

# Myths and Facts About the Minimum Wage in BC

**WHAT DOES IT MEAN TO BE A MINIMUM WAGE** earner in British Columbia? It means making \$8 per hour — or as little as \$6 if you're getting the so-called "training wage." If you work full-time, it means paydays that bring in at most \$640 — and that's before deductions. It means seeing your buying power eaten away year after year by rising living costs — BC's minimum wage has been frozen since 2001, but you pay 2011 prices just like everyone else. And it means living on an annual income that is well below the poverty line for a single person.

Back in 2001, BC had the highest minimum wage in Canada. However, other provinces have since made increases, leaving BC at the bottom of the rankings with the lowest minimum wages in the entire country.

It is time to raise the minimum wage. And while we are at it, we should take politics out of the equation by developing a clear rationale for how it is set.

We propose that a single person working full-time year-round should earn (at least) enough to live above the poverty line. The idea that someone working full-time, full-year should be able to get out of poverty is a clear, transparent policy decision that should determine the minimum wage in BC and in other provinces. Equally important is to legislate regularly scheduled increases tied to inflation, to ensure low-wage workers do not face what amounts to a pay cut as a result of rising prices.

The most appropriate measure of the poverty line in this case is Statistics Canada's before-tax low-income cutoff (LICO) for a single individual with no dependents living in a large city — which was \$22,229 in 2009, the latest published LICO calculation. This is equivalent to a minimum wage of \$11.11 per hour (at 40 hours per week, 50 weeks per year).

We recommend the provincial government:

- Immediately increase the minimum wage to \$10 per hour;
- Set staged increases that bring the minimum wage up to the poverty line within a year (using the latest Statistics Canada LICO);
- Legislate annual increases tied to inflation; and,
- Eliminate the \$6 so-called "training wage."

A decent minimum wage can be an effective anti-poverty tool and is cheaper than providing direct income supports to the working poor.

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**MYTH #1:** Few people actually earn the minimum wage, so we don't need to worry about a legislated increase

Some critics claim that minimum wage policies have a limited effect because few people actually work at the minimum wage.

**FACTS:** It is true that only 2.3% of BC's paid employees earned exactly \$8 per hour (or less via the "training wage") in 2009. However, a much larger group—more than a quarter million people, or 13% of all employed workers in the province—earned less than \$10 per hour in 2008 (the latest year for which we have data). The number of low-wage workers has likely increased considerably since the recession hit.

Pegging the minimum wage to the poverty line would benefit this much larger group of workers who desperately need it.

**MYTH #2:** Increasing the minimum wage would kill jobs

The BC government claims that a significant increase in the minimum wage our will cost too much for businesses that rely on low paid workers, and will result in job losses for the very people it is intended to help.

**FACTS:** While some research studies have linked minimum wage increases to declines in employment among young and low-skill workers (holding all other factors equal), the weight of the evidence suggests that minimum wage increases do not kill jobs. This is confirmed by a joint statement issued in October 2006 by over 650 US economists, including five Nobel laureates, stating, "a modest increase in the minimum wage would improve the well-being of low-wage workers and would not have the adverse effects that critics have claimed."

Employment levels in any economy, including BC's, are determined by a number of factors, and minimum wages are a very small player overall. Changes in the economic outlook at home and abroad, commodity prices for our exports, the value of the Canadian dollar and global demand for our products all have much larger effects on the labour market than the minimum wage.

There is no evidence that minimum wage increases in other provinces have cost jobs (or had "significant disemployment effects" as economists put it).

Large one-time increases may well be disruptive for some businesses in the low-wage sectors of retail, accommodation and food services. This is why we recommend a series of staged increases that bring the minimum wage up to the poverty line within a year. Meanwhile, BC businesses can find comfort in the experience of their fellow entrepreneurs across Canada, who manage to turn a profit while paying higher minimum wages.

The only reason a large increase is now needed is because BC's minimum wage has remained frozen for over nine years, while the cost of living in BC (measured by the consumer price index) increased by over 18%. In other words, a \$1.48 increase is needed just to give minimum wage workers the same purchasing power they had in 2001.

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— Joint statement issued in October 2006 by over 650 US economists, including five Nobel laureates

We can avoid the need for large one-time increases in the future simply by indexing the minimum wage to inflation. Such a policy will benefit employers by providing certainty and allowing them to plan ahead for labour costs. There is no evidence that minimum wage increases that keep pace with inflation—to maintain its real value—have negative effects on employment.

**MYTH #3:** Tax cuts are better than a higher minimum wage

The BC government argues that we don't need a higher minimum wage because personal income tax cuts have put so much money into the pockets of low-wage workers that they now take home more than their counterparts in provinces with higher minimum wages.

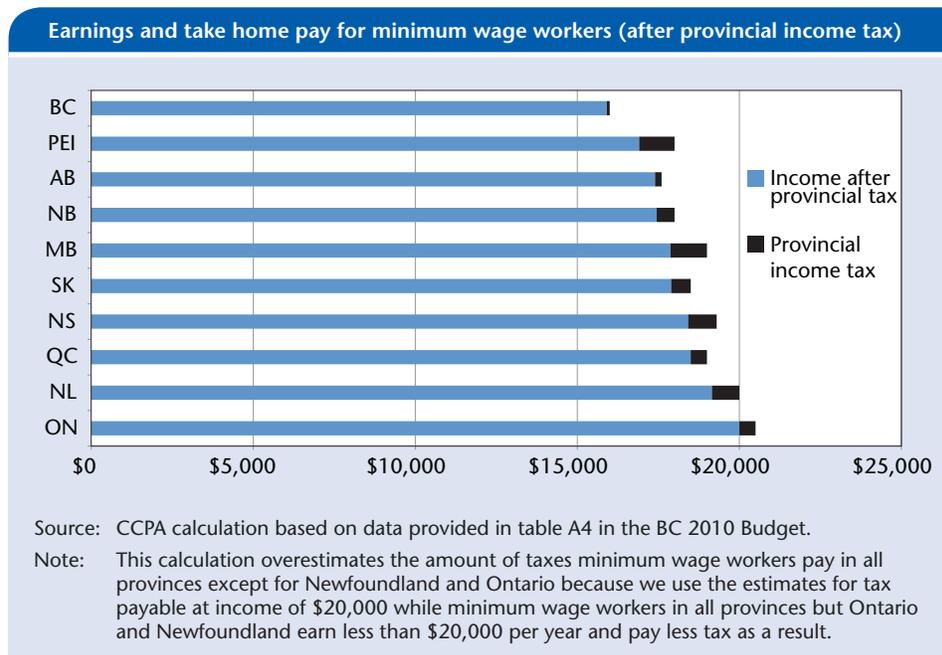
**FACT:** This is simply wrong.

Low-wage workers in BC do pay less provincial income tax than in other provinces. But they still have the lowest take-home (after-tax) pay in Canada. The following chart shows this clearly.

Higher minimum wages in all other provinces more than make up for their higher tax rates, meaning minimum wage workers are worse off in BC than anywhere else in Canada, despite our lower tax rate.

Even if BC's minimum wage workers paid zero provincial income tax, they'd still take home less than minimum wage workers in every other province. And while BC may be home to low tax rates, we are also home to the highest *after-tax* poverty rate in the country. In 2008, 11.4% of British Columbians lived on after-tax incomes below the poverty line. The persistently high rates of *after-tax* poverty should serve as a wake-up call to the BC government. Yes, lower taxes helped some of the working poor, but at the end of the day, higher wages are what allow workers to escape poverty.

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**MYTH #4:** Minimum wage earners are teenagers living at home, or women who are not “heads of households,” so a minimum wage increase will not reduce poverty

Some economists suggest we shouldn’t worry too much about minimum wages, arguing that the majority of low wage earners are youth, many of whom are not poor because they live at home with their parents, or are women, who are not poor because their spouses earn more.

**FACTS:** While just over half of minimum wage earners live with their parents, many of them are not teenagers. In fact, one in eight BC minimum wage workers living with their parents is older than 25.

In 2006, nearly half (44%) of young adults in BC aged 20 to 30 lived with their parents, compared to only 32% in 1986. The increase is directly related to low youth wages that cannot cover rapidly increasing tuition fees, student debt levels, and housing costs. A higher minimum wage can increase the independence and self-sufficiency of young adults, enabling them to leave home and pay down education-related debt.

More than a quarter million British Columbians earn less than \$10 per hour. BC must ensure that all those who are trying to support themselves through full-time, full-year work can escape poverty.

The argument that women’s wages are not a concern is based on an outdated notion of the typical family, where the father is the main breadwinner and if the mother works, she does so to earn a little extra disposable income or as a hobby.

Families today increasingly rely on both spouses’ earnings just to get by. Working poverty is a serious problem in our province, where the majority of poor children live in families where at least one parent works full-year, full-time. Women’s earnings are vital to the wellbeing of their families, regardless of whether their spouses earn more.

More than a quarter million British Columbians earn less than \$10 per hour. Increasing minimum wages might happen to benefit some teenagers who are not technically poor, but this should not stop governments from ensuring that all those who are trying to support themselves through full-time, full-year work can escape poverty.

The provincial government should set the minimum wage using the clear rationale of tying it to the poverty line (making staged increases over the next year), then index it to inflation, and eliminate the \$6 training wage. These changes will improve the lives of thousands of BC families, and are an important part of a comprehensive poverty-reduction strategy.



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