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Questions of Public Policy for the Consideration of Periodic Revisions in the Minimum Wage

Harry J. WAISGLASS

The formulation of an appropriate minimum wage, and its periodic adjustment to changing social and economic circumstances, requires a reconciliation, compromise or « trade-off » among conflicting objectives of social and economic policy, particularly between the social objectives for adequate and decent minimum living standards and for an « equitable distribution of rising incomes », on the one hand, and the economic objectives of full employment and stable prices, on the other.

POLICY PROBLEMS IN FORMULATING A MINIMUM WAGE

Social Policy Considerations

A basic social policy question is to determine the differential relationship between the minimum income standards to be established for persons who work (and who earn their incomes) and for persons who do not work (and who obtain their incomes from welfare or public funds).

Related questions concern the size of the household which a family-head should be able to support adequately on a minimum wage :

> how many dependents a family-head should be able to support on a minimum wage, without requiring income supplements from family allowances, welfare, or other public funds ; to what extent should a minimum earned income be larger than a welfare income, in order to compensate for the extra costs of going to work and the taxation effects, and in order to maintain a sufficient incentive to work ; and to what extent can the public costs of income security programs be transferred to the private sector by judicious increases to the minimum wage, without causing intolerable increases in unemployment.

* The author takes full personal responsibility for the contents of this paper which was originally prepared for discussion at a University of Toronto seminar, in May, 1972. It does not present the official views of the Canada Department of Labour.

Minimum wage legislation has a very important place in the total framework of an income security policy for Canada, in that it serves to express the important share of the responsibilities in the war on poverty that should be assumed by the private sector.

In striving towards the national goal of ensuring that every person should have an adequate income on which to live, public policy should give express recognition to the reality that it can not be the exclusive responsibility of government to achieve such income security through public income support programs, but that the private sector must assume its fair share of social responsibility.

One of the important ways in which public policy expresses the private sector's social responsibility for income security is through minimum wage and employment standards legislation.

Policy makers, however, are faced with these dilemmas :

On the one hand :

> If public income security or social assistance benefits are set high enough to provide an adequate living standard, there is the fear that the incentive to work might be destroyed or seriously reduced.

And on the other hand :

> If the minimum wage is set high enough to meet the income needs adequate for a normal-sized family, there is the fear that opportunities to work might be destroyed or seriously reduced.

What should a minimum wage be if it were set high enough above public assistance benefits to cover the extra costs of going to work (including transportation, clothing, taxes, and contributions to unemployment insurance, pension and health insurance funds, etc.), and to provide an adequate incentive to work rather than remain dependent on welfare benefits ?

Actual public assistance benefits are difficult to determine because of lack of information on the complexity of practices among the provinces and municipalities in the actual adjustments made to meet family needs (and for other reasons) to the provincial annual budget standards for the basic needs of a family of four (two parents, two children) which in June, 1971, according to a report of the Canada Department of National Health and Welfare, varied from as low as $2,251 ni New Brunswick to as high as $4,020 in Alberta.

If a national standard of minimum welfare income is assumed to be $3,000 per year, it seems reasonable, therefore, that the poverty level incomes for a family of four suggested by the Economic Council and the Senate Committee on Poverty should indicate an acceptable and appropriate range within which the minimum wage for the working poor should be established. Adjusted for price changes to 1972, the poverty barrier range is from $4,835 (Economic Council) to $5,470 (Senate Committee), which call for a minimum hourly rate ranging approximately between $2.40 and $2.75 per hour.

The social desirability and advantages of raising the federal minimum wage from the present rate of $1.75 as quickly as possible to such higher levels, however, confronts the economic necessities and the practical considerations of the probable severe impact on unemployment and inflationary cost pressures for the economy. Such a large increase in the minimum wage, taken too quickly, could cause greater unemployment among the worker poor, thus injuring most the very people it is most intented to help.

It is necessary, therefore, to consider other options that would indicate the desirability of more gradual and progressive improvements to the relative position of the minimum wage in the general distribution of incomes, by which the economic adjustments might be made with greater facility, efficiency, and humanity.

Economic Policy Considerations

Because of concerns about the probable effects upon unemployment, inflation, and the « inflation psychology », economic circumstances rarely appear to be exactly appropriate for increasing the legislative minimum wage. The consequence of such concerns is that adjustments to the legal minimum wage are usually postponed and made less frequently than adjustments in the wage scales of private industry and actual wage levels for the general economy. Thus, when the minimum wage remains fixed for long periods of time, during which price levels and national productivity continue to rise, the *real* wages are reduced for such persons who are compelled by their circumstances to work at the minimum wage ; and such persons are denied any share of the benefits of the productivity improvements which contribute to the country's general prosperity.

From several points of view, comparably smaller annual increases are preferable to large and infrequent increases in the minimum wage. First, they are more equitable in keeping the incomes of the low-paid workers more in step with the growth of the economy. Secondly, regular annual revisions would make the minimum wage rate more responsive and relevant to changing economic conditions. Thirdly, employers can adjust more easily to the smaller annual increases than to the larger infrequent increases. Fourthly, the larger increases required after more prolonged periods of amendment to the minimum wage might have more traumatic effects on the « inflation psychology ».

Criteria for Regular Revisions

One criterion which should be considered for the periodic revision of the minimum wage would aim for a staged and progressive reduction of its disparity with the income level at the poverty barrier, as defined by the Economic Council of Canada.

The implications of this criterion is that for some period of years the annual percentage increase in the minimum wage rate would have to be greater than the rate of increase in average wage rates for the general economy. The main disadvantage of this approach is that it might precipitate inflationary pressures, to the extent that the higher percentage increase to the minimum wage might be misinterpreted as a signal for an appropriate rate of increase to wages generally in the private and public sectors.

Another disadvantage is the danger that the more rapid rise in the minimum wage rate might cause an intolerable increase in unemployment, in which case the major burden may fall precisely on some of the workers whom it aims to help.

Such unemployment may be caused in some cases by marginal firms going out of business, and in other cases by firms introducing labour-saving methods or devices. Other things being equal, the shift in resources can be expected to strengthen the economy as a whole. In theory, the laid-off workers should find alternative employment in more productive and competitive industries. However, whether such employment adjustments are made in the short or longer run, unemployment hits hardest those low-wage workers who are least able to cope with its consequences, being generally low in skills and education.

For such workers, there are a variety of government programs to facilitate their adjustment, including, in particular, the manpower and unemployment insurance programs. Consideration should be given to the costs and capabilities of such programs to assist the unemployed, in the event that a minimum wage increase under consideration would be so much higher than average, that it is likely to cause significantly serious employment disruptions.

Another criterion for annual revisions to the minimum wage would be one that aims to maintain its percentage relationship to average wage rates in the general economy. Thus, the annual percentage adjustment to the minimum wage rate would be exactly the same as, and no more nor less than, the annual percentage increase for average wage rates in industry generally.

In order to assure that the annual minimum wage increases follow average wage increase and that they do not add to or reinforce inflationary wage pressures, the adjustment formula could be modified by delaying the minimum wage increase by one year. Thus, the percentage increase in average wages for each year would be applied to the minimum wage rate for the subsequent year.