

**Submission to the Honourable Bernard Davis**

Minister of Environment and Climate Change,  
Minister responsible for Labour,  
Minister responsible for WorkplaceNL

March 24, 2024

**POSITION PAPER ON THE ECONOMICS OF  
MINIMUM WAGE AND ITS IMPACT ON  
BUSINESSES**

**EMPLOYERS' COUNCIL**  
NEWFOUNDLAND & LABRADOR

## Position Paper on Minimum Wage

### ABOUT US

The NL Employers' Council is the only province-wide business advocacy organization that connects and represents business leaders from all industries, who are committed to the province's economic growth and progress. Our member businesses are the driving force behind Newfoundland and Labrador's economy.

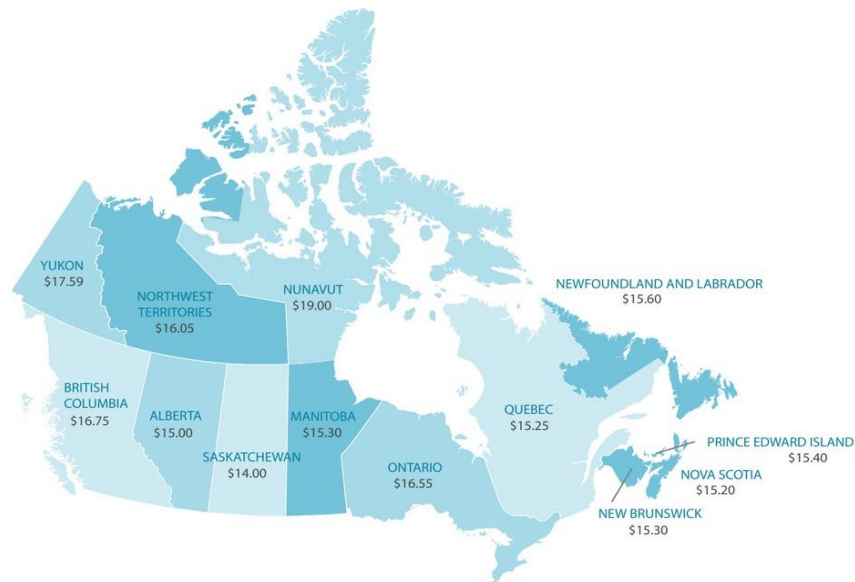
Our vision is a vibrant economy, shared prosperity and increased opportunity for the businesses and people of Newfoundland and Labrador.

### LABOUR STANDARD

The minimum wage rate is a basic labour standard that establishes the lowest hourly wage that an employer can pay an employee. This requirement is mandated by law in the Labour Standards Act. Labour Standards Regulations currently stipulate that: *on April 1 of each year, the minimum wage rate shall change based on the percentage increase to the National Consumer Price Index.*

On April 1, 2023, the minimum wage increased to \$14.50 / hour, followed by another increase on October 1, 2023 bringing it to \$15 / hour. On Jan 29, 2024, the Honourable Bernard Davis, announced a \$0.60 increase effective Apr 1, 2024, bringing the minimum wage to \$15.60 / hour and the overtime wage to \$23.40 / hour.

Minimum wages in Canada as of April 1, 2024 (see diagram below) - **Newfoundland and Labrador has the highest minimum wage rate amongst all the Atlantic provinces:**



### LIMITATIONS OF A HIGHER MINIMUM WAGE AS AN ANTI-POVERTY TOOL

In Canada, workers who earn minimum wage make up a small portion of all paid workers. In recent years, minimum wages across Canada have been rising. The stated goal being poverty reduction. In an era where governments are running large budget deficits, **minimum wage increases are seen as a way to shift the cost of**

**achieving social goals from government to businesses.** A study published by the Fraser Institute and other researchers, conclude that:

- Minimum wage increases have little impact on poverty as most minimum wage earners, 92.3%, do not live in low-income households. They are secondary or tertiary earners in households that do not fall in the low-income category.
- More than half of the people earning a minimum wage are between the ages of 15 and 24, in entry-level jobs, to gain skills and experience that lead to higher-paying jobs as their careers unfold. Few minimum wage earners, slightly higher than 1%, work for more than 5 years at minimum wage jobs.
- Most people in the low income category are either unemployed or unable to secure more than a part-time job. Raising the minimum wage may only aggravate the difficulty of getting a full-time job.
- There is **little empirical evidence to support claims that past minimum wage increases have reduced poverty.** Many nations in Europe do not have a minimum wage policy. Minimum wage in Canada and the United States was originally designed to be discriminatory or exclusionary of groups such as women and visible minorities.

## MACROECONOMIC IMPACTS ON THE ECONOMY

The bi-yearly increases in minimum wage defeat the government's intent to reduce poverty; as the macro-economic impacts of this policy could be significant:

### Net Impact on Inflation

Labour is a major cost of doing business. The minimum wage as of Oct 1, 2022 was \$13.70, currently it stands at \$15.60. This in itself is a huge increase in the cost of labour. By adding the compounding effect of the additional costs amounting to approximately 12.8% in benefits, CPP, EI, HAPSET and WPNL, on each consecutive increase in minimum wage, labour costs have become a barrier to doing business in Newfoundland and Labrador. As an e.g. since April 1, 2023, due to the three consecutive increases, the added burden on employers for each full time minimum wage employee is \$2.08 / hour which works out to \$4320.40 / employee. Government must take into consideration the impact of these cumulative costs when reviewing minimum wage.

Minimum wage is used as a benchmark by labour and unions to measure earnings; increases in minimum wage result in increases in wages and salaries across the board. These bi-yearly increases could result in not only closing the wage gap between minimum wage earners and higher skilled workers but could set the precedent for all Collective Agreements. This collective effect of wage increases in all positions could result in escalating increases in the operating expenses of businesses which in turn could put upward pressure on consumer prices for goods and services; fueling inflation and increasing the cost of living.

Being an island, businesses in the province also need to bear the burden of high insurance, transportation, heating, carbon tax and other costs. Pressures such as those related to AI, climate change, cyber threats, supply chain disruptions, uncertainty in minimum wages, inflation...result in businesses being in constant crisis management mode. The constant pressure due to minimum wage increases and heavy taxation, also decreases an employer's ability to retain its top talent. Businesses are seeing a quiet exodus of professionals to other

provinces. This is clearly unsustainable. Government needs to adopt a balanced approach to labour and business and focus on the broader picture - the economic competitiveness and sustainability of the province.

### **Labour Market Adjustments**

One of the basic principles of microeconomics is that when prices increase, demand decreases. The Nobel Laureate George Stigler's conclusion in his article, *The Economics of Minimum Wage Legislation* was that employment would decline as a result of setting a minimum wage. The vast majority of economic research in Canada has confirmed and refined this basic finding.

Although the net impact on labour income is positive, weaker labour demand could lead to lower hours and reduced employment. In order to maintain profitability, businesses may respond by trimming non-wage benefits and by reducing employment in low-wage jobs, laying off workers. Some small businesses may struggle to absorb the additional labor costs, potentially leading to closures. A negative impact that is less readily apparent is the possibility that a higher minimum wage could result in increased labor market competition for minimum wage jobs.

### **Implication on Potential Output**

With minimum wage increases, businesses may decide to substitute labour for capital by investing more heavily in automation. This may affect what types of businesses enter and exit the market. Alternatively, businesses may opt to increase on-the-job training for their low productivity workers instead of replacing them with machines thus increasing their labour costs.

Conversely, despite increases in minimum wage, **labour productivity in Canada has decreased** compared to other developed countries. According to Statistics Canada labour productivity fell in 6 consecutive quarters and in 11 out of the last 12 quarters. It currently stands at 72% compared to our U.S. counterparts.

### **Gross Domestic Product**

Simulations conducted by the Bank of Canada suggest that scheduled minimum wage increases would reduce the level of GDP.

### **Implications on Consumption**

Consumption may be reduced as higher inflation could elicit interest rate increases, leading to reduced disposable income and could offset higher labour income.

In Newfoundland & Labrador, businesses have eliminated discretionary spending. Consumers too have been forced to make choices related to the consumption of goods and services.

## **RECOMMENDATIONS**

- History indicates that living standards have improved substantially without government regulation of the minimum wage. Several progressive countries in Europe kept unemployment low and lowered inequality without setting any minimum-wage rate, such as, Finland, Sweden, Denmark, Italy, Norway and Switzerland. Several modern industrial societies did not have minimum wage laws (at least prior to 1997) with no obvious

lack of social progress and produced low unemployment rates - Germany, Britain, Ireland, and Hong Kong.

**Recommendation 1** - Government should not dictate the price of labour to businesses in order to achieve social goals. By shifting these costs to businesses, the government is trying to avoid the social expense of targeting assistance to households with low incomes.

- Statistics Canada calculates the constant dollar data for minimum wages using its Consumer Price Index (CPI) as the measure of inflation. There is a widespread consensus among experts that the CPI overstates inflation and therefore underestimates the increase in the real minimum wage, especially over long periods as a result of upward bias / mismeasurement. There are several reasons for mismeasurement which include - changing purchases by consumers, new store outlets selling to consumers, a lag in introducing new products into the CPI and the changing quality of consumer products. One way to correct the upward bias in the CPI is to use the Implicit Price Index (IPI) for personal expenditure in GDP, which incorporates more up-to-date spending patterns and has more comprehensive coverage. More researchers including those at Statistics Canada, should use the IPI data from household spending when analyzing long-term trends in incomes and prices.

**Recommendation 2** - CPI should not be the only measure used to determine minimum wage. The government should use a broader lens and take all the aforesaid indicators into consideration.

- Boosting minimum wages has proved to be a poor policy tool to reduce the incidence of low incomes. A better way for the government to assist low-income earners is to implement:

**Recommendation 3** - A more targeted approach of an Earned Income Tax Credit

Economists favor this as it provides an income subsidy to low-income working families. The tax credit benefits are phased out slowly so that workers are not penalized as they earn more income. This policy has proven effective in raising the incomes of the working poor while minimizing the unintended consequences associated with some other anti-poverty programs.

**Recommendation 4** - Increase the Yearly Basic Exemption for Low Income Earners

Small businesses in the province value their employees and would like their employees to have more disposable income. We recommend that the government increase the yearly basic exemption for those individuals earning less than \$25,000. The exemption amount for those between \$25,000 - \$36,000 could be progressively clawed back until the current level has been reached. This could assist in elevating poverty among low income earners.

- **Recommendation 5** - Repeal Section 30 of the NL Labour Standards Act

The government should revoke Section 30 of the Labour Standards Act which requires a review of the minimum wage every 2 years; in order to re-instate business confidence in government and provide credibility to the current minimum wage setting policy.

- **Recommendation 6** - Maintain yearly minimum wage increases on April 1 only and not twice a year  
Employers have demonstrated that they are not opposed to yearly minimum wage increases to ensure minimum wage earners keep-up with inflationary measures and for providing certainty to both employers and employees of increases once a year.
- **Recommendation 7** - Introduce new minimum wage categories:

- a) Introduce a Servers Wage to recognize the significant income earned by food and liquor servers from gratuities. The Server Wage could be established by freezing minimum wage for liquor servers at the current rate until a differential of \$1.50 is created, at which point, it would increase at the rate of increase in the national CPI.
  - b) Introduce a Training Wage to recognize the high cost of training new and entry level employees, similar to an apprentice wage. This wage could be established by freezing the wage for new employees at the current rate until a \$1.00 differential is created. It would then increase at the same rate as the national CPI. It would apply to inexperienced new hires for the first 500 hours of employment.
- **Recommendation 8** - Implement better policies, such as, competitive business taxes which enable businesses to grow and create opportunities for Canadians.
  - **Recommendation 9** - Create a strong labour market, wherein majority of the workers are on higher income categories than minimum wage.

## IN CONCLUSION

The Employers' Council acknowledges that the government is under pressure to increase minimum wage and calls upon the Minister to find ways to help ease the burden on the business community namely by implementing the above stated recommendations.

It applauds and urges the Minister to expedite its efforts on the harmonization of minimum wage with the other Atlantic provinces and educate the public on the rippling effects of constant minimum wage increases on the economy.

## CONTACT

For more information on these or other lobby / advocacy issues, please contact Judy Sparkes-Giannou at [judy@claytonhospitality.com](mailto:judy@claytonhospitality.com) or Sandy Lewis at [slewis@nlec.nf.ca](mailto:slewis@nlec.nf.ca).