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Minimum wage law no help to unskilled

By Walter Block

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TERRY SEGARTY, British Columbia's minister of Labor, has a problem, and is resolved to do something about it in the fall.

British Columbia has the lowest minimum wage rate in the country — \$3.65 per hour — and tremendous pressure has been placed upon him to raise it at least to \$4 per hour, the average level obtaining in the other nine provinces.

At first blush, this would seem like a good idea, even one that is long overdue. If, as its name implies, the minimum wage law can boost wages up to whatever level is prescribed, that is to say set a floor under incomes for the poor, then why not?

But a moment's reflection will show that this is a mirage. For example, if prohibiting compensation below some arbitrarily deter-

mined level can really enhance salaries, why stop at the paltry, mean and niggardly \$4 level? Why not go for, say, \$40 per hour, or even better yet, really reach for the stars and demand that no employee be paid less than \$400 per hour?

The answer is obvious. To mandate that a skilled craftsman with a productivity level of \$25 be paid \$400 is to invite disaster. Any employer who complied would rack up \$375 per hour in red ink. Even at the more modest \$40 per hour, any such firm would still lose \$15 per hour — and thus be forced into eventual bankruptcy.

No, the reason wages are as high as they are has nothing whatever to do with legal compulsion. It is because productivity is relatively great in this country and because salaries tend to be equal to productivity levels, that we enjoy our relative prosperity.

True, a minimum wage level of \$4 would not threaten the livelihood of the person who can produce \$25-worth of goods and services per hour, but it certainly can put at

risk the jobs of people with lesser skills. For example, the employment of a person who can only create goods valued by the market at \$3.25 per hour, would be obliterated by a minimum wage level of \$4 per hour.

How can we test the economic principle that high minimum wage levels lead to relatively increased unemployment rates

	Unemployment rate for 20-24-year olds as % of rate for those 25 and over	Minimum wage \$
Manitoba	289	4.30
Saskatchewan	257	4.25
Ontario	251	4.00
New Brunswick	237	3.80
Nova Scotia	213	4.00
Quebec	206	4.00
Newfoundland	204	4.00
British Columbia	190	3.65
Alberta	182	3.80
Prince Edward Island	n.a.	3.75

Source: Statistics Canada, Labor Department, May, 1985

for unskilled workers? One way is to calculate the unemployment rates of youthful Canadians as a percentage of those of the more highly productive adult employees, and compare them with the minimum wage levels in each of the provinces. (For our table, we choose workers between 20 and 24 as our control because this is the youngest group subject to the "adult" minimum wage law.)

The results are painfully obvious. Manitoba, with the highest minimum wage level (\$4.30) has an unemployment rate for its young workers that is 1.9 times as high as that for the rest of the population. Saskatchewan, with the next greatest level (\$4.25), weighs in with the second biggest relative unemployment rate for youth — 1.8 times as high as the rest of the population. And at the bottom of the pack in terms of the disenfranchisement of their young people, come British Columbia and Alberta with two of the country's lowest minimum wage levels.

Are you listening Mr. Segarty?

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