

Professional Employees Association 2011 Scholarship Competition

*BC's \$8 Minimum Wage: Positive or Negative for Those Who
Live and Work in BC?*

Submitted to the PEA Scholarship Committee
March 15, 2011

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There is no doubt that there has been increasing support for an end to the nine year freeze on the British Columbia minimum wage¹. An Angus Reid poll released last fall by the BC Federation of Labour states that eighty-seven percent of British Columbians support an immediate \$2 increase². There is also no doubt that the decision to raise the minimum wage is politically charged. It has been a campaign promise by many of the recent candidates for the liberal leadership³. What are the facts? Proponents for both sides of the debate claim that the other is fostering an agenda by using studies to dispute the claims of the other⁴. Statistics show that the component of employees earning the minimum wage in B.C. is the second lowest in Canada at 2.3 per cent (only Alberta is lower at 1.3 per cent). This is down from six per cent in 2001. B.C. is the only jurisdiction in Canada that has seen this percentage drop every year over the last five years⁵. The largest proportion, almost 60%, of those earning minimum wage are youth aged 15-24⁶. This same age group has the third highest wage rate in Canada at \$13.24 per hour. Clearly, individuals earning at this entry level wage are not staying there long. If you strip away the rhetoric and posturing British Columbia's lowest in Canada minimum wage has not had a negative effect on it's citizens.

With a change in the leadership of the BC liberal party there is going to be an effort to distance the party from some of the controversial policies of the former leader. As with most political decisions, public outcry will likely influence the outcome on the question to raise the minimum wage. Hopefully, however, the dialogue will include some real discussion of the objective and the full scope of policy options to achieve it. Clearly the target group needs to be understood. In 2009, Statistics Canada published its data on the minimum age earner group in the Canadian labour pool. If the objective is to combat poverty then raising the minimum wage alone will be targeting a much wider group and may not address the needs of individuals who do not have a social safety net.

¹ Cayo, Don. . "How High Should B.C.'s Minimum Wage Be? - Cayo." Web log post. *The Vancouver Sun*. Canada.com, 15 Feb. 2011.

² "Eighty-seven Percent of British Columbians Want Minimum Wage Increased to \$10 Immediately | British Columbia Federation of Labour.". 25 Nov. 2010. Web

³ Chai, Carmen. "Would-be B.C. Premier Must Quell Voter Discontent, Unite Party." *The Gazette* [Montreal] 26 Feb. 2011. *Montreal Gazette - Breaking News, Quebec, Opinion, Multimedia & More*. Postmedia News, 26 Feb. 2011. Web.

⁴ Ivanova, Iglia. "Myths and Facts About the Minimum Wage in BC." *Reports & Studies*. Canadian Center for Policy Alternatives, 9 Feb. 2011. Web.

⁵ Abbotsford Chamber of Commerce. "Raising Information for Minimum Wage in British Columbia." *Abotsford Times*. Canada.com, 8 Mar. 2011. Web.

⁶ Langevin, Manon. *Perspectives on Labour and Income: Minimum Wage*. Publication no. Catalogue # 75-001 XIE. Statistics Canada, Mar. 2010. Web.

The effect of the minimum wage freeze has removed the BC government from the equation while allowing the demand for labour in a free labour market to set the rate at which potential new employees are enticed to consider working for employers. Minimum wages are essentially for the unskilled entrants into the workforce. In times of labour shortages employers will first start reaching out to untraditional labour pools and then be forced into being more competitive with their wages. Very few wage earners actually receive minimum wage. In 2009 Statistics Canada reported that 5.8 percent of Canadians were earning the minimum. Interestingly, however, the provinces with the lowest minimum wage, BC and Alberta, also had by far the smallest proportion of workers earning near the minimum⁷. It appears that employers have responded to markets and increased starting wages and wage increases in order to retain employees.

In BC there is no shortage of resentment towards the provincial government especially around policies that were stated to be good for BC without the backing of the public. The minimum wage issue is very political and the government is already under fire for maintaining the freeze for over nine years while the rest of Canada has instituted minimum wage increases. This position is already perceived by some as been not supportive of working persons and catering to big business. Much of the dialogue in the press has focussed on this. There is mounting pressure to do something. Liberal leadership candidates have stated that a \$2 increase would be disastrous for employment and small business and suggest a gradual approach to raising minimum wage. There is an exemption from personal income tax for BC minimum wage earners so any move to increase it will only result in a modest increase of tax revenue as a few individuals move off the lowest pay scale. Job losses are not likely to result in reduced tax personal tax revenue as few are paying tax currently.

Larger businesses, those with the largest workforces, are less likely to be affected by an increase in minimum wage. They most likely rely on employees who are more skilled and have implemented pay scales that value employee loyalty and skills. Undoubtedly, though a large increase in minimum wage will have a ripple effect on those wage scales and increase the overall labour cost which will in turn translate into cost cutting or increase in product prices to compensate.

Small business', especially those involved in the service sector, are most likely to be affected by an increase in minimum wage. They are the largest source for new jobs in Canada and often are the ones that employ minimum wage earners. Understanding how this sector responds is the key to an

⁷ Langevin, Manon. Perspectives on Labour and Income: Minimum Wage. Publication no. Catalogue # 75-001 XIE. Statistics Canada, Mar. 2010. Web.

effective policy change to increase the minimum wage. The current policy allows workers to be recruited at a rate which reflects the market and allows considerable breadth in which to reward employee loyalty and initiative. The effect of raising the minimum wage will be to compress the range of wages between the newest entrant to the worksite and those which are most valuable to the employer, those who have received training and gained experience on the job. If the market for a product is price sensitive there is little option for employers but to reduce staff and or hours to keep labour costs in line.

The effects of an increase in minimum wage are most dramatic in young workers aged 15-24. The vast majority of these young workers are enrolled in studies and still have financial support from their parents⁸. What is seen as effort to elevate minimum wage workers out of poverty often has the opposite effect for workers in this group resulting in employers responding by reducing hours and hiring less employees⁹. With the rate of minimum-wage work 6 times higher among part time workers, the potential exists to have hours of work reduced further. In fact studies have shown that a 10 percent increase in the minimum wage will likely result in a three to six percent decrease in employment for young workers. An increase in minimum wage may not translate into more take home pay as hours are reduced and jobs are cut.

While poverty activists, politicians and policy makers may have good intentions when they push for higher minimum wages, the reality is that minimum wage increases do not reduce poverty. Our political leaders need to be clear in the policy decisions they make. If their interest truly is in combating poverty, the whole range of alternatives should be examined rather than just raising the minimum wage. They need to be realistic about the effects on the groups being targeted and design policies that are best suited to protect them.

⁸ Langevin, Manon. Perspectives on Labour and Income: Minimum Wage. Publication no. Catalogue # 75-001 XIE. Statistics Canada, Mar. 2010. Web.

⁹ Godin, Keith, and Niels Veldhuis. "The Economic Effects of Increasing British Columbia's Minimum Wage." The Fraser Institute: Public Policy Research and Educational Organization. 7 Jan. 2009. Web.

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