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FAST FACTS

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INCREASING THE MINIMUM WAGE vs. INCOME TAX EXEMPTIONS

On April 26, 2009, CCPA Manitoba released a comprehensive document (*The View From Here: Manitobans call for a poverty reduction plan*) calling on the Manitoba government to make poverty reduction a core component of economic and social policies in Manitoba. Such a plan would make Manitoba a leader in the implementation of a vision to address the needs and aspirations of our citizens in the 21st century.

Amongst other things, the plan proposes that the province adopt an active labour market policy that includes changes in legislation to promote the formation of trade unions, improvements in employment standards, and continued increases in the minimum wage.

Business Opposition to Increases in the Minimum Wage

In the past, business organizations and some employers have rejected minimum wage increases, claiming that they will adversely affect small business and cause low paid workers to be laid off or have their hours cut. But 20 years of research shows that the supposed negative consequences of a rising minimum wage are much exaggerated. In Manitoba, cumulative increases in the minimum wage of 45.8% since 1999 have had a positive impact on our economy.

While organizations like the Chambers of Commerce and the Canadian Federation

of Independent Business continue to oppose increasing the minimum wage, they now offer alternative ideas for ostensibly helping low-paid workers. At present, they favour increasing the basic personal exemption for income tax purposes.

Ron Cumming, president of the Brandon Chamber of Commerce, explained this alternative in a letter to the *Brandon Sun* dated May 27, 2009. In brief, he argued that if the Manitoba government is sincere in its desire to help low-income earners, the best way to do it is to remove them from the tax rolls by increasing the personal exemption: "The provincial government needs to substantially increase the [personal exemption] which is currently set at \$8,134...Increasing minimum wage only helps those at or near the minimum wage; it does nothing to help retirees or fixed-income earners." Cumming cited Saskatchewan as an appropriate model to follow noting that the province announced in 2008 that it would raise the personal exemption by \$4,000 to bring it to \$13,269. "This removed approximately 80,000 people from the tax rolls and saved taxpayers more than \$300 million."

This proposal has some serious flaws which are ignored by its proponents.

First, in contrast to raising the minimum wage, the increases in the personal exemption would not be restricted to low paid workers. On the contrary, everybody who is on the income tax



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rolls would potentially benefit. For each \$1,000 increase in basic exemptions (personal, spousal and eligible dependant) each taxpayer would receive a maximum benefit in reduced taxes of \$108.00. The Manitoba Department of Finance estimates that total government revenue would be reduced by \$72 million. Of course, those taxpayers whose tax liability is less than \$108.00 would get a lesser benefit; for some taxpayers, the benefit could be zero. Of the total \$72 million, 26.4% (\$19 million) would go to individuals with incomes of less than \$25,000, 46.7% (\$34 million) to individuals with incomes between \$25,000 and \$50,000, and 26.9 % (\$19 million) to individuals with incomes greater than \$50,000. Clearly, under this proposal the bulk of the benefits would accrue to individuals with incomes in excess of those working for the minimum wage.

Second, the claim that taxpayers save an amount equivalent to what the province loses is somewhat spurious in that the flip side to the \$72 million in taxes not paid is \$72 million in public services that are not provided. A recent CCPA study (*Canada's Quiet Bargain: The benefits of public spending*) demonstrates that the public services financed by tax revenues yield immense benefits to individuals and families – “an average \$17,000 benefit - about the same amount a Canadian working full-time, full-year would earn.” The study notes that more than half these benefits come from health care, education and personal transfer payments. The people who would be most adversely affected by cuts to services would be low-paid workers, people on fixed incomes and retirees dependent on modest pensions.

The Benefits of Increasing the Minimum Wage

An active minimum wage policy directed at improving conditions for low-paid workers is much more effective and equitable to raising personal income tax exemptions. Increases in the minimum

wage directly affect those individuals getting paid the minimum wage. Other workers in low-paid jobs whose wages are tied to the minimum may also benefit as employers adjust wages to maintain the integrity of their wage structure and their competitive position in the labour market.

The minimum wage was increased to \$8.75 on May 1, 2009. It will be increased to \$9.00 on October 1, 2009. For minimum wage workers working full-time (37.5 hours a week), full-year each 25 cent an hour increase translates into an increase in their annual wage of \$487.50.

At present, a full-time, full-year minimum wage worker earns \$ 17,062.50 per year. The 25 cent increase October 1 will bump annual earnings to \$17,550.00. However, even with this increase, annual earnings will fall short of the before-tax Low-Income Cut-Off of \$21,866 for a single person by \$4,316. The implication of this unacceptable shortfall is that the provincial government needs to accelerate increases to the minimum wage to lift the tens of thousands of workers to \$11.20 an hour associated with the \$21,866 low-income cut-off.

A Culture of Solidarity and Sharing

The current economic crisis has show us that we need to replace the ethos of individualism and greed which has generated great inequalities in the distributions of income and wealth with an ethos based on solidarity and sharing which is more in tune with the needs of contemporary society. A good place to start this transition would be to adopt a labour market policy that reduces inequities in our labour markets.

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