

April 2011

# Estimating the Economic Impact of British Columbia's Minimum Wage Increase

## Main conclusions

- In British Columbia, 40,800 workers earned the minimum wage in 2010, representing 2.2 percent of the total number of employed workers. This means the overwhelming majority of workers in British Columbia earn more than the minimum wage.
- In 2010, 58.6 percent of minimum wage workers in BC were between the ages of 15 and 24, most of whom (85.8 percent) were living at home with family.
- Fifteen Canadian academic studies over the past 30 years examined the impact of minimum wage increases on employment. The findings from these studies show that a 10 percent increase in the minimum wage will decrease employment among young workers (aged 15-24) by between 3.0 and 6.0 percent. The studies found that for those young workers most directly affected—those earning between the old and the new minimum wage—the impact was more acute. Workers in this category experienced employment losses of 4.5 to 20.0 percent.
- This Fraser Alert uses the findings from the Canadian academic studies to estimate the job losses associated with increasing British Columbia's minimum wage to \$10.25 per hour.
- Between 9,391 and 41,738 jobs will be lost among those directly affected by BC's 28.1 percent minimum wage increase.
- The employment effect for all teen and youth workers will range from 26,097 to 52,194 jobs lost.
- Lost job opportunities for young adults are especially unfortunate, given that entry-level jobs, which generally pay the minimum wage, are a stepping stone to better paid employment. Research shows that after one year, about 60 percent of minimum wage workers earn more than the minimum wage. After two years, about 80 percent do so.
- The evidence from Canada shows the opposite of what minimum wage advocates claim: that minimum wages decrease poverty. According to a *Labour Economics* study published earlier this year which examined minimum wage increases in 9 Canadian provinces from 1981 to 2004, a 10 percent increase in the minimum wage increases poverty rates by 4.0 to 6.0 percent.

## Introduction

On March 16, 2011, British Columbia Premier Christy Clark announced her first major policy change, a \$2.25 (28.1%) increase to BC's current \$8.00 per hour minimum wage. Starting on May 1, 2011, the minimum wage will increase to \$8.75. Additional increases of \$0.75 every six months will follow, until the minimum wage reaches \$10.25 in May 2012.

Like all minimum wage increases, British Columbia's has received considerable attention and debate. Controversy surrounds minimum wages because of the tension between well-intentioned efforts to increase incomes for lower income workers and the unfortunate reality of significant economic costs that come with increasing the minimum wage. A general misunderstanding of the types of workers who earn the minimum wage fuel that controversy.

This Alert aims to provide British Columbians with an up-to-date account of these realities and an estimate of the economic costs of

the recently announced increases to the province's minimum wage.<sup>1</sup>

## A profile of minimum wage earners in British Columbia

To analyze the impact of minimum wage increases, it is critical to understand who earns the minimum wage. This section gives a profile of minimum wage earners in British Columbia, including the number, age, and living situation of minimum wage earners in the province.

In British Columbia, 40,800 workers earned minimum wage in 2010, representing 2.2 percent of total employment (see table 1). This means the overwhelming majority of workers in British Columbia earn more than the minimum wage.

Most minimum-wage workers are young. In 2010, 15.8 percent of teenagers aged 15 to 19 who were working worked for minimum wage, the highest percent among the age groups. Comparatively, only 3.5 percent of workers aged 20 to 24 earned minimum wage; 1.5 percent of those aged 25 to 34; 1.2 percent of those aged 35 to 44; 0.6 percent of those aged 45 to 54; and a slightly higher incidence of 1.2 percent of those over 55. The higher incidence of minimum wage earners among seniors "reflects some of the low-wage occupations in which working seniors tend to be concentrated" (Statistics Canada, 2006: 14).

Put differently, 41.4 percent of minimum wage earners were between 15 and 19 years old. Another 17.2 percent were aged 20 to 24. Combined, young workers from ages 15

to 24 represented 58.6 percent of all British Columbians earning the minimum wage.

As to their living situation, most minimum wage workers live at home with their family. In 2010, of the 40,800 workers earning the minimum wage, 22,700, or 55.6 percent, lived at home with their family. Of these workers, half (55.5%) were aged 15 to 24 and attending school.

The number of minimum wage earners living in other circumstances was comparatively small. Less than 25 percent of minimum wage workers were members of a couple.<sup>2</sup> A further 14.0 percent were unattached individuals. Only 3.2 percent of minimum wage workers were classified as single parents with children younger than 18 years of age.

The numbers show that minimum wages affect only a small subset (about two percent) of British Columbia's working population. Moreover, the majority of minimum wage earners are not adults trying to support their families, but are primarily those who would naturally earn an entry level wage, i.e., young workers and new workforce entrants, most of whom live at home.

## The economic effects of increasing the minimum wage

One of the most serious consequences of increasing minimum wages is that employment opportunities will be reduced, particularly for low-skilled and young workers. That is because employers react to higher wages and labour costs by hiring fewer workers, reducing the



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**Table 1: Minimum wage workers in British Columbia, 2010**

	<b>Total employment (in thousands)</b>	<b>Minimum wage earners (in thousands)</b>	<b>Percentage of workers earning minimum wage</b>	<b>Proportion of minimum wage earners (percentage)</b>
All ages	1,824.2	40.8	2.2	100.0
15-19	106.8	16.9	15.8	41.4
20-24	202.4	7.0	3.5	17.2
25-34	408.8	6.1	1.5	15.0
35-44	392.4	4.6	1.2	11.3
45-54	434.1	2.8	0.6	6.9
55+	279.7	3.4	1.2	8.3
	<b>Total employment (in thousands)</b>	<b>Minimum wage earners (in thousands)</b>	<b>Percentage of workers earning minimum wage</b>	<b>Proportion of minimum wage earners (percentage)</b>
<b>Total</b>	1,824.2	40.8	2.2	100.0
<b>Member of a couple</b>	<b>1,022.7</b>	<b>9.1</b>	<b>0.9</b>	<b>22.3</b>
Spouse not employed	204.8	2.6	1.3	6.4
Spouse employed	817.9	6.5	0.8	15.9
Spouse earning minimum wage or less	4.4	0.0	0.0	0.0
Spouse earning more than minimum wage	673.0	4.1	0.6	10.0
Spouse self-employed	140.5	2.1	1.5	5.1
<b>Single parent</b>	<b>130.9</b>	<b>3.2</b>	<b>2.4</b>	<b>7.8</b>
Youngest child is less than 18 years	60.2	1.3	2.2	3.2
No children <sup>a</sup> or youngest child is 18 or older	70.7	1.9	2.7	4.7
<b>Son or daughter living with family</b>	<b>331.6</b>	<b>22.7</b>	<b>6.8</b>	<b>55.6</b>
15-19 years, in school	55.4	11.4	20.6	27.9
15-19 years, not in school	41.2	4.8	11.7	11.8
20-24 years, in school	31.8	1.2	3.8	2.9
20-24 years, not in school	77.6	3.1	4.0	7.6
25 or over, in school	7.1	0.0	0.0	0.0
25 or over, not in school	118.4	2.0	1.7	4.9
<b>Unattached Individual</b>	<b>339.0</b>	<b>5.7</b>	<b>1.7</b>	<b>14.0</b>

<sup>a</sup>A single parent with no children is someone who has no children of his or her own, but is involved in the care and support of his or her family.

Source: Statistics Canada, *Labour Force Survey*, program A040903, received on February 11, 2011; calculations by authors.

Note: A value of zero does not necessarily mean that there are no individuals earning the minimum wage. A zero may mean that the estimate is too small to be reliable. For British Columbia, zeros represent estimates of less than 1,500 individuals.

number of hours that employees work, and relying more heavily on other inputs, such as machinery and equipment, to keep their business going.

A recent study by renowned minimum-wage experts Professor David Neumark of the University of California and Dr. William Wascher, a US Federal Reserve Board economist, comprehensively reviewed academic studies on minimum wages over the past 15 years. In total, they reviewed more than 100 studies covering 20 countries and found that the “overwhelming majority” of studies consistently show that minimum wage increases have adverse employment effects (Neumark and Wascher, 2007).<sup>3</sup>

Canadian research confirms these findings. Fifteen academic studies over the past 30 years have examined the impact of provincial minimum wage increases on employment. The vast majority of the studies examined the impact of minimum wage increases on those who typically earn the minimum wage, i.e., teenagers and young adults. For instance, Baker (2005) examined increases in minimum wages across provinces from 1983 to 2000 and found that a 10 percent increase in minimum wage decreases employment by 4.8 to 5.7 percent for teens (15 to 19 years olds) and by 1.7 to 2.0 percent for young adults (20 to 24 years olds).

Similarly, Campolieti et al. (2006) found that a 10 percent increase in

minimum wage leads to a reduction of about 1.7 to 4.4 percent in employment of those 16 to 24 years old. Gunderson (2005) did a survey of the empirical evidence on minimum wages and concluded that the Canadian studies, especially the most recent and credible ones, show that a 10 percent increase in the minimum wage leads to a 3.0 to 6.0 percent reduction in employment for teenagers, with the reduction in employment for young adults being slightly lower.

Some studies examined the impact of minimum wage increases on those most directly affected by them—i.e., those whose hourly wage falls between the old and newly legislated minimum wage, suggesting an even larger reduction in employment (Godin and Veldhuis, 2009).

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Campolieti et al. (2005) found that a 10 percent increase in the minimum wage decreases employment by 10.0 to 20.0 percent among those directly affected. Overall, the research suggests that estimates range from 4.5 to 20.0 percent in employment reductions.

Of course, some workers will be lucky enough to keep their jobs and

maintain their hours worked after a minimum wage hike. But even they may not be better off. Research shows that employers often respond to a minimum wage hike by reducing other benefits and on-the-job training. For example, Neumark and Wascher (2001) found that the proportion of young workers receiving formal training fell by two percentage points for every 10 percent increase in the minimum wage.

## **Employment effects of increasing BC’s minimum wage to \$10.25**

What follows is an empirical estimate of the employment loss in British Columbia associated with increasing the minimum wage to \$10.25 per hour.

There are two general categories of employment effects: those that apply to workers directly affected (those whose wage falls in between the old and new minimum), and those that apply to teens and young workers more generally. Consequently, two employment loss calculations will be presented. The first will estimate the employment loss for workers who currently earn \$10.25 per hour or less. The second will estimate the employment loss for all teen and young workers.

Estimates of employment loss in British Columbia are calculated using a range of employment effects from the Canadian studies mentioned earlier. For a complete review of the methodology used in these estimates, see *The Economic Effects of Increasing British Columbia’s Minimum Wage*, published by the Fraser Institute in 2009 (Godin and Veldhuis, 2009: 32-37).

**Table 2: Employment effect associated with increasing the minimum wage to \$10.25 per hour in British Columbia**

Number of workers 15-24 years old (total employment)	309,300	
Number of workers 15-24 years old earning \$10.00 or less per hour <sup>a</sup>	124,500	
Number of workers 15-24 years old earning minimum wage	23,900	
Number of workers 15-24 years old earning between minimum wage and \$10.00 per hour <sup>a</sup>	100,600	
Percentage increase in minimum wage for 15-24 years old earning minimum wage	28.1	
Percentage increase in minimum wage for 15-24 years old earning between minimum wage and \$10.25 per hour	14.1	
Average wage increase for all 15-24 years olds earning \$10.25 or less per hour	16.8	
<b>Those directly affected</b>	<b>Lower bound</b>	<b>Upper bound</b>
Impact of minimum wage increase on those directly affected	-0.45	-2.00
Reduction (percentage change) in teen and youth employment	-7.5	-33.5
Reduction (number of jobs) in teen and youth employment	-9,391	-41,738
<b>All teen and young workers</b>	<b>Lower bound</b>	<b>Upper bound</b>
Impact of minimum wage increase on all teen and young workers	-0.30	-0.60
Reduction (percentage change) in teen and youth employment	-8.4	-16.9
Reduction (number of jobs) in teen and youth employment	-26,097	-52,194

<sup>a</sup>Note: This study uses employment numbers for those earning \$10.00 an hour or less, and not \$10.25. Therefore, the estimates of the employment effects provided here should be considered conservative.

As highlighted above, the employment effect of a 10 percent increase in the minimum wage for those workers directly affected ranges from a 4.5 to 20.0 percent reduction in employment.

Increasing British Columbia's minimum wage from \$8.00 to \$10.25 per hour is a 28.1 percent increase for those earning exactly the minimum wage, and an average increase of 14.1 percent for the remaining workers. The average wage increase can be calculated by summing the percentage of workers earning the minimum wage multiplied by a 28.1 percent increase, and the remaining group of workers multiplied by their average increase of 14.1 percent.

Table 2 shows that 23,900 workers between age 15 and 24 earn the minimum wage and 124,500 workers aged 15 to 24 earn \$10.00 per hour or less.<sup>4</sup> This implies that 19.2 percent of the 124,500 workers will see a 28.1 percent wage increase. Assuming the remaining workers (100,600, or 80.8%) are equally distributed between just above the old minimum wage and the new minimum wage, their average wage increase will be 14.1 percent. Therefore, the average wage increase for all 124,500 workers is 16.8 percent.

Using estimates of the employment effect described above, this 16.8 percent increase in the minimum wage is associated with a 7.5 to 33.5

percent loss in employment for teens and youth directly affected. That employment loss equates to about 9,391 to 41,738 jobs for these workers.

This study computes employment losses for all teen and young workers (not just those earning between the old and new minimum wages, but also those earning more than \$10.25 an hour). Recall from the previous section that a 10 percent increase in the minimum wage would decrease employment by 3.0 to 6.0 percent for all teen and young workers. Using these estimates of the effect on employment, a 28.1 percent increase in the minimum wage is

associated with an employment loss for all teens and youth of 8.4 to 16.9 percent, or about 26,097 to 52,194 jobs.

## **Large versus incremental increases in the minimum wage**

With BC increasing its minimum wage by \$0.75 every six months (a \$2.25 cumulative increase from May 2011 to May 2012), some argue that the gradual increases will mitigate, if not eliminate, the adverse effect of increased minimum wages on employment since incremental increases allow employers to adjust and prepare for a higher wage rate.

While there is some, though limited, evidence to support this argument, BC's \$2.25 increase in the minimum wage implemented over one year is anything but small or incremental, and will not allow much time for employers to adjust and prepare.

To understand the impact of three \$0.75 increases over the course of one year, it is important to examine previous large increases in BC's minimum wage. A study by University of Toronto professor Michele Campolieti and his colleagues published in the *Canadian Journal of Economics* in 2005 examined the impact of minimum wage increases on employment in the Canadian provinces from 1993 to 1999. The study found that the adverse impact of British Columbia's two 50-cent minimum wage increases in 1995 (the largest cumulative increase among the provinces) on employment was about twice as large as the

average reduction in employment among the provinces.

The Campolieti study suggests that not only do large, immediate increases in the minimum wage have a greater adverse impact on employment than smaller, incremental increases, but also that what some might consider small, gradual increases (such as \$0.75 per hour) may not, in fact, be small increases.<sup>5</sup>

Moreover, the timing of minimum wage increases matter. Increases in wages during an economic boom may be less damaging than the same increases during a recession. That is, employers may be more easily able to absorb an increase in wages in good economic times. For this reason, recent calls that the minimum wage be indexed to inflation (i.e., automatically increased annually by the inflation rate) may be more damaging than random, small increases when the economy is growing.

## **Those who currently earn the minimum wage are not trapped in low wage jobs**

Lost job opportunities for young people are especially unfortunate given that entry-level jobs, which generally pay the minimum wage, are a stepping stone to better paid employment. These jobs enable workers to develop skills and gain experience that ultimately leads to higher productivity and better wages.

Research from the United States shows that after one year, more than 60 percent of minimum wage workers earn more than the

minimum wage; the typical wage gain is about 20 percent (Smith and Vavrichek, 1992). After two years, more than 80 percent of workers who started at the minimum wage earn more than the minimum wage (Long, 1999). More recently, Even and MacPherson (2003) found that almost half (47.2%) of minimum wage workers reported earning more than the minimum wage after one year of employment.

These findings are consistent with the Canadian research on income mobility. For example, Morissette and Drolet (2000) found that of those earning low incomes in the 1993 to 1996 period, 64 percent were no longer there a year after they began work, and after two years, up to 78 percent were no longer low-wage earners.<sup>6</sup> Other Statistics Canada studies (2009 and 2010c) corroborate these results. They show that of those who were low income earners during the 2002 to 2007 period, 60 percent escaped low income after one year of employment, and 79 percent escaped low income after two years (Statistics Canada, 2009, and 2010c).

A vast majority of minimum wage earners are not trapped in low income jobs year after year. Minimum wage work is largely a temporary experience. In fact, most minimum wage earners see their incomes rise in a relatively short time.

## **Impact of minimum wage increases on poverty**

Since higher minimum wages decrease employment opportunities, benefits, and on-the-job training, it is hard to see how they are a

solution to poverty. A recent study from the US that examined minimum wage increases from 2003 to 2007 and found that state and federal minimum wage increases had no impact on state poverty rates (Sabia and Burkhauser, 2010). The evidence from Canada is similar and shows the opposite of what minimum wage advocates claim: minimum wages increase rather than decrease poverty. A study published earlier this year in the journal *Labour Economics* examines minimum wages increases in nine Canadian provinces over two decades, from 1981 to 2004 (Sen et al., 2011). The authors found that a 10 percent increase in the minimum wage increases poverty rates by 4.0 to 6.0 percent.

## Conclusion

While minimum wage increases are implemented with the best of intentions, the reality is that raising the minimum wage does more harm than good to the very families and individuals that those minimum wages are intended to help.

A typical minimum wage earner is young and living at home—not an adult trying to provide for his or her family. Minimum wage increases come at an enormous cost—job losses for the most vulnerable in our society. High minimum wages take opportunities away from low-skilled workers and young adults to enter the workforce, gain experience, and move up the income ladder. Our estimates suggest that an increase in BC’s minimum wage to \$10.25 an hour could lead to over 52,000 job losses.

These losses are of particular concern given that low-wage work is a stepping stone to better jobs for many workers. A vast majority of those earning the minimum wage move up the income ladder within a short period of time.

## Notes

- 1 This Alert is an update of a longer study, *The Economic Effects of Increasing British Columbia’s Minimum Wage*, published by the Fraser Institute in 2009 (see Godin and Veldhuis, 2009).
- 2 Of the 9,100 that were part of a couple, 6,500 (71.4%) lived in a household with an employed spouse, and generally these spouses earned more than the minimum wage. Deborah Sussman and Martin Tabi (2004) of Statistics Canada explained that minimum wage workers in this category may reflect women who supplement their family income with part-time work during their child bearing years.
- 3 For a comprehensive literature review, see Godin and Veldhuis, 2009.
- 4 This study uses employment numbers for those earning \$10.00 an hour or less, and not \$10.25. Therefore, the estimates of the employment effects provided here should be considered conservative.
- 5 The estimates of the employment losses for British Columbia noted in the previous section assume no differential impact between a large increase and a number of smaller, incremental increases. The employment losses are computed using estimates of employment losses associated with a marginal increase in the minimum wage. The above discussion, however, suggests that a large increase in British Columbia’s minimum wage from \$8.00 to \$10.25 per hour (i.e., a 28.1 percent increase) over a relatively short

period of time could result in an employment loss of over 30 percent. BC’s minimum wage will be raised in three steps, reaching \$10.25 in May of 2012, but the time period is relatively short and the overall increase in the wage is too large for the adverse employment effects to be mitigated.

- 6 Low income is defined as after-tax Low Income Cut-off (LICO). Low income cut-offs (LICOs) are computed by Statistics Canada using the *Survey of Household Spending* data and are “defined as the income below which a family is likely to spend 20 percentage points or more of its income on food, shelter, and clothing than the average family” (Statistics Canada, 2009: 126).

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ISSN 1714-6720

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