

# Impacts of Significant Minimum Wage Increase

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## Issue

In the Alberta NDP election Platform 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. The goal of poverty reduction is commendable and widely supported, but attempting to resolve this complex issue by simply implementing minimum wage increases is not the most effective solution. A more robust solution should be applied, taking into consideration living wage variances across the province, rates of taxation on low income earners, as well as recognizing the need for special minimum wage rates for workers such as students under the age of 18. By solely focusing on minimum wage as a solution to reduce poverty and a one size fits all solution, this type of public policy endeavor has the potential to result in unintended consequences to both employers and employees.

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## Background

All Alberta employers must pay their employees, including liquor servers, adolescents, youth and disabled persons, at least the minimum wage . The minimum wage in Alberta is set out in the Employment Standards Regulation and as of October 1, 2017 was set at an hourly minimum wage of \$13.60 for most employees; a weekly minimum wage of \$542 for many salespersons, including land agents and certain professionals; and a monthly minimum wage of \$2,582 for domestic employees who live in their employer’s home .

The table below shows the minimum wage rates across the provinces, including an after tax comparison. Interestingly, Alberta has a higher minimum wage by \$2.25/hour at \$13.60/hr compared to the next highest minimum wage earners in Canada in BC earning \$11.35/hr. The before tax income of that difference based on 2,000 hours would result in a \$4,500 difference, however in after tax income, minimum wage earning Albertans receive an extra \$3098.76 per year from that amount compared to their counterparts in BC. This essentially means that nearly \$1,500 in additional income from Albertans is actually going toward provincial and federal tax revenues.

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
<b>Minimum Wage Rate</b>	<b>13.60</b>	<b>11.35</b>	<b>10.96</b>	<b>11.15</b>	<b>14.00</b>	<b>11.25</b>	<b>11.00</b>	<b>10.85</b>	<b>11.25</b>	<b>11.00</b>
Salary (2000 hrs)**	\$27,200.00	\$22,700.00	\$21,920.00	\$22,300.00	\$28,000.00	\$22,500.00	\$22,000.00	\$21,700.00	\$22,500.00	\$22,000.00
Monthly Salary	\$2,266.67	\$1,891.67	\$1,826.67	\$1,858.33	\$2,333.33	\$1,875.00	\$1,833.33	\$1,808.33	\$1,875.00	\$1,833.33
Federal Tax	\$1,885.68	\$1,255.32	\$1,146.12	\$1,199.28	\$1,997.76	\$1,008.84	\$1,157.28	\$1,106.76	\$1,227.24	\$1,157.28
Provincial Tax	\$666.00	\$192.60	\$480.84	\$1,254.72	\$1,106.40	\$0.00	\$1,033.44	\$782.52	\$1,276.56	\$998.04
CPP/QPP	\$1,173.12	\$950.40	\$911.76	\$930.60	\$1,212.72	\$1,026.00	\$915.72	\$897.96	\$940.56	\$915.72
EI	\$451.56	\$376.80	\$363.84	\$370.20	\$464.76	\$292.56	\$365.16	\$359.28	\$373.56	\$365.16
Personal Income Tax Rate*	10.00%	5.06%	10.50%	10.80%	5.05%	15.00%	9.68%	8.79%	9.80%	8.70%
<b>Summary</b>										
Before Tax Ranking	2	3	8	5	1	4	6	9	4	7
Total Tax & deductions	\$4,176.36	\$2,775.12	\$2,902.56	\$3,754.80	\$4,781.64	\$2,327.40	\$3,471.60	\$3,146.52	\$3,817.92	\$3,436.20
After Tax Salary	\$23,023.64	\$19,924.88	\$19,017.44	\$18,545.20	\$23,218.36	\$20,172.60	\$18,528.40	\$18,553.48	\$18,682.08	\$18,563.80
After Tax Ranking	2	4	5	9	1	3	10	8	6	7

Using the same modelling as above, if you kept minimum wage at \$13.60 per hour and only increased by an estimated 2% per year, but eliminated personal income tax for wage earners under \$30,000, workers would actually end up making more net income at a lower minimum wage rate, than if they earned \$15.00 per hour with the current tax regime.

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.

Workers who retain their jobs are made better off by increases to minimum wage, but only at the expense of unskilled or youth 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, as employers will not pay a worker \$15 per hour if that worker cannot produce at least that amount. If a worker loses a job or can't find one, their earning income potential is zero. There is 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.

The reduction in youth unemployment also has long term repercussions as low-skilled jobs are an important introduction to the workforce and, more important than the actual job skills that are learned, are the behaviours that are encouraged through being employed. Work can be seen as another extracurricular option that is developmental and educational in nature and is proven that youth who work are more likely apt in time management skills and can secure higher income jobs later on. First jobs teach important lessons such as punctuality, time management, handling competing priorities and responsibilities, and allowing youth to gain financial literacy. These crucial learning opportunities will be diminished leaving the workers of tomorrow at a disadvantage and unprepared in a job environment that is becoming more and more competitive.

Governments continue 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 or in industries that are price-takers. Moreover, if the minimum wage cuts into profits, there will be less capital investment and job growth will slow.

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.

One of the primary reasons that minimum wage increases are typically considered by Governments, is to address living wage or poverty issues. Minimum wage is defined as the lowest amount employers can pay their employees by law, whereas living wage is an estimate of what workers need to earn to cover the actual costs of living in a specific community. 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 cut.

Living wage rates in Alberta vary across the province with higher rates being found in large urban areas while smaller cities have lower rates. Interestingly, as an example, with the minimum wage increase on October 1, 2017, Medicine Hat has now achieved its living wage rate and yet poverty in the Southeast Alberta region is still a pressing issue and only highlights the need for a more robust and comprehensive strategy to address poverty reduction.

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 skills training, etc. Additionally, the most recent Thrive7 report solidifies that minimum wage should not be tied to “living wage”, as the living wage in each region in our province is drastically different, varying from \$18.15 in Calgary to \$13.65 in Medicine Hat.

As such, the minimum wage should be set to the minimum standard in Alberta to ensure a level playing field within all regions, so that our regions can remain competitive and that there isn’t a disparity created in the province due to unfairly legislated costs to the regions. It is not reasonable to equate that the same minimum wage will result in the same net impact across jurisdictions, nor is it reasonable to embark on decisions under the supposition that all regions in the province operate under the same “living wage” standard. There are varying factors in costs of living, benefits, subsidies, and levels of taxation that are not accounted for in just a basic minimum wage comparison.

There must be a more robust conversation to ensure that a disproportionate burden on employers or other groups is not an unintended consequence of public policy and that a stronger framework for addressing low wages and poverty in Alberta is created.

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### **The Alberta Chambers of Commerce recommends the Government of Alberta:**

1. Maintain the current minimum wage rate as of January 1, 2018 and only revise the rate by a maximum percentage equal to the percent change in the Alberta Consumer Price Index, after conducting an annual assessment based on employment and economic conditions in Alberta;
2. Recognize that each region has a different living wage rate by ensuring that minimum wage is not tied to living wage and set the minimum wage rate standard accordingly and fairly to all jurisdictions;
3. Implement special minimum wage rates for students under 18;
4. Review personal provincial income tax for Albertans earning less than \$30,000 per year;
5. Continue to provide a minimum of one years’ notice on any minimum wage changes implemented;

6. 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.
7. Restore a wage differential for those earning tips and/or commissions.