

“Minimum Wage should not be confused with Living Wage”

Coalition of BC Businesses Opinion Piece: BC Minimum Wage

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Put simply, minimum wage and living wage are not the same.

The B.C. Federation of Labour and other like-minded organizations would have us believe that minimum wage should be a living wage. It's a well-intentioned theory, but the facts don't add up.

The issue is raising concern among the thousands of small business owners who drive BC's economy. Let's set the record straight.

Living wage describes the minimum income an individual requires to cover basic needs such as shelter, clothing and nutrition. Living wages vary by region – things like rent, transportation, and the cost of goods and services vary depending on where you live.

Conversely, minimum wage is a mandatory entry level wage for new entrants into the workforce most of which are young people voluntarily working part time. The reality is only 2.7% of BC's total workforce earns minimum wage.

The BC Federation of Labour's suggestion to raise minimum wage to \$13 dollars because minimum wage should provide a living wage is an attempt to confuse two separate issues. To suggest the minimum wage should be high enough to offer a living wage grossly misrepresents minimum wage earners.

Reasonable minimum wage rates serve an important purpose by allowing students and other entry-level employees to gain a foothold in the world of work. The vast majority of minimum wage earners are young, first-time employees who voluntarily work part-time and do not rely on their minimum wage income for their livelihoods.

As examples, part time workers comprise more than two thirds of minimum wage earners employed by the restaurant industry during the school year. More than two thirds of minimum wage earners in the foodservice industry are also under the age of 25, and most of those are still in their teens. Many of these employees also earn tips that push their hourly wage well above the current \$10.25/hour.

Far from needing a living wage, these minimum wage earners are more than likely living at home with their parents and voluntarily working part-time to gain job experience, work skills, extra income and savings for further education.

Ironically, a steep minimum wage increase could put the future of many of these students at risk. Many studies have shown that school enrollment rates are lower when minimum wage rates are high. In tight labour markets, as is the case in many regions in B.C., a high minimum wage can entice teenagers to quit school early only to find themselves without skills and education when labour market conditions change.

Increasing the minimum wage too high, too fast can have a negative outcome by creating a ripple effect throughout the economy. As other wages rise to keep pace with a skyrocketing minimum wage, the cost of basic goods and services rises as well. At the same time, employers in labour intensive industries are left with little choice but to control costs by cutting back on their staffing levels. Entry-level job opportunities are typically the first casualty.

This scenario was reinforced in a 2006 study for the Government of Canada that concluded minimum wage is an “exceedingly blunt instrument for dealing with poverty, and may actually have a perverse effect, exacerbating poverty.” Other studies have found that a 10% increase in minimum wage leads to a 2.5% decrease in employment for teenagers.

The minimum wage already increased by 28% to \$10.25, over the past three years. The proposed additional increase of \$3 would constitute another 29% increase from the current minimum wage, or a 65% increase from the minimum wage rate of 2011.

If the real objective of a living wage linked to minimum wage is to reduce poverty, there are better options. The higher minimum wage is, the more relative wages increase, and the more the costs of goods and services will increase (to accommodate the increase in wages paid). This leaves those living in poverty in an even worse situation as it makes it even more difficult for them to make ends meet.

A more effective strategy is to concentrate on helping people upgrade their skills to qualify for better-paying positions. Combine this with changes to the tax system that allow low-income earners to keep more of their earnings and lower income earners are given a solid foundation to build upon.

Proponents of a \$13 minimum wage ought to shift their focus to more targeted strategies rather than advocating policies that will actually hurt low income entry level employees who do not need a living wage.

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