SASKATOON STARPHOENIX

# Opinion: Governments should think twice before boosting minimum wages

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Currently many jurisdictions in North America, including Saskatchewan this fall, are continuing to increase minimum wages. Advocates argue that higher minimum wages lift workers from poverty and contribute to equality. After all, they say, this is just a small additional cost to a business and significant benefits for workers. Right?

Not so fast.

The incremental cost can often be so detrimental that many businesses cannot survive. For example, restaurants where relatively low server wages are supplemented by tips. Mandated increases in wages resulted in an uneconomic business model for many restaurants, even before COVID.

Years ago, when I was fresh out of business school and working as a senior executive with my family's merchandising business, I learned a difficult lesson about the impact of generous politicians giving away other people's money. The government of the day in Saskatchewan mandated a minimum wage increase, which we implemented in our chain of drugstores. A few months later we heard rumblings of dissatisfaction from those employed for a year or two now receiving the same wage as new, and often part-time, fellow workers.

This led to wages being increased at the next level. Rinse and repeat as the relatively small minimum wage increase cascaded up the organization excepting only those on annual salaries. The increase was significant and permanent — not an outcome first understood by me or any of the benevolent politicians responsible for the policy. And apparently not now either.

Indeed, it's often assumed that businesses are so profitable that such adjustments are fair and reasonable. But only someone who has never managed a business or put in their own capital and sweat equity thinks this way. Often, lenders place conditions on minimum levels of cash generation meaning unplanned wages can upset required bank ratios. For that, and many other reasons, businesses (especially smaller family enterprises) often struggle to adjust to the generosity of politicians.

A recently published Fraser Institute study by senior fellow Philip Cross, a former chief economic analyst at Statistics Canada, confirms the negative impact of mandated minimum wages. The unintended consequences include job losses, higher prices at the till, reduced operations and replacement by technology. The study found that minimum wage increases “have little success in lowering poverty as the vast majority of minimum wage earners live in households above low income thresholds”. And part-time minimum wage workers often come from higher income families.

According to an estimate by the U.S. Congressional Budget Office, the recent doubling of government minimum wages may result in the loss of 1.4 million jobs by 2025. A recent publication by the Washington-based Cato Institute reported confirmation, by the CEO of McDonald’s, of the testing of an automated voice recognition, drive through ordering system in 10 of its Chicago locations. More lost jobs on the way.

All of this suggests that politicians should exercise caution in giving away other people’s money for their own perceived political benefit. Short-term thinking treats important issues such as poverty and inequality as static. The Cross study also found that five years later, only one per cent of such earners were still on minimum wages.

This is not to diminish the real problem of poverty in Canada and elsewhere. But these problems should be addressed without penalizing any particular entity, business or otherwise. Such government actions often distort markets, create sub optimal outcomes and damage businesses with little or no benefit to the people they are trying to help.