

Open Letter from Canadian Economists In Support of \$15 in Ontario

We, the undersigned economists, support the decision to increase the minimum wage in Ontario to \$15 an hour. Raising the wage floor makes good economic sense.

Today, Ontario's minimum wage is \$11.40 per hour. Adjusted for inflation, this is barely one dollar higher than its value in 1977. Yet over the same four decades, the average productivity of workers has increased by 40%. And the prevalence of minimum wage work is spreading. Around 1 in 10 Ontario workers make minimum wage today, with a large increase in this proportion over the last two decades.

Low wages are bad for workers as individuals. An individual working full-year, full-time on the minimum wage can still fall short of the poverty line. The situation for minimum wage workers trying to support families is no better—and evidence shows that this is increasingly what is asked of minimum-wage workers. The stereotype of the teenager living at home making minimum wage is out of date: over 60% of workers earning minimum wage in Ontario in 2015 were over the age of 20, as were over 80% of those making \$15 or less.

But low wages are also bad for the economy. There are good economic reasons to raise the incomes of low-wage workers. Aggregate demand needs a boost. While Canada escaped the harshest impacts of the 2007-08 financial crisis, our country has also seen a slowdown in growth. We risk further stagnation without reinvigorated economic motors. As those with lower incomes spend more of what they earn than do those with higher incomes, raising the minimum wage could play a role in economic revival, improving macroeconomic conditions.

For years, we have heard that raising the minimum wage will kill jobs, raise prices and cause businesses to flee Ontario. This is fear-mongering that is out of line with the latest economic research. Using improved techniques that carefully isolate the effects of minimum wage increases from the remaining noise in economic data, the weight of evidence from the United States points to job loss effects that are statistically indistinguishable from zero. The few very recent studies from Canada that have used these new economic methods agree, finding job loss effects for teenagers smaller by half than those of earlier studies and no effect for workers over 25.

There are many possible reasons for minimum wage increases to lead to little or no job loss. Studies have found lower turnover, more on-the-job training, greater wage compression (smaller differences between higher- and lower-paid workers) and higher productivity after minimum wage increases. In short, raising the minimum wage makes for better, more productive workplaces.

The business lobby has also suggested that any minimum wage increases will simply be passed on as higher prices. First, the above-mentioned improvements will offset some part of the higher labour costs to business. Second, there is no instantaneous, automatic mechanism between higher labour costs and higher prices. Some of the costs not absorbed by increased

efficiency may go to price increases, but these are likely to be small and, for low-wage workers, offset by higher incomes coming from rising wages. Furthermore, if we remember that over 1 in 4 workers in Ontario makes under \$15 per hour, we should not treat slightly higher inflation as the main criterion of successful policy; instead we should focus on the substantial benefit to low-wage workers, their families and the economy as a whole.

Across North America, recent years have seen more minimum wages increases, some quite substantial. And so far, none of the doom-and-gloom predictions have come true. Seattle and the municipality of SeaTac, two of the first to institute minimum wage increases, continue to thrive even after increases. Of course, more rigorous studies will have to be conducted (as scientists we are excited by the prospect of new data to analyze) but so far the effects of minimum wage increases have been in line with the expectations of those of us who believe that raising the minimum wage is a positive step for workers and the economy.

Economics may be known as the “dismal science” but on the issue of the minimum wage many economists are ready to admit that the weight of evidence points to a strong case for raising the minimum wage. 600 of our colleagues in the United States, 7 Nobel Prize winners among them, signed a letter urging the United States government to raise the federal minimum wage to \$10.10 an hour from the current \$7.25—in percentage terms an even larger increase than that from \$11.40 to \$15 in Ontario. A further letter calling for a staged increase of the federal minimum wage to \$15 was signed by 200 economists. There is no consensus against raising the minimum wage among our profession; indeed, the emerging understanding is quite the opposite.

We believe that raising Ontario’s minimum wage to \$15 an hour is a good idea and one that is economically sound.

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