

Submission to:

The Minimum Wage Board

By:

**Saskatchewan Chamber of
Commerce**

September 2004



TABLE OF CONTENTS

INTRODUCTION	2
BACKGROUND	3
<i>THE SASKATCHEWAN ECONOMY</i>	3
<i>THE MINIMUM WAGE EARNER</i>	3
<i>MINIMUM WAGE INDUSTRIES</i>	4
<i>CONSIDERATION FOR GRATUITIES</i>	5
<i>THE COST OF LIVING IN SASKATCHEWAN</i>	5
EFFECTS OF A MINIMUM WAGE INCREASE	7
<i>THE “RIPPLE” EFFECT</i>	7
<i>INCREASING COSTS</i>	8
<i>REDUCED EMPLOYMENT</i>	8
RECOMMENDATIONS	9
<i>ZERO INCREASE</i>	9
<i>DO NOT INDEX THE MINIMUM WAGE</i>	10
<i>TIERED SYSTEM</i>	11
<i>OTHER ALTERNATIVES</i>	12
<i>WAGES SHOULD NOT BE SOCIAL POLICY</i>	13
CONCLUSIONS	13

INTRODUCTION

The Saskatchewan Chamber of Commerce is a provincial organization of businesses in all sectors of the economy and from all areas of the province. Members share concerns on a wide range of issues affecting their enterprises and thus the economy of Saskatchewan.

This submission by the Saskatchewan Chamber of Commerce is intended to provide some general comments and concerns. However, without being aware of any specific proposals being considered by the Committee, it is difficult to comment other than in a general way. If specific proposals are to be made, we ask to have ample time to review and comment on such specific proposals before they become established as policy.

In view of the far-reaching implications to all business sectors and, indeed, to government expenditures when changes to the minimum wage rate occur, **the Provincial Chamber believes there must be a thorough study of the economic impact of minimum wage adjustments before implementation.** The Provincial Government must have up-to-date data on which to base policy.

In addition to information on the economic impacts, it is impossible to analyze minimum wages without looking at the total costs of labour for the employer in Saskatchewan. Costs in Saskatchewan for workers' compensation benefits and costs associated with the amendments to The Labour Standards Act should be considered in any economic analysis. **This analysis is necessary to determine whether Saskatchewan, with its current minimum wage, may already have a higher labour cost for hours worked than other provinces. Other provinces with higher minimum wages may have lower overall labour costs.** This is important as it summarizes Saskatchewan's ability to compete for the limited jobs in this economy. Although there are other points to consider, labour costs are a very important consideration to companies.

The Provincial Chamber strongly urges that comprehensive information be obtained and made public, prior to any changes to the minimum wage structure being considered.

Businesses across Saskatchewan are struggling to survive in today's economy. With utility rates, property taxes, and payroll/benefits costs increasing, businesses are already squeezed and cannot afford further increases in labour costs in these difficult economic times. Sixty-six percent of Saskatchewan business owners feel that the minimum wage should not be increased.¹ As companies continue to be forced to restructure and to reduce costs, it is untimely to consider an increase in the minimum wage. Job stability is constantly being sought by employees in today's economy but companies are being forced to decrease the number of employees and/or decrease their hours to help manage costs.

BACKGROUND

The Saskatchewan Economy

As of the year ending April 2004, there were 156 bankruptcies totaling \$59,952,000. In the same period in 2003 there were only 142 bankruptcies equaling \$22,572,000. Because small businesses make up a large majority of businesses in Saskatchewan, it can be assumed that the majority of these bankruptcies occur in small businesses. This increase in bankruptcies is largely due to the economic recession that has taken place over the past couple of years. **An increase in the minimum wage at this time could be disastrous to small businesses as they attempt to move out of the economic trough.** We should be trying to help our businesses gain back momentum, not slow them down by increasing labour costs.

The Minimum Wage Earner

Studies have shown that in 2003, there were approximately 19,100 people earning minimum wage in Saskatchewan or 4.9 percent of the work force.²

People under 25 years of age and women between the ages of 25 and 54 accounted for 85% of minimum wage earners in 2003. The educational attainment of minimum wage earners is

¹ Saskatchewan Chamber of Commerce, "*Minimum Wage Survey*". 2004.

² Statistics Canada, *Perspectives*, "Minimum Wage Workers". Summer 2004.

reflective of their age. Approximately 41 percent of minimum wage earners are students, either full-time or part-time. When students are removed from the population, the proportion of those with minimum wage or low wage jobs drops steadily as the level of education increases. This shows the importance of a solid education in today's economy. **Education, and not increases in the minimum wage, provides people with the tools to succeed and survive in today's economy.**

The same study (2003) shows that 4.9 percent of minimum wage earners are single parents while twenty percent are the secondary earner in the family. Half of all minimum wage earners are in the category where their income makes up less than 25 percent of the family's total income. Only one percent of the dually-employed families are both earning minimum wage.

Minimum Wage Industries

Minimum wage jobs are focused in the food and accommodation service sector, the personal services sectors, and retail trade. **It is these labour-intensive industries that will be most affected by any increase in the minimum wage.** The Provincial Government's *Partnership for Renewal* identified tourism as an important and promising building block in our economy. A large portion of this industry is made up of the food and accommodation service sector. The food and accommodation industry and retail trade have some of the highest incidences of minimum wage earners (together total 60 percent of minimum wage person-jobs in Saskatchewan), these industries' ability to pay is important. Factors that hinder this sector, such as an increase in the minimum wage, will have a serious impact on Saskatchewan's attempt at strengthening the economy.

An additional concern that should be recognized is that some of the jobs presently being done by minimum wage earners are jobs where technologies are developing that replace employees with equipment. One of the main components of the decision is the cost of labour as compared to the cost of the equipment. There is a line that can be drawn on cost where it becomes more economical to have equipment than labour. Therefore, extreme caution should be exercised in

these industries to ensure that employment opportunities are not lessened by what is purported to be a positive move for those employees working at minimum wage.

Consideration for Gratuities

A study done by the Economics and Labour Market Research, Policy Division of the Ontario Ministry of Labour showed that when tips and gratuities were included in wage calculations, minimum wage earners and near minimum wage earners' income more than doubled on average from \$5.50 to \$12.29 per hour.³ Focus groups with minimum wage earners in the Ontario study showed little support for an increase in the tip differential minimum wage. They commented that any increase would be taxable and therefore not significant.

Recent studies have shown that in Saskatchewan, including other income, such as gratuities and tips, lowers the overall incidence of minimum wage jobs by 14 percent. This is even more evident in the hospitality industry where minimum wage jobs are prevalent.

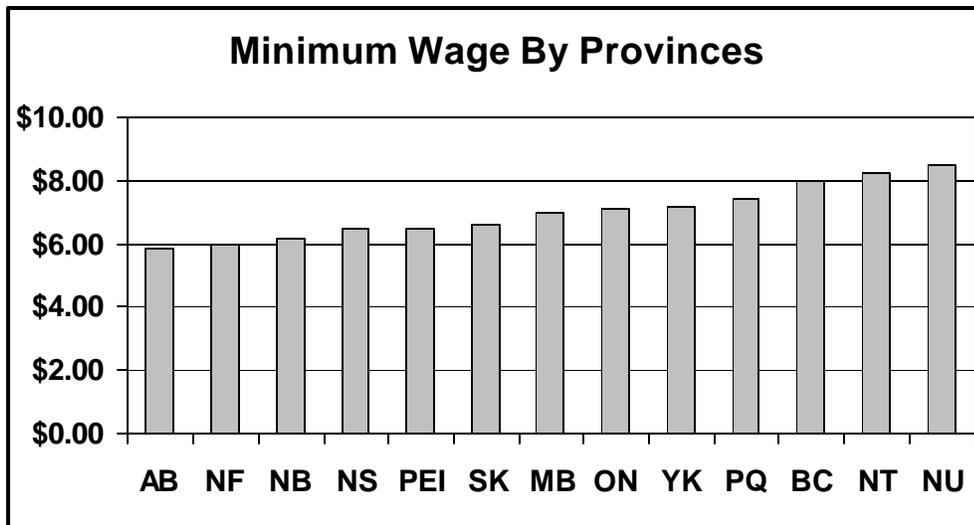
Therefore, it is important that in any economic analysis, there should be caution to ensure that one is dealing with the employees who are receiving minimum wage rather than employees who are, in effect, receiving more.

The Cost of Living in Saskatchewan

Saskatchewan's minimum wage schedule should consider the lower cost of living here compared to other provinces. Currently, Saskatchewan's minimum wage rate is 7th highest of the 13 provinces and territories (see Figure 1).

³ Ministry of Labour, Economics and Labour Market Research, Policy Division, "Study of Tipping Practices in Licensed Establishments in Ontario." July 1993.

Figure 1



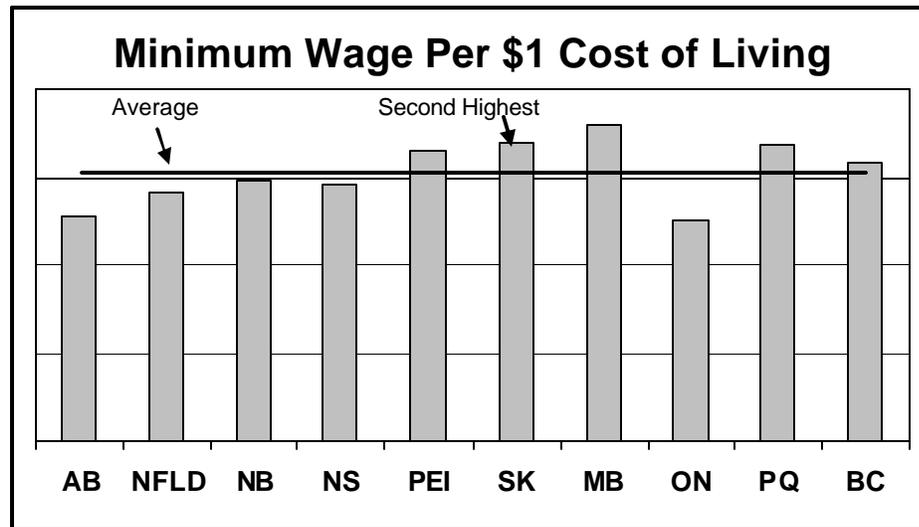
This would lead one to think that Saskatchewan should be somewhere in the middle when comparing the cost of living to the other provinces, but this is not the case. Of the 10 provinces, Saskatchewan is the second cheapest in which to live.⁴ From this perspective, comparing the actual minimum wages across Canada is misleading.

In reality, there is no similarity in costs between Toronto and Saskatoon or Regina, or between Vancouver and Saskatoon or Regina when the total cost of living in those places is considered. Even in rural areas and small towns, the costs of acquiring land, real estate, and rental accommodation is substantially lower in Saskatchewan than in other places.

If we compare the minimum wage to the cost of living in each province (see Figure 2), **Saskatchewan has the second highest minimum wage per \$1 cost of living.** This means that, in relation to the eight provinces below us, Saskatchewan’s minimum wage employees can afford more of their respective costs of living.

⁴ The Manitoba Advantage, “Interprovincial Comparison of Annual Personal Costs and Taxes”. 2004.

Figure 2



EFFECTS OF A MINIMUM WAGE INCREASE

The “Ripple” Effect

The minimum wage affects each and every Saskatchewan business with its “ripple effect” through the salaries of every employee. If a typical service business employs 50 minimum wage earners for eight hours a day, a minimum wage increase of 25 cents per hour multiplied by 2000 man hours per week is added to that enterprise’s expenses.

Before payroll expenses of Canada Pension Plan, Employment Insurance and workers’ compensation, the additional expense is \$26,000 per year for that one business. This is equivalent to 1.8 minimum wage positions.

In addition to increases in minimum wage labour costs, there are other increases to expect from the more qualified and experienced employees who would justifiably request an increase in line with the minimum rate. *“If the minimum wage is increased, every labour union and everyone else employed would want a raise as well”.*⁵ **The impact of increases in the minimum wage escalates throughout the total wage structure of an enterprise.**

⁵ Saskatchewan Chamber of Commerce, *Minimum Wage Survey*. September 2004.

Employees with more developed skills or greater experience expect wage differentials to be maintained or increased.

Increasing Costs

The ripple effect is compounded by the various payroll and benefit costs added to employees wages. Employment Insurance and Canada Pension must be contributed to by the employer. As well, workers' compensation rates must be paid based on gross wages of a company. An increase in the minimum wage will be magnified by directly increasing these payroll costs for all employers of minimum wage employees as well as other employees who benefit from the "ripple effect".

An increase in costs could also lead to an increase in consumer prices. Increasing labour costs within a business which has already minimized the number of hours their employees work will cause the business to increase consumer prices to make back the difference. *"Raising minimum wage will force me to increase prices."*⁶ When consumers are not willing to accept increased prices the business will close.

Reduced Employment

In 1992, a Department of Finance paper on the economic impact of minimum wage increases identified negative impacts associated with increasing the minimum wage. These included declining exports, a shrinking economy, and a loss of jobs. The greater the minimum wage increase, the greater the inflationary impact on the economy.

In a Saskatchewan Chamber of Commerce Economic Outlook Survey, companies identified reductions in future hirings, employee hours, and the number of current employees as effects of an increase. The decreases in future hirings ranged from 1 to 3 employees for companies who believed this to be a result. The number of current employees that would have to be reduced to respond to an increase ranged from 1 to 5 for most companies responding they would have to

⁶ Saskatchewan Chamber of Commerce, *"Minimum Wage Survey"*. September 2004.

cut back, up to 30 employees in a company that relies heavily on minimum wage employees. *“Increasing minimum wage will eliminate the position I now have available and will cause hardship in my business.”*⁷

An increase could result in layoffs of those just managing to make ends meet or those just beginning to gain employment experience. *“If the minimum wage increases, we could only afford to be open when really busy which means we would reduce hours being open by 30 percent.”*⁸ These are the same people that are supposedly helped by the increase in minimum wages.

RECOMMENDATIONS

Zero Increase

The Saskatchewan Chamber of Commerce urges extreme caution regarding any move to increase the minimum wage in a volatile economy. Increases in minimum wages have an adverse effect on employment by directly raising the absolute and relative cost of hiring low-wage workers. Given increased minimum wages and the limited productivity of many low-wage workers who are at an entry level training period of employment, employers are unable to justify hiring as many workers as before an increase. In addition, there is greater incentive to encourage substitution by machinery and technology for workers, eliminating even more immediate positions.

Increases in minimum wage add to the relative cost of products and services, which is reflected in the price of the product, reducing the quantity of sales and thus reducing the number of workers needed. By way of its impact on product prices and production levels, **a minimum wage increase will reduce the employment of workers covered by the minimum wage law, and also has a ripple effect of reducing employment of workers who are earning more than the minimum wage.**

⁷ Saskatchewan Chamber of Commerce, *Economic Outlook Survey*. 2002.

Provincial Chamber members responding to the January, 1996 Minimum Wage Survey typified today's job providers caught in an economic squeeze. *"As an owner of a business, I am caught between wanting better wages for my employees and logically being able to afford them."*⁹

One should be cautious to first determine whether an increased minimum wage would provide long term tangible benefits to lower paid workers. It is a great concern that as a protection against poverty, an increase in the minimum wage may actually defeat its purpose by closing businesses and leading to fewer jobs.

There are also indirect effects of an increase in minimum wage to companies that do not employ minimum wage employees of their own. Clients or customers of these companies may employ minimum wage workers and an increase in minimum wage may cause them to cut back on spending. A minimum wage increase *"reduces net income of clients and therefore reduces the number and amount of client contracts for our company"*.¹⁰

The minimum wage should not act as a deterrent to entrepreneurs whom are trying to stimulate the economy. The businesses of Saskatchewan have started to gain some momentum after the recent decline in the economy and an increase in minimum wage could have a detrimental effect on them.

Do Not Index the Minimum Wage

The Saskatchewan Chamber of Commerce is opposed to indexing the minimum wage against some form of economic indicator. Indexing minimum wage on one of many economic indicators is not a reliable indication of affordability or net economic impact. How would one go about choosing the indicator to index to? There are multiple indicators that do not always report the same result. If one were to increase and another to decrease, what would we do with the

⁸ Saskatchewan Chamber of Commerce, *Minimum Wage Survey*. September 2004.

⁹ Saskatchewan Chamber of Commerce, *Minimum Wage Survey*. September 2004.

¹⁰ Saskatchewan Chamber of Commerce, *Minimum Wage Survey*. September 2004.

minimum wage? If the indicator were to decrease, would minimum wage decrease? This type of policy would only lead to uncertainty in business planning and budgeting.

Tiered System

Saskatchewan's single, across the board, minimum wage is unique. Of the 13 provinces and territories, only four others share the single-level minimum wage. The other provinces and territories have developed differential rates based on age and/or student status, etc. The Northwest Territories has a higher rate for people working away from the highway system, and Quebec has a differential rate for those receiving gratuities. Each of these examples have taken into account who the minimum wage earner is, and how increases will affect employment. They have provided businesses with opportunities for increasing the employment of students and young people.

It is a long standing position of the Saskatchewan Chamber of Commerce that the Department of Labour look into options for a tiered system. A model can be developed by looking at the impacts a tiered system has had on other provincial jurisdictions. The Saskatchewan Chamber of Commerce first suggested a tiered minimum wage schedule to government in the mid-1970's.

A tiered system has the built-in advantage of encouraging new employees to excel as they progress through training to competency. Saskatchewan Chamber of Commerce members would like to see a system that rewards those employees that work their way up the ladder. Such a system also creates job opportunities by reducing the cost of a given job to the employer. A higher minimum wage may mean fewer entry level jobs where people can gain experience.

An entry level wage based on experience or student status does not have human rights implications as these items are not covered in human rights legislation. It is suggested that experience or student status be used and not age, because these terms are neutral and do not relate to any enumerated ground for human rights. In this regard, the Minimum Wage Board could introduce a tier where inexperienced people in an industry receive one level until they

achieve a certain number of months or hours of employment at which time they will move to the next level.

We are not suggesting that the second level be increased beyond \$6.65, but rather create a new lower level for inexperienced people. This will encourage and enhance more employment as opposed to adding to the cost of doing business in this province for those industries that rely upon inexperienced employees and train them for future employment.

Employment is of value to young people because of income and training-experience to assist in future endeavors. The absence of a differential minimum wage tends to deprive young people, or those with little or no previous training or work experience, of opportunities for employment. If the minimum wage rate is the same whether the employee is experienced or not, the employer will naturally prefer to hire experienced workers.

If the goal of a minimum wage is to provide every worker with a certain level of existence, then the laws should be flexible enough to account for the various levels of skills and experience. A training or learning period of some duration (prior to bringing the wage up to the next level) would provide incentive for employees to learn and improve new skills, and encourage employers to hire unskilled labour, creating job opportunities while lessening the financial strains for business in the process.

A tiered minimum wage would provide a greater incentive to create employment and help develop more competitiveness in many sectors of our economy.

Other Alternatives

There are ways of addressing the issue without simply increasing the minimum wage. One option is to look at tax measures that would assist low-income earners. Eighty percent of Saskatchewan Chamber of Commerce members feel that increasing the basic tax exemption would be a better alternative for putting money into low income earners pockets than increasing

the minimum wage.¹¹ Raising the basic personal and spousal exemptions would not only allow low income earners to keep a larger portion of their income before paying income tax, but it would impact all Saskatchewan residents. Changing this tax policy would ease the burden on low income and minimum wage earners, providing them with more disposable income to spend elsewhere.

Helping workers improve their skills through education is another alternative. There are currently a number of programs that help provide income support for people who are upgrading their basic education. Eligibility and the level of assistance received varies from program to program, but these programs allow people who are on social assistance to remain on assistance while upgrading their education.

Wages Should Not Be Social Policy

Wages should not be a “social” policy set by governments but related to the job performance and based on experience, training and productivity. An increase in the minimum wage has a “ripple effect” throughout a business’s payroll and will have detrimental effects on many smaller Saskatchewan businesses which are already struggling to survive.

CONCLUSIONS

The Saskatchewan Chamber of Commerce recommends using extreme caution regarding any move to increase the minimum wage. Increases would have an adverse affect on employment and would not foster an environment suitable for growth.

- The Saskatchewan Chamber strongly urges that comprehensive information be obtained and made public, prior to any changes to the minimum wage structure being considered.
- The Saskatchewan Chamber is opposed to indexing the minimum wage against some form of economic indicator.

¹¹ Saskatchewan Chamber of Commerce, *Minimum Wage Survey*. September 2004.

- It has been a long-standing position of the Saskatchewan Chamber of Commerce that the Department of Labour look into the option of a tiered system. A tiered system has a built-in advantage of encouraging new employees to excel as they progress through training to competency. A model could be developed by looking at the impacts a tiered system has had on other provincial jurisdictions.
- The Saskatchewan Chamber would recommend looking at alternative methods to assist low-income earners, such as raising the basic personal and spousal exemption amounts.

Our economy must be market-driven. The marketplace, through supply and demand, should determine what the minimum wage rate should be. Saskatchewan Chamber of Commerce members are concerned with across the board rules for wages that do not take into account individual circumstances. **A sensibly controlled minimum wage, with more people employed, is to be preferred over the eventuality of fewer jobs overall.**