

In 2009, Statistics Canada estimated that 200,800 paid workers in Quebec were receiving the minimum wage, or 6.1 % (approximately 6.5 % in 2010) of all self-employed, full-time (2.6 %) and part-time workers—especially students (3.5 %).

Minimum wage is considered an instrument of choice for shielding workers from excessively low wages. Some consider it to be a weapon in the “war on poverty.” However, compared to other measures (government transfers) it plays a relatively small role in this campaign.

Could we not solve this problem of poverty by raising the minimum wage? Two negative consequences severely curtail the potential usefulness of an excessive minimum wage: higher unemployment and school dropout rates.

There is a very extensive literature demonstrating that a minimum wage that is too high can erode jobs and increase unemployment. For SMEs and small retailers, in the field of restauration for example, a higher hourly wage can cut into the number of jobs and hours worked.

Analysts have also observed that the emphasis placed on employment effects in studies of the minimum wage tend to ignore a significant interaction between education, employment, and the minimum wage. A study of U.S. data reveals that the minimum wage has a negative impact on school enrolments. This study also finds a significant increase in the proportion of adolescents who are neither at school nor employed owing to an increase in the minimum wage. When people line up for minimum wage jobs, some of them will eventually find work. Regardless of the outcome, though, adolescents have quit school to join the job market. The worst situation is that of individuals who are out of school and out of work. A study by CIRANO unambiguously finds that a higher minimum wage increases the dropout rate.

In this light, at what level should the minimum wage be set? In the case of 15–19 year olds in Quebec, it is striking to observe that there is no differential between the mean hourly wage of secondary school dropouts and those who obtained their diploma—for that matter, there is little difference with those having completed postsecondary studies. The spread around these respective means is, moreover, very small. We can understand this situation as follows: The mean hourly wage is bounded by the minimum wage in this age group and, with little experience; they have no prospects for more compensation. In fact, only after several years, with the 25 years-and-over cohort, do we observe any real benefit from a secondary diploma and a greater spread around the means. To the extent that a secondary student is impatient to begin consuming rather than wait for a yield to the investment, and observes that a secondary school graduate cannot hope for a higher mean income in the short term, the incentive to drop out is considerable.

Against this backdrop, how do we increase the yield to a secondary school diploma relative to the decision to drop out for this high-risk age group? There is only one way, and that is to reduce the minimum wage for youths aged 18 years and younger. Why not, in fact, have two minimum wages? A minimum wage that is markedly lower for youths would have the effect of reducing the appeal of dropping out of school to take up paid employment. As to those over 18 years old, a higher rate would be in effect to make sure wages aren’t excessively low and contributing to poverty. This is exactly what Ontario decided to do. Quebec is very concerned about the dropout rate—it is too bad that its minimum wage policy undoes, with one hand, the good it does with the other.