

Measuring the Effects of Increased Minimum Wages in Alberta

Issue

The Alberta NDP platform states that an elected government “would ensure the benefits of better economic policies are more widely shared, by increasing the minimum wage to \$15 per hour by 2018” . However, studies are inconclusive regarding minimum wage increases having a long-term economic benefit for addressing poverty. Alberta businesses are concerned with the operative outcome of this policy. The Government of Alberta has moved forward with the implementation of these increases without clear measurements in place for the effects on business, employment and poverty.

Background

Employers in Alberta are mandated by the Employment Standards Regulation to pay a minimum wage. Anything below this limit is unlawful and anything above this limit is the decision of the employer. Currently the hourly minimum wage in Alberta is set at \$12.20 for most employees, with a weekly minimum wage of \$486 for salespersons, inclusive of land agents and certain professionals; and a monthly minimum of \$2,316 for domestic employees.

An overview of minimum wages across Canada will show that Alberta has the third highest minimum wage, next to Nunavut and the Northwest Territories. With the scheduled increases to Alberta’s minimum wage, employees across the province are soon going to be the benefactors of the highest minimum wage mark across the country. This is a troubling fact for Alberta businesses, especially as the province is facing a further estimated 2.9% retraction in its already contracted GDP and is further compounded by rising unemployment rates in Alberta. In October of 2015, when minimum wage increased to \$11.20 per hour, unemployment sat at 6.6%, which rose to 8.5% by October 2016, when minimum wage became \$12.20 per hour. The law of demand states that the demand for a good or service will fall as its price increases. This can be applied directly to the current minimum wage structure in Alberta.

The Alberta Chambers of Commerce released the findings of the second phase of its Minimum Wage survey in March of 2016. Through nearly 800 qualified respondents, 80% of Alberta businesses indicated negative direct impacts from the October 1, 2015 wage increase. These impacts were identified as: reduced profits, increased prices, reduced workforce, increased pay for those earning more than minimum wage, and limited advancement or promotions of existing employees.

This survey also showed a dramatic difference in the number of respondents in rural areas where cost of living is lower and the impact of minimum wage increases immediately translates to a small business’s bottom line. Vacancies have also increased in positions that have typically been paid more than minimum wage, but now are experiencing ride up effects.

From the study compiled by the Alberta Chambers of Commerce, respondents indicated an average cost increase to their business of \$21,456.05, with an average cost per employee of \$835.76 per employee. For those with 50 or fewer employers, the cost per employee is \$1,224.91. This figure is projected to grow

by 285% at a \$15 per hour minimum wage. This alone can be interpreted as a direct hit to the bottom line, and overall viability, of every employer that has to increase their wage structures to meet legislation. Introductory economics states that businesses that have higher costs are overall less competitive. It has been suggested that competition ensures a fair market for consumers. Whether reducing labour costs, or increasing the cost burden on the consumer, employers will look for ways in which they can remain competitive, while reducing their cost burden.

Defined as “the state of one who lacks a usual or socially acceptable amount of money or material possessions” , poverty is a complicated combination of economic, social and political elements. Together, these inputs play against individuals, preventing their wider participation in society. Currently the minimum wage discussion in Alberta, and various other jurisdictions around the world, pull on the idea that those earning a minimum wage should be able to live an adequate lifestyle.

As of September 30, 2016 it was approximated that 296,000 Albertans earned below \$15 an hour , which represents the lowest percentage of low wage earners across Canada . Considering this number, it is important to assess the end point of the Alberta minimum wage discussion. The plan of the Alberta Government to implement a minimum wage of \$15 an hour is to reduce poverty throughout the province, while simultaneously ensuring that unemployment does not rise. However, data and research do not indicate that this is possible. In the Alberta Chambers of Commerce Phase II Minimum Wage Survey, “a majority of respondents indicated that they will have to lay more employees off” should their labour costs continue to increase. Less opportunity for work, increased unemployment and competition for the remaining employment all run contrary to the goal of a minimum wage increase.

Academics David Neumark and William Wascher have studied the cumulative effects of minimum wage increases on employment extensively. Through the plethora of data and analysis from decades worth of research on increases to minimum wage, they conclude “the literature – when read broadly and critically – [is] largely solidifying the conventional view that [increasing] minimum wages reduce[s] employment” . Further, they state that the “weight of evidence [on increasing minimum wages] points to disemployment effects” . As was stated above, unemployment in Alberta has risen to the highest levels since the mid-nineties.

Employers are concerned with the impacts that this legislation will have on their ability to remain viable. Increased costs across all levels of government have layered increasing pressure on all businesses, without a reduction in demand. Policies such as increased minimum wage attempt to solve social issues that are more complex than just a minimum wage increase. With a 17.6 % increase in food bank usage from 2015 to 2016 and a projected national increase of 3-5% in 2017 food costs for the average family , Albertans are feeling the cumulative effects of low oil and commodity prices, and increased taxation.

To achieve the government’s social goals without disrupting business competitiveness it would be better to use an outcomes based approach to position Alberta as the national minimum wage leader by enhancing the Alberta Family Employment Benefit and implementing a provincial version of the federal Working Income Tax Benefit. This approach would raise the effective minimum wage for adult earners and enable job creators to focus on addressing other pressures hurting Albertans’ labour market outcomes.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Halt all further increases to Alberta’s minimum wage until a system of metrics has been implemented to measure the impact of minimum wage increases since October 2015 in areas such as, but not limited to the following:
 - a. Poverty in Alberta,

- b. Cost of Living in Alberta,
 - c. Food Bank Usage across Alberta,
 - d. Unemployment across Alberta,
 - e. Cost of doing business,
 - f. Employment vacancies, and;
 - g. Business start-up and closure ratios.
2. Provide an alternative plan to the scheduled Minimum Wage increase for 2017 (at \$13.60 per hour, Alberta will have the highest minimum wage in Canada) and 2018 if the Provincial economy, measured in GDP, does not meet a scheduled level. This should be a percentage equal to the percent change in the Alberta Consumer Price Index.
 3. Consider a regional minimum wage based on cost of living to allow for differences in rural and urban areas, to allow doing business in all regions to remain viable.
 4. Collaborate with business to establish an ongoing research program for data and information gathering and its subsequent analysis to address policy-relevant minimum wage issues, as well as alternative poverty reduction strategies.