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Impacts of Significant Minimum Wage Increase

Issue:

In the recent Alberta NDP Platform¹ section 1.3 it was stated that the NDP 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 there are inconclusive studies regarding minimum wage in relation to the overall, long term economic benefit and the impacts to resolving the root of implementing minimum wage increases, poverty reduction and addressing the living wage issue, and the adverse effects on unemployment and impacts on business.

Background:

Most Alberta employers must pay their employees, including students and youth, at least the minimum wage. The minimum wage in Alberta is set out in the Employment Standards Regulation and is an hourly minimum wage of \$10.20 for most employees; an hourly minimum wage of \$9.20 for employees serving liquor as part of their regular job; a weekly minimum wage of \$406 for many salespersons, including land agents and certain professionals; and a monthly minimum wage of \$1,937 for domestic employees².

Across Canada, Alberta ranks 8th out of the 10 Provinces in before tax ranking, with Ontario ranked 1st with a minimum wage rate the highest in Canada at \$11.00 per hour. However, in after tax income, Alberta ranks 2nd amongst provinces after tax due to the beneficial tax policies currently in place.

Minimum Wage Comparisons

* For Single Income Earners

| | AB | BC | SK | MB | ON | QC | NB | NS | PE | NL |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Minimum Wage Rate | \$ 10.20 | \$ 10.25 | \$ 10.20 | \$ 10.45 | \$ 11.00 | \$ 10.35 | \$ 10.00 | \$ 10.40 | \$ 10.35 | \$ 10.25 |
| Salary (2000 hrs) | \$ 20,400 | \$ 20,500 | \$ 20,400 | \$ 20,900 | \$ 22,000 | \$ 20,700 | \$ 20,000 | \$ 20,800 | \$ 20,700 | \$ 20,500 |
| Federal Tax | \$ 2,254 | \$ 2,276 | \$ 2,253 | \$ 2,345 | \$ 2,628 | \$ 2,394 | \$ 2,163 | \$ 2,331 | \$ 2,301 | \$ 2,268 |
| Personal Income Tax | \$1,037 | \$1,051 | \$1,037 | \$1,107 | \$1,261 | \$1,067 | \$981 | \$1,093 | \$1,079 | \$1,051 |
| CPP/EI/QPP | \$1,220 | \$1,227 | \$1,220 | \$1,254 | \$1,329 | \$1,323 | \$1,193 | \$1,247 | \$1,241 | \$1,227 |
| GST | (\$4) | (\$2) | (\$5) | (\$16) | \$38 | \$4 | (\$11) | (\$9) | (\$18) | (\$10) |
| Provincial Tax | \$ 139 | \$ 581 | \$ 695 | \$ 1,737 | \$ 341 | \$ 1,045 | \$ 939 | \$ 1,680 | \$ 1,906 | \$ 1,299 |
| Personal Income Tax | \$139 | \$141 | \$180 | \$1,115 | \$556 | \$432 | \$165 | \$708 | \$1,152 | \$524 |
| Sales Tax | \$0 | \$440 | \$515 | \$621 | (\$334) | \$534 | \$774 | \$972 | \$755 | \$775 |
| Health Care Premium | \$0 | \$0 | \$0 | \$0 | \$120 | \$80 | \$0 | \$0 | \$0 | \$0 |
| Summary | | | | | | | | | | |
| Before Tax Ranking | 8 | 6 | 8 | 2 | 1 | 4 | 10 | 3 | 4 | 6 |
| Total Tax | \$ 2,393 | \$ 2,857 | \$ 2,948 | \$ 4,082 | \$ 2,970 | \$ 3,439 | \$ 3,102 | \$ 4,012 | \$ 4,208 | \$ 3,567 |
| After Tax Salary | \$ 18,007 | \$ 17,643 | \$ 17,452 | \$ 16,818 | \$ 19,030 | \$ 17,261 | \$ 16,898 | \$ 16,788 | \$ 16,492 | \$ 16,933 |
| After Tax Wage Rate | \$ 9.00 | \$ 8.82 | \$ 8.73 | \$ 8.41 | \$ 9.52 | \$ 8.63 | \$ 8.45 | \$ 8.39 | \$ 8.25 | \$ 8.47 |
| After Tax Ranking | 2 | 3 | 4 | 8 | 1 | 5 | 7 | 9 | 10 | 6 |

Based on the best information available as of: April 17, 2014 for the: 2014 provincial tax systems. Minimum wage rates as of: October 1, 2014

NOTE: This comparison assumes that all income is from employment and only personal, CPP, and EI credits are claimed. No shifting assumptions are made.

¹ Alberta NDP Platform: <http://www.albertandp.ca/platform>

² Government of Alberta: <http://work.alberta.ca/employment-standards/minimum-wage.html>

The law of demand dictates that when the price of labor rises, the quantity demanded will fall. That same law tells us that quantity demanded will decrease more in the long run than in the short run, as employers switch to labor-saving methods of production—and unemployment will increase.

Workers who retain their jobs are made better off by increases to minimum wage, but only at the expense of unskilled, mostly young, workers who either lose their jobs or can't find a job at the legal minimum. If the minimum wage exceeds the prevailing market wage (determined by supply and demand), some workers will lose their jobs or have their hours cut. There is abundant evidence that a 10 percent increase in the minimum wage leads to a 1 to 3 percent decrease in employment of low-skilled workers in the short run, and to a larger decrease in the long run, along with rising unemployment.

The minimum wage also violates the principle of freedom by limiting the range of choices open to workers, preventing them from accepting jobs at less than the legal minimum. It also prohibits employers from hiring those workers, even if both parties would be better off. Thus, contrary to the claims of minimum-wage proponents, the government does not increase opportunities for low-skilled workers by increasing the minimum wage. If a worker loses a job or can't find one, that earning income potential is zero. Employers will not pay a worker \$15 per hour if that worker cannot produce at least that amount.

Governments look to promise low-skilled workers a higher wage; however that promise cannot be kept if employers cannot profit from retaining those workers or hiring similar workers. Jobs will be lost, not created; and unemployment will rise as more workers search for jobs but can't find any at the above-market wage. Additionally, most employers cannot simply raise prices to cover the higher minimum wage, particularly in the competitive services sector. And if they do increase prices, consumers will buy less or have less money to spend on other things, meaning fewer jobs on net. Moreover, if the minimum wage cuts into profits, there will be less capital investment and job growth will slow.³ Businesses cannot afford to pay employees more than those employees produce on the aggregate. Employees who are paid the minimum wage earn that wage rate because they lack the productivity to command higher pay.

Advocates of increasing the minimum wage rely on the idea that businesses are able but unwilling to pay higher wages to their employees. The hope is that these businesses will simply bear the increases in their profits, while employment and prices are negligibly affected. Unfortunately, most minimum wage earners work for small businesses, rather than large corporations. Small businesses face a very competitive market and often push profits as low as they can go to stay open. Minimum wage earners employed by large corporations would also be affected, because these corporations are under tremendous pressure from shareholders to keep costs low. Additionally, any significant increases to minimum wage without proper notice and consultation could bear significant cost impacts to business in the short term and hamper sustainability and continuity for businesses moving forward.

The main conclusion of more than seven decades of research is that minimum wage increases tend to reduce employment. One review by economists David Neumark and William Wascher shows that 63 percent of studies found relatively consistent evidence of negative employment effects on minimum wages. Further, 85 percent of what they deem the most reliable studies point to negative employment effects.

One of the primary reasons that minimum wage increases are typically considered by Governments, is to address living wage or poverty issues. However minimum wage alone fails to alleviate poverty because it fails to address unemployment. Recent studies have shown that there is little to no relationship between an increased minimum wage and reductions in poverty. These studies find that, although some lower-skilled workers living in poor families see their incomes rise when the minimum wage increases, others lose their jobs or have their hours substantially cut⁴.

³ The Minimum Wage Delusion, And The Death Of Common Sense: <http://www.forbes.com/sites/jamesdorn/2013/05/07/the-minimum-wage-delusion-and-the-death-of-common-sense/>

⁴ Effects on Business Employment and Consumers: http://www.alec.org/wp-content/uploads/Raising_Minimum_wage.pdf

Most experts agree that a multi-pronged and multi-level process is needed to address and combat poverty, a task that cannot be addressed solely by increases to the minimum wage rate. Research and conclusions on the link between poverty and minimum wages are also highly contentious, with various arguments for and against a link. For this reason, any linkage between the minimum wage and poverty needs to be situated within the context of various other measures to address poverty, including but not limited to changes to taxation, social policy, housing, and job and skills training, etc. The minimum wage can be one of a set of tools used to address poverty, but the Government must assess the degree to which it is used in conjunction with other strategies. Using it as one of a set of tools would alleviate concerns with disproportionate burden on employers or other groups, as well as provide a stronger framework for addressing low wages and poverty in Alberta.⁵

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Assess minimum wages annually and only revise by a percentage equal to the percent change in the Alberta Consumer Price Index.
2. Provide a minimum of six months' notice of any minimum wage changes implemented. The effective date of minimum wage changes should be June 1 of the following year. This would result in notification by December 1 of the previous year.
3. 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.

⁵ Economic Impact of Minimum Wage: http://www.labour.gov.on.ca/english/es/pubs/mwap/section_03.php