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SUMMARY

BRINGING MINIMUM WAGES ABOVE THE POVERTY LINE

By Stuart Murray and Hugh Mackenzie

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)

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.

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.

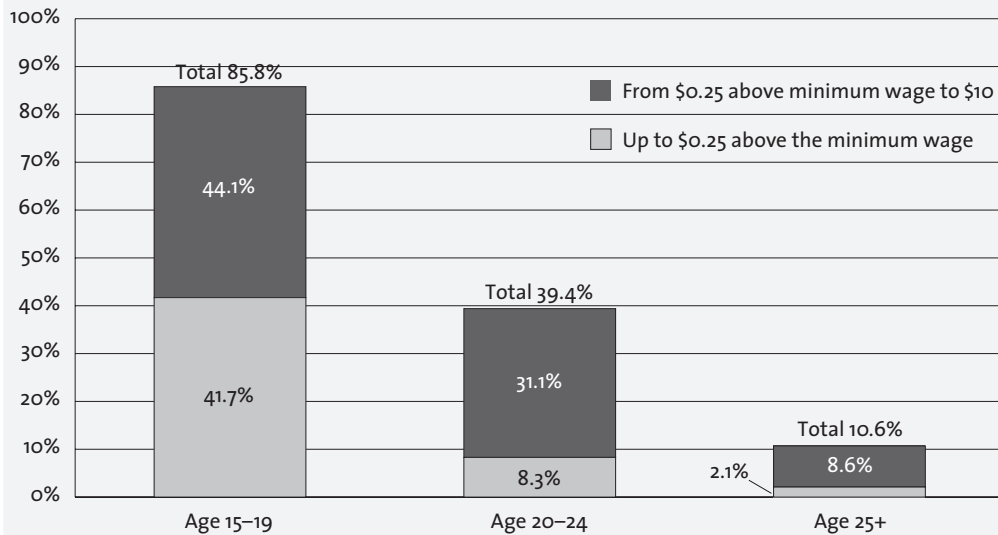
But recently that hasn't been the case. It has been common for provinces to allow several years to pass without a minimum wage increase, allowing inflation to erode the value of the real minimum wage over time.

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 above table illustrates.

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).

Wage Distribution of Low-Wage Workers (Both Sexes)



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

- 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 (see chart). 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.

AN **ECONOMIC SECURITY PROJECT** REPORT

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