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Living wage laws don't help most vulnerable

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The minimum wage debate raging in the U.S. has spilled into Canada, sparking renewed interest in government mandated wage floors.

Labour activists are pushing governments to legislate higher pay for low-wage workers, and one version calls on municipalities to decree a "living wage law."

While this may sound like a good idea in theory, it would do little to help the most vulnerable.

Living wage laws require private employers who do contract work for a city to pay their workers a wage that affords a certain living standard. Unlike minimum wage legislation, living wage laws cover smaller groups of workers and typically require a much higher wage. The living wage in New Westminster, (Canada's only city to enact such a law) is currently set at $19.62 per hour, almost double the provincial minimum wage of $10.25.

Other cities have contemplated living wage proposals, including Calgary, Ottawa and Hamilton. In the U.S., over 140 municipalities have passed such laws, and the evidence from there should serve as a cautionary tale.

The American experience shows living wage laws reduce employment opportunities for low-wage workers and fail to help the most impoverished.

When governments mandate a wage above the prevailing market rate, employers respond by cutting back on jobs, hours and on-the-job training. Less skilled workers end up as collateral damage in the process.

That conclusion is supported by the most rigorously analyzed evidence on living wage laws. Yet labour activists tend to overlook these consequences and instead focus only on the benefits of such policies. In reality, while some workers may benefit from a higher wage, their gain comes at the expense of others who lose employment opportunities.

According to research by David Neumark and Scott Adams, leading scholars in the field, a 100 per cent increase in the living wage (say going from an hourly minimum wage of $10 to $20) reduces employment for low-wage workers by 12 to 17 per cent.

Employers also respond by hiring more qualified workers to justify the artificial wage increase while passing over those with less skills. This is a highly perverse outcome since less-skilled workers are presumably among the people the policy is intended help. If employers end up hiring more productive workers who would have been paid a higher wage anyway, it defeats the purpose of adopting living wage laws in the first place.

And living wage laws often don't help the poorest families. A key reason is the overwhelming proportion of beneficiaries tend not to be poor. In one study of seven major U.S. cities, researchers found 72 per cent of workers benefitting from living wage laws were not poor. Of the 28 per cent who were considered poor, only one-third moved above the poverty line.

Aside from the failure to actually help the poorest workers, living wage laws can also lead to higher municipal taxes. This occurs because municipal governments are typically the customer of firms affected by living wage laws. And this unique arrangement allows businesses to more easily pass on artificially higher labour costs. The cost of city services will increase when local governments absorb the higher labour costs. That means higher municipal taxes or reduced spending on other services. Taxpayers and city residents lose both ways.

Some taxpayers may be willing to accept more costly city services if it helped those most in need, but the evidence shows otherwise. Living wage laws reduce employment opportunities for low-wage workers. Those that do benefit from a higer wage are often more productive workers and not necessarily the poorest families.

Activists calling on municipalities to adopt living wage laws would do well to look at the evidence and reconsider their position.

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