

2011 PEA Scholarship Competition

BC currently has a minimum wage of \$8 per hour, the lowest in Canada. Do you think this a positive or negative for those who live and work in BC? Do you think the minimum wage should change? Discuss the impacts of your choice with regards to government, large and small businesses and workers.

Despite rising costs of living, minimum wage in British Columbia has been frozen at \$8 per hour since 2001. Although a decade ago BC boasted the highest minimum wage in Canada, since then the rest of the provinces and territories have increased their minimum wages, leaving BC with the lowest minimum wage in the country, and the even lower \$6 per hour “training wage” for an employee’s first 500 hours. Even with BC’s provincial income tax for low-income workers being less than in other provinces, an employee being paid at the provincial minimum wage still takes home less after taxes in BC than anywhere else in the country. In fact, 11.4% of BC’s citizens lived on after-tax incomes below the poverty line in 2008, the highest after-tax poverty rate in Canada. This is clearly not a positive situation for BC’s lowest income earners, and neither is it advantageous for BC’s government or economy. Minimum wage in BC should be raised to a “liveable” rate that would allow full-time, year-round workers to make a decent living – a change that would have no significant adverse effects on BC’s businesses, but that would significantly improve the lives of the thousands of British Columbians barely scraping by.

In the minimum wage debate, there are various players who present arguments against raising it, some important ones being 1) the counterproductive effect of jobs and job hours being cut in response to wage hikes, 2) stress on businesses due to increased wage payments, and 3) increased inflationary pressure, driving prices up across the board. These will be discussed in turn and shown to be insufficiently convincing as reasons to not raise minimum wage. This will be followed by the assertion that minimum wage should be raised in BC as a means to protect worker rights, to counter poverty and ensure the high standard of living we’ve built and come to expect in our beautiful province.

The most common argument made by politicians and economists who oppose increasing minimum wage is that it will have significant adverse employment effects (Neumark & Schweitzer, 2000), reducing both the number of jobs and hours for low-income workers – an argument not supported by empirical studies. Classical economic theory holds that minimum wage is a distortion to the natural forces that govern the economy. Being a price that is set above

the equilibrium labour-market wage, it creates both an excess supply of workers at the same time that it decreases the demand for labour services by employers, thus creating unemployment (as put forth by Stigler, 1946).

However, the unemployment effects foretold by this theoretical model are not necessarily supported empirically: the hallmark case-study by Card and Krueger in 1994 showed that a minimum wage increase in New Jersey had “no significant employment effects” compared to neighbouring Pennsylvania where the wages remained the same. Neumark and Washer (2000) attempted to discredit these findings by criticizing their data and study methods, however Card and Krueger (2000) repeated their study with new data, and reiterated their original conclusions, stating that “modest changes in minimum wage have little systemic effect on employment”. Broadway & Cuff (2001) have even suggested that minimum wages may actually *decrease* unemployment.

There is a similar lack of agreement in the literature examining effects on worker hours. While some researchers have found that minimum wage hikes cause reductions in worker hours (e.g. Couch & Wittenberg, 2001; Stewart & Swaffield, 2008), others have found no effect (e.g. Connolly & Gregory, 2002) and others still have found that worker hours increased (e.g. Zavodney, 2000). Clearly, the employment effects due to minimum wage increases are ambiguous (Strobl & Walsh, 2011), and do not add significant empirical support to an argument against raising minimum wage.

A second major concern noted by business owners is regarding the extra stresses increased wages will have on their businesses; a valid concern, but one for which they have been exempt for over nine years, and for which businesses in the rest of the country have dealt with and still managed to remain competitive and be profitable. Indeed, with only 2.3% of BC’s workers being paid at minimum wage, a modest increase from \$8 per hour to \$10 per hour would not significantly change the amount employers spend on employee paycheques, but would have a significant effect on the lives of those low-income workers. BC has a strong economy that has been growing steadily despite global financial problems, with one of the highest average wages in the country. While a sudden, large increase to the minimum wage could have detrimental effects for small businesses, a gradual and modest increase could be absorbed quickly, and would not be putting BC’s businesses at a disadvantage, but rather on par with the rest of the country.

In fact, lowering the high rate of poverty in BC by raising minimum wage is not only positive for the low-income workers, but also had advantageous outcomes for businesses. People with low wages don't have money to spend on anything other than the bare essentials – namely housing, utilities and food. Higher incomes mean people have more money to spend on consumable goods, supporting small businesses. Overall, the extra money spent on higher wages by businesses comes back to them in the form of increased spending by consumers.

A lower poverty rate is also more cost-effective for government. Not only do people making more money at their jobs pay more taxes, they are also less likely to need to be supported by government-run social institutions such as income assistance and employment insurance, which are paid for through taxes. Additionally, people not living in poverty will tend to be healthier, thus reducing healthcare-related costs – a significant consideration in a country such as Canada with a publicly-funded health system.

The third argument, as mentioned above, made by politicians and economists is that raising the minimum wage will create inflationary pressure. However, as with the adverse effects on employment, increases in inflationary pressure may be a theoretically valid concern, but not nearly so dramatic in practice. BC's economy has had a low inflation rate, and the small percentage of the population whose incomes would actually change with an increased minimum wage would have little effect on inflation. Furthermore, the extra money that low-income workers would be earning would be primarily spent on living essentials such as housing, food, and debts, not on expensive merchandise that would drive up market prices.

Finally, even without discrediting some of the major arguments against raising the minimum wage, it should be sufficient to do so for the simple reason of social justice. Minimum wages were originally instated as a means to protect the rights of workers being exploited by their employers, mainly women and younger employees. The concern is just as important today as it was many generations ago when large-scale industries were paying their workers substandard wages. In a country such as Canada that prides itself on its high standards of living, everyone should have the right to make a decent living by working full-time, all year. Certainly businesses need to be making a profit to be viable endeavours, but should it be at the cost of the welfare of its workers?

For a province that claims to be “The Best Place on Earth,” BC needs to seriously reconsider its priorities and live up to its claims by valuing worker rights and enforcing a liveable

minimum wage. Even if there are slight impacts at first to small businesses due to modest wage increases for the lowest-paid workers of the province, these will be soon mitigated by the social wellbeing collectively gained by BC's citizens from reductions in poverty. As the British Columbia Federation of Labour stated on March 14, 2011, "if the new Christy Clark government is serious about jobs and families first, then a long overdue minimum wage increase should be the first step for the Clark government."

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