

**Scholarship Essay written for
the Professional Employees Association
on the topic:**

**"BC currently has a minimum wage of \$8 per hour, the lowest in Canada.
Do you think this is 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."**

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Introduction:

In British Columbia increasing minimum wage has always been a controversial topic. Both sides have their arguments and have reasons to justify why it should be raised or kept the same. Supporters say that raising the wage will benefit our economy and the social standards of the lower income class. It will increase the desire of people to find work when the wage is higher and increase the work ethic of people who do find jobs. Increasing incomes for the lower income classes would increase the tax base, allowing for increased government spending. The increase in the minimum wage would also lessen the gap between the rich and the poor, allowing all classes in society to share in the growing prosperity of British Columbia's economy.

Critics of the minimum wage have different viewpoints on the issue of raising minimum wage. Some believe that minimum wage could decrease employment in BC as businesses would hire less people after the wage hike. Are there greater negative effects on small business than on big business? Due to economies of scale will large companies out compete small companies? The question that needs to be asked of minimum wage is as follows: is there sufficient justifiable research for raising minimum wage in BC?

This essay discusses the positive and negative effects that increasing minimum wage could pose for the economic and social situation of British Columbia.

Why does minimum wage exist today?

Think about why we have minimum wage in today's society. It all stems from the Great Depression, a period of world poverty in capitalist countries through the 1930's. One of the leading causes of the Great Depression was huge inflation in the economy. We also know that workers wages did not keep pace with this inflation. In 1929 we saw that even though inflation had risen over 300%, incomes of the average person only rose by 8%, this created a huge number of workers who now could not afford consumer goods. Why buy a new car, when the old one will still last for a few more years? "Besides, that new car is way too expensive, I could never afford to buy it". The concept of consumerism died and people no longer had extra money to buy things they didn't "need". People stopped buying products, and therefore businesses stopped producing those products. The ensuing job losses created a huge number of unemployed, helping to set the wheels in motion for the depression. To prevent huge spikes of inflation in today's economy we regulate it. Keeping inflation at 2-3% keeps the incentive to buy goods stable while also ensuring that prices don't outstrip wages in the economy. To control inflation, prices and wages must be kept in balance and minimum wage was put in place to help achieve this balance.

Economics:

The philosophy in our capitalist economy is consumerism, and if the number of consumers increases so will the prosperity in our economy. A minimum wage increase will cause a boost of economic prosperity and increase the stability of our economy in British Columbia. Raising the minimum wage by a couple dollars can help increase consumerism by giving those on minimum wage more buying power, increasing profits and benefiting the economy in general. These people were working two jobs to just get by and survive. These workers could now have a slight surplus of money that would increase their buying power.

Critics argue that minimum wage increases hurt the economy, saying that jobs will disappear, decreasing the total amount of people with money to spend. Politicians say increasing minimum wage would lead to an increase in unemployment. They say that the tax base would decrease and the unemployed would then seek social services at the expense of local governments. This theory is not backed up by research however, as minimum wage has not been proven to reduce employment.

Big Business versus Small Business

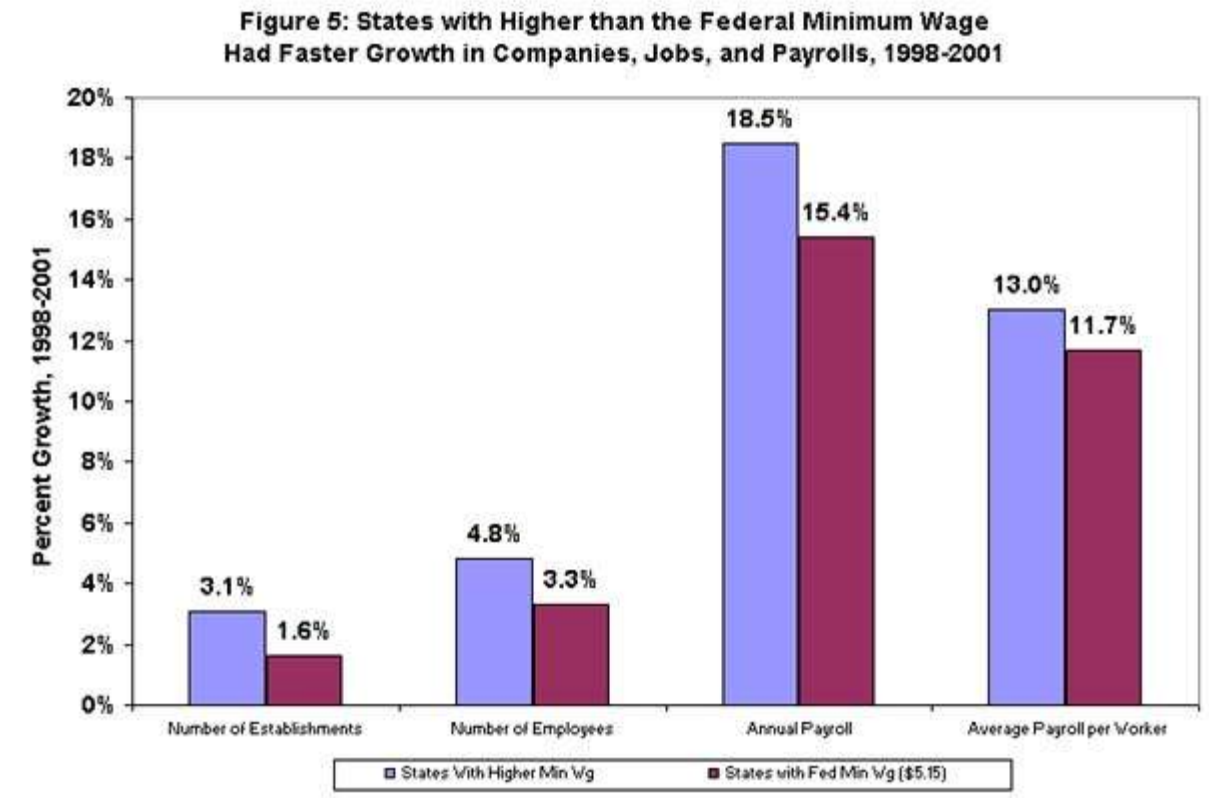
Both small and large companies employ minimum wage workers in BC. There has been a great debate on how minimum wage affects these two different sizes of businesses. In general, the difference between small and larger businesses is the cost of labour relative to the cost of making their products. This comes down to economies of scale. Larger businesses have lower labour costs per unit of

product cost. This is why big businesses can easily accommodate a minimum wage increase. Small businesses, on the other hand, have a greater chance of being impacted from the increase in minimum wage, because the labour costs are higher per unit product produced.

Critics argue that minimum wage has the potential to hurt small business much more than big business. They argue that with minimum wage increases, owners will be forced to close their doors after operating costs become too high. Small business prices will increase, causing price inflation as owners try and compensate by raising prices. Small businesses differ from big businesses because they are limited by the number of items they can sell. Small businesses cannot absorb this overhead cost. People won't want to buy from these small businesses because their prices are too high. Thus critics believe that minimum wage increases severely harm small businesses and leave the door open for big business to fill in the niches and take the place of small businesses.

Even though critics speculate about the negative effects of raising minimum wage on businesses, in practice it has been shown that the effects are positive. As the graph below shows, from 1998-2001 twelve states in the United States had a higher minimum wage than the national average¹. The data shows that increases in minimum wage boosted the economy, and positive increases resulted. The number of small businesses increased, along with the number of employees. Also the annual pay roll and average pay roll per worker increased. This dispels the myth that employment numbers will decrease and that the number of small businesses will decrease. Minimum wage increase affects business in a good way and helps increase diversity in the local economy.

Figure 1: Effect of minimum wage increases on small businessesii



Social Situation:

One third of people earning minimum wage are the working poor. Those living on minimum wage exist on the poverty level. Even with the raise of minimum wage these people will still be classified as poor. When people have no other option they must go work at minimum wage regardless of the dollars per hour. These people live in poverty and struggle to pay for the things middle and upper class people take for granted, such as food, power and shelter. A lower income person or family puts all their income towards these basic needs. They can't afford to buy luxuries and this means that people at the poverty level don't

contribute much to the economy. Raising minimum wage will give many more people some surplus income, allowing them to spend more on consumer goods and boost the economy.

Another problem of the minimum wage is that a person cannot live on a single job, working 40 hours per weekⁱⁱⁱ. Most of those living on minimum wage work two jobs, causing mental and physical stress as that person tries to provide for themselves or a family. Maybe raising minimum wage won't stop them from being forced to work two jobs, but it could reduce the number of hours a person must work to survive.

66% of workers in minimum wage jobs are aged between 15 and 24^{iv}. Most of these young people live at home and are not fully supporting themselves on minimum wage. Even though they are not classified as working poor, wages are still an important part of their future. Many young people are saving for post-secondary education, for a permanent residence, or just for consumerism.

Government Spending and Taxation:

The biggest thing we take for granted in our society is social spending. Canada is a welfare state, and the government must collect taxes to give us services such as health care and employment insurance. We pay for these things with income tax and the taxes on consumer goods. If the wages of minimum wage workers increase so does the tax base. People working at minimum wage now will have more money to spend and this can help increase the tax base for the government. An added benefit is a decrease in the number of people relying on local social service agencies^v. Making these people who were previously reliant on social services independent can then increase the amount of surplus money

that local governments and the provincial government now have to spend on other things. This money could go into further social programs and a surplus of extra tax money to spend in times of economic stress.

Conclusion:

The minimum wage in British Columbia needs to be increased. Economically it will increase the prosperity of our provincial economy. Socially it will help the lower income class and shrink the gap between the rich and the poor of BC. "Consider for a moment which would better help the economy, 1 CEO making another 5 million dollars, or every minimum wage worker in his company making another 1 dollar an hour."vi Obviously the question answers itself, spreading money to the minimum wage workers will have a greater benefit to society.

British Columbia has the lowest minimum wage in Canada. It's time for British Columbians to keep up with the rest of Canada and raise minimum wage. Increasing the minimum wage will boost the economy of our province, raising the amount of people buying into consumerism and stimulating business. This increase will motivate employees to work harder, increasing quality and productivity. A minimum wage increase will have a positive effect on BC's economy and our society.

i Jared Bernstein, "Minimum Wage and Its Effects on Small Business", (www.epi.org/publications/entry/webfeatures_viewpoints_raising_minimum_wage_2004/, 2004)

ii Bernstein, "Minimum Wage and Its Effects on Small Business"

iii Bryan Jennings, "*Is Raising the Minimum Wage a Good Idea?*", (<http://www.helium.com/items/897960-is-raising-the-minimum-wage-a-good-idea>, 2008)

iv Article, "Young Workers", (www.bcfed.com/issues/youth, 2010) pg. 1

v Brock Haussamen, "The Minimum Wage: Information, Opinion, Research", (www.raiseminwage.org/id24.html, 2009) pg. 1

v^j Jennings, "Is Raising the Minimum Wage a Good Idea?"

Sources:

BC Federation of Labour website (www.bcfed.com/issues/youth)

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