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Federal Minimum Wages and Low-Income Workers in Canada

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Federal Minimum Wages and Low-Income Workers in Canada **(Background Paper)**

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FEDERAL MINIMUM WAGES AND LOW-INCOME WORKERS IN CANADA

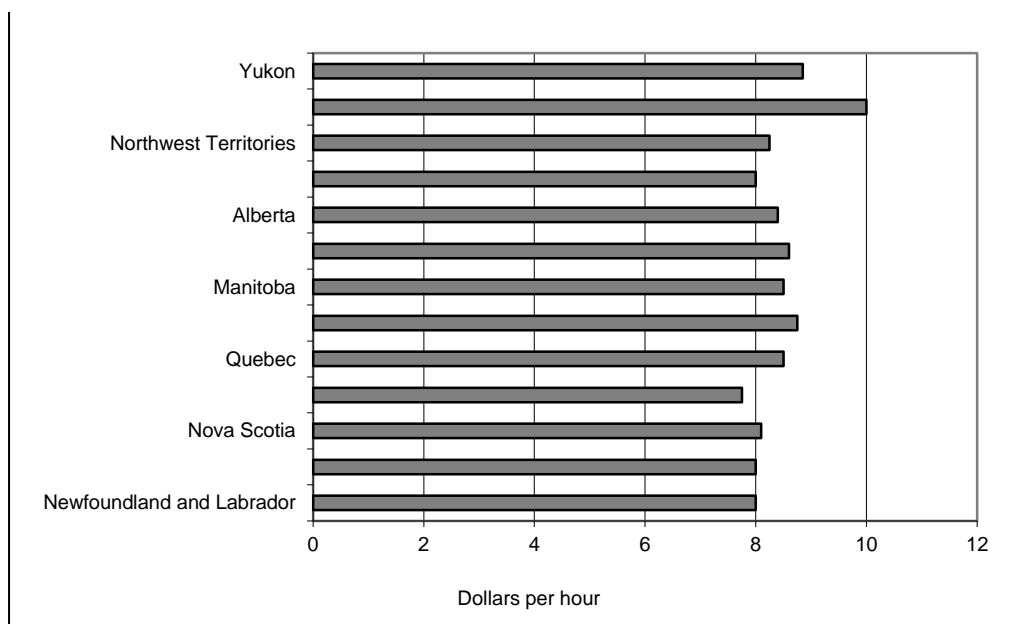
1 INTRODUCTION

In recent years, many observers have paid a great deal of attention to the issue of low income in Canada. Despite a prolonged period of economic growth coupled with steady growth in real median and average after-tax incomes between 1997 and 2006, concern has been expressed about the apparent inertia in the long-term incidence of low income across the country. Although the incidence of low income has declined significantly since 1997, its level in 2006 was similar to that found in the late 1980s.¹

One proposed policy response, among many, to reduce the incidence of low income in Canada is to increase minimum wages.² But is this an effective policy response to raise the welfare of low-income workers and their families, including those covered under federal labour laws? To address this question, this paper begins with an overview of federal minimum wages in Canada. This is followed by a discussion centring on low-income workers, including those working in federally regulated workplaces, and an examination of the potential impact of increasing the minimum wage for those covered under Part III of the *Canada Labour Code*.

2 FEDERAL MINIMUM WAGES IN CANADA

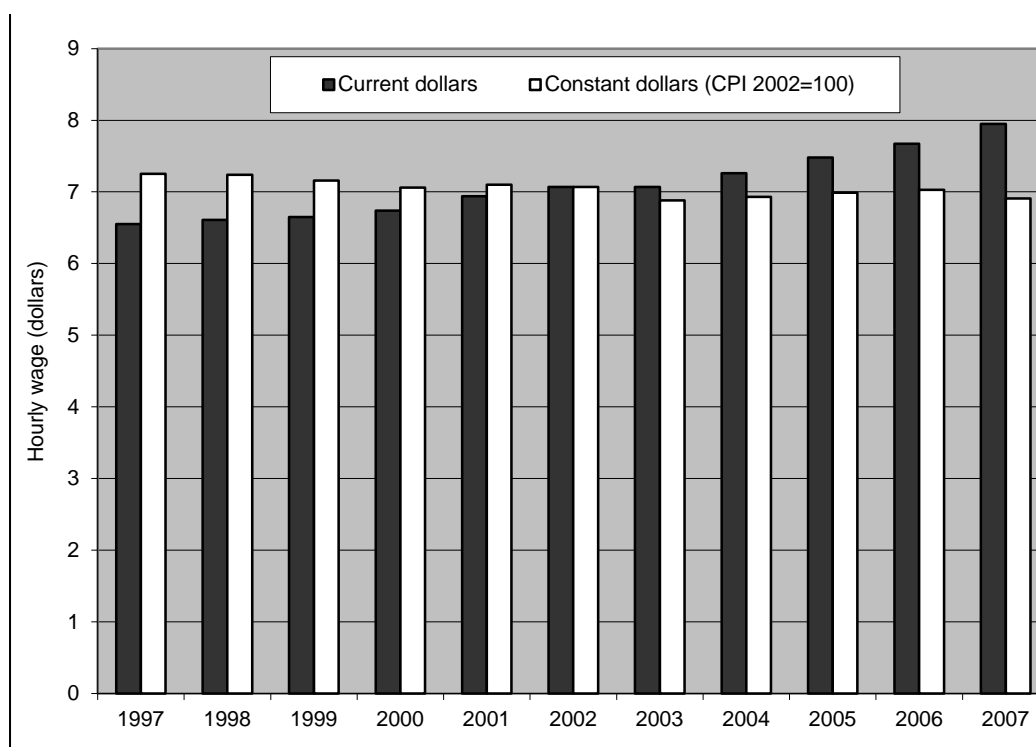
Legislative authority to establish a minimum wage in Canada is a shared constitutional power. Hence, federal, provincial and territorial governments have the legislative authority to set a minimum wage in their respective jurisdictions. All jurisdictions in Canada have minimum wage legislation and all have established minimum wages. Prior to 1996, the federal government set its own minimum wage rate, a single rate that was applied to all employers covered under Part III of the *Canada Labour Code*. Since that time, the federal minimum wage has been set according to the applicable provincial or territorial legislated rate for adult workers.³ Consequently, there are 13 different federal minimum wage rates applied to workers covered under Part III of the *Canada Labour Code*.⁴ Figure 1 provides a graphic illustration of 2008 regional federal minimum wages, which range from a low of \$7.75 per hour in New Brunswick to a high of \$10.00 per hour in Nunavut.⁵

Figure 1 – Federal Minimum Wage Rates, by Province and Territory, 2008

Source: Figure prepared by the author using data obtained from Human Resources and Social Development Canada, *Database on Minimum Wages in Canada*, <http://srv116.services.gc.ca/wid-dimt/mwa/rpt2.aspx?dec=5>.

The minimum wages displayed in Figure 1 pertain to workers governed by Part III of the *Canada Labour Code*, those employed in businesses and organizations whose main activities include railways, road transport, ferries, canals, tunnels, and bridges that extend beyond the border of a province or Canada; air transport, aircraft operations, and aerodromes; shipping and shipping services; telephone, telegraph and cable systems; radio and television broadcasting; banks; pipelines; most grain elevators; flour and seed mills, feed warehouse and grain-seed cleaning plants; uranium mining and processing; and most federal Crown corporations, such as Canada Post and Canada Mortgage and Housing Corporation.⁶ Part III also applies to a work, undertaking or business outside of the exclusive legislative authority of the legislatures of the provinces, which would include businesses and organizations operating in First Nations communities across the country. Self-employed workers are not covered under minimum wage legislation, irrespective of jurisdiction.

Figure 2 shows average federal minimum wages, in current and constant dollars (adjusted for inflation), for the period 1997 to 2007, the most recent year for which data are available.⁷ Between 1997 and 2007, the average federal minimum wage increased by some 21%. However, when adjusted for inflation, the average federal minimum wage declined slightly (less than 5%) during the same period. Although not shown in this figure, the relative average federal minimum wage declined marginally during this period from approximately 42% of the average hourly wage for all employees 15 years of age and over in 1997 to 39% in 2007.⁸ Contrary to this trend, it should be noted that the relative federal minimum wage in most provinces, save Quebec, Ontario and British Columbia, increased during this period, with Manitoba registering the largest increase in the relative federal minimum wage between 1997 and 2007, followed by Newfoundland and Labrador, and Alberta.

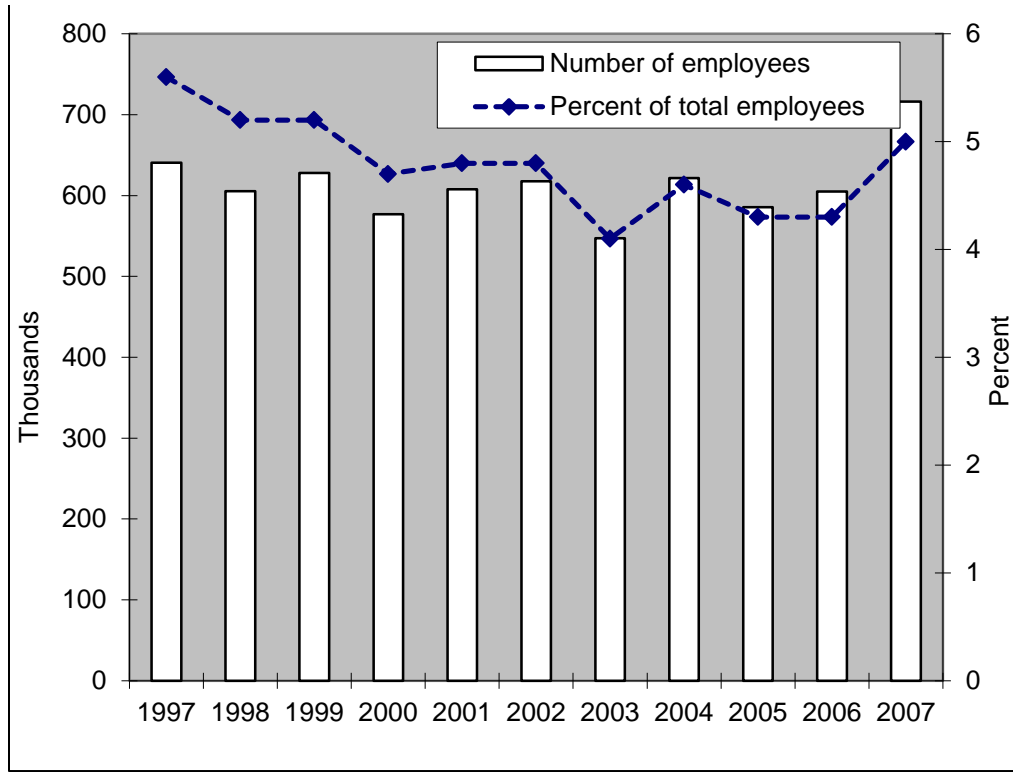
Figure 2 – Average Federal Minimum Wage, Canada, 1997–2007

Source: Figure prepared by the author using data obtained from Statistics Canada, *Labour Force Survey* (unpublished); Human Resources and Social Development Canada, *Database on Minimum Wages in Canada*, <http://srv116.services.gc.ca/wid-dimt/mwa/rpt2.aspx?dec=5>; and Statistics Canada, *Consumer Price Index*.

3 MINIMUM WAGES AND LOW-INCOME WORKERS

As illustrated in Figure 3, the number of workers in Canada earning the minimum wage or less increased from 640,700 in 1997 to 716,100 in 2007. However, in relative terms, minimum wage workers as a share of total employees declined from 5.6% to 5% during the same period. Although Statistics Canada does not regularly collect data on minimum wage workers covered under Part III of the *Canada Labour Code*, a special survey – the *Federal Jurisdiction Workplace Survey 2004* – was conducted in 2005, in part to support the work of the Federal Labour Standards Review Commission.⁹ According to the results of this survey, an estimated 577 employees working in a job under federal jurisdiction received the minimum wage or less in 2004. These workers represented some 0.1% of all employees covered under Part III of the *Canada Labour Code*, well below the incidence of minimum wage workers covered under provincial minimum wage laws.¹⁰ In addition, federally regulated employers reported that only 2% of their workforce was paid less than \$10 per hour, an amount just above Statistics Canada's Low Income Cut-Off (LICO) for a single individual working full time and living in a large urban centre.¹¹ Once again, this proportion of the federally regulated workforce is well below the 19% rate reported for the total Canadian labour force.¹²

Figure 3 – The Number and Proportion of Employees Earning the Minimum Wage or Less, Canada, 1997–2007



Source: Figure prepared by the author using data obtained from Statistics Canada, *Labour Force Survey* (unpublished).

According to the most recent research undertaken by Statistics Canada, female and young workers are disproportionately represented among all minimum wage workers across the country. In 2005, female workers and workers 15 to 24 years of age accounted for 60.8% and 62.8% respectively of all minimum wage workers in Canada. More than 70% of the latter group of workers were teenagers.

Given the age characteristics of minimum wage workers, it is not surprising to find that almost 60% of these workers lived with their parents or other family members in 2005. Furthermore, almost one quarter of all minimum wage workers lived with a spouse, and more than 75% of these spouses were employed (the majority of whom earned more than the minimum wage). In 2005, only one tenth of all minimum wage workers lived alone or with a non-relative.¹³ In view of these findings, it is not at all clear that working for the minimum wage is a good indicator of low income (or some measure of poverty), as it would appear that a majority of minimum wage workers in Canada may benefit from the earnings of other family members.

4 THE IMPACT OF MINIMUM WAGES ON LOW-INCOME WORKERS

Most empirical studies estimating the impact of minimum wages in Canada and the United States have focused on the employment effects. According to a

comprehensive summary prepared for the recent Federal Labour Standards Review (i.e., the review of Part III of the *Canada Labour Code* conducted by Commissioner Harry Arthurs), US studies appear to suggest that there is no clear consensus on the employment effects of minimum wages; generally speaking, it is estimated that a 10% increase in the minimum wage would reduce employment by between 0 and 3%, and the impact on most groups is probably more closely aligned with the lower end of this range.¹⁴ It should also be noted that a small number of minimum wage studies in the United States have found positive employment effects, although the results of these studies have been strongly criticized.¹⁵

Canadian studies have generally found, the adverse employment effects of minimum wages to be similar to (perhaps, on average, slightly higher than) to those found in the United States, and none have found positive employment effects. Moreover, job losses would appear to be most acute among teens.¹⁶

While it is estimated that minimum wages reduce wage inequality in the United States (e.g., by eliminating low-wage jobs, as well as by increasing the wages of low-wage workers), their impact on poverty is thought to be small. For instance, one study found that, “most people who live in poverty are non-workers, and the minimum wage can affect only families with workers. Our estimates point to small poverty reductions for the working poor. However, the estimates are relatively imprecise.”¹⁷ Another study concluded that “[t]he combined evidence clearly shows that a higher minimum wage generates trade offs with respect to the incomes of the poor and low-income families. In the wake of minimum wage increases, some families gain and others lose. Specifically, as reflected in the data, minimum wages increase earnings per worker among families with workers both before and after the minimum wage increase. On the other hand, minimum wages cause the number of workers per family to decline; this effect is concentrated among the non-poor and results in some families falling into poverty ... Given these findings it is difficult to make a distributional or equity argument for minimum wages.”¹⁸

A limited number of Canadian studies have also found that minimum wages tend to have a small impact on wage inequality. For example, one study found that, “the minimum wage remains a small transfer program, which limits its ability to change in a quantitatively important way the distribution of family income in Canada.”¹⁹ The reference to a small transfer program relates to the fact that the earnings of minimum-wage workers represent a very small percentage of total income.²⁰

Given the small impact on income distribution, most Canadian studies generally find, as in the United States, that increasing minimum wages tends to be a limited policy instrument for reducing poverty for several reasons, including these: “[M]any of the poor do not work; those that do often work few hours; there is a risk of an adverse employment effect; minimum wages disproportionately affect teens who are distributed throughout the family income distribution; and minimum wages affect individual wages while poverty is defined in terms of family income and need.”²¹

The extent to which raising minimum wages reduces poverty is limited by another factor: minimum wage laws typically exclude many workers. The largest excluded group is self-employed workers, a surprising number of whom are categorized as

working poor. This observation was made in a recent analysis of Canada's working poor,²² which found that in 2001 there were an estimated 653,300 working poor Canadians.²³ Of these, approximately 265,900 individuals were self-employed (not covered by minimum wage legislation). Of the remaining 380,300 employees,²⁴ only 6.7% (i.e., 25,300 workers) earned the minimum wage. In addition, the study found that 178,500 employees (classified as working poor) were low-paid (i.e., earned less than \$10 per hour). To eliminate the problem of low pay, this study simulated the effects of increasing the minimum wage in all jurisdictions to \$10 per hour. According to the results of this simulation, this measure would have reduced the incidence of low income among workers by only one half of a percentage point, from 5.6% to 5.1%.²⁵ It is important to note that this simulation did not entertain the possibility of adverse employment effects, a potentially significant shortcoming, as discussed above, and the fact that in 2001 this measure would have resulted in a significant increase in minimum wages in every province and territory (e.g., Newfoundland and Labrador, 85%; Alberta, 69%; Ontario, 46%; and Quebec, 42%).

The final report of the Federal Labour Standards Review in 2006 contained a recommendation that the federal government reinstitute a national minimum wage benchmarked to Statistic Canada's Low Income Cut-offs (LICOs). Variations in the proposed federal minimum wage would be permitted based on differences in the cost of living in different population centres. It was proposed that the federal minimum wage be indexed to inflation and be phased in over a period of between four and six years so as to minimize any adverse employment effects.²⁶

The benefit of the proposed federal minimum wage is not evident. It is unclear how the minimum wage would be benchmarked to the LICOs, as this low-income measure is based on family (and not individual) income and size. In addition, the Federal Labour Standards Review's minimum wage proposal appears to be incapable of responding to changing labour market conditions across the country. If set regularly via an indexation formula, federal minimum-wage setting could become pro-cyclical (i.e., the federal minimum wage could increase at a time when unemployment is rising), a situation that the federal government is attempting to avoid when the setting Employment Insurance premium rates. Finally, even though only an extremely small population of federally regulated workers could directly benefit from such a proposal, its potential adverse impact on employment among minimum wage workers nationally could be far-reaching if provinces and territories are pressured into similar minimum-wage-setting action.

5 CONCLUSION

It is estimated that approximately one tenth of one percent of all employees covered under Part III of the *Canada Labour Code* are paid the federal minimum wage or less. Moreover, it is thought that a very small proportion of federally regulated workers earn less than \$10 per hour. Given the risk of adverse employment effects, the small number of federally regulated workers earning the minimum wage and the low incidence of minimum wage workers among the working poor, it would seem that the federal minimum wage is, at best, a weak policy instrument for addressing the issue of low income among federally regulated workers, let alone the labour market

as a whole. A more effective and broad-based approach for raising the incomes of Canada's working poor might be found in earnings supplementation schemes such as the recently introduced Working Income Tax Benefit (WITB).²⁷

NOTES

1. The incidence of low income is defined as the percentage of individuals whose incomes are below Statistics Canada's after-tax Low Income Cut-offs (1992 LICOs base).
2. Examples of proposals to increase minimum wages to help the working poor include these: Task Force on Modernizing Income Security for Working-Age Adults, *Time for a Fair Deal*, St. Christopher House and Toronto City Summit Alliance, May 2006, http://www.torontoalliance.ca/MISWAA_Report.pdf; Campaign 2000, *A Poverty Reduction Strategy for Ontario*, July 2007, <http://www.campaign2000.ca/on/pdf/OntarioPovertyReductionStrategy.pdf>; Stuart Murray and Hugh Mackenzie, *Bringing Minimum Wages Above the Poverty Line*, Canadian Centre for Policy Alternatives, March 2007, <http://www.growinggap.ca/files/Bringing%20Minimum%20Wages%20Above%20Poverty%20Line.pdf>; National Anti-Poverty Organization, *Make the Minimum Wage a Living Wage*, http://www.amillionreasons.ca/LivingWageFactSheet_EN.pdf; Government of Quebec, Department of Employment and Social Solidarity, *The Will to Act, The Strength to Succeed*, National Strategy to Combat Poverty and Social Exclusion, Policy Statement, August 2002, http://www.mess.gouv.qc.ca/grands-dossiers/lutte-contre-la-pauvrete/index_en.asp; Government of Newfoundland and Labrador, *Reducing Poverty: An Action Plan for Newfoundland and Labrador*, June 2006 <http://www.hrle.gov.nl.ca/hrle/poverty/poverty-reduction-strategy.pdf>; Government of Canada, National Council of Welfare, *Brief to the Standing Committee on Human Resources, Social Development and the Status of Persons with Disabilities Concerning Factors Aggravating Poverty*, 23 November 2006, http://www.ncwcnbes.net/documents/publicstatements/2006PublicStatements/Nov_NCWPresentationENG.pdf; and Federal Labour Standards Review, *Fairness at Work: Federal Labour Standards for the 21st Century*, 2006, http://www.hrsdc.gc.ca/eng/labour/employment_standards/fls/pdf/final_report.pdf.
3. For federal minimum wage rates prior to 1996, see Human Resources and Social Development Canada [HRSDC], *Labour*, "Minimum Hourly Wages for Canadian Adult Workers since 1965," <http://srv116.services.gc.ca/wid-dimt/mwa/rpt2.aspx?dec=5>.
4. The Governor in Council may fix another rate by order (Subsection 178(3) of the *Canada Labour Code*); see http://laws.justice.gc.ca/en/showdoc/cs/L-2/bo-ga:l_III/en#anchorbo-ga:l_III.
5. HRSDC, "Minimum Hourly Wages."
6. Government of Canada, *Canada Business*, Info entrepreneurs, "Federal Minimum Hourly Wage," http://entreprisescanada.ca/servlet/ContentServer?cid=1081944204527&lang=en&pagename=CBSC_QC%2Fdisplay&c=Regs.
7. The average federal minimum wage shown in Figure 2 is a weighted average of each jurisdiction's minimum wage. The weights used in this calculation were based on Statistics Canada's estimates of the number of minimum wage workers in each province as collected via the *Labour Force Survey* (LFS). Since the LFS does not collect separate labour force statistics for Yukon, the Northwest Territories and Nunavut, the minimum wage rates in these jurisdictions were not included in the calculation of the average federal minimum wage, as presented in Figure 2.
8. For average hourly wages see Statistics Canada, *Labour Force Historical Review*, Catalogue no. 71F0004XCB, 2008, CD no. 3.

9. For more information, see Statistics Canada, *Federal Jurisdiction Workplace Survey 2004*, <http://www.statcan.gc.ca/cgi-bin/imdb/p2SV.pl?Function=getSurvey&SDDS=5076&lang=en&db=imdb&adm=8&dis=2>. Although First Nations communities are included in Part III of the *Canada Labour Code*, it should be noted that they were not included in this survey.
10. M. Bisailon and D. Wang, *Profile of Workplaces under Federal Labour Jurisdiction*, Policy Development Division, Labour Program, Human Resources and Social Development Canada, April 2006, p. 15, http://www.hrsdc.gc.ca/en/labour/workplace_information/fjws/Profile_FJ_Workplace_2006_EN.pdf.
11. In 2004, the pre-tax LICO for a single person living in an urban area with a population of 500,000 or more people was \$20,344. To earn this amount, an individual paid \$10 per hour would have to work slightly less than 40 hours per week for 52 weeks.
12. Bisailon and Wang (April 2006), p. 14.
13. D. Sussman, "Minimum Wage," *Perspectives on Labour and Income*, September 2006, p. 17, <http://www.statcan.ca/english/freepub/75-001-XIE/75-001-XIE2006109.pdf>.
14. M. Gunderson, *Minimum Wages in Canada: Theory, Evidence and Policy*, December 2005, pp. 24–27, http://www.hrsdc.gc.ca/en/labour/employment_standards/fls/pdf/research11.pdf.
15. One of these studies (D. Card and A. Krueger, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *The American Economic Review*, Vol. 84, No. 4, 1994) used telephone survey data from interviews with employers in New Jersey's fast food industry. By not focusing on the entire food service industry, this study necessarily overlooks the impact of a higher minimum wage on employment in the more labour-intensive table service segment of the industry. The results of the Card-Krueger study have been challenged by others. One of the studies challenging the Card-Krueger findings used administrative payroll data pertaining to the same firms that were surveyed in the Card-Krueger study and found that an increased minimum wage in New Jersey's fast food industry reduced employment (see D. Neumark and W. Wascher, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment," *American Economic Review*, Vol. 90, No. 5, December 2000). Card-Krueger refuted these findings in a reply to the Neumark-Wascher study (D. Card and A. Krueger, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania: Reply," *The American Economic Review*, Vol. 90, No. 5, December 2000).
16. Gunderson (December 2005), pp. 33–44.
17. D. Card and A. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, 1995, p. 308.
18. D. Neumark and W. Wascher, "Do Minimum Wages Fight Poverty?" *Economic Inquiry*, Vol. 40, No. 3, July 2002, pp. 332–33.
19. N. Fortin and T. Lemieux, *Income Redistribution in Canada: Minimum Wages versus Other Policy Instruments*, December 1998, pp. 19–20, <http://www.econ.ubc.ca/nfortin/irpp1.pdf>.
20. Ibid., p. 15.
21. Gunderson (December 2005), pp. 44–45.
22. D. Fleury and M. Fortin, *When Working Is Not Enough to Escape Poverty: An Analysis of Canada's Working Poor*, Human Resources and Social Development Canada, August 2006, <http://www.hrsdc.gc.ca/en/cs/sp/sdc/pkrf/publications/research/SP-630-06-06/SP-630-06-06E.pdf>.

23. This study defines the working poor as individuals 18 to 64 years of age who worked for pay for at least 910 hours in the reference year (in the case of cross-sectional analysis, 2001; in the case of longitudinal analysis, 1996 to 2001) and who have a low family income based on the Market Basket Measure (MBM) in the case of cross sectional analysis and the after-tax LICO in the case of longitudinal analysis. The MBM is a measure of low income based on the cost of five specific expenditure categories (i.e., food, clothing and footwear, shelter, transportation, and other household needs). The disposable income required to purchase these goods and services is calculated for various family configurations and 48 geographical areas across the country.
24. The sum of working poor salaried and self-employed workers (646,200) is less than the total number of working poor Canadians (653,300) because the former exclude working poor Canadians who had salaried work and self-employment in the same year.
25. Fleury and Fortin (August 2006), p. 72.
26. Federal Labour Standards Review, *Fairness at Work: Federal Labour Standards for the 21st Century*, 2006, p. 249, http://www.hrsdc.gc.ca/en/labour/employment_standards/fls/pdf/final_report.pdf.
27. Introduced in Budget 2007, the WITB is a refundable tax credit paid to low-income individuals who have earnings above \$3,000 (\$1,750 in the case of workers eligible for the Disability Tax Credit). The maximum benefit for single workers is \$500 (when earnings reach \$5,500), \$750 (when earnings reach \$5,500) for workers who are eligible for the Disability Tax Credit, and \$1,000 (when earnings reach \$8,000) for single parents and couples. The WITB is reduced at a rate of 15% when earnings reach \$9,500 in the case of single individuals and \$14,500 in the case of couples and single parents.