

Newfoundland and Labrador Federation of Labour



Submission to:

Minimum Wage Review Committee
Government of Newfoundland and Labrador

November 2019

Contents

- Introduction..... 2
- The high cost of low incomes 3
- Minimum wage: an important tool for addressing poverty and inequality..... 5
- Raising the minimum wage 7
- Minimum wage and employment..... 8
- Other claims 14
 - Young people..... 14
 - Automation..... 14
 - Impact on the business community..... 14
 - Impacts on small businesses 15
 - Impact on consumers, including rural and fixed-income consumers 17
- Conclusions 19

Introduction

We appreciate the opportunity to provide this submission. It is a credit to the Government of Newfoundland and Labrador that it is carrying out a review of the minimum wage. In doing so, it is joining with other provinces that have taken a leadership role in actively considering the appropriate level of the minimum wage, and the negative impact of poverty-level wages on people and on the economy.

By making it an open and transparent public consultation, the Government also reduces the risk of appearing to be listening only to business interests, which have more resources and more access to backroom conversations.

The minimum wage is an important tool for helping the working poor rise out of poverty. It has the advantage of not imposing direct costs on the public purse, and it increases the incentive to enter and remain in the labour force.

Newfoundland and Labrador has the second-lowest minimum wage in Canada at \$11.40 per hour. It is not a living wage, and as noted in this submission, even working full-time would not allow a minimum wage worker to afford a rental apartment. It is a poverty-level wage.

This province has nearly the worst gender wage gap in Canada, and while the gap has narrowed in many provinces, it has remained high in Newfoundland and Labrador, at about 30%.¹ Because women make up 60% of minimum wage earners, our poverty-level minimum wage exacerbates this gender wage gap - already the second-worst in Canada. It also makes women more economically dependent on men, and less likely to be able to leave a situation of spousal abuse. And because women lead 80% of single-parent families,² our poverty-level minimum wage condemns many children to live in poverty.

Merely indexing the current minimum wage to inflation - as the government had planned to do starting in 2018 - would keep it in the bottom of the pack, and would be wholly inadequate for thousands of workers. The current minimum wage adjustment process and rate are not relevant and not responsive to the needs of low-wage employees in this province.

The majority of Canadians live in provinces with significantly higher minimum wage rates. Ontario's is \$14 per hour. Alberta's was raised over four years to \$15 per hour. BC's is \$13.85 and is slated to rise to \$14.60 in June, and more than \$15.20 a year later.

This submission calls on the Committee to recommend, and the government to implement, a schedule of significant minimum wage increases until the minimum wage reaches a level at which all full-time wage earners can earn a decent living.

The high cost of low incomes

The province of Newfoundland and Labrador is actually wealthy, not poor. We have one of the highest levels of GDP per capita of any province.

However, fifty thousand people in this province live in poverty.³ Fifty *thousand* people. That's one in ten residents of this province.

This province ranked a "C" on poverty — tied for last place among provinces according to the Conference Board of Canada. This is particularly bad because Canada ranks poorly among its peer developed countries, at fourth worst of sixteen.⁴ Almost 60 percent of the poor in this

¹ StatCan Table11-10-0239-01, Conference Board of Canada, "Gender Wage Gap" <https://www.conferenceboard.ca/hcp/provincial/society/gender-gap.aspx>; and Common Front NL, "Newfoundland and Labrador Minimum Wage - Minimum Wage and Women in NL" Oct 2018.

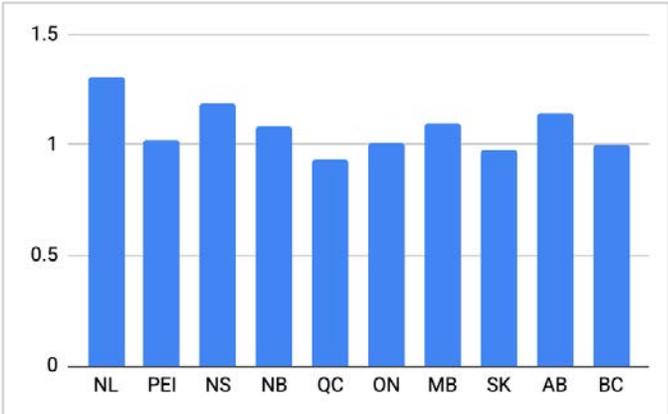
² Idem.

³ StatCan, Table 11-10-0135-01.

⁴ Conference Board of Canada, "Canada Needs to Lower Poverty and Income Inequality to Boost Social Performance Relative to Peer Countries," April 5, 2017. https://www.conferenceboard.ca/press/newsrelease/17-04-05/canada_needs_to_lower_poverty_and_income_inequality_to_boost_social_performance_relative_to_peer_countries.aspx?AspxAutoDetectCookieSupport=1.

province are women and girls.⁵ Indeed, Newfoundland and Labrador has the highest ratio of females to males living in poverty of all provinces in Canada (Figure 1).

Figure 1: Highest ratio of women to men living in poverty⁶



Poverty doesn't just hurt the poor. It is now widely known that poverty is a drag on economic growth. It also is a drain on government coffers, requiring greater outlays on health care, emergency services, and social assistance. Poverty affects everyone.

Inequality is a separate, additional issue. Inequality is associated with a range of social problems, from drug use and teenage pregnancies to mental health problems, low educational attainment, violence and imprisonment.⁷

These social problems associated with inequality affect both rich and poor people, and both rich and poor jurisdictions. And like poverty, inequality is associated with lower levels of economic growth.⁸

Newfoundland and Labrador has the worst level of income inequality in the Atlantic region (Figure 2), and the second-worst in Canada.

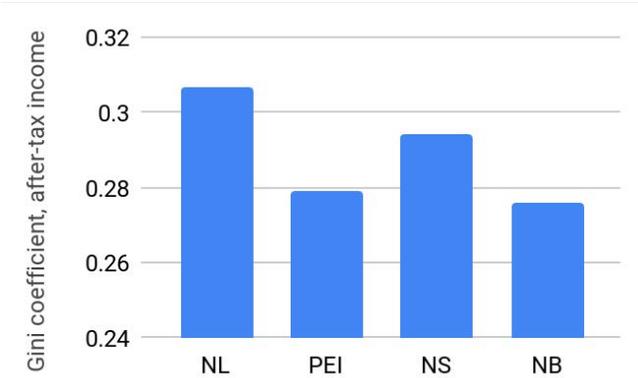
⁵ Idem.

⁶ Idem.

⁷ K. Pickett and R. Wilkinson, *The Spirit Level New Edition: Why Equality Is Better For Everyone* (Penguin, 2010). See also resources at <https://www.equalitytrust.org.uk/resources/the-spirit-level>, and J. Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (W.W. Norton, 2013).

⁸ A. Berg, J. Ostry, and C. Tsangarides, "Redistribution, inequality, and growth," International Monetary Fund Staff Discussion Note (April 2014), <https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>; Organization for Economic Cooperation and Development, "Inequality hurts economic growth, finds OECD research," <https://www.oecd.org/newsroom/inequality-hurts-economic-growth.htm>.

Figure 2: Worst income inequality in Atlantic Canada⁹



As with poverty, ranking badly within Canada actually means ranking very badly; Canada has the fourth-worst level of inequality among sixteen peer countries¹⁰

Minimum wage: an important tool for addressing poverty and inequality

There is no single magic bullet to reducing poverty and inequality. There are many tools governments need to employ, including providing low-income housing, and transfers such as social assistance and child benefits.

Tax credits are another tool, but would be a poor substitute for a minimum wage. The Canada Worker Benefit (CWB) is an improved version of the Working Income Tax Benefit. It is a tax credit “intended to supplement the earnings of low income workers.”¹¹ In contrast to a minimum wage increase, the government is picking up the tab, rather than the employer.

Like any tax credit, the CWB requires either a tax increase, or cuts to programs and services, or more public debt. The public pays a price when we rely on tax credits rather than fair wages to support workers. Furthermore, the income boost from the CWB for full-time workers is very limited - a small fraction of the boost from a minimum wage increase to \$15 per hour. Finally, because the public purse is supporting the worker, tax credits actually encourage employers to reduce wages. The US Earned Income Tax Credit has been found to put downward pressure on

⁹ StatCan, Table 11-10-0134-01.

¹⁰ Conference Board of Canada, supra.

¹¹ Government of Canada, "The Canada Workers Benefit" <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/federal-government-budgets/budget-2018-equality-growth-strong-middle-class/canada-workers-benefit.html>.

wages, especially in areas of scarce employment.¹² In turn, the lower wages caused by tax credits actually create a need for further tax credits or public financial support of low income workers. In the Muskrat Falls era, we need to ensure that wages are fair, and paid by employers rather than being subsidized by the public treasury.

“Like any tax credit, the CWB requires either a tax increase, or cuts to programs and services, or more public debt. The public pays a price when we rely on tax credits rather than fair wages to support workers.”

Another tool discussed recently - partly owing to the rise of precarious work - is the guaranteed annual income (or universal basic income). A number of studies and pilot projects have examined the guaranteed annual income, and this may be a tool needed in the future. However, to date no jurisdiction has decided to fully adopt it, i.e. shift from sharing wealth based on work to substantially sharing wealth based on basic needs.

Many tools are needed to help reduce poverty and inequality. However, our province and our country currently rely primarily on wages to distribute the wealth that our economy generates. Ensuring that wages can support an existence above the poverty line is an important strategy.

Some argue that some minimum wage earners live in households with a combined household income above the poverty line. However, while some do, others don't. Moreover, is that really a good argument for keeping the minimum wage low? Do we *want* a province where full-time workers are forced to stay with their parents or to live with acquaintances because their wages don't allow them to form their own households? What does this mean for the development of new families, and for the province's aging demographics?

Ask full-time workers why they are living with parents or acquaintances, and many will reply that it's all they can afford. For minimum wage earners, the statistics bear that out. For a full-time minimum wage earner in St. John's, an average two-bedroom apartment is unaffordable. Even an average one-bedroom apartment is unaffordable.¹³ A living wage in St. John's - one that allows a decent standard of living - is \$18.85 per hour, \$7.00 above the minimum wage.¹⁴

What about moving further out of town to get a cheaper rental? In actual fact, moving to a location that requires car ownership would make things worse. A modest car costs \$5,000 to \$10,000 per year - adding about \$400 to \$800 to the monthly rent-plus-transportation cost. For someone working full time at this province's minimum wage, needing to add a car would eat up 20 to 40 percent of their total gross income. Given that savings are generally near zero on a minimum wage, this is not a plausible solution.

¹² T. Ghilarducci & A. Farmand: "What's Not to Like About the EITC? Plenty, It Turns Out." The American Prospect. June 28, 2019. <https://prospect.org/economy/like-eitc-plenty-turns-out/>

¹³ D. MacDonald, "Unaccommodating Rental Housing Wage in Canada" CCPA, July 2019 <https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2019/07/Unaccommodating%20-%20Rental%20Wage%20in%20Canada.pdf>.

¹⁴ C. Saulnier, "A living wage for St. John's, Newfoundland and Labrador" CCPA, May 2019 <https://www.policyalternatives.ca/publications/reports/living-wage-st-johns-newfoundland-and-labrador>.

If young adults can't earn enough to live here, they will leave the province. They have been leaving in record numbers. With Newfoundland and Labrador's growing seniors population, we need to ensure that young people's wages are high enough that they can form their own households and stay in this province. Without young people, we will have an increasingly hard time supporting seniors.

The reality is that if we want to reduce poverty and inequality, people need to be paid more than poverty-level wages. We should also use other tools, but as long as employment is our primary way to distribute wealth, a living wage is vital.

Raising the minimum wage

As noted above, this province's minimum wage is the second-lowest in Canada. Tying it - at this low level - to inflation will only keep our minimum wage among the worst in Canada. It will do little or nothing to address poverty and inequality.

A strong majority of Atlantic Canadians - 73% - support moving to a \$15 / hour minimum wage.¹⁵ They have good reason. A substantial increase to the minimum wage will make a big difference for many workers, and will help to lift some out of poverty. Moving beyond this to a living wage will enable some to rent or buy their own homes and start families.

The lift will also spill over and boost the incomes of many with wages up to a dollar or two above the minimum wage (beyond that, there is little to no evidence of any impact). As 60% of minimum wage earners are women, a boost to the minimum wage will also help reduce the gender wage gap, as well as female poverty and women's economic dependency on men.

We need to raise the minimum wage right now. The social safety net is essential, but it is not enough. Together with improvements to employment insurance, social assistance and other elements of the social safety net, a higher minimum wage will help to reduce poverty and inequality and their negative impacts on economic growth.

There are many economic benefits to raising the minimum wage. Almost every extra dollar earned by a low-wage worker is spent quickly, providing a boost for restaurants, grocery stores and local shops. An increase in the minimum wage to \$15 - for all workers in Newfoundland and Labrador - would provide low wage workers on the order of \$100 million per year to spend in the local economy.¹⁶

¹⁵ Forum Research, "Two Thirds Approve of \$15 National Minimum Wage," October 14, 2016, [http://poll.forumresearch.com/data/7326b637-cbe8-4658-9ac6-ea2a9b6cae5bFED-%20Minimum%20Wage%20Release%202016%2010%2012%20\(JC\).pdf](http://poll.forumresearch.com/data/7326b637-cbe8-4658-9ac6-ea2a9b6cae5bFED-%20Minimum%20Wage%20Release%202016%2010%2012%20(JC).pdf).

¹⁶ An order-of-magnitude estimate based on approximately 70,000 workers currently earning less than \$15 / hour, an average increase of \$1.35 / hour to reach \$15, and an average of 25 hours work per week per worker, subtracting 15 per cent for tax, CPP, and EI deductions.

\$100 million more per year would be a big boost for many local small businesses. Not surprisingly, increasing the incomes of the bottom 20 percent of the population is associated with higher GDP growth.¹⁷ Higher wages and a higher GDP would help increase tax revenues - without increasing tax rates. It would also help reduce the costs of the social safety net.

When discussing costs and minimum wages, we should be asking whether we can afford *not* to have a higher minimum wage.

Tippling, vulnerability and a two-tier minimum wage

A fair minimum wage applies to all workers. Having a lower minimum wage for workers who are tipped, typically in restaurants and bars, is associated with higher poverty levels for those workers. An American study found that poverty rates for tipped workers were 60 percent higher where they were paid a lower-tier minimum wage than where they earned the regular minimum wage.¹⁸ This is particularly important because tipped workers have a poverty rate two to three times higher than that of untipped workers.¹⁹

Furthermore, women and girls who are dependent on tips are more vulnerable to sexual harassment and sexualized behaviour from customers, and less able to challenge it and protect themselves. A two-tier, lower minimum wage exacerbates that vulnerability.²⁰

Minimum wage and employment

Despite many decades of claims that minimum wages have significant negative effects on employment, the evidence does not bear that out. There have been many studies on this topic - so many that the standard for addressing this topic is not a single study or even a handful of studies, but rather meta-studies - studies of studies.

¹⁷ IMF, Causes and Consequences of Income Inequality: A Global Perspective, June 2015, <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf>.

¹⁸ D. Cooper, "Gradually eliminating the two-tiered wage system for tipped workers in New York will improve working conditions and wages for tipped workers across the state" Economic Policy Institute, June 29, 2018. <https://www.epi.org/publication/gradually-eliminating-the-two-tiered-wage-system-for-tipped-workers-in-new-york-will-improve-working-conditions-and-wages-for-tipped-workers-across-the-state/>.

¹⁹ Idem.

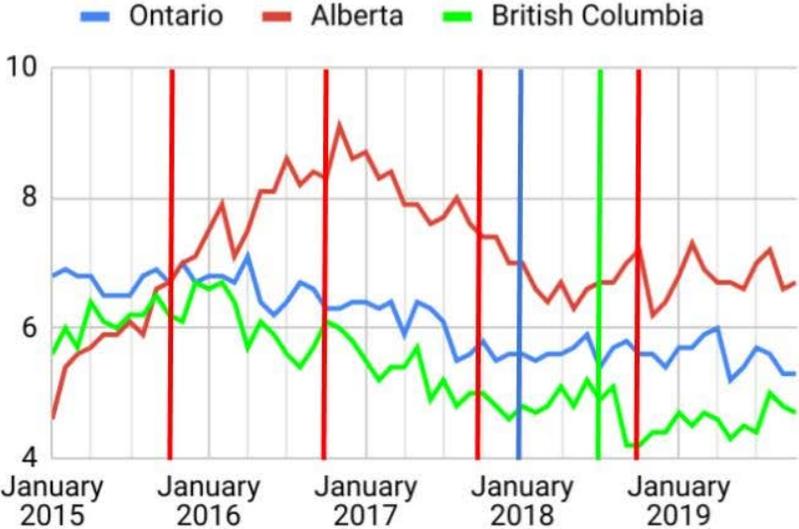
²⁰ K. Matulewicz, "Law and the Construction of Institutionalized Sexual Harassment in Restaurants" Canadian Journal of Law and Society / La Revue Canadienne Droit et Société Vol 30: 3, December 2015, pp. 401-419. <https://www.cambridge.org/core/journals/canadian-journal-of-law-and-society-la-revue-canadienne-droit-et-societe/article/law-and-the-construction-of-institutionalized-sexual-harassment-in-restaurants/921D1F721BE79BEC73D8A298FA2FFBE9>

A meta-study of 64 studies and 1,492 findings in the U.S. - where there is a very large evidence base - found “little or no significant impact of minimum wage increases on employment.” noting that “the strong clumping around zero [impact on employment] provides a useful summary of decades of research on this question.”²¹

Another report examined 36 studies and 739 estimates, and concluded: “We find ... no support for the proposition that the minimum wage has had an important effect on U.S. employment.”²²

What about provinces in Canada where recent large minimum wage increases have been made - Ontario (Jan 2018), BC (June 2018) and Alberta (each Oct from 2015 to 2018)? Recall that there were well-publicized predictions of enormous job losses prior to these minimum wage hikes. Have those predictions come true? See Figure 3.

Figure 3 - Unemployment rates (%), and dates of large minimum wage increases²³



More often than not, those large minimum wage increases have been followed by significant declines in unemployment in the following quarter. In fact, the only quarterly increases in unemployment following minimum wage hikes were during the onset of the Alberta recession, which was caused by a global oil price crash, and which doubled unemployment in just two

²¹ H. Doucouliagos and T.D. Stanley, “Publication Selection Bias in Minimum-Wage Research?” *British Journal of Industrial Relations* (2009), vol, 47. no. 2, pp. 406-428.

²² P. Wolfson, and D. Belman, “15 Years of Research on U.S. Employment and the Minimum Wage” (December 10, 2016). Tuck School of Business Working Paper No. 2705499. Available at SSRN: <https://ssrn.com/abstract=2705499> or <http://dx.doi.org/10.2139/ssrn.2705499>.

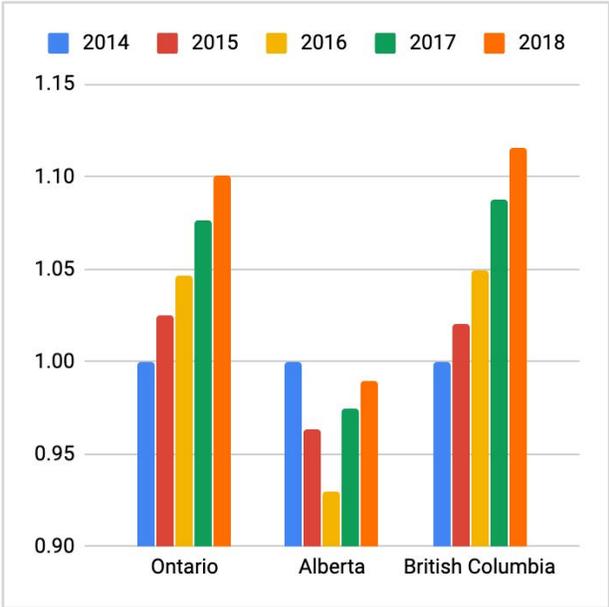
²³ Unemployment rate seasonally adjusted: StatCan Table 14-10-0287-01.

years. After the peak of the Alberta recession, minimum wage increases were followed by unemployment decreases.

To reiterate: there were more decreases than increases in unemployment after minimum wage increases.

This being said, it is more likely that changes in the unemployment rate are driven by much more powerful factors - larger business cycles and trends that have nothing to do with minimum wage changes. Overall GDP in Alberta declined up to 2016 due to the oil price crash, and rose after that. Notably, Alberta's minimum wage increases began in October 2015, and continued in October 2016, 2017 and 2018, while GDP rose. In both Ontario and BC, GDP rose throughout the period, including in 2018 when both provinces increased the minimum wage. GDP in the minimum wage prevalent industries - warehousing and retail, and accommodation and food services - followed the same pattern: decline in Alberta to 2016 and rising afterwards, and rising throughout in Ontario and BC. See figure 4.

Figure 4 - GDP, indexed to 2014²⁴



What happened to jobs specifically in the industries where minimum wages are commonly paid - wholesale and retail trade and accommodation and food services? There was significant fluctuation in jobs from month to month, whether a minimum wage increase occurred or not.

Looking at each province:

- In Alberta (minimum wage increases Oct 1 each year from 2015 to 2018), the number of jobs in the minimum-wage prevalent sector actually rose from 2015 through to late 2017.

²⁴ GDP indexed. StatCan, Table 36-10-0222-01.

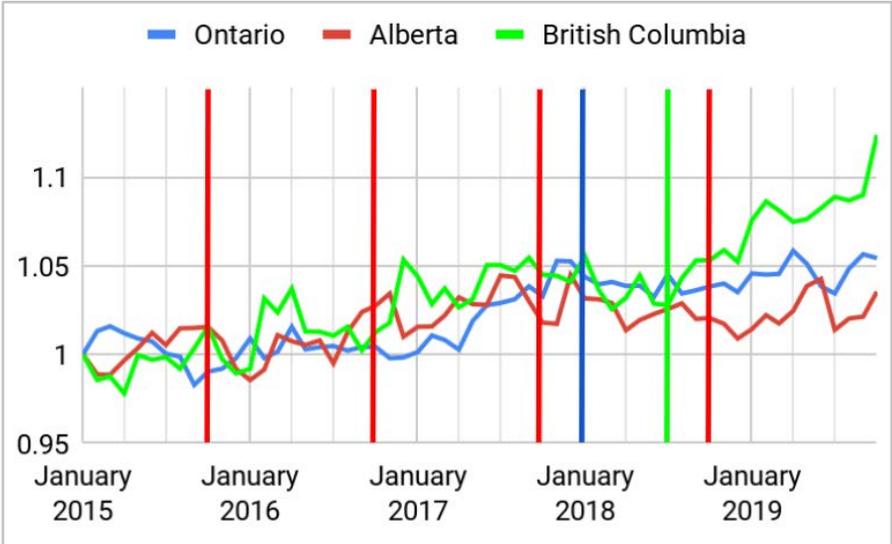
(During most of this rising trend the overall economy was rapidly shedding jobs due to the global oil price crash.) Employment then levelled out. Any employment changes in a quarter following a minimum wage increase - whether employment went up or down - were cancelled out by the next quarter.

- In Ontario (minimum wage increase Jan 2018), the number of jobs in the minimum-wage prevalent sector was fairly level from 2015 through early 2017, and then rose before the minimum wage increase, and then was level after the minimum wage increase.
- In BC (minimum wage increase June 2018), the number of jobs in the minimum-wage prevalent sector rose gradually for 2015 and 2016, then levelled off, and then rose steeply immediately after the minimum wage increase and continues to rise. See figure 5.

In none of the provinces were there any significant or lasting drops in employment in the minimum-wage prevalent sector after the minimum wage increases. Furthermore, any employment changes in quarters following minimum wage increases - whether up or down - were of a similar scale to other quarterly fluctuations.

As above, it appears that even within the minimum wage prevalent sector, employment is more driven by factors other than the minimum wage.

Figure 5: Jobs in minimum-wage prevalent sectors, and dates of large minimum wage increases²⁵



Even for younger workers - age 15 to 24 - these large minimum wage increases did not always result in higher unemployment levels. In Ontario, unemployment for this group rose from 11.4

²⁵ Total jobs in wholesale and retail trade and accommodation and food services, seasonally adjusted, indexed to January 2015 levels for each province. StatCan Table 14-10-0355-01.

percent the month before the increase to 11.6 percent over the following quarter - hardly a massive change, especially considering that it had been 15 percent a year earlier. In BC it rose from 7.7 to 9.4 percent the following quarter, but was back down to 7.1 percent for next quarter. After Alberta's four increases, it stayed the same once (at 12 percent), rose once (12.3 to 13 percent) and fell twice (13.7 to 13.3 percent, and 12.9 to 10.9 percent).²⁶ The changes in 15-to-24 unemployment following minimum wage increases - whether up or down - were within the range of other unemployment rate fluctuations.

Why does employment not consistently or significantly fall after minimum wage increases? Simple economic theory suggests that if all other things are constant, and there is a competitive market, when the price of something (e.g. labour) rises then less of it should be purchased. However, the world is not simple; it's actually complex, and in the labour market those simplistic assumptions are not valid.

Contrary to the first assumption, all other things are *not* constant: businesses and economies adjust to price changes. Better-paid employees stay in jobs longer - improving productivity, and reducing turnover and training costs.²⁷ Higher wages boost consumer spending, generating extra business and creating local jobs. The market doesn't stay still; it adjusts.

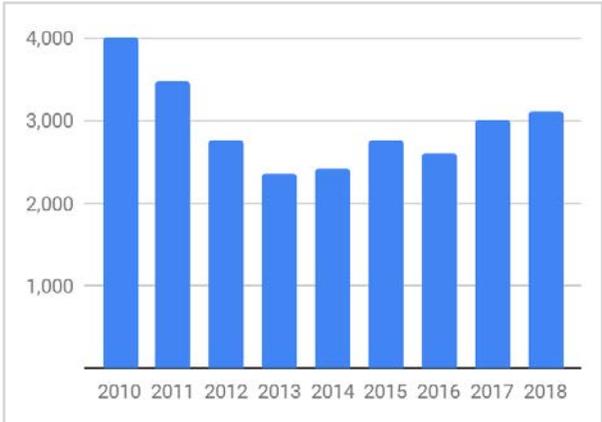
Also, there are many pieces of the job market, and those pieces interact. When an economy is booming and there are many well-paid jobs available, people will filter toward those jobs, creating a shortage of workers for minimum-wage positions. In Newfoundland and Labrador, for example, employment in minimum-wage positions dropped up to 2014 while the oil economy was booming - leading to the classic "help wanted" signs on retail shop windows. When many well paid jobs evaporated starting in 2015, more people were forced to accept those minimum wage positions, and minimum-wage employment rose during the downturn. Figure 6 illustrates this for accommodation and food services, and the same pattern occurred in wholesale and retail.

As discussed earlier, there are many factors influencing employment rates, and those factors are more powerful than minimum wage rates. Even *minimum-wage* employment rates are heavily influenced by those other factors.

²⁶ StatCan Table 14-10-0287-01.

²⁷ For a discussion of turnover costs see: "Hiring Smart, Turnover may be costing you more than you think!" http://www.hiringsmart.com/articles/535/Turnover_may_be_costing_you_more_than_you_think/. See also, for example, the CLASP-CEPR Turnover Calculator, http://cepr.net/calculators/turnover_calc.html. For a discussion of productivity increases with higher wages see J. Schmitt, "Why Does the Minimum Wage Have No Discernible Effect on Employment?" Center for Economic and Policy Research, 2013, <http://cepr.net/documents/publications/min-wage-2013-02.pdf>.

Figure 6 - NL minimum-wage employment in accommodation and food services - recovery during economic downturn²⁸



As for the competitive market assumption, because there are far fewer employers than employees, employers have market power, which they use to drive wages down to a lower level than they would be in a competitive market. Rather than a competitive market, you can have what is termed a “quasi-monopsony.” In this situation, increasing the minimum wage can actually make the market *more* efficient, boosting employment,²⁹ especially where labour mobility is low.³⁰

Bloomberg
Bloomberg Holds the Business of Equality Summit in New York [FOR MORE >](#)

OPINION | [VIEW](#)

Econ 101 No Longer Explains the Job Market

Supply-and-demand theory once made sense. That was before employers gained so much power.

By Noah Smith

April 5, 2018, 4:00 AM PDT

So the observations of reality - little to no discernable impact of minimum wage increases on employment - make sense when you take a closer look at the oversimplified version of economic theory.

²⁸ Statistics Canada LFS, Newfoundland & Labrador Statistics Agency, special tabulations.

²⁹ N. Smith, "Econ 101 No Longer Explains the Job Market," Bloomberg, April 5, 2018, <https://www.bloomberg.com/opinion/articles/2018-04-05/supply-and-demand-does-a-poor-job-of-explaining-depressed-wages>; J. Schmitt, *supra*.

³⁰ Statistics Canada, "Study: Barriers to Labour Mobility in Canada," November 17, 2017, <https://www150.statcan.gc.ca/n1/daily-quotidien/171117/dq171117d-eng.htm>.

Other claims

A number of other concerns are often raised in relation to minimum wage increases.

Young people

The claim is often made that the “typical” minimum wage earner is a teen aged student, and thus they don’t need (or deserve?) anything other than a poverty wage.

However, this “typical” scenario is actually not the reality. The majority of Canadian minimum wage earners are actually age 20 or older, and 79 percent are not students.³¹

Automation

If the minimum wage goes up, some claim that employers will just bring in robots to replace the workers. However, the advent of grocery store self-checkouts and fast food ordering kiosks preceded the above-noted increases in minimum wages. Businesses have always used technology to boost profits, whether the minimum wage rises or not.

New technologies are created for a global market, and their creators likely don’t spend a great deal of time thinking about Canadian provincial minimum wage increases. These technologies are being adopted primarily by large global corporations’ national subsidiaries - and fairly rapidly. Would suppressing a minimum wage in one province or another result in that technology not being adopted? It seems unlikely. Would it even delay it for a few months?

Maybe or maybe not. Worker replacement technology is a central and constant feature of the labour market in Canada and the rest of the world, and will continue regardless of minimum wage rates



Figure 7: fast food ordering kiosk in BC in 2016, well before the 2018 BC minimum wage increase³²

Impact on the business community

Some claim that minimum wage increases will harm the business community. However, the business community is actually a number of very

³¹ G. Suprovich, The Minimum Wage in Canada - Research Paper #54," Canadian Labour Congress April 2015.

³² Photo: David Thompson.

different businesses in different sectors, often with conflicting interests. What is good for one business may not be good for another (e.g. the oil boom reducing the number of workers in minimum wage positions).

Minimum wage employers are concentrated in a few sectors - notably wholesale and retail and accommodation and food services. Many businesses in other sectors have few or no minimum wage workers. Those businesses will see no cost increases from minimum wage increases.

What those businesses will see is higher revenues from more people with more dollars to buy their products and services. They also will face taxes that are lower than they would have been, as more people are lifted out of poverty by higher wages and rely less on public services such as emergency rooms at hospitals, food banks, homeless shelters and transfers. (The minimum wage paying businesses will also see these benefits.)

Even in the sectors that do pay minimum wages, the majority of employees are paid higher than minimum wage. In wholesale and retail, there are about 6,000 minimum wage workers out of a total of 36,000 workers. In accommodation and food services, there are about 3,000 workers paid minimum wage out of a total of 16,000 workers.³³ In these leading minimum wage sectors, less than 20% of employees are paid minimum wage.

So an increase in the minimum wage will only affect a fraction of those sectors' total labour costs, diluting the bottom line impact of a minimum wage increase.

For the relatively few workers who are paid minimum wage, as noted earlier those workers will stay in their positions longer if they are paid more, reducing turnover and training costs and boosting productivity. This further dilutes the impact of minimum wage increases.

Finally, labour costs are only a fraction of the overall costs for a business. Inputs, rent, supplies and equipment, heating and other utilities, dividends and loan interest are some of the other costs. Labour costs for restaurants, for example, are generally 25 to 40 per cent of total costs.³⁴ This even further dilutes the impact of a minimum wage increase on the overall bottom line.

Impacts on small businesses

As with large businesses, not all small businesses are the same; they will have different and sometimes opposed interests. Not all small businesses pay minimum wages, and those that do not will enjoy the expanded market afforded by a rising minimum wage, as well as lower tax

³³ Statistics Canada LFS, Newfoundland & Labrador Statistics Agency, Special Tabulations.

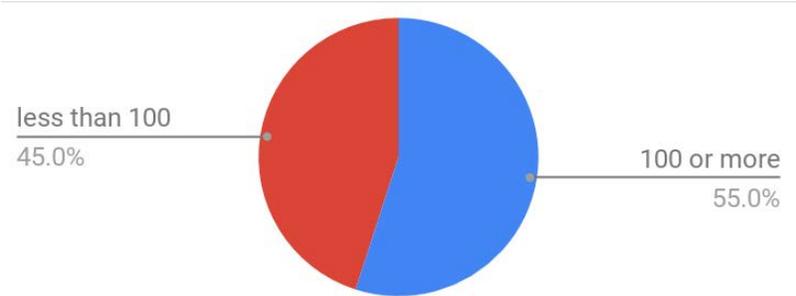
³⁴ S. Buckley, "Common Food & Labor Cost Percentages," March 5, 2018, <https://smallbusiness.chron.com/common-food-labor-cost-percentages-14700.html>.

demands to support the social safety net. Minimum-wage paying small businesses will also benefit from these factors.

For small businesses that do pay minimum wages, the costs related to minimum wages are a fraction of their overall costs.

Also, most minimum wage earners are not employed in small businesses. The majority (55%) work for businesses with over 100 employees, and a large majority (79%) of those workers work for businesses with over 500 employees.³⁵

Figure 8: Most minimum wage earners work for firms employing more than 100 workers³⁶



The factors influencing the profitability of small businesses are numerous, and many small businesses end up going out of business every year, even when the minimum wage doesn't rise. In recent decades, many have been driven out of business by large corporations. Canada's retail industry has seen a significant shift from independent to chain stores.³⁷ Even as early as 2011, the top 30 major retail companies in Canada controlled two-thirds of Canadian non-automotive retail sales.³⁸ Since then, online purchasing has expanded greatly, putting more pressure on small, local retailers.

³⁵ G. Suprovich, *supra*.

³⁶ Statistics Canada LFS, Newfoundland & Labrador Statistics Agency, special tabulations. See also G. Suprovich, *supra*, which notes very similar percentages nationally, with an additional 16% in firms with 20 to 99 employees, for a total of more than 70% of minimum wage workers employed in first with over 20 employees.

³⁷ J. Zimmerman and A. Arbulu, "Retail Landscape of Canada," Global Agricultural Information Network Report: CA17002, 2017, https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Retail%20Foods_Ottawa_Canada_2-15-2017.pdf.

³⁸ A. Daniel and D. Hernandez, *Canada's Leading Retailers – Latest Trends and Strategies (12th Edition)*, Toronto: Centre for the Study of Commercial Activity, 2012, <https://csca.yerson.ca/products/canadas-leading-retailers-latest-trends-and-strategies-12th-edition>.

Again we see major industry changes that are taking place in Canada and around the world, sometimes putting small businesses out of business, and this is entirely independent of what happens with provincial minimum wages.

There are many ways to help small businesses. Suppressing the minimum wage is not the only one, and considering the high human, economic and fiscal costs of low incomes, it is not the best.

Instead, governments can, for example:

- Extend public medical coverage to include pharmacare, dental and optical, which will result in better health for local workers, and would also make small businesses more competitive with larger employers that can afford private medical insurance plans;
- Provide high-speed internet service as a free public utility, as some cities are now doing through public wifi in downtown areas;
- Adopt policies that favour local procurement, and procurement from small businesses; and,
- Provide targetted incentives and support for micro-businesses that actually hire more employees.

Impact on consumers, including rural and fixed-income consumers

Consumer prices often rise, based on a range of other factors - fuel costs and global oil prices, climate disruption leading to local crop failures, high-end executive compensation, anti-competitive business practices, and profit-taking, among others. As we saw above with employment figures, there are major drivers of prices that have nothing to do with minimum wages.

The factors that dilute the impact of minimum wages on businesses - many not paying minimum wages at all, paying most employees more than minimum wage, non-labour costs, etc - also would dilute the impact on consumer prices. So an increase in the minimum wage of a certain percentage would mean a consumer price increase of just a fraction of that.

A study of Walmart pricing found that even if 100 percent of the costs of a wage increase from \$9 to \$12 were passed on to consumers, the average Walmart shopper would pay at most \$1.04 more per month³⁹ - less than the price of a cup of coffee.

Cost increases for fast food due to large (50 percent or more) minimum wage increases are generally less than five percent, meaning that a \$5 sandwich might rise in cost to \$5.25, or less.

A study looking back at Seattle's recent large minimum wage increase found that it had no impact on grocery store prices.⁴⁰

It is worth noting that many older workers would directly benefit from an increase in the minimum wage, as they make up a significant portion of minimum wage earners; 1,600 workers aged 55 and up earned minimum wage or less in 2018.⁴¹

So the impact of a higher minimum wage on consumer prices is often minimal to none, and thousands being paid a minimum wage would benefit directly from the pay increase (while all of us benefit indirectly from the reduced social and economic costs of poverty).

This is not to say that the cost of living is low. It isn't, and many people need help. Seniors, rural residents, and others can be supported in other ways that don't require suppression of the minimum wage to a poverty level. Examples include:

- improving public pensions and old age security benefits - putting money into the pockets of seniors and letting them choose their own spending priorities, rather than just suppressing the cost of fast food;
- providing improved and free transit to seniors and low income people, and improving transit in both urban and rural areas, which improves mobility and access to key destinations while reducing transportation costs (on average the second-highest category of household expenditure);
- extending public medical coverage (e.g. pharmacare, dental and optical coverage), which also puts more money in the pockets of consumers - especially seniors and others with high medical bills and no employment-based extended medical coverage; and,
- expanding programs for home energy-efficiency improvements, which reduce energy bills and create jobs, while making drafty older houses more comfortable.

³⁹ K. Jacobs, D. Graham-Squire and S. Luce, "Living Wage Policies and Big-box Retail: How a Higher Wage Standard Would Impact Walmart Workers and Shoppers," April 2011 University Of California, Berkeley Center For Labor Research And Education http://laborcenter.berkeley.edu/pdf/2011/bigbox_livingwage_policies11.pdf.

⁴⁰ J. Buszkiewicz, C. House, A. Aggarwal, M. Long, A. Drewnowski, J. Otten, "The Impact of a City-Level Minimum Wage Policy on Supermarket Food Prices by Food Quality Metrics: A Two-Year Follow Up Study." *Int J Environ Res Public Health*. 2019 Jan; 16(1): 102 <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6339052/>.

⁴¹ Statistics Canada, Labour Force Survey (LFS); Newfoundland & Labrador Statistics Agency, Special Tabulations.

With so many mechanisms available to support seniors, rural residents and others with fixed and low incomes, there is no need to use poverty-level minimum wages to keep prices down. It makes no sense, and it is simply wrong, to make low-income workers support consumers when we have other options.

Conclusions

The minimum wage is an important tool in the government's toolbox for reducing poverty and inequality. There are no magic bullets that will address every aspect of poverty and inequality, and it is important to use a range of tools. When poverty is eliminated and inequality is reined in we can consider which tools can be dialed down, but in the meantime we need to use the full range of tools, and we need to make the minimum wage relevant and responsive to the needs of employees.

Having the second-lowest minimum wage in Canada - a poverty wage that does not allow a worker to afford even a one-bedroom apartment - is a disgrace in a province with one of the highest levels of GDP per capita in the country. Merely indexing this poverty-level wage to inflation - as the government had planned to do - would be completely unresponsive to the needs of employees in this province.

The government should implement a schedule of significant minimum wage increases that will:

- bring the minimum wage in line with that protecting the majority of Canadians - near or above \$15 - within the next few years; and,
- proceed to narrow the remaining gap between the minimum wage and the living wage in the following few years.

The claims of massive job losses and other impacts due to minimum wage increases are exaggerated, and not supported by the evidence. There are better ways to support micro-businesses and consumers, including seniors and rural residents. As such, doing so by suppressing the wages of the lowest-paid workers is unconscionable.

We thank you for your attention to our input, and look forward to reading your recommendations.

Mary Shortall
President