

Submission to the Minister of Labour on the Minimum Wage

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The Manitoba branch of the Canadian Centre for Policy Alternatives (CCPA-MB) is an independent, public policy research institute. Our mandate is to produce well-researched, academically-credible publications on a wide variety of public policy issues of importance to Manitoba. Since our establishment in 1997, we have earned a reputation for solid, reliable research on the issues of the day.

From the beginning, the CCPA-MB has been a strong, frequent and vocal proponent of a significant increase in Manitoba's minimum wage. We have published a report on the minimum wage (Black and Shaw, 1998); included a chapter on the minimum wage in a book on poverty in Winnipeg (Black and Shaw, 2000); made submissions to the Minimum Wage Board (Scarth, 2001; MacKenzie and Snyder, 2001); met with the Minister of Labour on several occasions regarding the minimum wage; made information about the minimum wage available to numerous labour organizations and community organizations; and produced and distributed a variety of shorter popularized publications on the importance of substantially increasing the minimum wage. Our associates elsewhere in Canada have been producing similar studies: the CCPA office in British Columbia has published an important study on the minimum wage (Goldberg and Green, 1999), , as has the Nova Scotia office of the Canadian Centre for Policy Alternatives (Workman and Jacobs, 2002). The Canadian Centre for Policy Alternatives considers this to be an issue of very great importance.

In this, our latest submission on a crucial social issue, we once again bring to your attention the reasons why a substantial increase in the minimum wage is so important – indeed, so urgent – for this province. We also point out the weaknesses in the arguments advanced by those who oppose a substantial increase in the minimum wage, and the many positive consequences that would follow from a significant increase in the minimum wage.

Why the Minimum Wage in Manitoba Should be Significantly Increased:

We believe that, as a matter of principle, those who work at full-time, full-year jobs ought to be paid an amount sufficient to enable them to live with dignity, and to participate fully in the communities of which they are a part. People who work deserve no less. Yet, that is not now the case in Manitoba those being paid at or near the minimum wage. Indeed, working full time at the minimum wage in Manitoba currently produces earnings that are not sufficient to lift either individuals or families out of poverty. That people who work full time should be paid wages so low that they are still below the generally-accepted poverty line is a denial of the values that Canada was built upon, and a denial of values that are widely held by Manitobans. If people are prepared to work, and their work is sufficiently valuable that an employer is prepared to hire them, they deserve to be paid an amount that will, at the very least, lift them above the poverty line if they work full-time.

And yet that is not what is happening in Manitoba now. The minimum wage is so very low that hard-working people paid at or near the minimum wage are still not able, by dint of their effort, to pull themselves out of poverty. One very clear indicator of this

situation is in the data on food bank usage. Winnipeg Harvest has reported that the "fastest growing segment of the population using its food bank is people who have jobs". People who have jobs should not be forced to turn to food banks. That they are is a consequence, among other factors, of the very low level of the minimum wage in Manitoba.

In 1987 Manitoba had the distinction of having the highest minimum wage in Canada. This was something for Manitobans to be proud of. But now, we are in the middle of the pack – in the middle of Canada's provinces – as regards the level of our minimum wage. We have had, in Manitoba, a decade of decline in the real value of the minimum wage and a decline in the minimum wage relative to both average weekly earnings and the low-income cut-off. It is true that, despite these decreases, there have been some modest improvements in conditions for minimum wage earners in recent years. From 1998 to 2003, the minimum wage increased from \$5.40 to \$6.75, an increase of 25%. Over the same period, the Consumer Price Index increased about 12%. So, minimum wage earners experienced modest gains in their real earnings. As well, during that time, the earnings of a minimum wage earner working 40 hours a week increased from about 40% to 44% as a proportion of average weekly earnings for all Manitoba workers (inclusive of overtime). And finally, the annual earnings of full-time, full-year minimum wage recipients relative to the low-income cut-off for a single person increased from 70% to 84%.

Despite these improvements, however, it is important to note that in June 1998, CCPA-MB proposed an immediate increase in the minimum wage to \$6.15 to be followed in six months by an increase to \$7.00. It took just about six years (April 1,

2004) for the minimum wage in Manitoba to reach the \$7.00 level recommended in 1998. The long and short of this is that far from raising the minimum wage to a level that would enable minimum wage earners to live in dignity, Manitoba governments have "nickel and dimed" the rate upwards, leaving minimum wage earners in tight circumstances. This is the case not only for individuals working full-time, full-year at one job, but also individuals working multiple jobs (who often have to contend with higher costs). In real terms, moreover, the 25 cents per annum increases to the minimum wage are shrinking at the very time the rate of increase in consumer prices and average weekly earnings are on the upswing. As a matter of principle, this is indefensible.

What About the Arguments of Those Who Are Opposed to a Substantial Increase of the Minimum Wage?

The main argument advanced by those opposed to a substantial increase in the minimum wage is that higher minimum wages would cost jobs – the so-called 'increase to the minimum wage as job-killer' argument. It is an argument that, despite being repeated constantly, is not supported by the evidence.

In 1995, U.S. economists David Card and Alan Krueger published the results of a five-year study on minimum wages. Their main finding was that the minimum wage increases in the United States of the early 1990s did not have negative employment effects (Card and Krueger, 1995). Three years later re-analyzed the data and came to the same conclusion (Card and Krueger, 1998). A major Canadian study, that compared Statistics Canada data on Canada's four largest provinces, found that the immediate job impact of a minimum wage increase is statistically insignificant for all groups except

young men (Goldberg and Green, 1999). Economist Jared Bernstein of the Economic Policy Institute, in testimony before the U.S. House of Representatives Education and Workforce Committee in April of 1999, observed that "the debate over the purported job loss effect is a debate over whether this effect is very small, or nothing at all". He added that some studies have even shown a small increase in employment following an increase in the minimum wage (Bernstein, 1999). In short, methodologically sophisticated analyses of the effect of minimum wage increases consistently conclude that increases to minimum wages are certainly not job killers.

In a related argument, some opponents claim that a substantial increase in the minimum wage would drive business away from Manitoba. The problem with this argument lies in the kinds of jobs that pay at or near minimum wages. Some 70 percent of people employed at the minimum wage are in the retail, accommodation and food services industries. These kinds of businesses are, in the first place, not highly mobile. Moreover, an increase – even a substantial one – in the minimum wage would be paid by all businesses in these sectors, so that a capital flight would not be the result.

Indeed, employers in these and other industries are able to compensate for the higher labour costs that come with a substantial increase to the minimum wage in several ways. First, many firms that rely on low-wage workers are inefficient. So long as they are able to recruit workers at very low wages, they have no incentive to improve conditions. A substantial increase in the minimum wage would create an incentive for these firms to figure out how to improve both their production and employment processes. They could, for example, convert part-time, casual jobs to full-time, permanent jobs.

Second, a higher minimum wage produces better employee morale, which leads both to lower rates of turnover – and thus lower costs associated with recruitment and training – and higher rates of productivity. In this regard, Canadian economist and policy analyst Judith Maxwell examined 'living wage' legislation in Baltimore, Maryland, which led to a 35 percent increase in wages at the lower end of the income scale. Although the fear had been expressed that this would lead to higher wage costs and thus higher property taxes, such turned out not to be the case at all. Consistent with so many other studies, Dr. Maxwell found that any increases to total wage costs that might have arisen from the higher wage rates, were offset by higher worker productivity and lower turnover. Her conclusion is important: "while these results still should be validated with a bigger study, they raise the prospect of a world where productivity gains induced by stronger commitment will pay the bill for a wage structure which reduces poverty and raises well-being".

A Significant Increase in the Minimum Wage as an Important Part of Anti-Poverty Strategy:

Most of the benefit of a significantly higher minimum wage would accrue to of low-income families. We know that over 60 percent of minimum wage earners are adults, and two-thirds are women. Thus, as economist Paul Phillips put it in his April, 2001 submission to the Minimum Wage Board: "Increased minimum wages, in short, go primarily to adults and women, disproportionately benefit low-income families, increase the total wages going to low-wage workers, and have minimal effects on employment, effects which may actually be positive" (Phillips, 2001).

As a result of this benefit pattern, a significant increase to the minimum wage is an effective part of an anti-poverty strategy. The evidence is very strong that higher minimum wages contribute to slight, but nonetheless significantly, reduced poverty levels (see, for example, Bernstein and Schmitt, 1997; Card and Krueger, 1995; Bernstein, 1999). In his testimony to the U.S. Congress, Jared Bernstein (1999), argued made this case convincingly:

"In reviewing literature for this hearing, I found that the vast majority of analyses found small poverty-reducing effects, i.e., increases in the minimum wage were associated with small declines in the poverty rate. In fact, a review of articles on this topic published over the last 10 years in peer-reviewed journals revealed no case in which the increase was associated with significant increases in the poverty rate".

We would argue, as well, that significantly higher wage levels for entry-level jobs will be an incentive for those who are not now in the labour market to take the steps needed to move into the labour force. For many, the very low level of the minimum wage means that entry-level jobs simply do not make good economic sense. For a single mother of young children, for example, the costs associated with being in the labour force – transport, clothing, childcare, for example – are such that, given the currently low minimum wage, there is no economic advantage to working for wages. A significantly higher minimum wage would, quite simply, be an important incentive to many people to take the steps needed to find a job. Moreover, as this example suggests, we believe that a drastically increased minimum wage would be an important step for reducing the

appalling levels of child poverty that have become the norm in Manitoba, and that have recently been confirmed, yet again, by the Social Planning Council of Winnipeg. It is much preferable for Manitoba to be a minimum wage leader than to continue to be a child poverty leader.

Given that the minimum wage is an important component in an anti-poverty strategy, we believe that the level of the minimum wage ought to be linked to the poverty line. Anyone working full-time at the minimum wage ought to earn enough to move above the poverty line. For this to happen, the minimum wage today for a person working a 40 hour week would have to be at least \$8.50 per hour and probably closer to \$9.00 per hour to reflect the diversity of conditions in Manitoba. An alternative would be to set the rate equal to 60% of the industrial composite average hourly wage (calculated by dividing average weekly earnings by 40). This industrial average alternative would require a minimum wage of between \$9.50 and \$10.00 an hour.

Conclusions:

A significant increase in Manitoba's minimum wage is the right thing to do in principle, and in practice. It is consistent with values widely held in Manitoba; it will accrue largely to the benefit of low-income individuals and families, and will have a positive impact on poverty levels, a matter of grave importance in Manitoba; it will moderate inequalities in the distribution of income; and, as has been demonstrated repeatedly, it will not have the job loss effects claimed by its detractors but could, indeed, result in improved jobs in low-wage firms and industries.

Recommendations:

We therefore urge you to adopt the following recommendations:

1. Increase the minimum wage to \$8.50 effective April 1, 2005 and then increase it by 50 cents each September 1 and April 1 until it has reached 60% of the industrial composite average hourly industrial wage.
2. As soon as the minimum wage has reached the 60% level, it should be indexed to subsequent increases in the average weekly industrial wage. Indexing the minimum wage has the dual advantage of ensuring that the gains made by low-income working people are not later eroded by increases in the cost of living, and ensuring that employers know what the level of the minimum wage is going to be so that they can plan accordingly.
3. Extend coverage of the minimum wage to all employees who are currently excluded, including, in particular, agricultural workers, home workers, domestic workers and independent contractors.

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