

MINIMUM WAGES

ARE THEY FAIR WAGES?



Social Planning Council of Cambridge and North Dumfries

March 2007

Introduction

'There are workers whose home is a shelter, whose grocery store is the food bank.'¹ The question of minimum wages has been an outstanding issue across the world irrespective of a country's economic status. Canada is no exception. However, Canada's attempts to strongly advocate, at an international level, for the equitable distribution of wealth have been diminishing recently.

Need for the Study of Minimum Wages

Of late, the issue of minimum wages has caught the attention of the Canadian public. In fact, this issue has been under discussion for quite some time across Canada. There has been a growing demand for an increase in the minimum wage to \$10 per hour because one in every six wage earners lives in poverty in Canada.

There are two viewpoints in the debate on fair wages: One is a demand by employees and their advocates for an increase in wages to \$10 per hour in view of the spiralling cost of living; the other is a cautionary response by government and employers that there will be a loss in jobs due to increased wages. The employees engaged in work on an hourly basis argue that there is a greater need for them to secure fair wages as they are unable to make ends meet with the wages they earn now whereas employers state that raising the minimum wage to \$10 per hour would hurt more poor people than it would help because the employers would have to reduce staff.

The Social Planning Council of Cambridge and North Dumfries is also interested in this issue. The SPC understands the need to work towards securing fair wages for employees. The SPC conducted a Poverty Symposium on June 26, 2006, with about 70 participants from all walks of life. Most participants felt the need for intervention on fair wages for employees. The SPC, however, feels that

there needs to be a thorough discussion by various sections of the community on this issue. This analysis will focus on the nature, extent, causes and effects of low wages. It will also analyze various economic and political factors associated with the problem that will serve as a base for community action.

Canada's International Commitment

The UN Covenant on Economic, Social and Cultural Rights Platform recognizes:

'the right of every one to the employment of just and favourable conditions of work that ensure remuneration which provides all workers, as a minimum, with:

1. Fair wages and equal remuneration for work of equal value without distinction of any kind
2. A decent living for themselves and their families.'

The Canadian Government has yet to fulfill its commitment to this covenant by raising minimum wages.

Finally, according to the 1993 Vienna Human Rights Declaration, human rights and fundamental freedoms are the birthrights of all human beings: their protection and promotion is the first responsibility of governments.² It is important to note that human rights include economic human rights such as the right to adequate standard of living and adequate remuneration for work. Fair wages are a question of human rights, a measure of equality, social justice, a part of the empowerment of the marginalized and a salient feature of a just society. Canada cannot ignore such an important factor.

Minimum Wages: A Conceptual Framework

History of Minimum Wages

In 1918, British Columbia and Manitoba became the first provinces in Canada to pass minimum wages legislation that only covered women. Other provinces passed similar legislation by 1930. B.C became the first province to pass minimum wage legislation covering both female and male employees. The structure for setting the minimum wage in these initial minimum wage acts was based on a subsistence level which was a very restrictive notion of poverty. A family of four or five was used in the case of a male employee, and a single person with no dependents was the model used for a female employee. Living wages became an issue during World War II due to income inadequacy among the working poor. As a result, minimum wage laws eventually came under federal and provincial employment standards legislation that aimed to protect the workers though they could not ensure living wages.³

Recent Legislature's Attempt

A private member's bill to raise the minimum wage to \$10 was introduced by New Democrat MPP Cheri DiNovo. The bill to boost Ontario's minimum wage by 29 per cent passed its second reading in the province's legislature on November 1, 2006 despite opposition from both Liberal and Conservative MPPs. The current general minimum wage is \$7.75 an hour (scheduled to jump to \$8 on Feb. 1, 2007) which translates to a little more than \$1,240 per month for someone working 40 hours per week. During the discussion on the bill, DiNovo said that even this salary is not enough to support a family and is one reason why 15 per cent of Ontario residents live in poverty. "Our children are paying for our current policy," she said in support of the bill. "How many honourable members here would want to see their own children raised in a home where a parent tries to provide those children with food and rent and some quality of life on \$1,400 a month or less?" she questioned. The bill will now be debated in committee and then be brought back to the legislature for its third and final reading. However, few private members' bills ever earn enough support to make it into law.⁴

Profile of Minimum Wage Workers in Canada

Statistics Canada reported that there are 547,000 minimum wage workers in Canada that constitute 4 per cent of the total Canadian workforce. Among the total workforce, youth [ages 15 - 24] account for 58% of all minimum wage workers. Women constitute the majority [60%] of all minimum wage workers.⁵ The Campaign 2000 report observed that women, immigrants and people of colour are more likely to be found in jobs with the worst wages. About 25 per cent of workers are low paid; one third of low paid workers are women and people of colour. An estimated 223,500 Ontario workers in 2000 toiled at the bottom of the wage ladder though they accounted for only 4.5 per cent of all the employees in the province.⁶ Over 17,000 adults in Waterloo Region are considered to be the working poor. In 2001, approximately 50 per cent of people living below the Low Income Cut-Off (LICO) were working.⁷

Statistics Canada data, as cited in a National Anti-poverty Organization 2006 report, indicates that only 5% of the work force is paid minimum wage. About 20% work for less than \$10 an hour. There are 1.4 million Canadians working full-time jobs who make less than \$20,000 a year. Youth, women, visible minorities and recent immigrants are more likely to work for wages at or near minimum wage.

Many minimum wage workers are students who rely upon their employment earnings to help pay for their education. At a time when the cost of post secondary education is rising, the minimum wage becomes all the more important - especially for low and modest income families struggling to assist their children with education costs.⁸

Half of the people earning low wages at fulltime jobs are the major income earners in their families. Many people get stuck in low wage jobs for long periods of time with poor or no supplementary benefits and little access to training that could help them improve their skills. These wage earners are vulnerable in that their well-being is at risk even though they are working. The wage earners cannot even earn enough to make a decent life.⁹ The minimum wage is generally considered to be the economic benchmark of the wage economy. However, at its current level, the minimum wage is inadequate to meet the needs of most individuals and families.¹⁰

Reasons for Low Pay

Gender and social discrimination, lack of recognition for foreign credentials and work experience, uninformed employers, weak government enforcement of workers' rights, and outdated laws that assume most people work full time for a full year are reported to be the underlying causes for the low pay for these workers.¹¹ Other reasons include a desire for maximum profits as well as fierce competition in the international and local marketplace.

Minimum Wages and Housing

The relationship between minimum wages and rental housing affordability needs to be examined. The Canada Mortgage and Housing Corporation (2005) reports in its Annual Rental Apartment Survey that the cost of an average bachelor apartment in Toronto and Vancouver requires the worker to earn over \$13 per hour to be able to afford the rent. For families, rents for three bedroom units are similarly out of reach for low wage workers. In Vancouver, Toronto and Ottawa, an hourly wage of over \$20 is required for a single-earner family while another eight Canadian cities require wages in excess of \$17 per hour to get an apartment. This minimum hourly wage is calculated on a measurement of affordable average market rents. Typically, housing is deemed to be affordable if a worker spends no more than the norm of 30% of his earnings on rent.¹²

Toronto and Ottawa remain the least affordable places to live. Factoring in the additional expenses of heat and utilities adds to the burden faced by low income Canadians - especially because of the recent increase in fuel costs. According to the Canada Mortgage and Housing Corporation, the average rent in Cambridge in 2005 for a bachelor apartment was \$506; a one bedroom apartment was \$670, and a two bedroom apartment was \$783. The rental costs for bachelor, one and two bedroom apartments in Cambridge are well beyond the means of many residents.¹³

Faulty Arguments Against Fair Wages

This part of the paper will discuss various common arguments against an increase in minimum wages.

Increased Wages Cause Job Loss

The main argument against substantial increases in the minimum wage is that it will lead to job loss. Most studies show that minimum wage increases have little or no effect on employment. A review of OECD countries with minimum wages concluded that minimum wages do not have major negative effects on aggregate employment¹⁴. In the UK where minimum wages were recently increased, it was found to have little or no adverse effect on employment when macroeconomic conditions were controlled.

Increased Wages Will Lead to Inflation

Costs rise all the time without workers receiving a pay increase. Wages are just one of many factors that make up the cost of an item. Even in labour intensive sectors such as restaurants, increases in the minimum wage have only a tiny impact on prices with no loss in business.¹⁵

Increased Wages are Bad for the Local Business Economy

Paying a decent wage expands economic activity. Higher pay results in increased productivity by making it more desirable to obtain and keep jobs; this reduces recruitment and training costs associated with high turnover. Higher incomes allow people to purchase goods and services in their communities. Businesses locate to places with a high quality of life including good education, public and health services and knowledgeable workforces.¹⁶

A Job is the Route out of Poverty

Campaign 2000 has started its campaign for fair wages by questioning the statement 'A job is the best route out of poverty.' Since approximately 25 per cent of all Ontario workers who are employed on wages less than \$10 per hour are poor, the statement which suggests that employment will steer people out of poverty is far from true.¹⁷

Minimum Wage Earners are Teenagers

Statistics Canada reports that 61% of minimum wage earners are adults (19 years of age and over), 64% are women and 48% have some post-secondary education. Hence, the argument that

minimum wage earners are teenagers is also far from true and doesn't represent the entire picture.

Minimum Wage Earners are Secondary Household Earners

Research shows that in two parent families, the incidence of poverty is dramatically higher when there is only one earner compared to when both parents are earners. However, two parent earner families are not much better off with the present minimum wages¹⁸

Advantages of Increase in Minimum Wages

The following advantages will corroborate the view that an increase in minimum wages would be a big boost to the families of the wage earners and the country's economy as well. The Economic Policy Institute in the USA stated that stronger minimum wages can benefit employees and employers alike 'through increased productivity, lower recruiting and retraining costs, decreased absenteeism and increased worker morale'. Further, increasing minimum wages contributes to equality and enables the lowest earners to participate more fully in the life of our society economically and socially. Low-income earners spend their earnings locally thereby benefiting the local economy and creating additional opportunities for economic growth. The additional cost on the public health care system can be reduced as fair wages generally improve people's health status. People with more income pay more taxes which immediately benefit government revenue. Fair wages reduce social ills like domestic violence and adolescent crime. The rise in minimum wages will definitely coincide with growth of the economy as opposed to job loss. With the increased earnings, other industries like tourism may be developed. The higher minimum wage paid to a student will have a lifetime impact in terms of earnings.

Increases in minimum wages have only marginal employment effects, and more importantly, they lead to an increase in the total wages paid to low-wage workers. Minimum wage earners are disproportionately represented among low-income families. Thus, increases in the minimum wage will disproportionately benefit low-income families. The incidence of poverty in two parent households with one earner is 27.4% compared to 7.3% in two parent two earner households; thus a minimum wage job

held by a secondary family earner could mean the difference between poverty and a modest family income.

There are several long-term dynamic impacts of increasing the minimum wage that are beneficial. For example, increased minimum wages may induce firms to switch toward production methods that emphasize more training and provide the added benefit of more stability and income. Minimum wage increases in conjunction with increases in refundable child tax credits could reduce the poverty gap for families. Setting the minimum wage to the poverty line would convey a standard that ensures no worker is exploited when selling his or her labour. When workers are treated fairly, absenteeism and turnover fall and commitment to the employer improves. This, in turn, encourages both workers and employers to invest in developing people's skills.¹⁹

How to Move Forward

The Canadian Policy Research Network (2006) suggested action for fair wages on four fronts:

1. Adequate income: The combination of market wages plus any government income supplements for the working poor will help to avoid poverty. There is room for higher minimum wages with little risk of job loss.
2. Basic protections regarding conditions of work: All employees should have access to basic protection [such as minimum wages, overtime, vacation pay, public holidays and job protection for maternity or parental leave] that is enforced.
3. Basic social benefits: All workers should have access to benefits and supports – such as coverage for catastrophic pharmaceutical costs, access to affordable housing, access to good quality, affordable child care – that are important to well-being.
4. Opportunities to move up: Workers who are low paid or able to find only part-time employment should have opportunities to improve their labour market prospects. The best way to do that is to provide these people with opportunities and incentives to upgrade their skills.²⁰

Approximately 500 employment agencies are working for employers in Toronto. Employers are hiring people as independent contractors to avoid paying out employment benefits like overtime pay and vacation pay.²¹ It is critical that employers are paying fair wages to their employees and ensuring

that they are meeting the requirements of the Employment Standards Act.

As CPRN (2006) stated, it is a complex issue to tackle as the above population and their needs vary tremendously. Some employees need training; some need better housing and caregiving services. Some others need recognition for credentials that they have already earned; others need a reliable package of employment benefits. Employers and the government face some competitive and financial limits. Hence, there needs to be a multi-layered response to make a difference using a variety of policy instruments.²²

A necessary government policy bundle to raise low-wage earners out of poverty includes the following:

1. A provision of affordable housing to supplement low incomes.
2. Skill development and retraining for better employment.²³
3. Use of employment insurance, child tax benefit, social assistance, and job creation initiatives.²⁴
4. An increase in minimum wages to \$10 per hour with planned increases to bring the minimum wage to the Statistics Canada's Low Income Cut Off (LICO) based on a 35 hour work week.
5. More enforcement of current employment standards legislation and more resources to investigate employment standards challenges.
6. Determination of wages is calculated according to sector, industry and city - based on the financial strength and local living conditions in a particular area.

Organizing and mobilizing minimum wage and temporary workers for bargaining could be beneficial.²⁵ It is a historical fact that in spite of various workforce improvements including increased minimum wages, workers have not been able to secure fair wages because they are unorganized, powerless and hence, unheard. Therefore, a community convergent response to work with governments and employers for the implementation of fair wages and the Employment Standards Act would help to improve working conditions and wages.

What is Next?

The SPC is initiating an exploratory process to investigate fair wages and what efforts a local

community can take to improve the lives of the working poor. It has formed a Fair Income Committee as a community response with various stakeholders including the non-profit sector, local employers and government officials.

Recommendations

At this point, the SPC makes the following recommendations to the municipal councils of the City of Cambridge, Township of North Dumfries and the Region of Waterloo:*

1. A motion be passed that encourages the Province of Ontario to raise the minimum wage to \$10 per hour.
2. In the spirit of supporting this direction, each of these municipalities works towards ensuring that no internal employee is receiving less than \$10 per hour.
3. Each municipality designates a councillor or a staff member to join the SPC's Fair Income Committee.

The Social Planning Council looks forward to hearing back from these municipalities on their deliberation and decisions regarding these recommendations.

*It is beyond the mandate and geographical scope of this SPC to forward recommendations to other municipalities within Waterloo Region. However, other municipalities are encouraged to participate in this action and invited to participate in the Fair Income Committee.

Endnotes:

- ¹ Campaign 2000. (2006.) *Working, Yet Poor in Ontario*. p 1.
- ² UNPAC. (2004). *Women and Economy: Women, Poverty and Minimum Wages*. 2, 4.
- ³ Goldberg, Michael & Green, David. (1999). *Raising the Poor*. Canadian Centre for Policy Alternatives, BC Office, 3.
- ⁴ CBC News November 2, 2006. *Bill could raise Ontario minimum wage to \$10*. p. 1 on Internet: www.cbc.ca.
- ⁵ Statistics Canada. (2003). *Labour Force Survey on Minimum Wage Workers*, p. 4 on www.statcan.ca/daily/English.
- ⁶ Campaign 2000. (2006). *Working, Yet Poor in Ontario*. 1, 4.
- ⁷ The Urban Poverty Consortium of Waterloo Region. (2001). *Let's Talk About Poverty*. Opportunities Waterloo Region, p.2.
- ⁸ Campaign 2000. (2006). *Working, Yet Poor in Ontario*. 1, 4.
- ⁹ UNPAC (2004). *Women and Economy: Women, Poverty and Minimum Wages*. 2, 4.
- ¹⁰ Canadian Council for Social Development. (2006). *Minimum Wage is Not a Living Wage* p. 4, on www.ccsd.ca/perception/2634/minwage.htm.
- ¹¹ Campaign 2000. (2006). *Working, Yet Poor in Ontario*. 1, 4.
- ¹² Canada Mortgage and Housing Corporation. (2005). *Annual Rental Apartment Survey*. Retrieved from www.cmhc.ca.
- ¹³ CAHG. (2006). *Building Bridges: The Process to Develop an Emergency Shelter in Cambridge*, p.2.

- ¹⁴ Campaign 2000, (2007). *Towards A Living Wage*, p. 3; and Saunders, R. (2005). *Lifting the Boats: Policies to Make Work Pay*. Canadian Policy Research Networks, pp 9-11.
- ¹⁵ Campaign 2000. (2006-2007). *A Living Wage for Families*. p.4.
- ¹⁶ Campaign 2000. (2007). *Towards a Living Wage*. p.3. and Campaign 2000. (2006-2007). *A Living Wage for Families*. p.4.
- ¹⁷ Statistics Canada 2004. (2006) p.1 CBC News Online. | January 11, 2006.
- ¹⁸ Goldberg, Michael & Green, David. (1999). *Raising the Poor*. Canadian Centre for Policy Alternatives. B.C. Office, p. 1, available on http://www.policyalternatives.ca/documents/BC_Office_Pubs/raising_floor.pdf.
- ¹⁹ Canadian Policy Research Network. (2006). Ottawa p.1, on www.cprn.ca.
- ²⁰ Ibid. p.1.
- ²¹ Canadian Policy Research Network. (2006). Ottawa p1, on www.cprn.ca.
- ²² Ibid p. 2.
- ²³ Goldberg, Michael & Green, David. (1999) *Raising the Poor*. P.3. Canadian Centre for Policy Alternatives, BC Office.
- ²⁴ National Anti-poverty Organization. (2006). Retrieved from www.napo-onap.ca/en/livingwage.php, 4, 5.
- ²⁵ Campaign 2000. (2006) *Working, Yet Poor in Ontario* pp. 1, 4.

This issue paper was compiled by Satya Ayinagadda with input from Wendy Adema and Jana Papke. It is published and copyrighted by the Social Planning Council of Cambridge and North Dumfries.

Quotations from this paper may be used provided that proper and complete citations are included.

For more information about this paper or about related research, please contact:

Social Planning Council of Cambridge and North Dumfries

150 Main St. (2nd Floor), Cambridge ON N1R 6P9
519-623-1713 wendy@socialplanningcouncil-cnd.org

Visit our website at:

www.socialplanningcouncil-cnd.org

We actively and impartially participate in building and strengthening our community through social change, innovation, research, analysis, and facilitation.