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BRINGING MINIMUM WAGES ABOVE THE POVERTY LINE

By Stuart Murray and Hugh Mackenzie

Growing Gap  **.ca**

CANADIAN CENTRE FOR POLICY ALTERNATIVES

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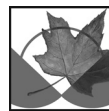
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SUMMARY

Bringing Minimum Wages Above the Poverty Line

THE VAST MAJORITY OF CANADIANS agree government should take action to reduce poverty and income inequality.

A poll conducted by Environics Research for the Canadian Centre for Policy Alternatives indicates more than eight in 10 Canadians (85%) say if government took concrete action, poverty in Canada could be drastically reduced.

A similar proportion (88%) say that increasing the minimum wage to a level that will raise workers in full-time minimum wage jobs out of poverty is an effective way to reduce Canada's growing gap.

Advocacy for a higher minimum wage has been gaining momentum across the country, with many regional campaigns focusing on raising the minimum wage to \$10.

This study shows that raising the minimum wage to \$10 an hour (in 2005 dollars) is do-able — in fact, it has been done in Canada in the past. The real (after-inflation) minimum wage in BC reached \$10.15 per hour in 1976, and a number of other jurisdictions have had real minimum wages close to \$10.

But recently that hasn't been the case. It has been common for provinces to allow several years to pass without a minimum wage increase, allowing inflation to erode the value of the real minimum wage over time.

Too often, politicians have been content to let the minimum wage languish, until forced to act. To date, no government in Canada has been prepared to adopt a consistent approach to the determination of the minimum wage. Consequently, minimum wages in Canada have been influenced more by political than economic considerations. As a result, the real value of minimum wages in Canada has fluctuated widely, as the following table illustrates.

Highest and Lowest Real Minimum Wage Between 1968 and 2005

	Highest Real Minimum Wage	Year in Effect	Lowest Real Minimum Wage	Year in Effect
British Columbia	\$10.15	1976	\$5.66	1987
Alberta	\$9.31	1977	\$5.82	1991
Saskatchewan	\$9.47	1976	\$5.90	1968
Manitoba	\$9.98	1976	\$6.24	1993
Ontario	\$8.96	1976	\$5.62	1968
Quebec	\$9.78	1977	\$6.75	1985
New Brunswick	\$9.47	1976	\$5.41	1969
Nova Scotia	\$8.54	1977	\$5.96	1988
Prince Edward Island	\$8.46	1976	\$5.82	1995
Newfoundland and Labrador	\$8.46	1976	\$5.72	1990
Federal	\$9.81	1976	\$4.90	1995

SOURCE Minimum wage data is effective in November of each year. Data come from the Human Resources Development Canada website.

NOTE Real dollar figures are indexed to 2005 dollars.

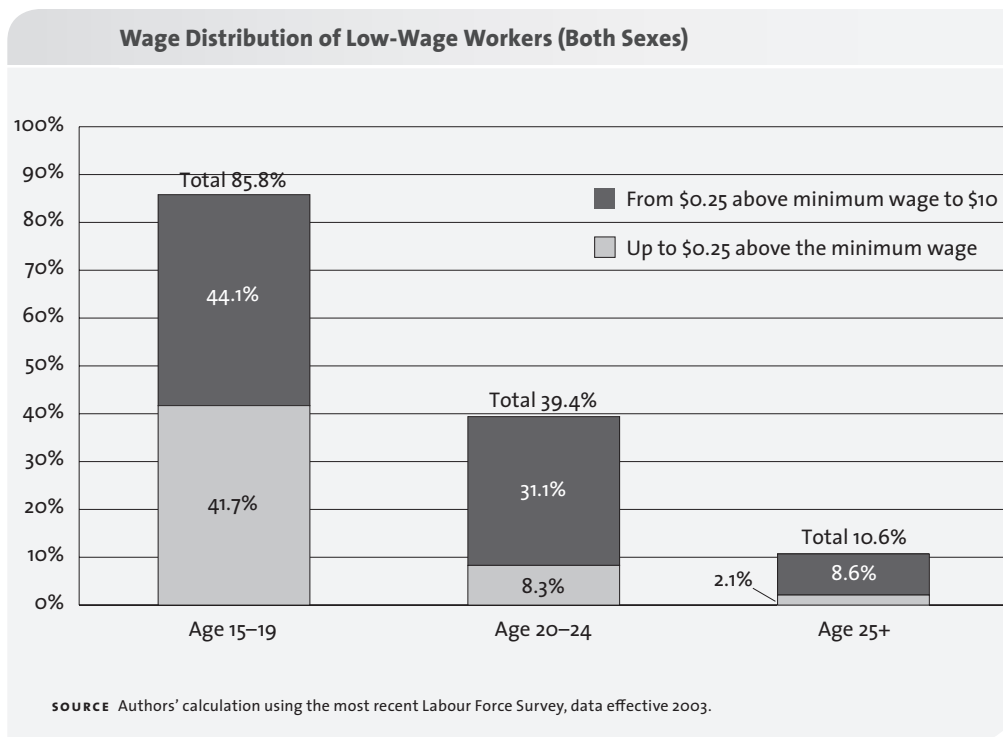
Although minimum wage patterns vary from province to province, some general trends are evident from the data for all provinces:

- It's been a long time since the minimum wage hit its \$10 peak. The minimum wage tended to increase, in real terms, from the beginning of our study period in 1968 until reaching a peak in the mid-to-late 1970s.
- After the late 1970s, the minimum wage dropped steadily, reaching a low point between 1984 and 1990 (depending on the province).
- Since then, the minimum wage has remained flatlined or increased only slightly. All provinces are failing to ensure minimum wage workers are paid a decent minimum wage.

Low-paid workers are overdue for a raise. While levels of education and experience have increased and GDP has grown, real wages remained stagnant from 1981 to 2004. Median wages (in 2001 dollars) have gone from \$15.16 in 1981 to \$15.33 in 2004, a mere 1.1% increase over 23 years.

Wages are stagnant while workers are stepping up their work effort to help grow Canada's economy. A higher minimum wage is one of several steps toward a higher-wage economy that acknowledges the contribution and value of Canadian workers.

Critics typically make three types of arguments against increasing minimum wages: there are so few people working at the minimum wage the problem is trivial; because most minimum wage earners are young people living at home, we shouldn't



be worried about what they are paid, and; negative employment effects from increases in minimum wages are so substantial that higher minimum wages will actually hurt more than they will help.

This study debunks those myths.

WHO'S EARNING LESS THAN \$10?

For a significant proportion of Canada's workforce, the idea that full-time minimum wage work should pay well enough to stay out of poverty is more than an abstract principle of justice. It is a matter of financial survival.

One worker in 25 works for the minimum wage or less — that's 4.1% of Canadians. Most minimum wage workers are teens, but a significant number are older than 25. Twenty-eight percent of women minimum wage workers are over 25; 17% of male minimum wage workers are over 25.

Since raising the minimum wage to \$10 would affect low-paid workers already earning between the current minimum wage and \$10 an hour, it's important to know who else might benefit from a higher minimum wage. This study finds 19.2% of workers in all age categories, for both sexes, work below \$10 an hour.

This is a significant portion of the workforce: almost one in five waged workers earn less than \$10 an hour — a major reason why Canada has so many working poor.

While only a small share of workers over 25 years of age are working at or near the *current* minimum wage (2.1%), a significant share (10.6%) are working *between* the current minimum wage and the proposed new minimum wage of \$10. Once the

debate shifts to a consideration of the merits of a \$10 minimum wage, the issue is no longer simply about teens and young workers. It's also about families trying to get by.

DEBUNKING THE JOBS ARGUMENT

Some critics claim raising the minimum wage could result in job loss. This study reviews and weighs the evidence and finds that the minimum wage is, if anything, a bit player in determining employment levels.

There is no compelling evidence to suggest that raising the minimum wage would result in significant job loss. Indeed, the weight of the evidence suggests little or no impact on employment from minimum wage increases.

Looking at Canadian employment rates over the past 30 years, there is no obvious relationship between employment rates and an increased real minimum wage. Sometimes employment rates fall after a minimum wage increase, and sometimes they rise. For the most part, larger-scale changes in the economy drive the employment rate. Major trends — such as recessions, the growth of female labour participation, economic growth — upstage any impact the minimum wage has on employment.

Increasing the minimum wage to keep pace with inflation should have no dis-employment effect. Even in the largely discredited studies cited by critics, there is no evidence that maintaining the real value of the minimum wage impacts employment. As a result, it is hard to justify the erosion of the real minimum wage since the late 1970s.

THE BENEFITS OF RAISING THE MINIMUM WAGE

Some critics characterize minimum wage policy as strictly an antipoverty measure and dismiss the minimum wage as a “blunt instrument for dealing with poverty.” This study, by contrast, sets minimum wage policy in its appropriate context as labour market regulation. It argues that the minimum wage is a reflection of the value our society places on work.

While a decent minimum wage would help alleviate poverty, it cannot be expected to eliminate poverty. Minimum wage policy is but one tool in a toolbox of policy options which, taken as a whole, can go a long way to addressing Canada's persistent poverty problem.

This study finds many positive effects of a higher minimum wage, including:

- Increasing the minimum wage benefits all low-wage workers. It helps those who earn between the current minimum wage and the new higher minimum wage. And it helps those who are paid close to the level of the new minimum wage.
- Good employers who pay decently (or want to), but who compete with firms that don't, will find themselves on a more level playing field.

- Employers will also benefit from less turnover and easier recruitment. Workers can easily be lured away from employers that provide low pay. The negative consequences of high turnover include added staffing and training costs, administrative costs, operational disruption, lost productivity, and low morale.
- A higher minimum wage can increase the independence and self-sufficiency of teens and youth — enabling young adults to leave home, and helping to reduce post-secondary education debt loads.
- Finally, increasing the total wage bill for those at the bottom end of the labour market can also lead to positive health outcomes. The broader trend is that poverty increases illness and health costs.

SETTING THE MINIMUM WAGE

The \$10 minimum wage (in real 2005 dollars) proposed in this study is based on a clear and transparent principle: namely, that a single individual working full-time and full-year should have an income above the poverty line. A single individual working full-time (40 hours a week) full-year must earn \$10 an hour to secure an income above the 2005 before-tax Low Income Cut-Off of \$20,778. The virtue of a \$10 minimum wage is that it meets the basic moral standard of wages covering the basic costs of living — and it reflects a society that values the contribution of its workers to the nation's economy.

We should note that the call for a \$10 minimum wage began in 2005 and was linked to the 2005 LICO, and there is inflation every year. Assuming 2.1% annual inflation between 2005 and 2010, we note that \$10 an hour in 2005 dollars is equivalent to \$11.10 in 2010 dollars. As we note in this study, governments have not been acknowledging the impact inflation has on the real minimum wage. This makes the drive for a \$10 minimum wage a moving target, as we must increase the target every year to account for inflation. Our call for a \$10 minimum wage in real 2005 dollars is, to be precise, a call for a \$10.42 minimum wage in 2007 nominal dollars, and also a call for an \$11.10 minimum wage in 2010 nominal dollars. Advocates for an above-poverty minimum wage must remain vigilant about the effects of inflation and the willingness of governments to let inflation erode the real value of the minimum wage. Once the target of the minimum wage above the poverty line is met, it should be indexed with inflation and rise each year to keep pace with the rising cost of living.

Introduction

THE VAST MAJORITY OF CANADIANS agree government should take action to reduce poverty and income inequality. A poll conducted by Environics Research for the Canadian Centre for Policy Alternatives¹ indicates almost nine in 10 Canadians (86%) feel government should take action on the income gap between rich and poor. More than eight in 10 (85%) say if government took concrete action, poverty in Canada could be drastically reduced. A similar number (88%) say that increasing the minimum wage to a level that will raise workers in full-time minimum wage jobs out of poverty is an effective way to reduce the gap.

Advocacy for a higher minimum wage has been gaining momentum across the country, with many regional campaigns focusing on raising the minimum wage to \$10. In 2005, the National Anti-Poverty Organization (NAPO) launched a national campaign to increase minimum wages to \$10 an hour. The “Make the Minimum Wage a Living Wage” campaign includes national organizations from labour, faith, student, women, anti-poverty and immigrant and visible minority groups.² In addition to the national coalition members, there are provincial coalitions and campaigns working towards a similar goal. The campaign calls for:

- 1 The federal government to reinstate a federal minimum wage and set it at at least \$10 an hour, indexed to inflation.
- 2 Provincial and territorial governments to raise their minimum wages to a level where someone working full time could escape poverty.
- 3 Employers to voluntarily pay at least \$10 an hour and support the call for raising minimum wages.
- 4 Municipal governments and universities to adopt living wage policies that would require procurement and service contractors to pay at least \$10 an hour.

The call for an increase in the minimum wage comes amid evidence that low-paid workers are overdue for an increase in pay. While levels of education and experience have increased and GDP has grown, real wages have remained stagnant since 1981³ and the incidence of low-wage work (i.e. paid under \$10 an hour) has remained about

the same.⁴ Median wages (in 2001 dollars) have gone from \$15.16 in 1981 to \$15.33 in 2004, a mere 1.1% increase over 23 years.⁵

Wages are stagnant while workers are stepping up their work effort to help grow Canada's economy. A higher minimum wage is one of several steps toward a higher-wage economy that acknowledges the collective contribution and value of Canadian workers.

Historically, there has been no clear rationale for how minimum wages are set. During brief periods in some provinces, nominal minimum wages were increased at a rate that matched the rate of inflation, in effect keeping the real minimum wage stable. But on the whole, the minimum wage has been adjusted (or left to be eroded by inflation) from one era to the next, largely as a result of prevailing political winds. Too often, the minimum wage has simply been allowed to languish until politicians are finally forced to act.

In contrast, the \$10 minimum wage currently being proposed is based on a clear and transparent principle: namely, that a single individual working full-time and full-year should have an income above the poverty line. A single individual working full-time (40 hours a week) full-year must earn \$10 an hour to secure an income above the 2005 before-tax Low Income Cut-Off. The virtue of a \$10 minimum wage is that it meets the basic moral standard of wages covering the basic cost of living.

This study makes the case for a \$10 minimum wage (in real 2005 dollars).

Section 2 examines the highs and lows of the minimum wage in each province and federally over time — showing how a \$10 minimum wage is not only do-able, it was practically the norm in the 1970s.

Section 3 looks at who is earning the minimum wage in Canada — and who is earning \$10 or less. It shows how a \$10 minimum wage would help a significant portion of the adult working population in Canada.

Section 4 considers the impact of the minimum wage on employment rates. It reviews the literature on studies correlating minimum wage raises and disemployment effects and finds that the minimum wage is a bit player when it comes to influencing employment levels.

Section 5 looks at ways to make a real \$10 minimum wage a political reality in Canada, drawing on the success of Great Britain's Low Pay Commission, which motivated the government there to ensure a higher minimum wage. This section proposes a policy framework for how to set and maintain the minimum wage. It also looks at how the minimum wage is but one tool in a broader toolbox of policy options to address poverty and the working poor. It puts forward a number of solutions to reduce poverty.

Finally, this section outlines the many positive benefits of a higher minimum wage, including lifting low-paid workers above the poverty line, putting businesses on a level playing field, and lowering the strain on the public purse.

Real Minimum Wages Over Time

IN THIS SECTION WE REVIEW the overall trend in minimum wages from 1968 to 2005 in Canada. We look at real (inflation-adjusted) minimum wages for each province and the federal government.

The nominal minimum wage is the rate using dollars that were current at the time. For example, the nominal minimum wage in BC in 1968 was \$1.25 an hour. The real minimum wage, however, is calculated by adjusting the nominal figure for inflation using the Consumer Price Index. After the adjustment, the real minimum wage reflects current dollar figures. For example, the real minimum wage in BC in 1968 was \$7.03 an hour in 2005 dollars.

The only meaningful way to compare minimum wages over time is to use the inflation-adjusted minimum wage as the basis for comparison. Movements in the real minimum wage over time capture both the periodic minimum wage increases introduced by governments, from time to time, and the impact that changes in the cost of living have on the buying power of a minimum-wage income.

Every Canadian province has, periodically, increased their minimum wage — in some cases at a rate that exceeds inflation, in other cases not. Governments almost never reduce the minimum wage. One of the only exceptions to this rule was BC’s introduction of a “training wage” (or “first job wage”) in 2001, which reduced the minimum wage from \$8.00 to \$6.00 per hour for those workers who had completed fewer than 500 hours of work. However, it is common for provinces to allow several years to pass without a minimum wage increase, allowing inflation to erode the value of the real minimum wage over time — effectively reducing the minimum wage without actually doing anything.

Although minimum wage patterns vary from province to province, some general trends are evident from the data for all provinces. Minimum wages tended to increase, in real terms, from the beginning of our study period in 1968 until they reached a peak in the mid-to-late 1970s. After the late 1970s, minimum wages de-

TABLE 1 Highest and Lowest Real Minimum Wage Between 1968 and 2005

	Highest Real Minimum Wage	Year in Effect	Lowest Real Minimum Wage	Year in Effect
British Columbia	\$10.15	1976	\$5.66	1987
Alberta	\$9.31	1977	\$5.82	1991
Saskatchewan	\$9.47	1976	\$5.90	1968
Manitoba	\$9.98	1976	\$6.24	1993
Ontario	\$8.96	1976	\$5.62	1968
Quebec	\$9.78	1977	\$6.75	1985
New Brunswick	\$9.47	1976	\$5.41	1969
Nova Scotia	\$8.54	1977	\$5.96	1988
Prince Edward Island	\$8.46	1976	\$5.82	1995
Newfoundland and Labrador	\$8.46	1976	\$5.72	1990
Federal	\$9.81	1976	\$4.90	1995

SOURCE Minimum wage data is effective in November of each year. Data come from the Human Resources Development Canada website.
NOTE Real dollar figures are indexed to 2005 dollars.

clined steadily reaching a low point between 1984 and 1990. Since then, minimum wages have remained flat or increased slightly.

Table 1 shows the highest and lowest real minimum wage between 1968 and 2005 in every province and at the federal level. We see that in every jurisdiction real minimum wages peaked in 1976 or 1977 at between \$8.46 and \$10.15 per hour depending on the province.

The lowest minimum wage for each province is either in the earliest years (i.e. the late 1960s), or during the period 1985 to 1995, when most provinces' minimum wages reached new lows. The one exception to this rule is the federal government, which froze its minimum wage during the 1990s. As a result, the federal minimum wage reached its record low in 1995 before it was effectively eliminated by linking it to the provincial minimum wage in each province. Depending on the province, the lowest real minimum wages observed in the study period are between \$4.90 and \$6.75 an hour.

These rates help to put into perspective the call for increases in minimum wages to \$10 per hour.

Real minimum wages close to the \$10 target are by no means without precedence in Canada. In BC, the real minimum wage reached \$10.15 per hour in 1976, and a number of other jurisdictions have had real minimum wages close to that level.

It is important to note that current minimum wages are by no means near their historic peaks in real dollar terms. Table 2 below shows that minimum wages effective February 2007 were below peak levels by between \$0.96 in Ontario and \$2.47 in New Brunswick.

TABLE 2 Gap Between Highest Minimum Wage and February 2007 Minimum Wage

	Highest Real Minimum Wage	Feb 2007 Minimum Wage	Difference
British Columbia	\$10.15	\$8.00	\$2.15
Alberta	\$9.31	\$7.00	\$2.31
Saskatchewan	\$9.47	\$7.55	\$1.92
Manitoba	\$9.98	\$7.60	\$2.38
Ontario	\$8.96	\$8.00	\$0.96
Quebec	\$9.78	\$7.75	\$2.03
New Brunswick	\$9.47	\$7.00	\$2.47
Nova Scotia	\$8.54	\$7.15	\$1.39
Prince Edward Island	\$8.46	\$7.15	\$1.31
Newfoundland and Labrador	\$8.46	\$7.00	\$1.46

SOURCE Human Resources Development Canada. http://www.hrdc-drhc.gc.ca/psait_spila/lmnec_eslc/eslc/salaire_minwage/index.cfm/doc/english. Additional calculations by author.

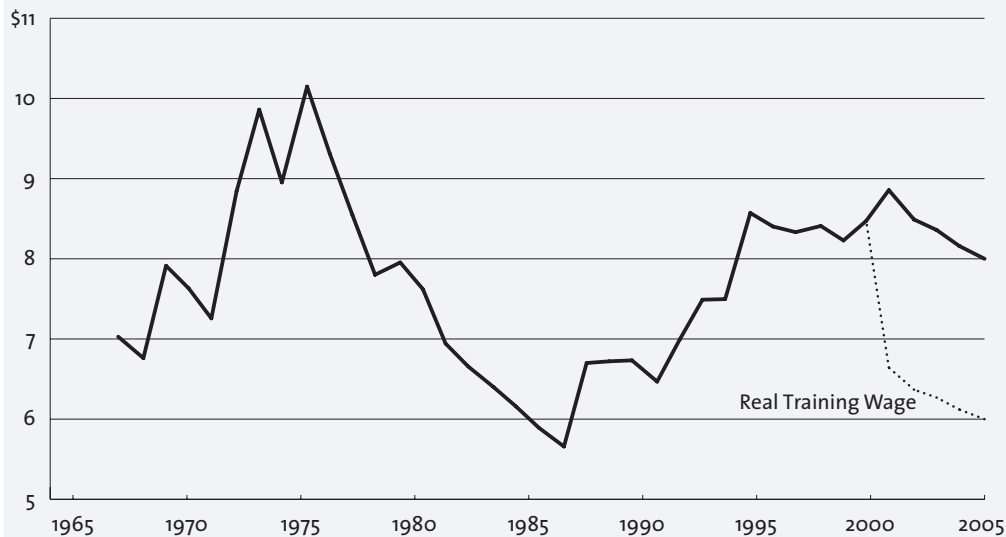
Charts 1 to 11 display real minimum wages in graph form. For numeric information about both nominal and real minimum wages, please refer to the Appendix.

BRITISH COLUMBIA

BC's real minimum wage increased sharply from 1968 — when it was \$7.03 per hour — to 1976, when it reached a high of \$10.15 per hour. From 1976 to 1987, the real minimum wage declined dramatically, because there were only two increases in the nominal rate and inflation steadily eroded the real value of the minimum wage. The real minimum wage went from a high of \$10.15 per hour in 1976 to a low of \$5.66 per hour in 1987. From 1987 to 2001 the real minimum wage generally increased over time, due to nine increases in 14 years, which as a whole exceeded the rate of inflation. By 2001, BC achieved a real minimum wage of \$8.86, the highest rate achieved since the 1970s. But with no nominal increases since 2001, the real minimum wage has declined to \$8.00.

In 2001 a \$6.00 per hour (nominal) “training wage” was introduced for new workers with fewer than 500 hours of work experience. Paradoxically, as of 2005, BC simultaneously had the lowest minimum wage (for new workers) and the highest minimum wage (for all other workers) in Canada.

CHART 1 **British Columbia Minimum Wage** Real dollars, 1968–2005



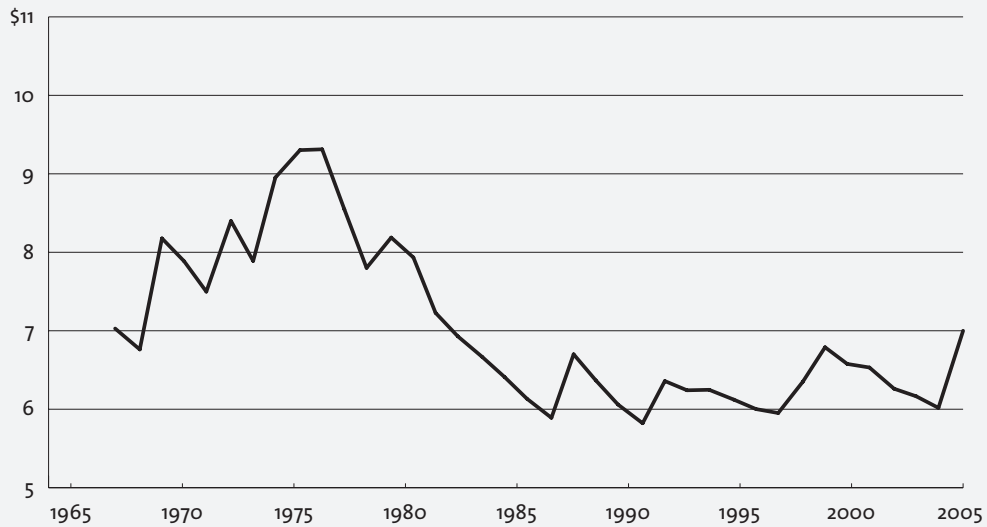
SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

ALBERTA

Alberta's real minimum wage generally increased from 1968 — when it was \$7.03 per hour — to 1976, when it reached a high of \$9.31 per hour. From 1976 to 1987 there were only two increases in the nominal minimum wage, which resulted in inflation significantly eroding the value of the real minimum wage to \$5.89 by 1987. Since 1987, Alberta has increased the nominal minimum wage five times in 19 years. Inflation has typically eroded the value of each rate increase. As a result, the real minimum wage has stayed mostly within the \$6 to \$7 range since 1987. Alberta's 2005 minimum wage of \$7.00 per hour was the highest real minimum wage since 1982.

CHART 2 Alberta Minimum Wage, Real dollars, 1968–2005



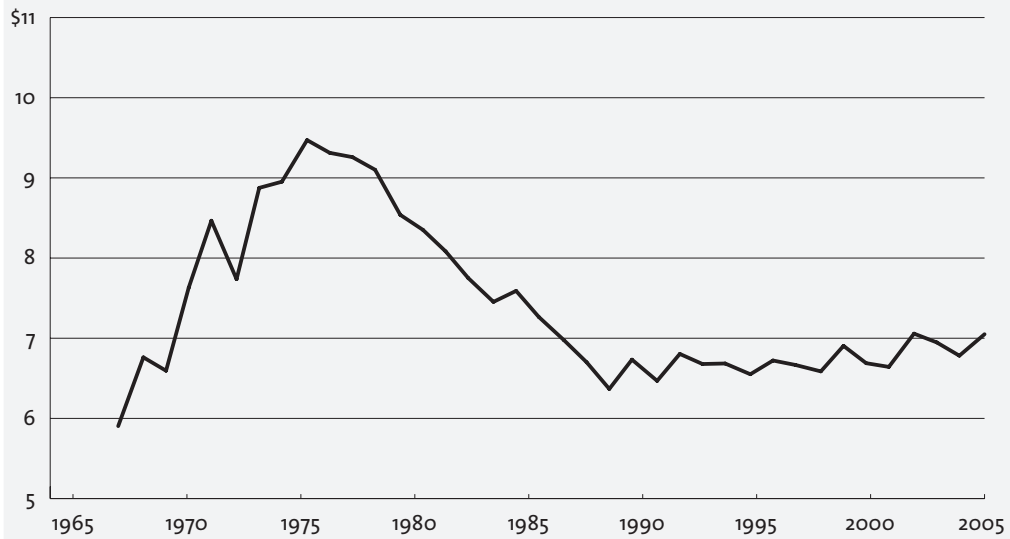
SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

SASKATCHEWAN

Saskatchewan's real minimum wage increased from 1968 — when it was \$5.90 per hour — to 1976 when it reached a high of \$9.47 per hour. From 1976 to 1989 the real minimum wage declined to a low of \$6.37 per hour. For the following 16 years the real minimum wage increased very gradually. By 2005 the real minimum wage reached \$7.05 per hour.

CHART 3 Saskatchewan Minimum Wage, Real dollars, 1968–2005



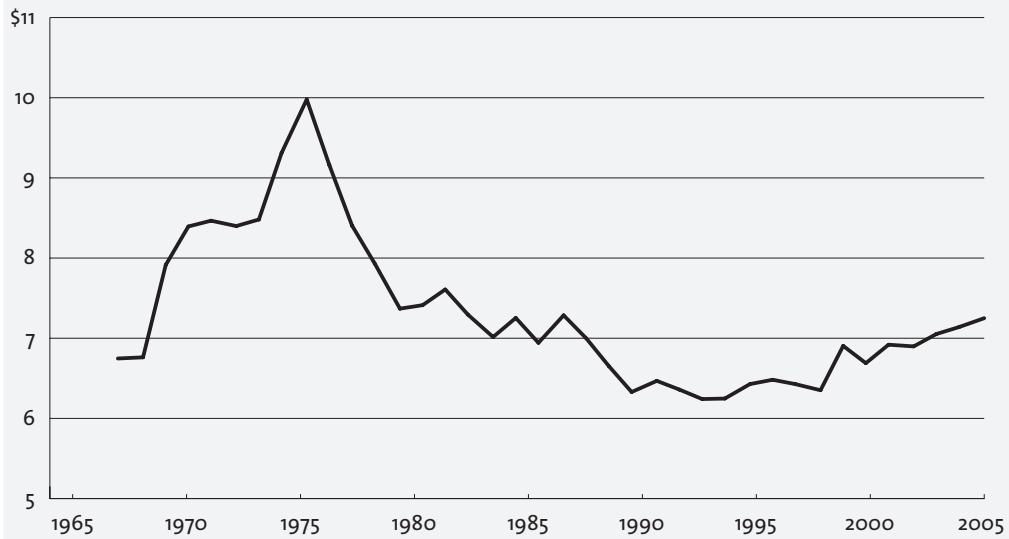
SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

MANITOBA

Manitoba's real minimum wage increased from 1968 — when it was \$6.75 per hour — to 1976 when it reached a high of \$9.98 per hour. From 1976 to 1990 the real minimum wage decreased to \$6.33. The real minimum wage was relatively flat for the next eight years, hovering between \$6.24 and \$6.48. In 1998, the real minimum wage began to increase once again, increasing steadily from \$6.35 in 1998 to \$7.25 in 2005.

CHART 4 **Manitoba Minimum Wage**, Real dollars, 1968–2005



SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

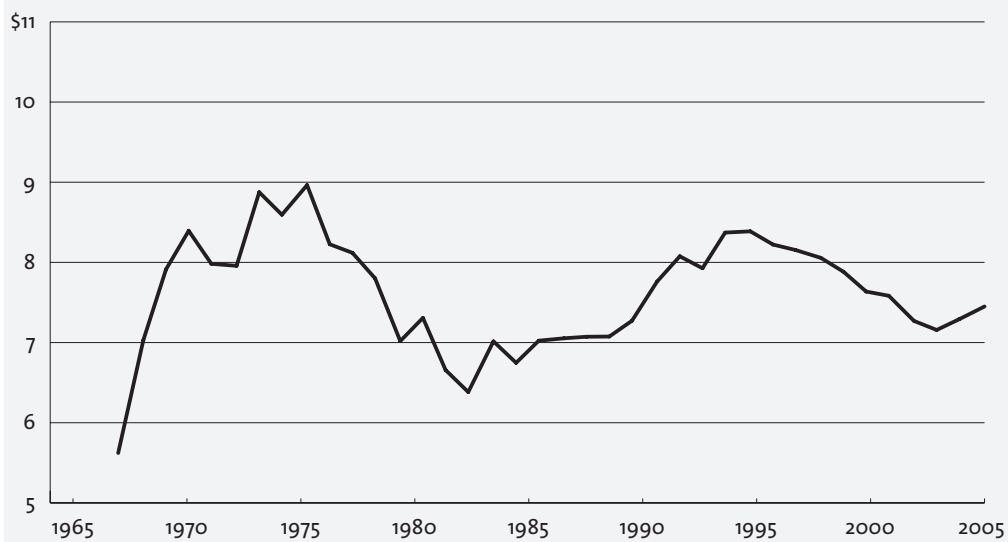
NOTE Real minimum wages are reported in year 2005 dollars.

ONTARIO

Ontario's real minimum wage increased dramatically between 1968, when it was at a relatively low rate of \$5.62 per hour, until 1976, when it reached a high of \$8.96 per hour. Over the next eight years there was a series of increases in the nominal rate, however, these increases did not keep pace with inflation. By 1983 the real minimum wage was \$6.38 per hour, the second-lowest real minimum wage Ontario experienced between 1968 and 2005.

Between 1983 and 1995 Ontario had a series of increases in the nominal minimum wage that either matched or exceeded the rate of inflation. As a result, by 1995 the real minimum wage was \$8.39 per hour. For the next nine years there were no increases in the nominal minimum wage, and inflation eroded the value of the real minimum wage to \$7.16 per hour by 2003. Since 2003 there have been two small increases in the real minimum wage.

CHART 5 Ontario Minimum Wage, Real dollars, 1968–2005



SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

QUEBEC

Quebec's real minimum wage increased between 1968 and 1977, from \$7.03 to \$9.78 per hour. From 1977 to 1981 there were nominal increases which did not keep up with inflation, and from 1981 to 1984 the nominal rate remain unchanged. From 1977 to 1985 the real minimum wage declined from \$9.78 per hour to a low of \$6.75 per hour.

Over the subsequent 13 years, increases in the nominal minimum wage exceeded inflation, which resulted in the real minimum wage increasing from \$6.75 in 1985 to \$8.12 in 1998. Over the following seven years, from 1998 to 2005, increases in the nominal minimum wage were slightly lower than the rate of inflation, such that the real minimum wage declined from \$8.12 per hour in 1998 to \$7.60 per hour in 2005.

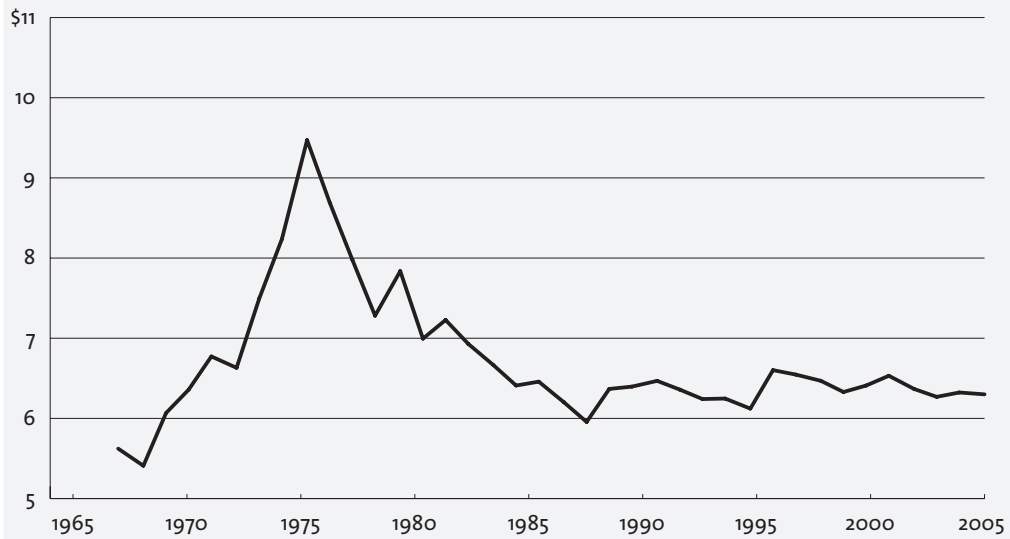
CHART 6 Quebec Minimum Wage, Real dollars, 1968–2005



NEW BRUNSWICK

New Brunswick's real minimum wage increased from 1968 to 1976, from \$5.62 to \$9.47 per hour. From 1976 to 1988 the real minimum wage decreased, from \$9.47 to \$5.96 per hour. Since 1988 the real minimum wage has stayed in a relatively narrow range of \$5.96 to \$6.60, as nominal minimum wage increases mostly matched the rate of inflation.

CHART 7 **New Brunswick Minimum Wage**, Real dollars, 1968–2005



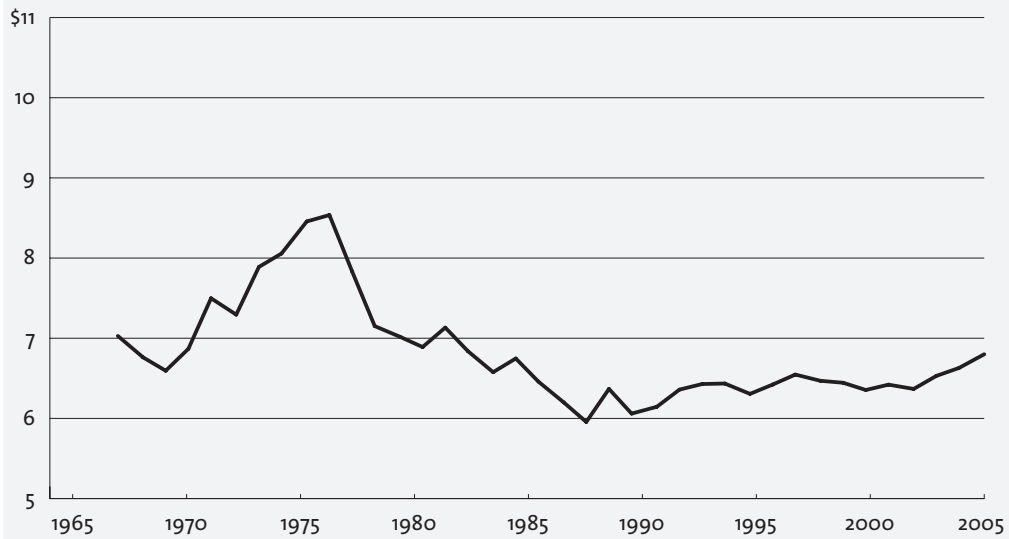
SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

NOVA SCOTIA

After two years of decline from 1968–1970, Nova Scotia’s real minimum wage increased between 1970 and 1976 from \$6.59 to \$8.54 per hour. After 1976 the real minimum wage declined to a low of \$5.96 in 1988. The real minimum wage increased gradually over the next 14 years, reaching \$6.37 in 2002. After 2002 there were slightly steeper increases in the real minimum wage, reaching \$6.80 by 2005.

CHART 8 Nova Scotia Minimum Wage, Real dollars, 1968–2005



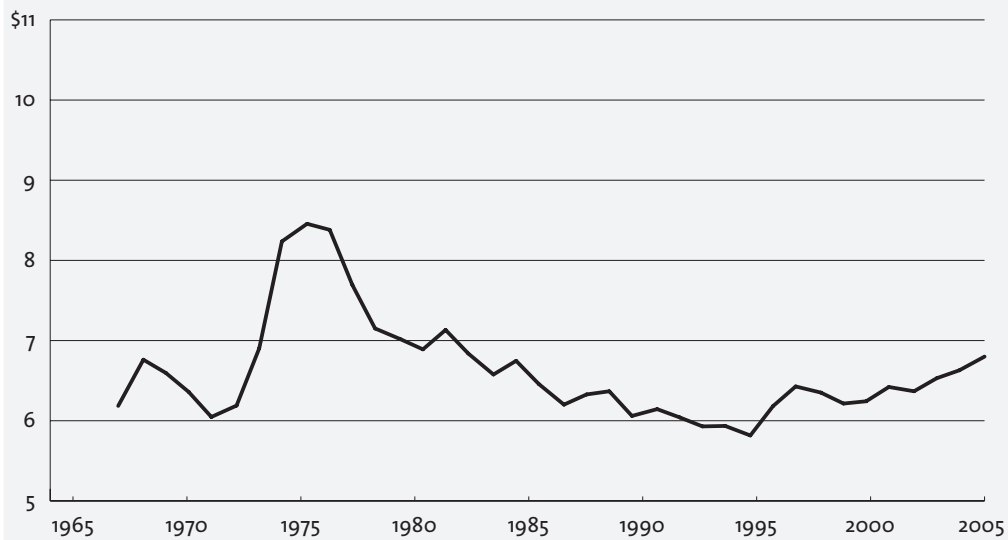
SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

PRINCE EDWARD ISLAND

The real minimum wage for PEI increased from 1968 to 1969, from \$6.19 to \$6.76 per hour. For the next three years the real minimum wage declined, reaching \$6.05 in 1972. The real minimum wage then increased over the next four years to a high of \$8.46 in 1976. The real minimum wage declined in most years over the next 19 years, reaching \$5.82 by 1995. Over the following decade, from 1995 to 2005, the real minimum wage increased once again, from \$5.82 in 1995 to \$6.80 in 2005.

CHART 9 Prince Edward Island Minimum Wage, Real dollars, 1968–2005



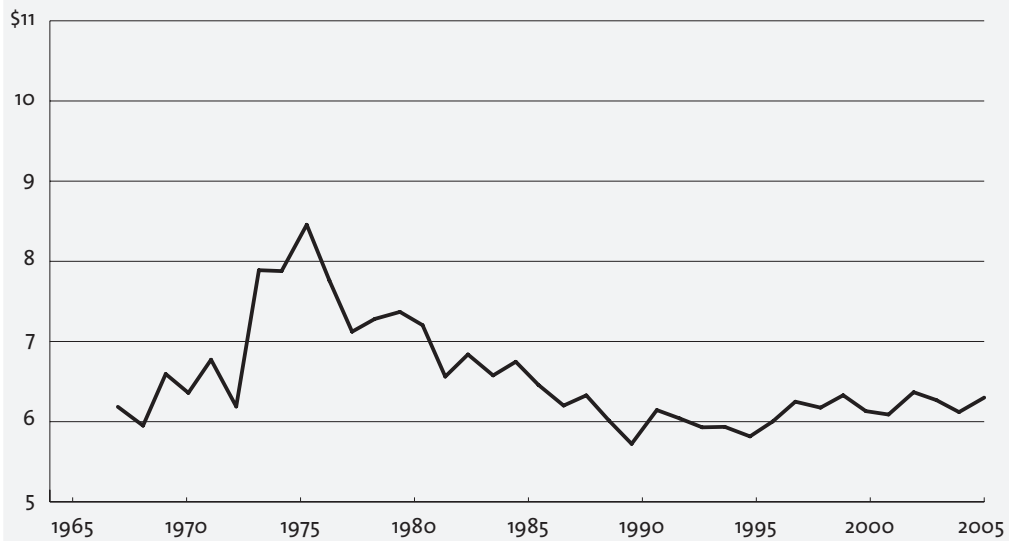
SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

NEWFOUNDLAND AND LABRADOR

From 1968 to 1973 the real minimum wage in Newfoundland and Labrador fluctuated between \$5.95 and \$6.77. Between 1974 to 1976 real minimum wages increased, reaching a high of \$8.46 in 1976. Over the next 14 years the real minimum wage declined, reaching a low of \$5.72 in 1990. Since 1990 there have been small changes in the real minimum wage, and the rate has ranged from \$5.72 to \$6.37.

CHART 10 Newfoundland and Labrador Minimum Wage, Real dollars, 1968–2005



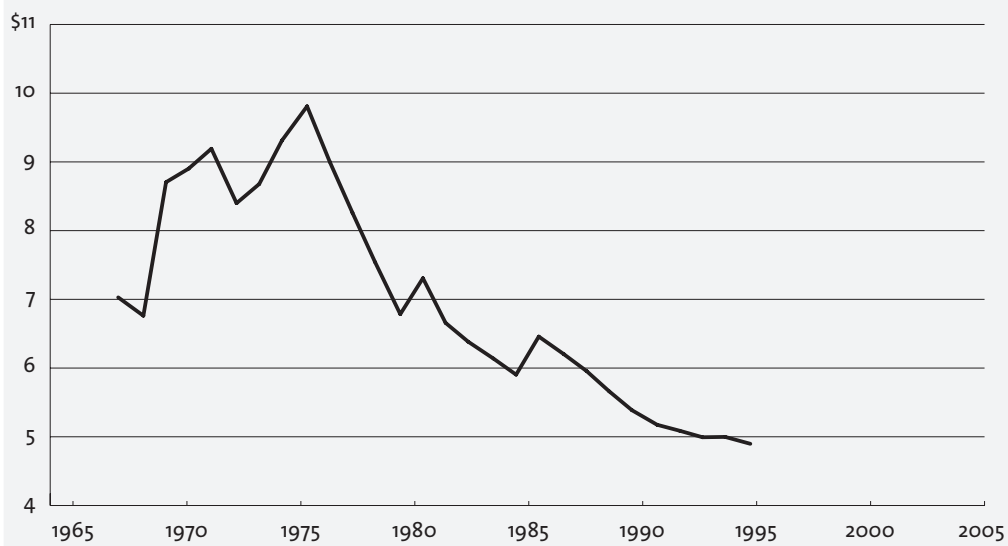
SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

FEDERAL JURISDICTION

The federal real minimum wage increased from \$7.03 in 1968 to \$9.81 in 1976. After 1976 there were only two increases in the nominal rate. As a result, inflation had a dramatically negative effect on the real value of the minimum wage. As of 1995 the federal minimum wage reached a low of \$4.90 per hour. In 1996 the federal government effectively eliminated the federal minimum wage as an independent factor in the labour market by tying the minimum wage for workers under federal jurisdiction to the provincial minimum wage in each province.

CHART 11 Canadian Federal Minimum Wage, Real dollars, 1968–2005



SOURCE Ministry of Human Resources website, using November minimum wage from each year. Real minimum wages created using CPI data from Statistics Canada.

NOTE Real minimum wages are reported in year 2005 dollars.

Profile of Minimum Wage Earners

CRITICS TYPICALLY MAKE THREE TYPES of arguments against increasing minimum wages: that there are so few people working at the minimum wage the problem is trivial; that because most minimum wage earners are teenagers living at home, we shouldn't be worried about what they are paid; and that negative employment effects from increases in minimum wages are so substantial that higher minimum wages will actually hurt their intended beneficiaries more than they will help.

This section focuses on the first two of these arguments. The next section focuses on the third.

Across Canada, according to 2003 Statistics Canada data, 4.1% of all employees worked for the minimum wage or less: one worker in 25. There are slight variations in the percentage among provinces, as illustrated in Table 3.

While 4.1% of employees does not represent an overwhelming number, neither that percentage nor the 547,000 employees it represents could be said to be trivial.

The assertion that minimum wage employment largely involves teenagers who work part-time raises both a policy question — is it appropriate to dismiss the economic situation of teenage employees in this fashion — and a factual question.

Even without considering the constitutional legitimacy of discriminating in minimum wage policy on the basis of age, the idea that an important component of our labour market regulatory framework would be based on who you are rather than on what you do is difficult to justify. The fact that an employee is a young person does not, by itself, mean that his or her work is less valuable or that the income that his or her work generates is less important. Indeed, in an environment in which students and their families are expected to contribute a greater and greater share of the costs of their own education, such an argument is even more difficult to sustain today than it might have been in the past.

In addition, when you look closely at who low-wage workers actually are, it is clear that it is simply not valid to assume that low-wage employment is limited to teenagers living at home.

TABLE 3 Employees Earning a Minimum Wage or Less

	Total Employees (Thousands)	Minimum Wage (Thousands)	Minimum wage % of total
British Columbia	1,639.7	92.1	5.6%
Alberta	1,413.6	15.1	1.1%
Saskatchewan	386.5	19.1	4.9%
Manitoba	478.2	22.1	4.6%
Ontario	5,319.4	184.3	3.5%
Quebec	3,165.0	161.9	5.1%
New Brunswick	303.2	12.3	4.1%
Nova Scotia	379.2	21.9	5.8%
Prince Edward Island	58.0	2.2	3.8%
Newfoundland and Labrador	190.5	16.1	8.5%
Canada	13,333.2	547.0	4.1%

SOURCE Minimum wage as of November 1, 2005. Human Resources Development Canada. http://www.hrdc-drhc.gc.ca/psait_spila/lmneq_esc/eslc/salaire_minwage/index.cfm/doc/english. Additional calculations by author.

TABLE 4 Age of Minimum Wage Workers

	Females	Males	Both Sexes
Teenager (Age 15 to 19)	53%	64%	57%
Age 20 to 24	19%	19%	19%
Age 25+	28%	17%	24%
Total	100%	100%	100%

SOURCE Authors' calculation using the most recent Labour Force Survey, data effective 2003.

In this section of the report, we provide data on the characteristics of minimum wage workers. We look at the age, sex, educational attainment, and family situation of those earning a minimum wage. We also look at the wage distribution of those with low wages, in order to gain an understanding of how minimum wage increases would affect low-wage workers who are paid slightly above the minimum wage.

This profile is based on data from Statistics Canada's Labour Force Survey effective November 2003. When describing minimum wage workers, we include those workers whose wage is within 25 cents of (i.e. above or below) the respective province's minimum wage. We include all Canadian provinces in our data sample, and we use each province's minimum wage at the time of the survey.

TABLE 5 Sex of Minimum Wage Workers

	Females	Males	Total
Teenager (Age 15 to 19)	62%	38%	100%
Age 20 to 24	66%	34%	100%
Age 25+	76%	24%	100%
All Ages	66%	34%	100%

SOURCE Authors' calculation using the most recent Labour Force Survey, data effective 2003.

TABLE 6 Percentage of Minimum Wage Workers by Highest Level of Education

	Females	Males	Total
Less than High School Graduate	37%	44%	40%
High School Graduate	26%	18%	23%
Some Post Secondary	19%	19%	19%
Post Secondary Certificate	13%	12%	13%
University Degree	4%	6%	5%
Total	100%	100%	100%

SOURCE Authors' calculation using the most recent Labour Force Survey, data effective 2003.

A majority of minimum wage workers are teens; 53% of female minimum wage workers and 64% of male minimum wage workers are between the ages of 15 and 19. For both sexes, 19% of minimum wage workers are youth aged 20–24.

However, a significant minority of workers earning a minimum wage are over age 25. Among women workers, 28% of minimum wage workers are over 25, and among male workers, 17% of minimum wage workers are over 25.

Among the broader population, minimum wage work is a common experience for those starting work for the first time, primarily those starting work in their teens. However, these data show that in many cases minimum wage work persists into adulthood during the prime earning years of some workers.

Table 5 shows the percentage of minimum-wage workers within each age category who are male or female. For all workers over age 15, two-thirds (66%) of minimum wage workers are women. Among teen workers, 62% of minimum wage workers are women, but as workers age, women make up an increasing share of minimum wage workers. For young adults aged 20–24, 66% of minimum wage workers are women. For adults age 25 and older, women make up over three quarters (76%) of minimum wage workers.

Table 6 shows the education levels of minimum wage workers. It indicates that 40% of minimum wage workers have less than a high school diploma, while another

TABLE 7 Percentage of Minimum Wage Workers by Family Situation

	Females	Males	Total
Teenager (Age 15–19)			
Living Alone	1%	2%	1%
Living With Parents	48%	59%	51%
Other Family Type	4%	3%	4%
Young Adult (Age 20–24)			
Living Alone	2%	3%	2%
Living With Parents	11%	12%	11%
Married or Lone Parent	4%	1%	3%
Other Family Type	3%	3%	3%
Adults (Age 25+)			
Living Alone	2%	4%	3%
Married	19%	8%	15%
Lone Parent	4%	1%	3%
Other Family Type	3%	5%	3%
Total	100%	100%	100%

SOURCE Authors' calculation using the most recent Labour Force Survey, data effective 2003.

23% have graduated from high school. Those with post secondary education make up another 37% of minimum wage workers combined, including 19% with some post secondary, 13% with a post secondary certificate, and 5% with a university degree.

While it is true that a large fraction of minimum wage workers have low levels of education, 37% of minimum wage workers have education beyond high school. It is evident that many minimum wage workers have skills that would warrant a higher level of pay.

Table 7 shows the family status of minimum wage workers in Canada. For both sexes combined, 51% of minimum wage workers are teens living with their parents. Another 11% of minimum wage workers are young adults aged 20–24 who live with their parents. Combined, 63% of minimum wage workers are people under age 25 who live with their parents.

Within the two younger categories, those living at home make up a majority of minimum wage workers. Among teens working for the minimum wage, 91% live at home. Meanwhile, 58% of young adults working for the minimum wage live at home.

Other research has confirmed that young adults are more likely to live at home than they were in the past.⁶ While there are several factors influencing this trend, economic circumstances are seen as a major factor contributing to the increasing

TABLE 8 Wage Distribution of Hourly Workers by Sex and Age Group (Canada)

	Age 15–19	Age 20–24	Age 25+	All Ages (15+)
Both Sexes				
Up to \$0.25 above the Min. Wage	41.7%	8.3%	2.1%	5.5%
From \$0.25 above Min. Wage to \$10	44.1%	31.1%	8.6%	13.7%
\$10 and more	14.2%	60.6%	89.4%	80.8%
Females				
Up to \$0.25 above the Min. Wage	52.2%	10.6%	3.1%	7.4%
From \$0.25 above Min. Wage to \$10	39.5%	34.9%	12.5%	17.1%
\$10 and more	8.3%	54.5%	84.4%	75.5%
Males				
Up to \$0.25 above the Min. Wage	31.3%	6.0%	1.1%	3.7%
From \$0.25 above Min. Wage to \$10	48.7%	27.4%	4.8%	10.4%
\$10 and more	20.0%	66.6%	94.1%	85.9%

SOURCE Authors' calculation using the most recent Labour Force Survey, data effective 2003.

trend of youth living at home. For example, living at home becomes increasingly common during recessions, and is more pronounced among youth who have lower incomes.⁷ We can reasonably surmise that low minimum wages are a contributing factor to young adults staying home and postponing establishing an independent residence.

Among adults age 25 and over, married people make up the largest component of their age group. Another 4% of females and 1% of males are adults age 25 and over who are lone parents. Indeed married or lone parent status also occurs among young adults age 20–24, making up 4% of females and 1% of males.

If we combine all age groups for both sexes, we find that married people and single parents make up 21% of minimum wage workers. Meanwhile, 6% of minimum wage workers are living alone and are attempting to support themselves on their limited earnings.

We know from other studies that, while half of low-wage workers live with families and are protected from poverty by other family income, 30 percent of those full-time workers earning less than \$10 an hour lived in a low-income household in 2000.⁸ For many minimum wage workers—even though they may live with other income earners—their wages represent vital income for getting their families nearer to or just over the poverty line. The proportion of workers earning less than \$10 an hour who lived in a low-income household is distinctly higher among unattached individuals (78.4%), lone mothers (55.9%), lone fathers (52.6%) and recent immigrants who are visible minorities (43.7%).⁹

TABLE 9 Percentage of Workers Under \$10 an Hour, by Age Group

	Females	Males	Total
Teenager (Age 15 to 19)	26%	38%	31%
Age 20 to 24	22%	28%	25%
Age 25+	52%	34%	45%
Total	100%	100%	100%

SOURCE Authors' calculation using the most recent Labour Force Survey, data effective 2003.

While it is true that a majority of minimum wage workers are teens and youth living with parents, a large fraction of minimum wage workers are supporting themselves and their families. So for a significant proportion of Canada's workforce, the idea that full-time minimum wage work should pay well enough to stay out of poverty is more than an abstract principle of justice. It is a matter of financial survival.

Table 8 shows the wage distribution of all waged workers, divided by sex and age. In the broadest terms, minimum wage work is relatively uncommon, making up 5.5% of waged workers over age 15 for both sexes.¹⁰ However, when we focus on sub-groups of the population, we find that some categories of workers are far more likely to work for the minimum wage.

For example, 52.2% of female teens who work earn the minimum wage, as do 31.3% of teen males. A much smaller percentage of young adults aged 20–24 earn the minimum wage; 10.6% of young women and 6% of young men. Among adults aged 25 and over, minimum wage work is less common, occurring among 3.1% of women and 1.1% of males. There is also a whole category of workers who earn less than the minimum wage.¹¹

However, just above the minimum wage we find a large number of workers (13.7% of the total) who earn a rate that is between 25 cents per hour above the minimum wage and \$10 an hour. While these workers are making more than the minimum wage, it is important to note that these wages are still low, and are below the \$10 minimum wage currently under discussion. Workers in this low wage category include 44.1% of teens, 31.1% of workers age 20–24, and 8.6% of workers aged 25+.

Table 9 shows the age distribution of those earning less than \$10 an hour. We see that 52% of the females and 34% of the males are aged 25 and older.

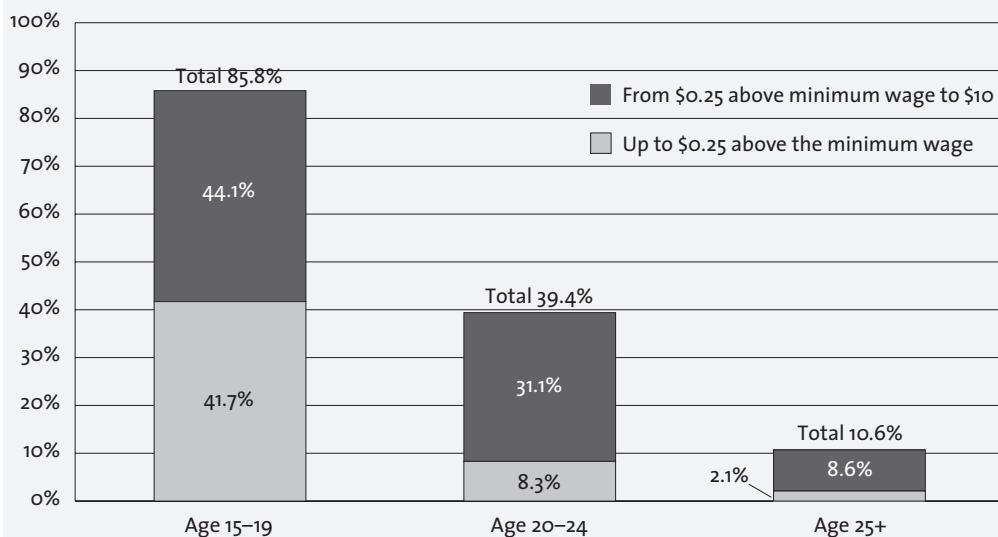
Because adults are more likely to be living alone or supporting their families, the large number of adults working below \$10 an hour is of particular concern.

Taken together, we find that there are two general categories of low-wage workers: 1) those working near or below the minimum wage; and 2) those working between 25 cents above the minimum wage and \$10 an hour.

If we look at these two categories of worker in comparison to the remainder of the waged work force, we develop some interesting insights. For example, Chart 12 below is a stacked bar chart showing the wage distribution of low-wage workers.

Looking at the two categories combined, low wage work affects 85.8% of teens, 39.4% of young adults, and 10.6% of adults aged 25+. A total of 19.2% of workers in all

CHART 12 Wage Distribution of Low-Wage Workers (Both Sexes)



SOURCE Authors' calculation using the most recent Labour Force Survey, data effective 2003.

age categories, for both sexes, works below \$10 an hour.

This is a significant portion of the workforce. It is worthwhile to question whether we would choose to organize our society in a way that leaves almost one in five waged workers earning less than \$10 an hour. We can expect that such a high incidence of low wage work would be a major contributing factor to worker poverty.

The chart drives home another important point. While only a small share of workers over 25 years of age are working at or near the current minimum wage (2.1%), a significant share (10.6%) are working between the current minimum wage and the proposed new minimum wage of \$10. Once the debate shifts to a consideration of the merits of a \$10 minimum wage, the issue is no longer one dominated by teens and young workers.

We can surmise that many minimum wage workers are teens and youth living with parents as they build work experience, apply for more highly paid jobs, or go to school. Yet minimum wage work and low wage work persists for many categories of workers who should have already been able to get ahead. We know from other studies that once someone starts working for low pay “half will not move up to better wages within five years. Most of them are women and have low education.”¹² By education level, 37% of minimum wage workers have education beyond high school. Minimum wages and low wages disproportionately affect women and youth, as well as recent immigrants.¹³ A large fraction of minimum wage workers must support themselves and their families on limited earnings.

Minimum wage work may be an important transitional first step into the labour market for many workers. For many others, minimum wage and low wage work have become a long-term reality.

The Impact of Minimum Wages on Employment Rates

THE IMPACT OF MINIMUM WAGE increases on employment has been the subject of vigorous debate in the academic literature for decades.

Surveys of this literature identify two broad types of studies of the impact of minimum wages on employment.¹⁴

One is based on the basic principle in economics that if you increase the price of something, other things equal and under competitive market conditions, demand for that thing will go down. Translating that proposition to the labour market, these studies postulate that if the price of minimum wage labour goes up, less of that labour will be demanded.

These types of studies look at employment patterns over time to develop estimates of the labour demand response to a given percentage increase in minimum wages. These studies typically find a small negative employment effect of approximately 1/5 of the percentage change in the minimum wage for teenage minimum wage workers, a reduced impact for workers in their early 20s, and little or no impact of statistical significance on the employment of workers over age 25.

What this means is that, for example, for a 10% increase in the minimum wage, these studies would predict a 2% reduction in employment among young workers.

Not all of these studies arrive at the same conclusions. In general, the results vary in the 1% to 3% range with a 10% increase in minimum wage. The most detailed models found the lowest disemployment effects¹⁵, predicting disemployment effects in the neighbourhood of 1%.

The principal difficulty with these studies is that, while they confidently predict fairly substantial employment impacts for young workers resulting from increases in minimum wages, actual employment data fail to show any observable negative impacts resulting from actual increases in minimum wages (a point to which we return momentarily).

The traditional econometric studies that have pointed to disemployment effects also suffer from other limitations.

They often fail to capture dynamic positive effects that come from increasing the minimum wage (which we discuss in the conclusion of this study).

There is also a concern about publication bias. Through some interesting statistical analysis, David Card and Alan Krueger show published reports that make up the consensus range are quite predictable in the degree to which they narrowly meet the statistical threshold necessary to get a study published.¹⁶ The authors note that the most likely explanation was that “early literature was affected by specification searching”¹⁷ that is, hunting for the right model to get the desired publishable results, as well as publication biases.

The empirical debate is also disproportionately focused on disemployment effects, when a more relevant topic is the impact on the wage bill. After all, if minimum wage workers as a whole receive higher wages after a minimum wage increase, then minimum wage increases are a policy success. These are the findings from Green and Goldberg¹⁸. All changes in public policy have costs and benefits, and while the “consensus range” has focused on a narrowly-defined negative impact, in a broader sense the benefits outweigh the costs.

There is also the problem that regression models show the disemployment effect of minimum wage increases “all other things being equal.” While it is helpful to look at the stand-alone impacts of minimum wage increases on employment, the consensus range regression data isolates discussion to one very narrow cause and effect.

The reality in economics is that there is a wide variety of causes and effects, such that the isolated impact of any one phenomenon can easily be swamped by other, more important, policy variables. While it is helpful to know the disemployment effect, “all other things being equal,” in reality the minimum wage exists in a context that is constantly changing.

A second type of study attempts to address these problems. Based on the premise that minimum wage impacts are virtually invisible over time because they are swamped by other more significant economic changes, these studies compare employment in jurisdictions where minimum wages have increased with employment in neighbouring US jurisdictions where minimum wages have not increased. Using this approach, these studies suggest that, if there are disemployment effects from increases in minimum wages, they should reveal themselves in differences in employment patterns between neighbouring jurisdictions.

These studies, conducted using data from the US in the late 1980s and 1990s, tended to find employment effects that either were substantially below the range of 1–3%, were statistically insignificant, or were so small as to be immaterial.

The best known of these studies were published by Princeton University economists David Card and Alan Krueger (and particularly their 1995 book *Myth and Measurement*). Their studies generally found that minimum wage increases resulted in either no effect on employment, or in some cases resulted in job growth.¹⁹

While studies continue to be produced using more sophisticated versions of the time series methodologies that find disemployment effects for young workers in the 1–3% range, the general view among economists of the impact of minimum wage increases on employment has changed fundamentally.

As Economic Policy Institute economist Liana Fox notes in her November 2006 review of the literature on employment impacts:

Some distinguished economists have acknowledged their change of opinion on the issue. Former Federal Reserve Vice Chairman and current Princeton economist Alan Blinder commented, “My thinking on this has changed dramatically. The evidence appears to be against the simple-minded theory that a modest increase in the minimum wage causes substantial job loss” (Chipman 2006).²⁰

The latest version of his popular introductory economics textbook reflects his change in thinking:

Elementary economic reasoning...suggests that setting a minimum wage...above the free-market wage...must cause unemployment....Indeed, earlier editions of this book, for example, confidently told students that a higher minimum wage must lead to higher unemployment. But some surprising economic research published in the 1990s cast serious doubt on this conventional wisdom. (2006, 10th edition, 493)²¹

This lack of a strong relationship between minimum wages and employment is best illustrated by looking at the broader employment rate over time. Charts 13 to 16 track employment rates over time, focusing on data for the four largest provinces: BC, Alberta, Ontario and Quebec. We look at the data separately for males and females and for different age groups and show the employment-to-population ratios for each province. The shaded area on each chart indicates time periods in which the real minimum wage was increasing.

Because of limitations in the data, we can only look at employment rates in the years 1976–2005. In the previous section we were looking at minimum wages for a longer period, 1968–2005.

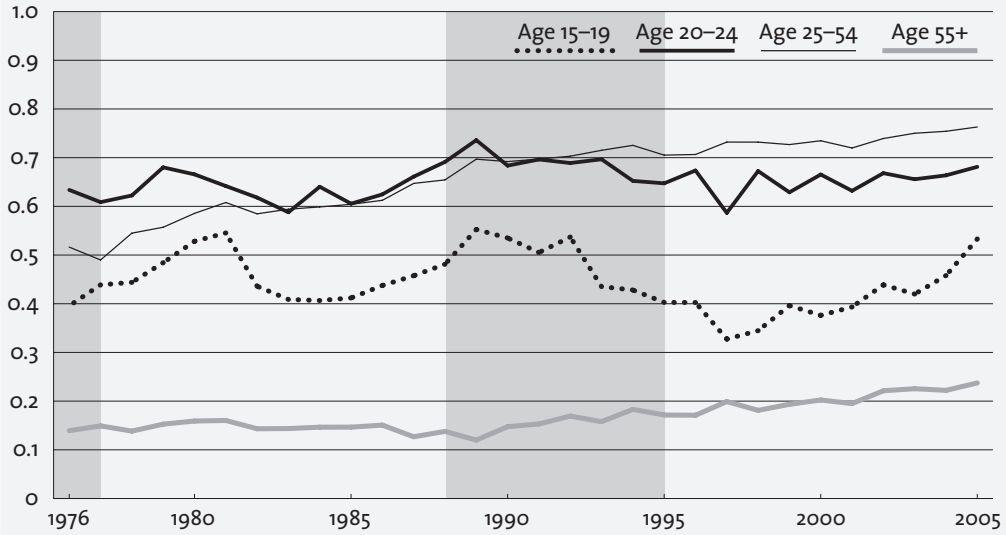
When comparing the broad trends in the employment rate with changes in the real minimum wage, a vital observation is evident: there is no obvious relationship between employment levels and the minimum wage. Sometimes employment rates fall after a minimum wage increase, and sometimes they rise. For the most part, larger-scale changes in the economy drive the employment rate, and the major trends—such as recessions, the growth of female labour participation, economic growth—upstage any impact the minimum wage has on employment.

For example, there is no indication that the BC employment rate suffered as a result of a \$10.15 real minimum wage in 1976. Employment rates remained stable and strong through the rest of the decade.

It is useful to focus on the movement of the teen employment rate during times when the minimum wage is increasing, given past studies allege teens experience the largest employment impact of minimum wage increases. It’s clear from the charts that sometimes the teen employment rate declines when minimum wages increase and sometimes they don’t.

CHART 13a Employment to Population Ratio, British Columbia Females

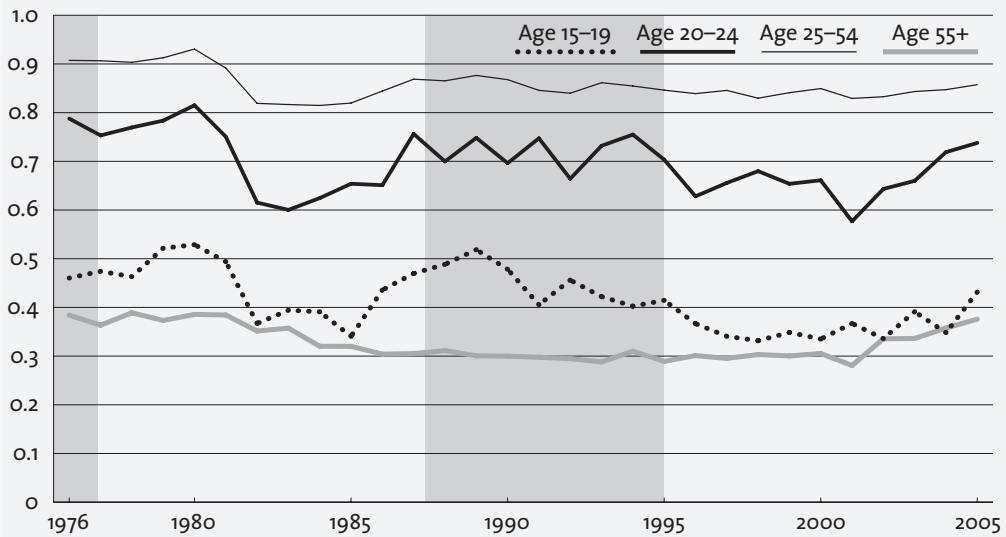
Shaded areas represent periods of rising real minimum wages.



SOURCE Statistics Canada's Labour Force Survey.

CHART 13b Employment to Population Ratio, British Columbia Males

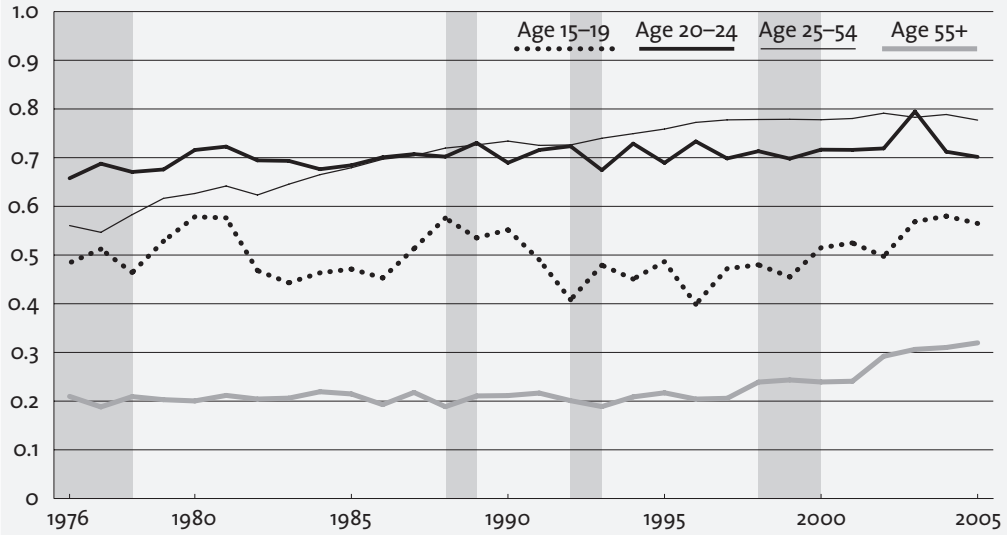
Shaded areas represent periods of rising real minimum wages.



SOURCE Statistics Canada's Labour Force Survey.

CHART 14a Employment to Population Ratio, Alberta Females

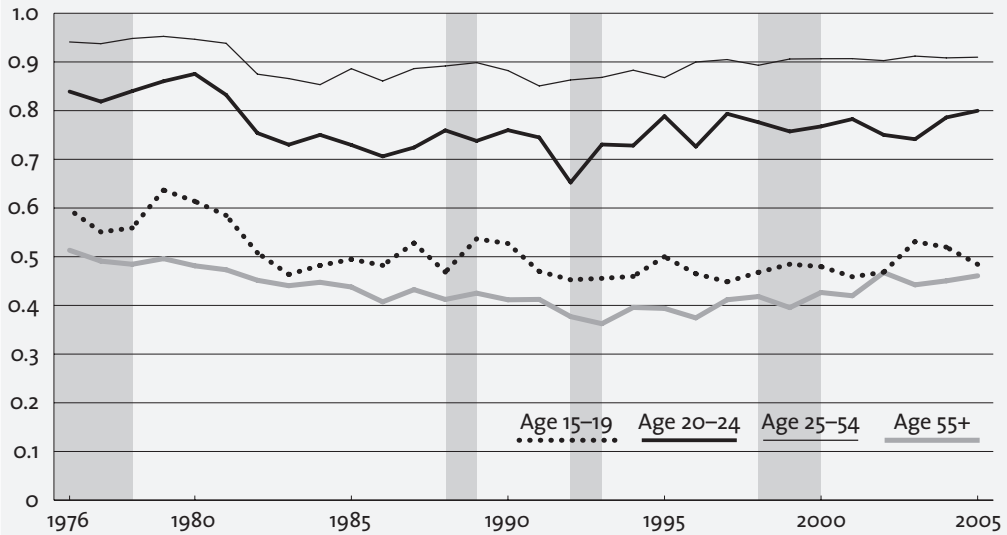
Shaded areas represent periods of rising real minimum wages.



SOURCE Statistics Canada's Labour Force Survey.

CHART 14b Employment to Population Ratio, Alberta Males

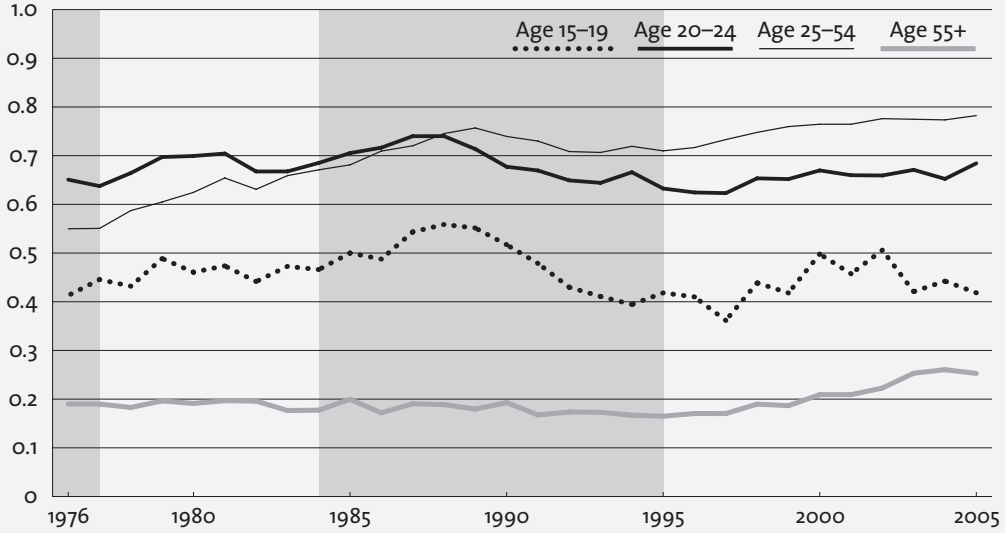
Shaded areas represent periods of rising real minimum wages.



SOURCE Statistics Canada's Labour Force Survey.

CHART 15a Employment to Population Ratio, Ontario Females

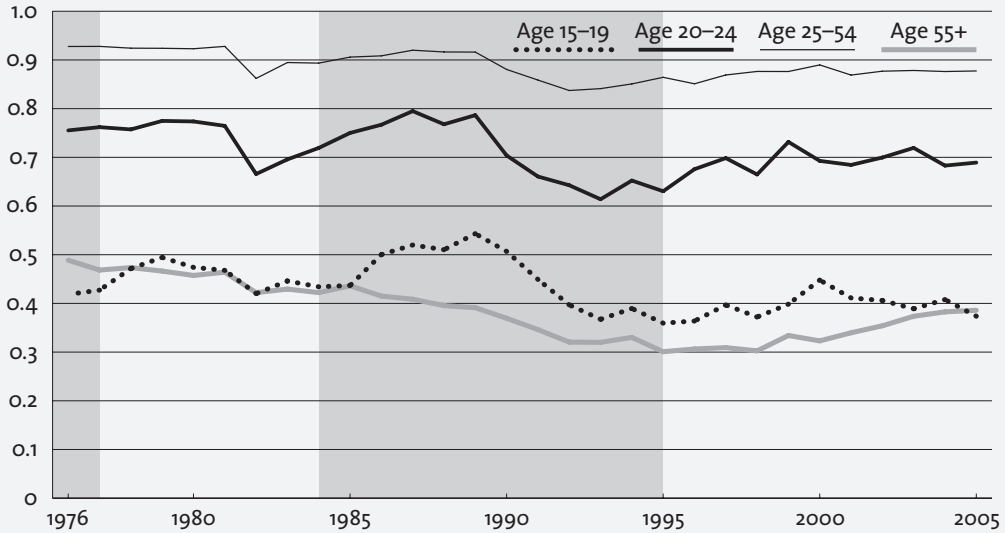
Shaded areas represent periods of rising real minimum wages.



SOURCE Statistics Canada's Labour Force Survey.

CHART 15b Employment to Population Ratio, Ontario Males

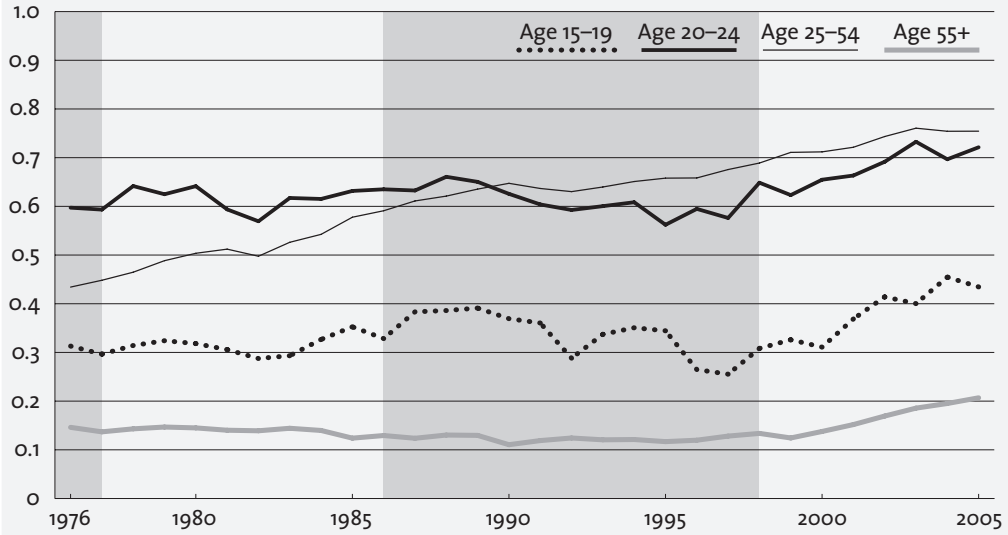
Shaded areas represent periods of rising real minimum wages.



SOURCE Statistics Canada's Labour Force Survey.

CHART 16a Employment to Population Ratio, Quebec Females

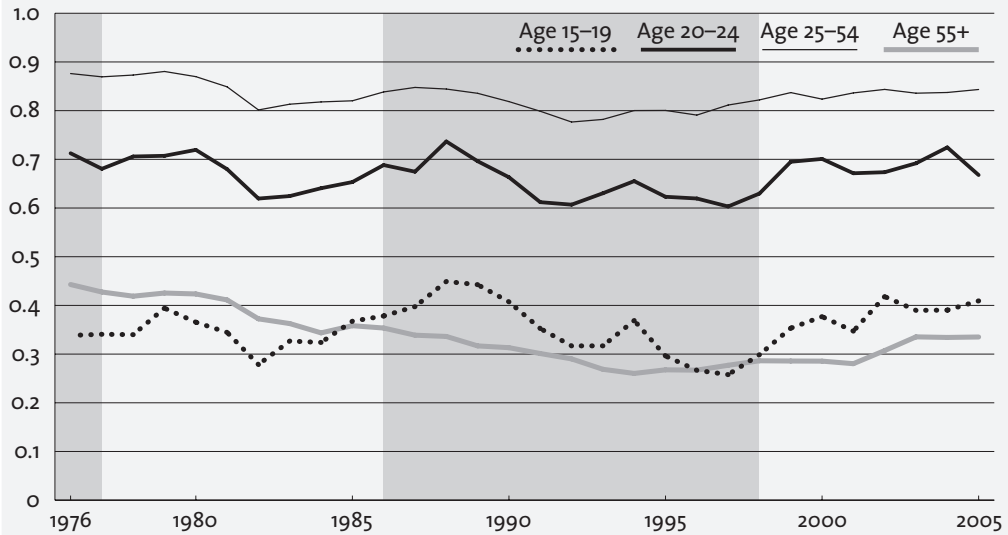
Shaded areas represent periods of rising real minimum wages.



SOURCE Statistics Canada's Labour Force Survey.

CHART 16b Employment to Population Ratio, Quebec Males

Shaded areas represent periods of rising real minimum wages.



SOURCE Statistics Canada's Labour Force Survey.

Policy Considerations

THE FUNDAMENTAL PURPOSE of a minimum wage is to intervene in the labour market to prevent the wages of low-paid employees from sinking below a socially acceptable floor. In other words, it is explicitly intended to offset an imbalance of economic power in the labour market between low-paid employees and their employers.

The role of the minimum wage as a counterweight to imbalances of economic power in employment relationships is reflected in the fact that employees whose economic power in the employment relationship is relatively weaker — women, recent immigrants, people of colour — tend to be overrepresented among employees working for low pay.

In this respect, minimum wage policy has more in common with other policies that have the effect of altering the balance of power in employment relationships than with policies specifically aimed at alleviating poverty. Such policies cover a wide range of issues in the employment relationship, from employment standards such as hours of work; to health and safety regulation; to the Canada/Quebec Pension Plan (essentially a mandatory jointly funded workplace pension plan); to medicare (essentially an universal substitute for employer health benefits); to the legislative framework for union organization and collective bargaining.

The relationship between the minimum wage and other legislated employment standards and union organization is particularly important. Minimum standards legislation is often seen as a mechanism for ensuring that all employees, whether covered by a collective bargaining agreement or not, are guaranteed at least a minimum set of the working conditions that would otherwise be the subject of collective bargaining in a unionized environment. Indeed, historically, improvements in employment standards have been established by unions in collective bargaining long before they became recognized in legislation. Furthermore, the current focus on minimum wage legislation is at least in part a response to a combination of changes in the structure of the labour market and recent legislative changes intended to discourage union organization.

Ultimately, minimum wage legislation serves as a form of ‘collective agreement’ between society at large and vulnerable/low-wage workers. It ensures a floor below which even those without the benefits of unionization and collective representation cannot or should not fall.

SETTING AND MAINTAINING THE MINIMUM WAGE

We now look more closely at what the \$10 an hour target is based on.

In the past, minimum wage levels have been set periodically with a view to the relationship between the minimum wage and the average wage, or the relationship between changes in the minimum wage and the cost of living. Such approaches are essentially arbitrary, in that there is no internal logic that leads one to select one percentage of the average wage over another, or to select one base year for a comparison with inflation over another.

The approach adopted in the late 1990s in Great Britain was a sharp departure from that type of approach, in a number of respects. First, and most important, the Low Pay Commission, which is responsible for making minimum wage recommendations to the government, advanced a rationale for its recommendations that paid work should enable those in low-paid work to feel that they belong to the mainstream of society, and not force them to live in poverty. As the chair of the Low-Pay Commission stated on the release of its first report in November 1998:

Poverty wages cannot encourage people to move from benefits to work. We were struck by a comment made to us in Northern Ireland, and echoed in other visits, that the low paid were often on “the margins of degradation”. We hope that our recommendations will play some part in giving workless households and those in low-paid employment more opportunities to participate fully in the economic and social life of society. The introduction of a statutory floor for wage levels must encourage feelings of belonging not to the margins, but to the mainstream of society.²²

The argument for a \$10 minimum wage in Canada is based on a similar logic: namely the proposition that someone working full-time for a full year should not be forced to live in poverty.

Although Statistics Canada takes pains to stress that it is not a “poverty line”, poverty in Canada is most commonly measured by using Statistics Canada’s Low Income Cut-Off (LICO). The cut-off is based on the concept that people in poverty live in “straitened circumstances” — that is, they spend a disproportionate amount of their income on food, clothing and shelter. The Survey of Household Spending conducted by Statistics Canada shows that the average family spends 34.3% of its income from all sources before taxes on food, clothing and shelter. Families are considered to be in “straitened circumstances” if they spend 54.3% or more of their income on these three items.

Table 10 shows the LICO for three family sizes, using before-tax incomes in 2005. We show this data for cities with populations of 30,000–100,000, 100,000–500,000,

TABLE 10 **Wages Corresponding With The Low Income Cut-Off (LICO)**

	Single Person	Single Parent, One Child	Two Parents, Two Children*
Cities Over 500,000 Population			
LICO (annual)	\$20,778	\$25,867	\$38,610
Wage for a 40-hour week	\$9.99	\$12.44	\$9.28
Wage for a 35-hour week	\$11.42	\$14.21	\$10.61
Cities Between 100,000 and 500,000 Population			
LICO (annual)	\$17,895	\$22,276	\$33,251
Wage for a 40-hour week	\$8.60	\$10.71	\$7.99
Wage for a 35-hour week	\$9.83	\$12.24	\$9.13
Cities Between 30,000 and 100,000 Population			
LICO (annual)	\$17,784	\$22,139	\$33,046
Wage for a 40-hour week	\$8.55	\$10.64	\$7.94
Wage for a 35-hour week	\$9.77	\$12.16	\$9.08

SOURCE Author's calculations using Statistics Canada's 2005 pre-tax LICO data from *Low Income Cut-Offs for 2005 and Low Income Measures for 2004*. Statistics Canada, April 2006, p. 23.

* Assumes both parents are working for the number of hours listed over 52 weeks.

and over 500,000 population, and then show what wages would need to be to reach these LICO levels.

In this case, we are calculating a hypothetical wage at which someone could earn the LICO²³ if they worked full-year at 40 hours per week. It should be noted that while this wage level would enable a full-time worker to earn at the low-income cut-off, many of the low-paid work less than full-time hours. For example, among those earning less than \$10 an hour, teenagers work an average of 18 hours per week, young adults aged 20–24 work 27.4 hours a week, and adults aged 25+ work 32.2 hours per week.²⁴ While those working full-time at the wages listed above would be able to live above poverty, many part-time workers would need either a higher wage or more work hours per week to get by.

We should note that the \$10 target is based on a call for increases linked to the 2005 LICO. Therefore, we need to take note of inflation since that date. Assuming 2.1% annual inflation between 2005 and 2010 (based on the average rate of inflation for the past 10 years), we see that the \$10 figure actually represents \$10.42 in 2007 dollars and \$11.10 in 2010 dollars (see Table 11). The government of Ontario has recently set a minimum wage target of \$10.25 in 2010. However, a LICO-equivalent figure for 2010 will be closer to \$11.10.

Once the \$10 target has been met (in 2005 dollars), the minimum wage should be indexed to inflation, and rise each year to keep pace with the rising cost of living.

TABLE 11 Estimates of a \$10 Minimum Wage in 2005 Dollars

Year	Minimum Wage in Real 2005 Dollars	Estimated CPI* (2005=1.00)	Nominal Minimum Wage
2005	\$10.00	1.000	\$10.00
2006	\$10.00	1.021	\$10.21
2007	\$10.00	1.042	\$10.42
2008	\$10.00	1.064	\$10.64
2009	\$10.00	1.087	\$10.87
2010	\$10.00	1.110	\$11.10

* Assumes 2.1% inflation each year, forecast into 2010.

MINIMUM WAGES AND POVERTY

Stack up all the evidence and it becomes clear that the minimum wage is, if anything, a bit player in determining employment levels in the labour market.

If you don't believe the studies just look at those Canadian provinces that have raised their minimum wage over the past few years: Unemployment is at a 30-year low; job growth is robust. There is no strong, discernable connection between minimum wage and employment impacts (see charts 13–16 for visual affirmation).

There is, however, a strong connection between low minimum wage and the working poor. It is common for researchers analyzing the minimum wage to note that minimum wages are a “blunt instrument for dealing with poverty.”²⁵ There are two things we would note about this traditional complaint about minimum wages. First, higher minimum wages do increase the wage bill of those who are affected by the minimum wage.²⁶ Not all of those affected have poverty-level family incomes, however, the minimum wage does increase the wages of low-wage workers.

It's true that raising the minimum wage tends to have a push effect on wages of those workers whose incomes are just above the minimum. But just because a higher minimum wage may help workers who are not working at the minimum wage does not mean minimum wages are without merit. Rather, it raises questions about how we value the work effort of all workers, including those at the bottom end of the income spectrum.

Second, policy analysts and anti-poverty advocates rarely argue that minimum wages are a cure-all for alleviating poverty. Minimum wages are simply one tool in a toolbox of policy options which, taken as a whole, can go a long way to addressing Canada's persistent poverty problem. In addition to higher minimum wages, the poor would benefit from, for example, better income assistance (both high rates and easier access), income supplements for the working poor, employer policies to improve pay and working conditions, increased coverage of drugs and dental benefits, improved access to affordable child care and home support, improved Employment

Insurance, improved access to education learning opportunities, and reduced claw-backs for government programs.²⁷

Increasing the minimum wage would have other positive impacts:

- Minimum wages affect more than those who are working at the minimum wage. For example, one study found that increases in the minimum wage resulted in wage increases for workers whose earnings were a dollar or more above the new minimum wage.²⁸ If a certain job pays \$1 above the minimum wage, an employer will want to maintain that differential after the minimum wage has increased. As a result, we can expect that a higher minimum wage would reduce inequality in wages and generally increase hourly earnings of a variety of workers.
- Given that minimum-wage workers are more likely to be members of more vulnerable parts of the labour market, a higher minimum wage would be a key element of a broader policy to fight poverty and promote greater wage fairness — social justice goals our governments should be pursuing in any case.
- Employers that pay well but compete with firms that don't will find themselves on a level playing field
- Employers will also benefit from less turnover and easier recruitment. Workers can easily be lured away from employers that provide low pay. The negative consequences of high turnover include added staffing and training costs, administrative costs, operational disruption, lost productivity, and low morale.²⁹
- A higher minimum wage can also increase the independence and self-sufficiency of teens and youth — perhaps enabling young adults who wish to leave home to be able to handle such a move financially.
- Increasing the total wage bill for those at the bottom-end of the labour market can also lead to positive health implications.³⁰ The broader trend is that “[p]eople who are living at a socioeconomic disadvantage are biologically more susceptible to becoming sick and dying.”³¹ Healthy workers spend less time away from work due to sickness.
- Finally, by making the minimum wage a living wage, we can restore a sense of fairness and equality in communities and improve well-being among those making difficult choices. A higher minimum wage makes hard decisions easier to make, and makes life generally less harsh.

Conclusion

THIS STUDY SHOWS, among other things, that raising the minimum wage to \$10 an hour (in real 2005 dollars) is do-able — in fact, it has been done in Canada in the past.

Low-paid workers are overdue for an increase in pay. Wages are stagnant while workers are stepping up their work effort to help grow Canada's economy. A higher minimum wage is one of several steps toward a higher-wage economy that acknowledges the contribution and value of Canadian workers.

This study debunks the myths that have been used to allow governments and businesses to ignore calls for a minimum wage of \$10 an hour.

It shows that raising the minimum wage would help a significant portion of the adult-working population. Almost one in five waged workers earn less than \$10 an hour.

It shows that the minimum wage is a bit player in determining unemployment levels but it is an important tool in a toolbox of policies that could help Canada's poor and working poor.

A real \$10 minimum wage is a powerfully symbolic way of rewarding hard-working Canadians who are doing all they can to contribute to the nation's growing economy and keep their households financially afloat.

Raising the minimum wage is not only do-able, it's the only fair thing to do.

APPENDIX

Nominal and Real Minimum Wage Data For All Provinces, 1968–2005

TABLE 12 **Nominal Minimum Wage by Jurisdiction, Rate Effective November 1**

	Federal	BC	BC <i>Training</i>	AB	SK	MB	ON	QC	NB	NS	PEI	NL
1968	1.25	1.25		1.25	1.05	1.20	1.00	1.25	1.00	1.25	1.10	1.10
1969	1.25	1.25		1.25	1.25	1.25	1.30	1.25	1.00	1.25	1.25	1.10
1970	1.65	1.50		1.55	1.25	1.50	1.50	1.40	1.15	1.25	1.25	1.25
1971	1.75	1.50		1.55	1.50	1.65	1.65	1.50	1.25	1.35	1.25	1.25
1972	1.90	1.50		1.55	1.75	1.75	1.65	1.65	1.40	1.55	1.25	1.40
1973	1.90	2.00		1.90	1.75	1.90	1.80	1.85	1.50	1.65	1.40	1.40
1974	2.20	2.50		2.00	2.25	2.15	2.25	2.30	1.90	2.00	1.75	2.00
1975	2.60	2.50		2.50	2.50	2.60	2.40	2.60	2.30	2.25	2.30	2.20
1976	2.90	3.00		2.75	2.80	2.95	2.65	2.87	2.80	2.50	2.50	2.50
1977	2.90	3.00		3.00	3.00	2.95	2.65	3.15	2.80	2.75	2.70	2.50
1978	2.90	3.00		3.00	3.25	2.95	2.85	3.37	2.80	2.75	2.70	2.50
1979	2.90	3.00		3.00	3.50	3.05	3.00	3.47	2.80	2.75	2.75	2.80
1980	2.90	3.40		3.50	3.65	3.15	3.00	3.65	3.35	3.00	3.00	3.15
1981	3.50	3.65		3.80	4.00	3.55	3.50	4.00	3.35	3.30	3.30	3.45
1982	3.50	3.65		3.80	4.25	4.00	3.50	4.00	3.80	3.75	3.75	3.45
1983	3.50	3.65		3.80	4.25	4.00	3.50	4.00	3.80	3.75	3.75	3.75
1984	3.50	3.65		3.80	4.25	4.00	4.00	4.00	3.80	3.75	3.75	3.75
1985	3.50	3.65		3.80	4.50	4.30	4.00	4.00	3.80	4.00	4.00	4.00
1986	4.00	3.65		3.80	4.50	4.30	4.35	4.35	4.00	4.00	4.00	4.00
1987	4.00	3.65		3.80	4.50	4.70	4.55	4.55	4.00	4.00	4.00	4.00
1988	4.00	4.50		4.50	4.50	4.70	4.75	4.75	4.00	4.00	4.25	4.25
1989	4.00	4.75		4.50	4.50	4.70	5.00	5.00	4.50	4.50	4.50	4.25
1990	4.00	5.00		4.50	5.00	4.70	5.40	5.30	4.75	4.50	4.50	4.25
1991	4.00	5.00		4.50	5.00	5.00	6.00	5.55	5.00	4.75	4.75	4.75
1992	4.00	5.50		5.00	5.35	5.00	6.35	5.70	5.00	5.00	4.75	4.75
1993	4.00	6.00		5.00	5.35	5.00	6.35	5.85	5.00	5.15	4.75	4.75
1994	4.00	6.00		5.00	5.35	5.00	6.70	6.00	5.00	5.15	4.75	4.75
1995	4.00	7.00		5.00	5.35	5.25	6.85	6.45	5.00	5.15	4.75	4.75
1996		7.00		5.00	5.60	5.40	6.85	6.70	5.50	5.35	5.15	5.00
1997		7.00		5.00	5.60	5.40	6.85	6.80	5.50	5.50	5.40	5.25
1998		7.15		5.40	5.60	5.40	6.85	6.90	5.50	5.50	5.40	5.25
1999		7.15		5.90	6.00	6.00	6.85	6.90	5.50	5.60	5.40	5.50
2000		7.60		5.90	6.00	6.00	6.85	6.90	5.75	5.70	5.60	5.50
2001		8.00	6.00	5.90	6.00	6.25	6.85	7.00	5.90	5.80	5.80	5.50
2002		8.00	6.00	5.90	6.65	6.50	6.85	7.20	6.00	6.00	6.00	6.00
2003		8.00	6.00	5.90	6.65	6.75	6.85	7.30	6.00	6.25	6.25	6.00
2004		8.00	6.00	5.90	6.65	7.00	7.15	7.45	6.20	6.50	6.50	6.00
2005		8.00	6.00	7.00	7.05	7.25	7.45	7.60	6.30	6.80	6.80	6.30

TABLE 13 Real Minimum Wage (in 2005 Dollars) by Jurisdiction, Rate Effective November 1

	Federal	BC	BC <i>Training</i>	AB	SK	MB	ON	QC	NB	NS	PEI	NL
1968	7.03	7.03		7.03	5.90	6.75	5.62	7.03	5.62	7.03	6.19	6.19
1969	6.76	6.76		6.76	6.76	6.76	7.03	6.76	5.41	6.76	6.76	5.95
1970	8.70	7.91		8.18	6.59	7.91	7.91	7.39	6.07	6.59	6.59	6.59
1971	8.90	7.63		7.89	7.63	8.39	8.39	7.63	6.36	6.87	6.36	6.36
1972	9.19	7.26		7.50	8.47	8.47	7.98	7.98	6.77	7.50	6.05	6.77
1973	8.40	8.84		8.40	7.74	8.40	7.96	8.18	6.63	7.29	6.19	6.19
1974	8.68	9.86		7.89	8.88	8.48	8.88	9.07	7.49	7.89	6.90	7.89
1975	9.31	8.95		8.95	8.95	9.31	8.59	9.31	8.24	8.06	8.24	7.88
1976	9.81	10.15		9.30	9.47	9.98	8.96	9.71	9.47	8.46	8.46	8.46
1977	9.00	9.31		9.31	9.31	9.16	8.23	9.78	8.69	8.54	8.38	7.76
1978	8.26	8.55		8.55	9.26	8.40	8.12	9.60	7.98	7.83	7.69	7.12
1979	7.54	7.80		7.80	9.10	7.93	7.80	9.02	7.28	7.15	7.15	7.28
1980	6.78	7.95		8.19	8.54	7.37	7.02	8.54	7.84	7.02	7.02	7.37
1981	7.31	7.62		7.93	8.35	7.41	7.31	8.35	6.99	6.89	6.89	7.20
1982	6.66	6.94		7.23	8.08	7.61	6.66	7.61	7.23	7.13	7.13	6.56
1983	6.38	6.66		6.93	7.75	7.29	6.38	7.29	6.93	6.84	6.84	6.84
1984	6.14	6.40		6.66	7.45	7.02	7.02	7.02	6.66	6.58	6.58	6.58
1985	5.90	6.16		6.41	7.59	7.25	6.75	6.75	6.41	6.75	6.75	6.75
1986	6.46	5.89		6.14	7.27	6.94	7.02	7.02	6.46	6.46	6.46	6.46
1987	6.20	5.66		5.89	6.98	7.29	7.05	7.05	6.20	6.20	6.20	6.20
1988	5.96	6.70		6.70	6.70	7.00	7.07	7.07	5.96	5.96	6.33	6.33
1989	5.66	6.72		6.37	6.37	6.65	7.08	7.08	6.37	6.37	6.37	6.01
1990	5.39	6.73		6.06	6.73	6.33	7.27	7.14	6.40	6.06	6.06	5.72
1991	5.17	6.47		5.82	6.47	6.47	7.76	7.18	6.47	6.14	6.14	6.14
1992	5.09	7.00		6.36	6.80	6.36	8.08	7.25	6.36	6.36	6.04	6.04
1993	4.99	7.49		6.24	6.68	6.24	7.93	7.30	6.24	6.43	5.93	5.93
1994	5.00	7.50		6.25	6.68	6.25	8.37	7.50	6.25	6.43	5.94	5.94
1995	4.90	8.57		6.12	6.55	6.43	8.39	7.90	6.12	6.31	5.82	5.82
1996		8.40		6.00	6.72	6.48	8.22	8.04	6.60	6.42	6.18	6.00
1997		8.33		5.95	6.67	6.43	8.15	8.09	6.55	6.55	6.43	6.25
1998		8.41		6.35	6.59	6.35	8.06	8.12	6.47	6.47	6.35	6.17
1999		8.23		6.79	6.90	6.90	7.88	7.94	6.33	6.44	6.21	6.33
2000		8.47		6.58	6.69	6.69	7.64	7.69	6.41	6.35	6.24	6.13
2001		8.86	6.64	6.53	6.64	6.92	7.58	7.75	6.53	6.42	6.42	6.09
2002		8.49	6.37	6.26	7.06	6.90	7.27	7.64	6.37	6.37	6.37	6.37
2003		8.36	6.27	6.16	6.95	7.05	7.16	7.63	6.27	6.53	6.53	6.27
2004		8.16	6.12	6.02	6.78	7.14	7.29	7.60	6.32	6.63	6.63	6.12
2005		8.00	6.00	7.00	7.05	7.25	7.45	7.60	6.30	6.80	6.80	6.30

Notes

1 Canadian Centre for Policy Alternatives (2007). What Can Governments Do About Canada's Growing Gap? Canadian Attitudes Toward Income Inequality at www.growinggap.ca

2 National Anti-Poverty Organization at www.napo-onap.ca/en/livingwage.php

3 René Morissette and Garnett Picot. *Low-paid Work and Economically Vulnerable Families over the Last Two Decades*. Analytical Studies Branch Research Paper Series. Statistics Canada. (April 2005). p. 7.

4 *Ibid.*, pp. 8–9.

5 *Ibid.*, p. 20.

6 Monica Boyd and Doug Norris. “The Crowded Nest: Young Adults at Home.” *Canadian Social Trends*. No. 52. Statistics Canada. (Spring 1999). p. 2.

7 *Ibid.*, pp. 3–4.

8 René Morissette and Garnett Picot. *Low-paid Work and Economically Vulnerable Families over the Last Two Decades*. Analytical Studies Branch Research Paper Series. Statistics Canada. (April 2005). p. 14.

9 *Ibid.*, pp. 30–31 (Table 10).

10 Please note that this number is higher than the figure for Table 3 because it uses a different data sample that includes those earning up to 25 cents above the minimum wage. Also, the 5.5% figure is as a percent of waged workers, whereas the 4.1% figure for Table 3 is as a percent of all employees including those on a salary.

11 Overall, 1.2% of workers (of both sexes over age 15) indicate a wage that is below the province's minimum wage. The incidence of sub-minimum wages is more pronounced among women and younger workers. This 1.2% of workers likely includes some combination of workers not covered by minimum wage laws, lower minimum wage rates for youth or new workers (such as BC's \$6 “training wage”), workers whose employers are breaking the law, erroneous

data, or other factors. This may be seen as a confirmation that some sub-minimum work may exist in the labour market, and points to the need for strong enforcement of employment standards.

12 Ron Saunders. *Does a Rising Tide Lift All Boats? Low-paid Workers in Canada*. Canadian Policy Research Networks. May 2005. p. iii.

13 Ibid.

14 Olalekan Edagbami. *The Employment Effects of the Minimum Wage: A Review of the Literature*. Canadian Policy Research Networks. April 2006. pp. 8–9. The main review in this area was Brown, C., C. Gilroy, and A. Kohen. “The Effect of the Minimum Wage on Employment and Unemployment.” *Journal of Economic Literature*. (2): pp. 487–528 (1982); and Fox, Liana “Minimum Wage Trends: Understanding past and contemporary research”, Economic Policy Institute, Washington D.C. November 2006.

15 Brown, C., C. Gilroy, and A. Kohen. “The Effect of the Minimum Wage on Employment and Unemployment.” *Journal of Economic Literature*. (2): pp. 487–528 (1982).

16 Card, David and A.B. Krueger. *Myth And Measurement: The New Economics of the Minimum Wage*. Princeton, New Jersey: Princeton University Press. (1995). Edagbami (2006) pp. 9–13 cites several studies from this period which found results contrary to the historic “consensus range.”

17 Ibid., p. 192.

18 Goldberg, Michael and Green, David. *Raising the Floor: The Social and Economic Benefits of Minimum Wages in Canada*. Centre for Policy Alternatives — BC Office. (September 1999).

19 Ibid.

20 Fox, Liana. *Minimum Wage Trends: Understanding Past and Contemporary Research*. Economic Policy Institute. November 8, 2006. p. 5. Quotation from Alan Blinder refers to Chipman, Kim. 2006. “Higher minimum wage no longer seen as sure-fire U.S. job killer.” Bloomberg.com. <http://www.bloomberg.com/apps/news?pid=20601070&sid=atp2M10AZ3xc&refer=home>

21 The text from the first edition of his text book states: (1979, 519) “...the minimum wage effectively bans the employment of workers whose marginal product is less than [the minimum wage]. The primary consequence of the minimum wage law is not an increase in the incomes of the least skilled workers but a restriction of their employment opportunities.”

22 Low-Pay Commission, Statement by LPC Chairman: Press Conference on publishing the Report, 18 June 1998

23 In recent years, there has been considerable debate in Canada over how to measure and define poverty. Human Resources and Social Development Canada responded to this debate by creating the Market Basket Measure as an alternative to the LICO. This latter measure creates a hypothetical basket of goods and calculates the cost of this basket in different communities. The Market Basket Measure creates a cost of living figure that is actually quite close to the LICO when the adjustments for taxation are made, a finding which has had the effect of toning down the debate over the use of the LICO as a poverty measure. One of the other

findings of the Market Basket Measure is that there is not such a wide variation in the cost of living by community size as the LICO would suggest, although Market Basket Measure poverty measures vary at the provincial level — a relevant consideration given that minimum wages for most workers are set at the provincial level. At present, however, the Market Basket Measure is not updated as regularly as the LICO, and in fact is currently being reviewed internally by Human Resources and Social Development Canada.

24 Authors' calculations using Statistics Canada's Labour Force Survey (2003).

25 Gunderson, Morley. *Minimum Wages in Canada: Theory, Evidence and Policy*. Prepared for the Federal Labour Standards Review Commission. (December 2005). p. 2.

26 Goldberg, Michael and David Green. *Raising the Floor: The Social and Economic Benefits of Minimum Wages in Canada*. Canadian Centre for Policy Alternatives — BC Office. (September 1999). pp. 19–21.

27 Saunders, Ron. *Lifting the Boats: Policies to Make Work Pay*. Canadian Policy Research Networks. June 2005. p. v. Also, calls for improved post-secondary access and income assistance were added to this list based on views provided by other campaigns.

28 Green, David and Harry Paarsch. *The Effect of the Minimum Wage on the Distribution of Teenage Wages*. Discussion Paper No.: 97-02, Department of Economics, The University of British Columbia. October 1996. p. 2.

29 Maertz, C.P. and Champion, M.A. "25 Years of Voluntary Turnover Research: A Review and Critique." *International Review of Industrial and Organizational Psychology*, 1998 Vol. 13. p. 51.

30 Monica Townson. *Health and Wealth: How Social and Economic Factors Affect our Well Being*. Canadian Centre for Policy Alternatives. (1999). pp. 29–33 and 50–53.

31 *Ibid.*, p. 51.

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The Canadian Centre for Policy Alternatives is an independent, non-partisan research institute concerned with issues of social and economic justice. Founded in 1980, it is one of Canada's leading progressive voices in public policy debates.

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About the Economic Security Project

The Economic Security Project is a major research initiative of the CCPA's BC Office and Simon Fraser University, in partnership with 24 community organizations and four BC universities.

The project examines how recent provincial policy changes affect the economic well-being of vulnerable people in BC, such as those who rely on social assistance, low-wage earners, recent immigrants, youth and others. It also develops and promotes policy solutions that improve economic security.

The project is funded primarily by a grant from the Social Sciences and Humanities Research Council of Canada (SSHRC) through its Community-University Research Alliance Program.

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