



Debate Over the Minimum Wage Heats Up

Highlights

- A number of Canadian provinces and U.S. states and cities have recently increased minimum wages in their jurisdictions.
- An extensive empirical economics literature on the effects of minimum wages reaches mixed conclusions. A higher minimum wage will benefit most low-paid employees; but at the same time, pushing up the minimum wage is likely to reduce the demand for lower-skilled labour and cause some employers to adopt less labour-intensive business models.
- The economic impact of a higher minimum wage depends on the context – including the existing pattern of wages, the size of any increase, how frequently the government changes the minimum wage, and the characteristics of the pool of entry-level workers.
- In Canada, 6.7% of workers were paid at the statutory minimum in 2013, up from 5.0% in 1997. The likelihood that a Canadian worker earns the minimum wage decreases with his/her age and also with the number of years of formal education.
- Adjusted for inflation, the constant dollar minimum wage in Canada changed very little between the early 1970s and 2013.
- In BC, the constant dollar minimum wage was equivalent to 46% of the average industrial wage in 2013. As a proportion of average hourly earnings, the minimum wage has risen in BC and in most other provinces since the early 1980s.

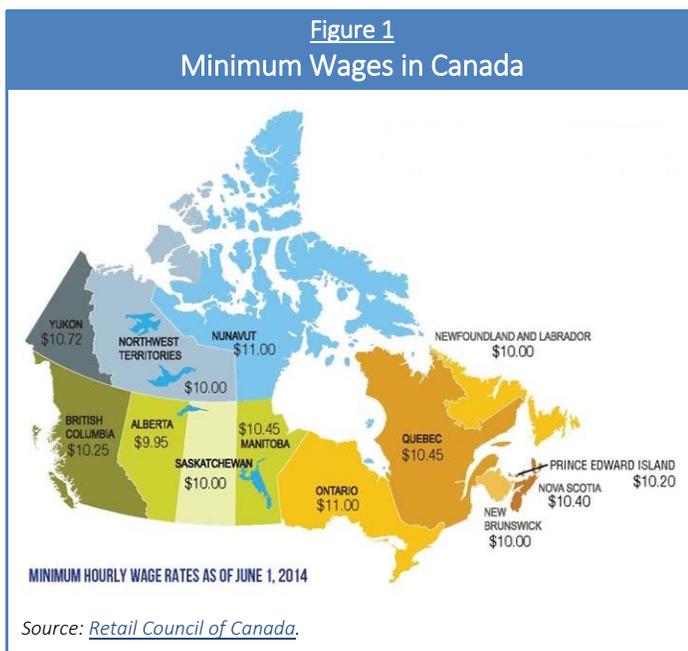
Proposals to increase the minimum wage have been gathering speed on both sides of the Canada-U.S. border. In January, President Obama called on Congress to lift the federal minimum wage from \$7.25 to \$10.10 an hour, an idea quickly rejected by Republican Party leaders. But America's national government doesn't hold a monopoly on labour standards in that country; state and local governments also play a role. Since 2011, more than a dozen U.S. states and several cities have increased the minimum wages in their jurisdictions. Earlier this year, Seattle adopted a \$15.00 an hour minimum wage, the highest among all big American cities.

Here in Canada, the Ontario government has just raised the minimum wage to \$11.00 an hour and announced a plan to index it to the Consumer Price Index going forward. Quebec has pledged to nudge its minimum wage higher later this year. In BC, organized labour and some social advocacy groups continue to press for a significantly higher minimum wage.

Is raising the minimum wage an effective way to improve the economic well-being of low and moderate-income workers and families? Will affected businesses respond to a higher minimum wage by shedding jobs or making other labour-saving modifications to their human resource practices? These questions

have been extensively studied by researchers over the past two decades.¹ Overall, the academic literature reaches mixed conclusions. Traditional, simplified text-book arguments against the concept of a legislated minimum wage no longer hold as much sway among economists as they did 20 or 30 years ago. But that doesn't mean minimum wages can be ratcheted steadily higher without any ill effects.

economic logic and intuition suggest that any increase in total labour costs, in the absence of offsetting gains in productivity, should cause some employers to lay off workers, reduce hours, and/or find other ways to economize on the use of labour (for example, by stepping up investments in labour-saving technology). It is thus reasonable to assume that some businesses, faced with a higher minimum wage, will take steps to trim their payroll costs and modify their hiring and other human resource practices. Many will also seek to pass on any increase in costs to their customers by charging higher prices for the goods or services they sell.



Some Economic Consequences

Clearly, a rise in the minimum wage is positive for the lowest-paid workers who experience no adverse changes in their hours, benefits, or working conditions after the fact. Other workers, whose wages are slightly above the current minimum, may also see a bump in pay if the government decides to raise the statutory minimum. But basic

Most economists who have studied past increases in minimum wages find that small, periodic adjustments have little impact on the demand for labour or overall employment. After all, because “most workers are paid at levels well in excess of the minimum wage, it is unrealistic to expect large aggregate employment effects” if the minimum wage is increased modestly.² But large and/or continuous hikes in the minimum wage are a different matter. These are more likely to harm some current (and prospective) workers by depressing the demand for labour and limiting employment opportunities in entry-level and other lower-skilled positions.

According to the Congressional Budget Office (CBO), which is the non-partisan research arm of the U.S. Congress, President Obama's proposal to push the minimum wage from \$7.25 to \$10.10 an hour could cost up to half

¹ A useful review is David Neumark and William Wascher, [Minimum Wages and Employment](#), IZA Discussion Paper Number 2570 (2007). Also see Gordon Betcherman, “Labor Market Institutions: A Review of the Literature,” background paper

prepared for the 2013 World Development Report, [World Bank Policy Research Working Paper](#), Number 6276 (November 2012), pp. 10-18.

² *Ibid.* p. 13.

a million jobs.³ However, the agency also notes that millions of low-wage workers would enjoy higher earnings under the President's policy, a point that must be factored into any evaluation of the proposal. At a time of significant public concern about inequality, it is worth noting that the minimum wage isn't necessarily a well-targeted instrument to tackle low income, since many employees earning minimum wages don't belong to the poorest households; this is another message that emerges from the CBO's study. Tax credits (or wage subsidies) aimed at increasing the after-tax incomes of relatively low-paid workers are a more effective way to improve the economic well-being of lower income households. Still, a higher minimum wage is seen by many policy-makers and social activists – and some economists – as one of the tools available to raise incomes for low-paid workers and low-income households.

Context Matters

There is no reason to suppose that the effects of a higher minimum wage will be uniform across jurisdictions or time periods; much depends on the context. If the minimum wage hasn't changed for many years, then a higher one is unlikely to cause many job losses. But if the minimum wage is already set at a relatively high level – say at 55-60% of the average industrial wage – then increasing it further may create strong incentives for employers who rely on low-

paid workers to economize further on the use of labour. The impact of an increase in the minimum wage on employment and incomes also depends on the proportion of jobs that actually pay at or near the statutory minimum. In circumstances where the minimum wage has been frozen for an extended period, fewer workers will be affected by it over time as the general wage level rises. In regional economies with robust job markets and/or facing labour shortages (e.g., Alberta), a higher minimum wage is unlikely to have much effect on the level of employment.

The Picture in Canada and in BC

How have minimum wages evolved in Canada? A recent Statistics Canada study examines the trends in both nominal and inflation-adjusted minimum wages over almost four decades.⁴ The average national "real" minimum wage in 2013 was almost identical to the level recorded in 1975 (\$10.14 per hour versus \$10.13 per hour);⁵ this runs counter to frequent claims that the statutory minimum has failed to keep pace with the cost of living. In the United States, however, the story is different: there, the federal minimum wage has in fact declined in real (inflation-adjusted) terms over time.⁶

Who receives the minimum wage in Canada? The proportion of workers earning the minimum has risen, climbing from 5.0% in

³ Congressional Budget Office, The Effects of a Minimum Wage Increase on Employment and Family Income (February 2014); available at www.cbo.gov/publication/44995

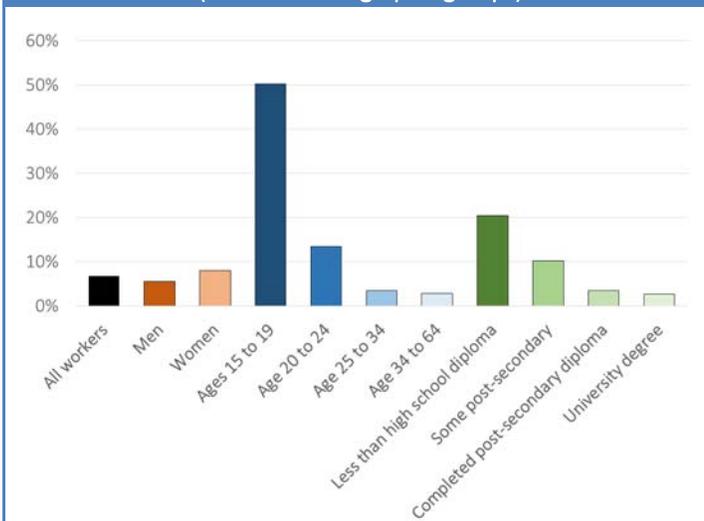
⁴ D. Galarneau and E. Fecteau, "The ups and downs of the minimum wage," Statistics Canada, Insights on Canadian Society (July 2014).

⁵ The minimum wage for Canada is the average of the provinces weighted by the number of workers in each province. *Ibid.*, p. 8.

⁶ But note that tens of millions of American workers are covered by state government statutes that have led to minimum wages which are higher than the level prescribed by federal law.

1997 to 6.7% by 2013.⁷ In BC the share currently stands at 6.4%, up slightly from 6.1% in 1997. The modest rise in the proportion of minimum wage workers partly reflects above-average employment growth in some industries where low-paid work is quite common, e.g., the fast food sector and personal and household services.

Figure 2
Proportions of Workers in Canada
Earning the Minimum Wage, 2013
(selected demographic groups)



Source: Galarneau and Fecteau, see footnote 4.

There is a relationship between a worker's age and the likelihood that he/she will be paid at the statutory minimum. In 2013, half of all employees aged 15 to 19 earned the minimum (Figure 2), with this group representing 40% of all minimum wage employees in Canada. Among workers aged 25 to 64 the incidence of minimum wage employment is far lower, under 5%, although it should not be overlooked that people aged 35 to 64 make up one-quarter of all minimum wage earners in Canada.

⁷ The cited figures refer to paid workers and exclude the self-employed.

Along with age, educational attainment also plays a role in the distribution of minimum wage jobs, with more education being associated with a reduced likelihood of holding a minimum wage job. That said, university graduates represented more than 10% of minimum wage workers in Canada in 2013, while people with college diplomas comprised almost one-fifth of the total.

One way to understand the place that minimum wages occupy in the labour market is to compare how they stack up against the average level of pay. Table 1 presents information on the ratio of the provincial minimum wage to the average industrial wage for Canada and the provinces in 1983, 1995 and 2013, measured in constant dollars. In 2013, the ratios were lowest in Alberta and Saskatchewan and highest in PEI and Nova Scotia. Of interest, in the same year Alberta and Saskatchewan also had the smallest proportions of minimum wage workers among all paid employees and boasted the strongest labour markets in the country. There has been no tendency for the ratio of minimum to average wages to decline over the past three decades; in fact the ratio has increased in most provinces, including BC.

According to Statistics Canada, British Columbia's \$10.25 minimum wage amounted to 46% of the average industrial wage in 2013, up from 31% in 1983 (it was slightly less than 41% in 1995).⁸ Pushing the minimum to 55-60% of the average wage, as some labour leaders and social groups advocate, would take it to about \$12-\$13 an hour. Based on the available research, it's

⁸ All measured in 2013 dollars.

difficult to say how many jobs would be eliminated (or not created) under such a policy, although surely there would be some in sectors like accommodation, food-services, retail, building maintenance, cleaning, security, and personal services. On the other hand, low-paid employees in these (and other) industries who were able to hold on to their jobs (and hours) presumably would benefit from a higher minimum wage, as would other workers presently being paid just above the statutory minimum.

	1983	1995	2013
Canada	38.5%	43.9%	45.5%
British Columbia	30.7%	40.6%	46.1%
Alberta	37.0%	39.3%	38.8%
Saskatchewan	44.2%	43.6%	42.2%
Manitoba	44.5%	41.2%	50.0%
Ontario	37.5%	47.0%	46.6%
Quebec	42.2%	44.6%	46.7%
New Brunswick	44.4%	42.2%	50.4%
Nova Scotia	44.5%	44.8%	51.3%
Prince Edward Island	55.0%	44.7%	53.1%
Newfoundland	45.0%	38.7%	43.7%

Source: Galarneau and Fecteau, see footnote 4.

For any business, if the cost of employing a worker for one additional hour climbs in the absence of compensating increases in productivity or top-line revenue, economic theory and logic tell us there will be an incentive for the firm to look for ways to reduce the use of labour. Small increments in the statutory minimum wage may not cause many employers in low-wage sectors

to shed labour, but larger increases in wage costs carry a greater risk of labour displacement. To the extent that labour displacement does occur following a hike in the minimum wage, the negative effects will be felt most keenly by younger and less experienced workers vying for entry-level jobs.

Looking ahead, the BC government may decide to revisit the existing legislated minimum wage within the next year or two, if only because some other provinces are already boosting their statutory minimums.⁹ Regardless of where policymakers choose to set the minimum wage, the Business Council believes there is an argument for adjusting it in small steps on a regular basis (e.g., every 1-2 years), perhaps in line with changes in the cost of living, rather than keeping it frozen for a lengthy period, as British Columbia did between 2001 and 2010. Experience indicates that when the minimum wage is fixed for long stretches of time, political pressure eventually builds to enact big increases – and it is these, rather than small periodic increases, which cause the most serious disruptions for the business sectors that rely on relatively low-paid employees to staff their facilities and run their operations.

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⁹ Ontario increased its minimum wage from \$10.25 an hour to \$11.00 in June 2014.