs. Cue more agitation.
- A growing body of evidence shows that raising the minimum wage can be good for employers [http://blogs.hbr.org/2014/01/a-minimum-wage-hike-would-help-employers-too/] too (improving productivity + reducing recruitment costs = better bottom line), and has less impact on job loss [http://www.voxeu.org/article/minimum-wages-and-jobs-new-evidence] than we thought.
- Raising the minimum wage could trigger more business. Improving the purchasing power of those who spend every penny they make could boost the economy [http://www.progressive-economics.ca/2013/02/27/boost-the-minimum-wage-boost-the-economy/], from the bottom up. Remember: Employers don’t create jobs, customers do.

Making sure the minimum wage doesn’t stray far from 60 per cent of the average wage is smart policy, and an emerging objective [http://www.iafo.no/pub/rapp/20243/20243.pdf] in many nations. It’s just one way to tackle market-driven inequality, but a potent signal that governments agree: Everyone’s work contributes to economic growth, and everyone – including the lowest paid – should benefit from it.

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