



Publication

BUSINESS ALERT

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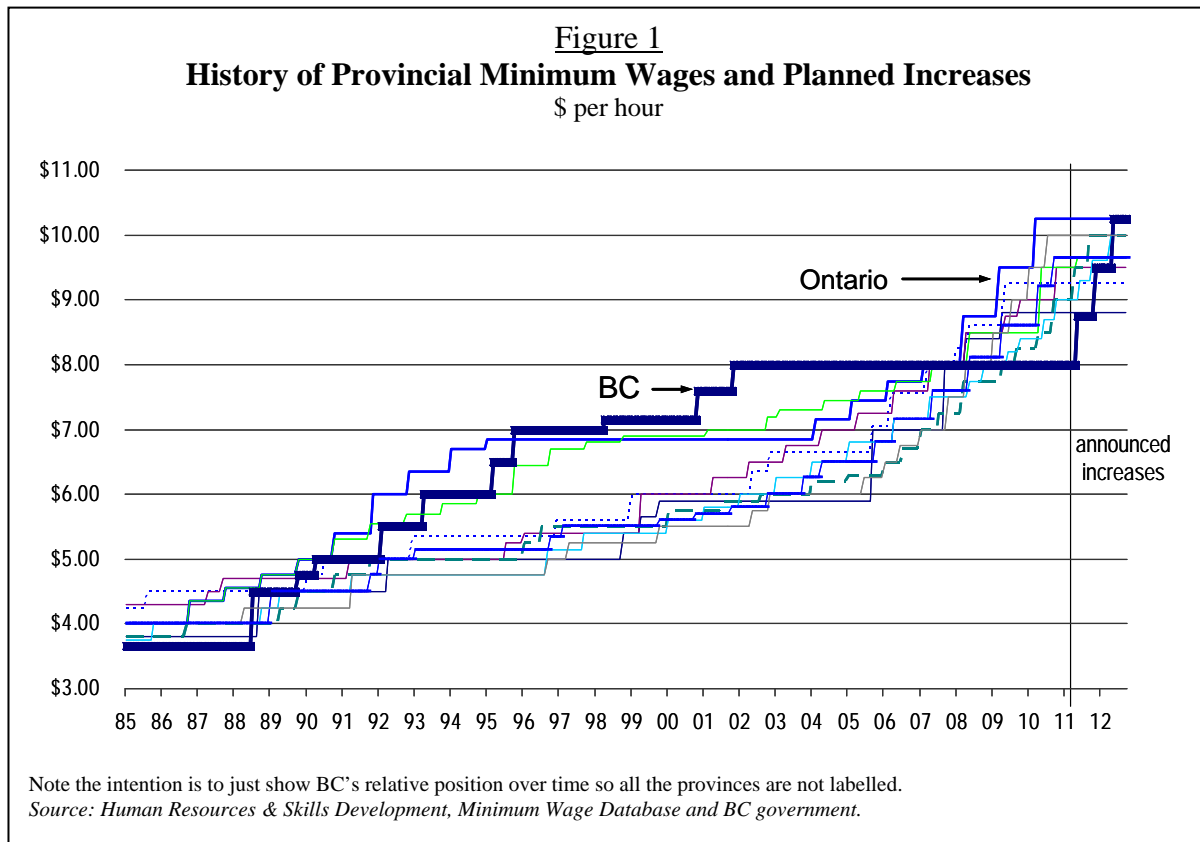
A SUBSTANTIAL INCREASE IN BC'S MINIMUM WAGE

Two days after being sworn in, Premier Christy Clark announced a large increase in the minimum wage in BC. Although it will rise in stages, the three 75 cent per hour hikes come in quick succession, so that by May 1, 2012 the statutory minimum wage will be \$10.25, a 28% increase over the current \$8.00 rate. At the same time, the controversial \$6.00 training wage is repealed. Although the training wage is not widely used, businesses that do take advantage of it will ultimately face a 70% jump in wage costs for new employees. The new minimum wage policy does retain a wage differential for workers who serve alcohol directly to customers. The minimum wage for these workers will rise in three smaller increments to a maximum of \$9.00 by May 2012. The same approach is used in Ontario for workers who receive a significant portion of their compensation in tips.

The minimum wage increase aligns with the new Premier's "Families First" platform. According to the government's press release, the higher minimum wage could mean as much as an additional \$4,000 for someone working full time. With this move, Premier Clark is distancing her government from the Gordon Campbell administration, which kept the minimum wage at \$8.00 for almost ten years. From a broad economic policy perspective, an increase in the minimum wage was overdue – a ten year freeze is almost unheard of in Canada. That said, BC's statutory minimum wage was still closely aligned with other provinces as recently as 2008. It was only in 2009 and 2010 that BC began to lag significantly behind several other Canadian jurisdictions.

As Figure 1 shows, over time BC's relative minimum wage position has undergone large gyrations: in the mid 1980s we had the lowest minimum wage in the country (by a narrow margin); in the 1990s the minimum wage steadily increased to the point where BC had the highest rate among the provinces; and today, after a decade at \$8.00/hr, BC's minimum wage is again the lowest in the country. Even after the first scheduled increase to \$8.75 on May 1 of this year, BC will still have the lowest minimum wage. The two subsequent increases, however, will vault the province to a position where it again has the highest minimum wage (tied with Ontario) among the provinces, assuming no change in other jurisdictions.

While we believe an increase is appropriate, the Business Council recognizes that the sharp rise in the minimum wage over a relatively short time period will be challenging for some businesses, particularly in the hospitality sector and parts of retail. The wage bill for many restaurants will climb, and this extra cost comes on the heels of the HST on restaurant meals and the decision to implement stricter impaired driving laws that have affected parts of the hospitality industry.



A higher minimum wage also puts upward pressure on wage rates above the statutory minimum. Retailers and the food services sector have voiced concern about the magnitude of the increase and the fact that it will push wages up for employees earning more than minimum wage. To the extent this occurs, many employers will face much larger increases in labour costs than simply the jump for minimum wage workers.

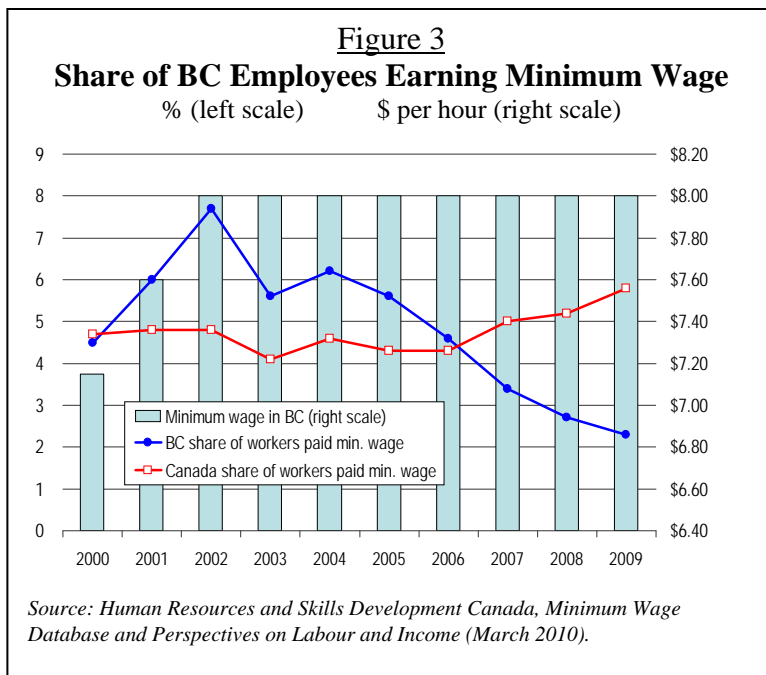
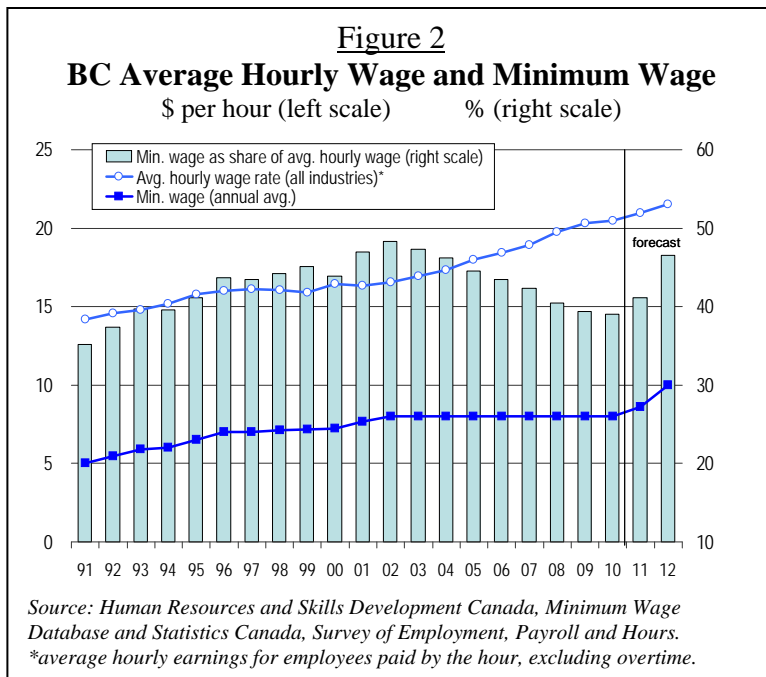
Examining the statutory minimum wage relative to the average hourly wage rate for all employees also provides some context for the speed of the scheduled increases. As depicted in Figure 2, in the early 1990s BC's minimum wage was about 35% of the all-industry average hourly wage rate. With the regular increases administered during the 1990s and through to 2002, the minimum wage gradually rose to 48% of the overall average wage rate. With the minimum wage being held constant in recent years, the ratio has declined below 40%. Assuming the average hourly wage rate continues to grow by about 2.4% annually, the scheduled increases will push the minimum wage rate back up to 46% of the average hourly rate paid in BC in a short two year span.

We would also note, however, that the minimum wage is not widely used in the province and that the share of minimum wage earners has declined over the past seven years. In BC just 2.3% of all employees earn the minimum wage whereas this share was 7.7% in 2002 (which at the time was the highest proportion among the provinces and also a time when



BC had the highest minimum wage).¹ This suggests that holding the statutory rate steady for several years resulted in it becoming less relevant over time as employers increasingly had to pay a higher prevailing market wage to attract and retain workers. Note too, when the minimum wage was pushed up in 2001 and 2002, the share of workers paid at this rate increased suggesting that these rate increases resulted in the minimum wage being more widely used. At the national level (where minimum wages have been steadily increased when averaged across the provinces) the share of minimum wage earners remains higher (5.8%) and has been more stable over the past decade.

By May 2012 BC and Ontario will have the highest minimum wage rates in Canada (assuming Ontario does not increase its rate in the interim). The announced increases do represent a large jump in a short period of time which will result in higher wage costs for companies and intuitively suggests weaker growth for entry level and other low skill jobs. Employment in the hospitality sector and parts of the retail industry is likely to drop as the minimum wage is pushed higher. Some of the impact should be mitigated by the fact that many jobs that were being paid minimum wage a few years back are already being paid more than \$8.00 per hour. Also, lower-wage workers can be counted on to spend any increase in their earned incomes, which should boost consumer outlays and support economic activity.



¹ Statistics Canada, Perspectives on Labour and Income, “Minimum Wage,” (March 2010).



There is disagreement in the empirical research about the precise employment effects of minimum wages. A comprehensive literature survey by David Neumark and William Wascher, suggests that “no consensus now exists about the overall effects on low-wage employment of an increase in the minimum wage.”² They find that the range of estimated employment impacts with respect to changes in the minimum wage is very wide, but also conclude that the majority of studies point towards disemployment effects, especially among the low-skilled population. “When researchers focus on the least-skilled groups most likely to be adversely affected by minimum wages, we regard the evidence as relatively overwhelming that there are stronger disemployment effects for these groups” (emphasis added). They also report that there is comparatively little evidence of positive employment effects.

This brief examination of the history of BC’s minimum wage shows the province has cycled from having the highest to the lowest statutory minimum within a dozen years. Planned increases mean BC will again have one of the highest rates in the country. After moving to a significantly higher statutory minimum, the government will need to be cautious about further increases. From our perspective, a policy to periodically implement small increases in the minimum wage would be less disruptive for employers than the significant short-term jump that the government has just announced.

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² Neumark, D. and W. Wascher (2006), “Minimum wages and employment: A review of evidence from the new minimum wage research”, NBER Working Paper No. 12663, National Bureau of Economic Research, Cambridge, MA.