

The people of British Columbia are currently facing two economic crises: high unemployment levels stemming from an extremely slow recovery from recession, and a completely stagnant minimum wage. While costs continue to rise, income has not increased in concert, and the impact that has on the people of our province is increasingly problematic, especially for those at lower income levels.

Currently, BC has the lowest minimum wage in Canada. In addition, BC's minimum wage has remained stagnant for a decade, while every other province and territory has experienced increases within that same period<sup>1</sup>. Of those, all but Alberta and Saskatchewan, both of whom have planned another increase for 2011<sup>2</sup>, have had theirs adjusted within the last year.

The effect of minimum wage levels on employment frames the debate on determining the appropriate level for establishing a minimum wage. The current provincial government long maintained the position that by raising the minimum wage, businesses would necessarily have to lay off workers to compensate, lowering employment and decreasing economic growth, effectively hurting those the measure was meant to help. Given that the recovery from recession is so tenuous, they argued we should not jeopardize the economic recovery by raising the price of labour. This is the orthodox view on wages, and has been the prevailing model among mainstream economists for two centuries. This position is arguable however, and is contradicted by empirical results derived from analyses conducted in the last quarter century.

One example of such an analysis, and one of the most famous within the literature *Card and Krueger*, was conducted in New Jersey fast food restaurants in 1992<sup>3</sup>. In this study, minimum wages in fast food restaurants was increased from \$4.25 to \$5.05 per hour. The orthodox economic model would predict, all other factors held constant, that employment should decrease as a result of this cost increase. Instead, what the authors determined was that employment levels increased, demonstrating that wage levels in and of themselves are not the primary determinant in establishing the employment rate. These findings have been endorsed by Nobel Laureates Paul Krugman<sup>4</sup> and Joseph Stiglitz<sup>5</sup>. Taking into account that in 1992, New Jersey was recovering from an economic recession, it can be argued that workers in BC will not suffer as a result of raising the minimum wage, although it can be easily demonstrated that they suffer as a result of not raising it.

The average cost of living in BC continues to rise. Statistics Canada reports that on average, the consumer price index has risen from 97.7 to 113.8 since 2001<sup>6</sup>. This has resulted in a loss of purchasing power for low-wage and minimum wage workers, as a higher proportion of their income must be devoted to essential items. This has potentially detrimental effects, as many consumers are left unable to spend their income on valuable, but non-essential, sectors of the economy. If the minimum wage were adjusted to a level that would give workers the same purchasing power they had in 2001, an

increase of \$1.48, or 18.5 %, would be required<sup>7</sup>.

This decline in purchasing power for minimum wage workers since 2001 presents complications for small businesses. Small businesses must find the balance between staying profitable and staying competitive with large businesses. This becomes more difficult when consumers have less disposable income to spend, and more people flock to larger businesses, which due to their size advantage can typically offer cheaper prices for the same goods.

Many argue that reform of minimum wage should not focus on restoring the purchasing power of consumers, but rather that it should focus on pegging the minimum wage at a level which assures that all those working full time are above the poverty line. With the 2011 low-income tax cut off set at roughly \$22, 229, a minimum wage based on that statistic would be \$11.11 per hour (40 hours a week, 50 weeks a year)<sup>7</sup>.

Critics of this argument are quick to point out that most minimum wage earners are teenagers or university students living at home, and are not technically poor, as they still rely on the income of their parents. However, statistics indicate that may no longer necessarily be the case. The Canadian Centre for Policy Alternatives reports that a scarce majority of low-wage workers (those earning less than \$10 per hour) live with their parents. Of those that live with their parents, one in eight is over the age of 25. Exacerbating this situation, trends indicate that fewer minimum wage workers live at home, while the proportion of those over the age of 25 who live with their parents continues to increase<sup>7</sup>.

This is due to the fact that minimum wage has failed to keep up with tuition rates, student debts, and housing costs. The number of young adults ages 20 to 30 still living with their parents is 44%, up from 32% in 1986<sup>7</sup>. Also, a single parent working full time at minimum wage with two children can only earn \$16, 640 a year, less than half the poverty level for a family of that size (\$34, 958<sup>8</sup>). This is reflected by BC's child poverty rate, which is the highest in Canada, at 10.4%<sup>9</sup>. In fact, the majority of children living in poverty in BC have at least one parent who would be classified as a full time equivalent (1.0 FTE) worker<sup>7</sup>.

Low minimum wages have particularly disadvantageous consequences when the training wage is taken into account. While it is debatable whether the training wage is an incentive for businesses to hire youth with little or no work experience, the training wage has not been true to its name, as 31.4% of minimum wage employees report that they received no training at all during the 500 hour period where they only earned \$6 an hour<sup>10</sup>. This has led to high employee turnover rate, especially among older minimum wage earners, who are the most in need of stable employment.

But while raising the minimum wage would benefit workers, and in turn small businesses, who could see a rise in profits as a result increased consumer purchasing power; large businesses, for

obvious reasons, should be opposed to any such initiative. Large businesses have the advantage of being able to sell goods and services at much lower prices, and therefore do not depend on high consumer purchasing power. Increasing minimum wage would likely only cut into their profits as they would have higher costs of employment.

However, raising the minimum wage alone simply won't kill any large business. It will, on the other hand, assist families, workers, and small businesses. It should be noted, however, that if a minimum wage increase is to occur, most economists agree it should be introduced gradually, so as not to shock businesses in the short-term. Once it reaches an appropriate level, it should be tied to inflation, with annual increases, as in Alberta and Yukon<sup>2</sup>. This way, we can avoid incurring the costs of immediately catching up with the rest of the country after a long period of stagnation, a prospect which makes attaining a reasonable and just minimum wage more complicated and difficult.

So while it may seem difficult to adjust our minimum wage upwards, the task is not insurmountable. Both major political parties in the legislature now have minimum wage reform as part of their agenda. This is not surprising, since an increased minimum wage would generate additional tax revenues<sup>11</sup>. As voiced in a joint statement by 650 US economists, including five Nobel Laureates and 6 past Presidents of the American Economic Association, “a modest increase in the minimum wage would improve the well-being of low-wage workers and would not have the adverse effects that critics have claimed.”

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1 [http://en.wikipedia.org/wiki/List\\_of\\_minimum\\_wages\\_in\\_Canada](http://en.wikipedia.org/wiki/List_of_minimum_wages_in_Canada)

2 <http://www.cbc.ca/news/canada/edmonton/story/2007/06/15/min-wage.html>  
<http://www.community.gov.yk.ca/labour/minwage.html>

3 David Card and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, Volume 84, no. 4 (September 1994), pp. 774-792.

4 Paul Krugman, “The Conscience Of A Liberal” (W.W. Norton & Co., 2007)

5 Joseph Stiglitz, “[Employment, Social Justice and societal well-being](#), *International Labour Review*, 141 (1-2), p. 9 – 29.”

6 <http://www.bcstats.gov.bc.ca/data/dd/handout/CPIAN.pdf>

7 [http://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2011/02/CCPA\\_BTN\\_minimum\\_wage\\_facts\\_2011\\_web.pdf](http://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2011/02/CCPA_BTN_minimum_wage_facts_2011_web.pdf)

8 <http://www.cic.gc.ca/english/information/applications/guides/5196e10.asp>

9 <http://www.campaign2000.ca/reportCards/provincial/BritishColumbia/2010ReportCard.pdf>

10 <http://www.canada.com/vancouver/news/westcoastnews/story.html?id=16bf9c92-05ff-49dd-b552-f3db20923b8e>

11 [http://epi.3cdn.net/88c6aac4ee16915866\\_ldm6iie11.pdf](http://epi.3cdn.net/88c6aac4ee16915866_ldm6iie11.pdf)

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