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IS FAIR

*A \$15 minimum wage would give a
\$900 million boost to the Alberta economy*



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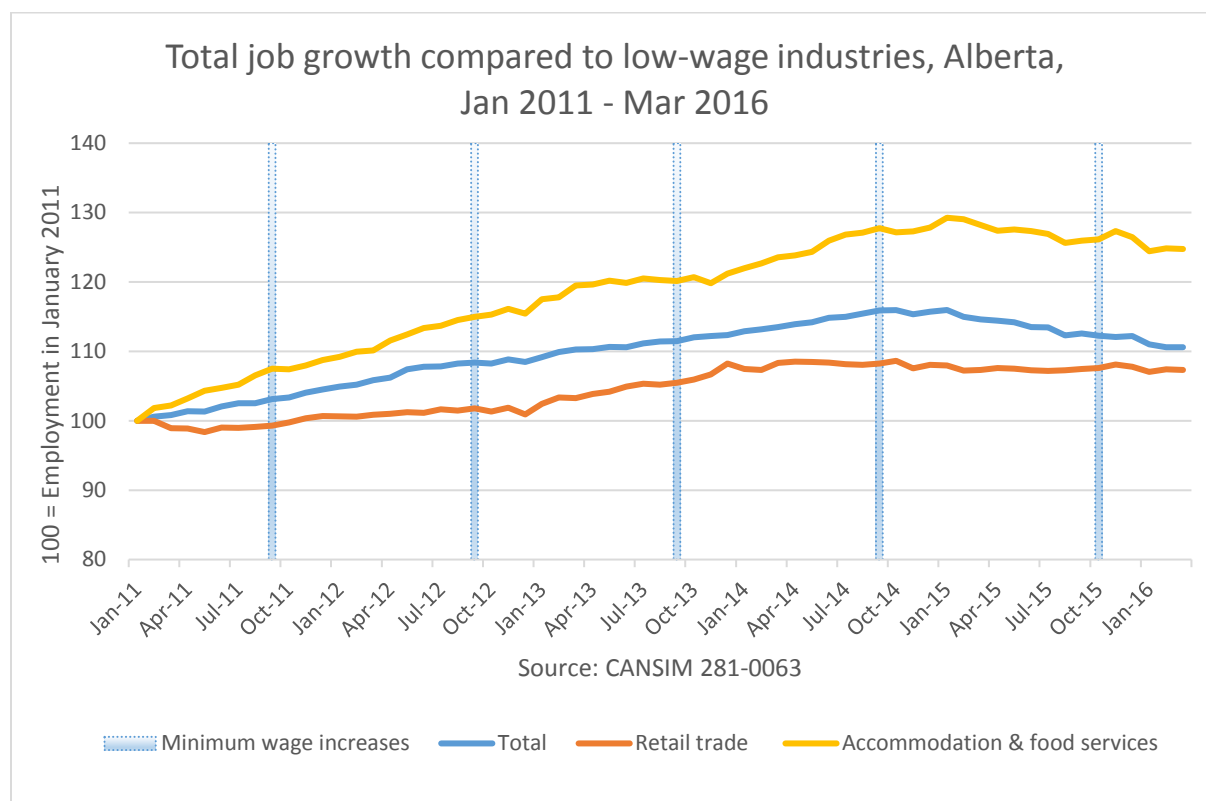


Every time a government promises to increase the minimum wage, we hear loud protests that even small increases in the minimum wage would lead to significant job losses. “Now is not the time,” some say, or even “higher minimum wages are bad for the economy!”

A growing body of evidence shows that this is not the case. In recent years, several provinces including Alberta have modestly increased minimum wages. Not only has the number of workers in low-wage sectors grown, but economists say that higher minimum wages can be good for reducing poverty, increasing job stability, and providing stimulus to the economy.

Not a Job Killer

Since 2011, Alberta has made five upward adjustments to minimum wage – and at no point did that make a dent in employment growth in low-wage industries such as retail trade or accommodation and food services. In fact, even after the oil shock that devastated Alberta, these two low-wage sectors remain stronger than the overall Alberta labour market.



Alberta's Recent Minimum Wage Increases	
September 1, 2011	\$9.40
September 1, 2012	\$9.75
September 1, 2013	\$9.95
September 1, 2014	\$10.20
October 1, 2015	\$11.20

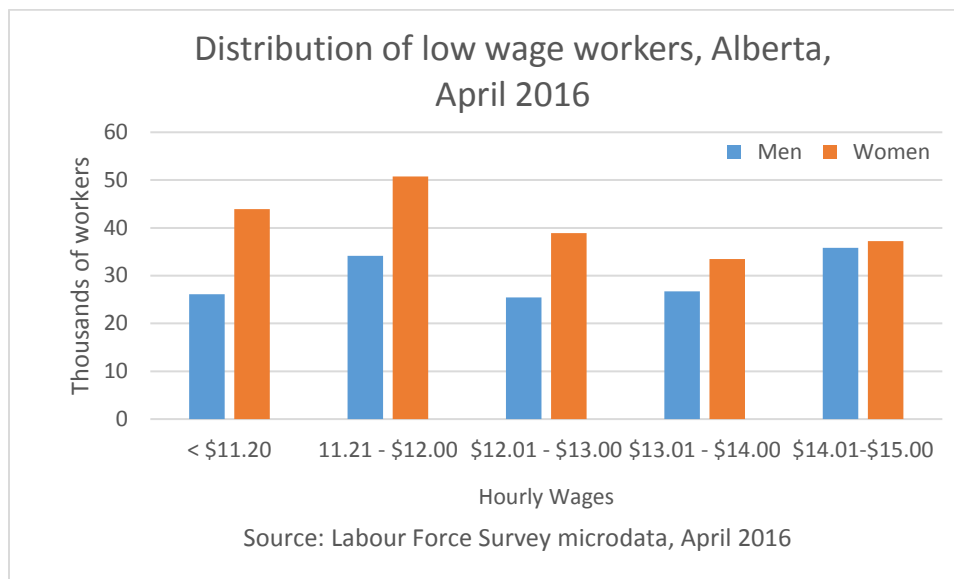
Source: Government of Canada, Minimum wage database

Reduces Income Inequality

Minimum wages had been left to stagnate through the 1980s and 90s, leading to significant pressure to increase the minimum wage in several provinces in recent years. Most provinces increased their minimum wages between the mid-2000s and 2015.

Fortin and Lemieux¹ show that these increases in the minimum wage actually reduced income inequality in Canada, and that the trend for the bottom 10 per cent of income earners is closely linked to changes in the minimum wage.

It's also important to note that the majority of low-wage workers are women. Women make up more than 60 per cent of the workers who earn less than \$12 an hour in Alberta, even though they represent only 48 per cent of all employees. Increasing the minimum wage helps close the pay gap for women in low-wage sectors.



Stimulates the Economy

The Federal Reserve Bank of Chicago studied the potential impact of minimum wage increases in the United States. They found that increases in the minimum wage lead to significant increases in household spending, which has a stimulative effect on the economy.²

This makes sense, if we consider the fact that many low-wage workers currently can't make ends meet. Low-wage workers are more likely to have un-met basic needs, and so spend extra income right away. Economists call this “a higher marginal propensity to consume.”

The good news is that with more income, workers can better meet their basic needs, and local businesses benefit from having customers with more money to spend.

¹ Fortin, N. and Lemieux (2015). “Changes in Wage Inequality in Canada: An Interprovincial Perspective” in *Income Inequality: The Canadian Story*, edited by D. Green, W.C. Riddell, and F. St-Hilaire.

² Aaronson, D. and E. French. (2013). “How does a federal minimum wage hike affect aggregate household spending?” Chicago Fed Letter. Available online: https://www.chicagofed.org/digital_assets/publications/chicago_fed_letter/2013/cflaugust2013_313.pdf

We can estimate what the effect of a one dollar increase in the minimum wage would mean for workers in Alberta.

First, we assume that everyone who currently earns \$11.20 or less will now earn \$12.20 (i.e. assuming the promised phase out of two-tiered minimum wages). And we assume an average 50 cent per hour wage increase for everyone that currently earns more than \$11.20 but less than \$12.20.

We also assume that the usual weekly hours of work stay the same, as this is what has happened when the minimum wage increased in the past. The results are shown in the table below.

Table 1: Impact of a \$1 Minimum Wage increase in Alberta		
	Workers earning 11.20 or less	Workers earning 11.21-12.20
April 2016 Data		
Number of workers	70,100	88,500
Usual hours of work	25.3	25.4
Estimated impact on household spending		
Average wage increase		\$1.23
Weekly increase after CPP, EI, and Federal income tax		\$3.9 million
Annual increase in household spending		\$201 million

Source: Labour Force Survey microdata, April 2016, and author's calculations.

When we take into consideration CPP, EI, and federal income taxes, we find that a \$1 per hour increase in the minimum wage results in an average increase of about \$1,200 per year for more than 158,000 workers in Alberta. Together, this means an increase in household spending of \$201 million in the first year.

We know that the provincial government has committed to increasing the minimum wage to \$15 per hour by 2018. We can apply a similar method to get an idea of the scale of the stimulus that a \$15 minimum wage would mean for Alberta.

Table 2: Impact of a \$15 Minimum Wage in Alberta				
Usual hourly wage	Average Increase	Current Hours	# of workers	Weekly Increase (after tax)
< \$11.20	\$4.95	25.3	70,100	\$6,865,000
11.21 - \$12.00	\$3.21	24.8	84,900	\$5,287,200
\$12.01 - \$13.00	\$2.23	27.9	64,400	\$3,132,000
\$13.01 - \$14.00	\$1.22	32.5	60,200	\$1,868,500
\$14.01-\$15.00	\$0.11	33.5	73,100	\$210,000
Total Weekly Increase				\$17,362,700
Estimated impact (over three years)				\$902,834,000

Source: Labour Force Survey microdata, April 2016, and author's calculations.

Aaronson and French (2013) estimate that the stimulative effect of a minimum wage increase would last for about a year after implementation. Assuming this is true, we can take the total weekly increase in household incomes and multiply it by 52 weeks to estimate the total impact over the three-year period.

This estimate comes with the caveat that wages rise over time, the industrial mix changes, and demographics shift, so it is just intended to show the potential scale of the stimulus a minimum wage increase will provide to the Albertan economy.

Create more stable jobs and improve productivity

We often talk about how to increase the number of ‘good jobs’ in our economy. Good jobs are ones where workers feel respected, where the job is stable, and where employers invest in workers.

Too often minimum wage jobs are not good jobs. But Canadian research shows that increasing the minimum wage reduces turnover, creating more stable jobs for workers.³

The theory is that higher wages force employers to abandon low-wage, high turnover strategies, and instead encourages them to invest in their current workforce. Low-wage, high turnover strategies are actually costly, as it takes time and resources to find and train new employees.

Lower turnover means more stable jobs for workers, and a more productive workforce for employers. David Green suggests that increasing the minimum wage is one of the few mechanisms that encourages employers to abandon an inefficient low-wage, high turnover strategy.⁴

Conclusion

The fact is, minimum wage increases in the past haven’t killed jobs – and minimum wage increases in the future aren’t going to kill jobs either.

But too many working Albertans are in low-wage jobs, and can’t make ends meet.

Regular and predictable increases to the minimum wage help those struggling to get by.

More than that, increasing the minimum wage stimulates the economy, reduces inequality, and can even encourage employers to invest in creating good jobs.

It’s the right thing to do.

Research Provided by Angella MacEwan, Senior Economist, Canadian Labour Congress

³Brochu, P., and D. A. Green (2013). “The Impact of Minimum Wages on Labour Market Transitions.” *The Economic Journal*, vol. 123, issue 573, 1203–35

⁴Green, D. (2015). *The Case for Increasing the Minimum Wage*. Canadian Centre for Policy Alternatives. Available online: https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2015/04/CCPA-BC-Case-for-Incr-Minimum-Wage_0.pdf