

Cost Impacts Affecting Employment Outcomes in Alberta,
a report prepared for the Alberta Chambers of Commerce: A review

By
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Summary:

The report I was asked to review described the results of a survey conducted in February 2016 by the Alberta Chambers of Commerce regarding potential impacts of increases to the legislated minimum wage in Alberta. The survey construction, methodology and the number of qualified business owners in Alberta were undisclosed. Nearly 800 responses were received. The responses provided the context for an analysis of income after tax and tax credits for individuals belonging to households of various compositions given minimum wages of \$10.20/hr, \$11.20/hr and \$15/hr. A description of how this analysis was done was not provided, nor was there a rationale for its structure.

The results of the survey revealed:

1. The percentage of respondents by region/community.
2. Respondents came from a variety of different sectors.
3. Enterprises varied in size, with the majority consisting of ten or fewer employees.
4. The number of years in business varied from newly created businesses to those existing for 50 years or more.
5. The majority of business owners paid all employees more than the legislated minimum wage.
6. The increase in the legislated minimum wage to \$11.20/hr on October 1, 2015 prompted business owners to raise the wages of individuals earning more than the legislated minimum wage.
7. The most prevalent consequence of the new, higher legislated minimum wage across firms of all sizes was a decrease in realized profits.
8. Ranked in order, the leading causal factors for changes in business climate were identified by respondents as: slowdown in economic activity, the increase in the legislated minimum wage, decreases in oil prices.
9. A majority of respondents, across firms of all sizes, agreed the increase in the legislated minimum wage was the cause of the changes to their business.
10. Cost increases to business since the increase in the minimum wage on October 1, 2015 varied, with most respondents indicating no increase. However, in cases where there were cost increases:
 - A. The average cost of bringing minimum wage earners up to the new legislated minimum was \$722.33 per year.

¹ I want to acknowledge the helpful comments of three anonymous reviewers. All remaining errors and omissions are mine.

- B. The average cost of the new legislated minimum wage across all employees was \$835.76 per year.
- 11. Ranked in order, asked if the legislated minimum wage was raised to \$15/hr by 2018 the most frequent identified consequences were: to raise the wages of individuals earning more than the legislated minimum wage, reduce profits, raise prices.
- 12. Estimated cost increases to business if the legislated minimum wage was raised to \$15/hr by 2018 varied, with most respondents indicating no increase. However, in cases where there were expected cost increases:
 - A. The average cost of bringing minimum wage earners up the new legislated minimum was \$1690.84 per year.
 - B. The average cost of the new legislated minimum wage across all employees was \$2071.14 per year.
- 13. Ranked in order, the most important impediments to growth and sustainability were: slowdown in economic activity, decreased oil prices, increased taxation.
- 14. About 1/3 of respondents believed that zero percent was an acceptable and appropriate increase in the legislated minimum wage for 2016.

The report contained two recommendations for the Government of Alberta:

1. Consider the cumulative costs to businesses of various new policies as well as new economic realities in considering an optimal minimum wage for Alberta.
2. Delay any implementation of a minimum wage increase until all options for raising the effective minimum wage for adult minimum wage earners have been explored in consultation with business.

Comments:

I was asked to provide comments regarding the impact if the government follows the current path.

Most people are innocently uninformed about economics, so it's understandable that many are seduced by populist appeals for increasing the legislated minimum wage. Elected individuals who currently form the government in Edmonton may like higher legal minimum wages because it appears that helping in this way is essentially costless. **But this is an illusion.**

While increasing the legislated minimum wage may be well intentioned, it has profound and wide ranging counter-productive effects, even from the perspective of those for whom it is intended to benefit. If the Notley government wishes to raise the incomes of and improve economic opportunities for the working poor in Alberta, increasing the legislated minimum wage is not the appropriate policy instrument. Trying to force prosperity through a minimum wage creates a litany of well documented negative and unintended consequences, especially for those who are the most vulnerable. Delaying its increase, as the Alberta Chamber of Commerce report recommends, only postpones the realization of

these net negative effects. To raise the income and improve the economic opportunities of the working poor, the legislated minimum wage must be reduced or abolished.

Background

Markets for labour, like all other markets, are subject to the incontrovertible laws of supply and demand. Entrepreneurs hire labourers on the margin, meaning they make decisions about hiring an additional labourer based on what that additional labourer would be paid and how much that additional labourer would help produce output and therefore generate revenue as output is sold. Because of this, a labourer's discounted marginal revenue product is the maximum any entrepreneur is willing to pay for a given labourer ("discounted" because there is a time difference between the labourer's pay and the sale of output).

Simply put, a legislated minimum wage is mandatory unemployment for anyone who cannot generate hourly benefits for an employer greater than the legislated minimum wage. It is illegal, and therefore criminal, for anyone in Alberta to hire below the level of \$11.20/hr. Free and voluntary wage contracts below \$11.20/hr are now outlawed and hence there will be a greater number of unemployed persons than there would be otherwise. This fact bears repeating: **Minimum wage legislation provides no jobs, it only outlaws them; and outlawed jobs are the inevitable result.**

Impacts

1. Who is being "helped"?

According to Statistics Canada data, 50% of workers earning minimum wage in Alberta in 2014 lived with their parents and the majority of these individuals were aged 15 to 24 and in school. Of the remaining minimum wage workers, 26% had working spouses, which means their household income was higher than would be expected by a single minimum wage earner. Only 1.5% of minimum wage workers were single parents with young children. The reality is most individuals working for minimum wage are not single mothers struggling to make ends meet; rather they are individuals in households generating a secondary or tertiary income for that household. Not all minimum wage workers are poor and not all poor people are working for minimum wage.

It is apparent that increasing the minimum wage in Alberta does little to resolve problems of poverty. Moreover, in view of the concern expressed for low-income workers, the ones whom minimum wage laws are intended to benefit, it seems rather arbitrary and unwarranted that those advocating increases in the legislated minimum wage are not also concerned about those that will lose their jobs. After all \$10.75/hr job is better than no job. **Poverty cannot be eliminated by legislation.**

As young people are the most likely to be impacted, increasing the legislated minimum wage means a larger subset of them will be legally precluded from acquiring basic job skills necessary for future success. Mandating an increase in the hourly rate for unskilled workers reduces the quantity demanded of those workers at the same time that it increases the number of unskilled workers looking for work, which results in an excess supply of unskilled workers. Minimum wage legislation demonstrates its

disproportionate negative effect on the least skilled, least experienced and least educated workers – teenagers. The youth unemployment rate in Alberta is rising and it is now above 11%.

2. How do employers respond?

Few people will be immediately laid off because of an increase in the legislated minimum wage, but the hiring of new employees will be curtailed. Net job growth is reduced primarily through its effect on job creation by expanding businesses. In essence, legislated increases in the minimum wage make it more likely that firms won't hire new people than that they will fire current employees. Employers will simply buy less labour since it is now more expensive. If employers must lay off people to remain profitable, they will lay off the least productive employees and retain the relatively more productive. Employers also will likely choose to invest in other opportunities which now appear more profitable such as substituting capital in place of relatively more costly labour.

It is also important to acknowledge how the minimum wage distorts the pay structure within firms of employees earning more than minimum wage. Coercing raises for people who generate the least amount of benefit on the margin to their employer, means more productive employees don't get a pay increase. If wage differentials are maintained by the business owner-operators, this increases the entire labour cost structure of the firm. The result is a reduction in the firm's profitability and/or, to the extent the firm is able to raise them, higher prices for consumers.

3. Counterarguments

Those who disagree with effects of increasing the legislated minimum wage sometimes point to the observation that small phased-in increases to the minimum wage have not been associated with a sharp rise in unemployment. This argument, however, glosses over the fact that the minimum wage is generally raised during periods when aggregate output is expanding and when low-skilled wages are higher than the legislated minimum. The full impacts of the deleterious consequences of hiking the minimum wage are then not manifest until a recessionary period.

Contrary to claims, legislation fixing minimum wages does not and cannot deter incorrigibly malevolent employers. During a recession with lots of people looking for work at the minimum wage, it gives these employers considerable leverage over the most vulnerable, marginal employees: Do as I say or you will be fired and good luck finding another job. Threats of this sort are horrifyingly damaging for employees, especially those with dependents.

However, the freedom to take your business -- both as a consumer and as a supplier of labour -- deprives the unscrupulous of the revenue and the inputs they need to run a profitable enterprise. It enables individuals to leave behind a situation not to their liking and seek employment somewhere else, maybe at a lower salary but with greater non-monetary and other psychic benefits. To the extent there are more numerous and viable options for the vulnerable, the young, those lacking skills, etc., the better the future they can create for themselves as they themselves see fit. Whether you are a buyer or seller of labour, the only way you can peacefully improve your own situation is by first improving the

situations of others. Minimum wage legislation limits the number and the scope of these mutually beneficial opportunities.

Another weakness behind claims that minimum wages raise the well-being of workers is that it does not state what kinds of jobs are being created. An increase in government jobs, for example, does not create prosperity. Government and other taxpayer financed jobs are wealth consuming precisely because they can only be paid for through taxes. More jobs of this sort do not increase overall wealth; they destroy it.

Finally, if raising minimum wages does increase the number of jobs, why doesn't the Notley government raise the minimum wage to \$100 or \$1,000 dollars per hour? To ask the question is to answer it as even these interventionist politicians know that only civil servants would still be employed under such a scheme.

It is important to remember that all things being equal, as the price of an item increases, the quantity demanded of that item decreases. Wages are the price of labour. As wage rates increase, employers' demand for workers will decrease. By increasing the legislated minimum wage, politicians are condemning many Albertans – today and tomorrow – to unemployment. They are exacerbating the very problem they are trying to resolve.