



November 23, 2017

Chair and Commissioners  
B.C. Fair Wages Commission  
FWC@gov.bc.ca

Dear Chair Cohen and Commissioners:

### **Re: Review of the B.C. Minimum Wage**

The Independent Contractors and Businesses Association (ICBA) is pleased to make this submission to the B.C. Fair Wage Commission (FWC).

By way of background, ICBA has been the voice of B.C.'s construction industry for 42 years, representing more than 2,000 members and clients who collectively employ over 50,000 workers. ICBA advocates for its members in support of a vibrant construction industry, responsible resource development, and a growing economy for the benefit of all British Columbians.

### **Introduction**

ICBA's submission will address the general question under FWC's mandate to provide a "pathway" for increasing the minimum wage to \$15 per hour, including the amount, frequency and timeframe of increases.<sup>1</sup> Our submission will also address the matter of how the FWC and – by extension – the provincial government should address the matter of further increases beyond the \$15 per hour mark once it is reached.<sup>2</sup>

Our submission will not address the relationship between the "minimum wage" and the concept of a "living wage". We understand that this matter is not under immediate consideration by the FWC for its first report which must be completed by December 31, 2017.<sup>3</sup>

The impetus to move to a \$15 per hour minimum wage comes from the platform of the provincial government and the Confidence and Supply agreement between the B.C. Green Party and New Democratic Party. Both documents establish \$15 per hour as the target minimum wage.<sup>4</sup> During the term of the previous B.C. Liberal government (2013-2017), annual indexing of the minimum wage to the B.C. Consumer Price Index (CPI) was established with broad support from the business community as a method to provide certainty and predictability for further increases. In addition, two arbitrary

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<sup>1</sup> Final Terms of Reference, Fair Wages Commission, Honourable Harry Bains, Minister of Labour, September 26, 2017; Terms of Reference 5 – 7

<sup>2</sup> Ibid. Term of Reference 8.

<sup>3</sup> Ibid. Term of Reference 9.

<sup>4</sup> The NDP government promised a \$15 minimum wage by 2021 in its platform, *Working for You: Our Commitments to Build a Better B.C.* On August 31, the government shifted course somewhat from its platform commitment by appointing the Fair Wage Commission (FWC) to study the issue and make recommendations on the best path to \$15 per hour. The FWC is a requirement of the 2017 Confidence and Supply Agreement between the B.C. Green Caucus and the B.C. New Democrat Caucus.

adjustments<sup>5</sup> were made which, together with CPI increases, brought the current minimum wage level to \$11.35 per hour effective September 15, 2017.

Over time, the business community has consistently argued for certainty and predictability in increases to the minimum wage. Setting arbitrary thresholds and changing the process for determining minimum wage increases – mid-stream – should be avoided. We urge the FWC to establish a fair, predictable, and certain process for future increases to B.C.’s minimum wage.

The balance of this submission is laid out in three sections:

- \$15 Minimum Wage – Economic Considerations and Recent Interjurisdictional Experience;
- Mapping the Path: Certainty, Predictability and Offsetting Measures; and,
- Conclusions and Final Considerations.

### **\$15 Minimum Wage – Economic Considerations and Recent Interjurisdictional Experience**

Recent provincial government data suggests the number of B.C. employees being paid the minimum wage in 2016 was 93,800 out of a total 1,958,600 paid workers (or 4.8%). Of those 93,800 employees, 54% were aged 15-24, 14% were aged 55 or older, and 25% did not complete high school.<sup>6</sup> This highlights the fact that, overall, the minimum wage covers a relatively small proportion of the workforce though, importantly, employees in this segment of the labour market are typically entry-level workers on their way to higher-paid employment as they gain job skills and further their education.

British Columbia is the third province in Canada to announce its intention to move to a \$15 minimum wage. To the south of us, the experience of Seattle, Washington, is particularly instructive as the FWC considers the pathway to a \$15 per hour minimum wage.

So far, Seattle has implemented two substantial increases: the first increase was from \$9.47 to \$11 per hour, effective April 2015, while the second increase from \$11 to \$13 per hour took effect in January of 2016. The Seattle experience with two significant wage increases on its path to \$15 by 2021 is cautionary for the FWC about the negative impact of moving too quickly on minimum wage increases.

Academics from the University of Washington’s Evans School of Public Policy and Governance undertook a study of the effects of Seattle’s two-stage increase, finding that both jobs and hours-of-work fell for the city’s lowest-paid employees after the minimum wage rose to \$13 per hour from \$11 in 2016. The study also shows that jobs and hours for those workers declined faster in Seattle than in surrounding areas outside the city where the minimum wage did not increase.<sup>7</sup> Meanwhile, the study found that though the standing of Seattle’s lowest-paid workers improved following the city’s minimum wage increase to \$11 per hour in 2015 from \$9.47, it was largely due to a very robust local economy, rather than the minimum wage increase *per se*. Among the paper’s other key findings:

- Employment losses associated with Seattle’s mandated minimum wage increases are, in fact, large enough to have resulted in net reductions in payroll expenses – and total employee earnings – in the city’s low-wage job market.

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<sup>5</sup> The first increase by the previous government was 40 cents per hour, bringing the rate to \$10.85 per hour effective September 15, 2016, along with a further scheduled increase of 40 cents to \$11.25 on September 15, 2017. Under the new administration the minimum increased to \$11.35 per hour.

<sup>6</sup> Government of B.C., Ministry of Labour, [Fact Sheet](#), 2017.

<sup>7</sup> Noam Scheiber, “How a Rising Minimum Wage Affects Jobs in Seattle”, [New York Times](#), June 26, 2017.

- The study found larger impacts with the increase from \$11 to \$13 per hour, than the rise from \$9.47 to \$11 per hour, suggesting the labour market response was not the same from one increase to the next.
- Seattle’s minimum wage was implemented in the context of a robust economy, providing a cautionary note in the event B.C.’s economy starts to slow.
- Estimates suggest Seattle’s *Minimum Wage Ordinance* “caused hours worked by low skilled workers (those earning less than \$19 per hour) to fall by 9.4 percent during the three quarters (9 months) when the minimum wage was \$13 per hour, resulting in the loss of 3.5 million hours per calendar quarter. Alternative estimates suggest the number of low-wage jobs declined by 6.8 percent, or a loss of 5,000 jobs.”<sup>8</sup>
- There may be other unintended consequences – the work of least-paid workers might be performed more efficiently by more skilled and experienced workers who command a higher wage. This work could, in some circumstances, be automated. In other circumstances, employers might determine the work is no longer needed.<sup>9</sup>
- Longer-term effects of Seattle’s minimum wage may be significant with the move to index to inflation once the \$15 minimum is achieved in 2021. Some workers may well have experienced significant wage increases with no reduction in hours, while others may have encountered difficulty in securing work. Study authors suggest that it is critical to understand how this plays out across low skilled workers in varying life circumstances.<sup>10</sup>

Apart from the recent example of Seattle, Ontario plans to implement a \$15 minimum wage (from a present level of \$11.60) in a relatively short period of time (18 months). As the Seattle experience highlights, the effects will be magnified as employers have little time to plan and adjust. Another recent study by the University of Waterloo measured the employment effects of 185 changes to the minimum wage in Canada’s 10 provinces between 1981 to 2011. The study found that a 10 percent increase in the minimum wage generally led to up to a four per cent drop in teenage employment. This, together with the experience in Seattle, is concerning as the Ontario government proposes a 32 per cent increase in their minimum wage,<sup>11</sup> and should also serve as a strong warning about how not to proceed in British Columbia.

While Ontario’s path to a \$15 minimum wage is still unfolding, there are signs that the size and timing of the increases is forcing some businesses to consider replacing labour with automation. Ontario’s third largest grocer, Metro Inc., has signaled that it is considering automation as it looks to cut costs to offset the provincial government’s plans to increase the minimum wage. Because of the short implementation timeframe, the industry has little time to adjust to cost increases, and intensifying competition is squeezing margins in an already highly competitive industry. The firm has noted it will cost about \$45-\$50 million to make the transition to \$14 per hour from \$11.40, noting further that it will “spare no effort” to manage labour costs.<sup>12</sup> A similar response could be expected if the B.C. government moves too quickly to implement a \$15 minimum wage. When faced with too steep an increase, employers – out of necessity

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<sup>8 8</sup> National Bureau of Economic Research, Minimum Wage increases, Wages, and Low-Wage Employment: Evidence from Seattle, Working Paper 23532, <http://www.nber.org/papers/w23532>, June 2017, page 32.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid. Page, 33-35.

<sup>11</sup> Kate Rybczynski and Anindya Sen, University of Waterloo, <http://onlinelibrary.wiley.com/doi/10.1111/coep.12241/full>

<sup>12</sup> Ross Marowitz, “Metro grocery looking to automation to offset higher Ontario minimum wage”, Toronto Star, August 15, 2017.

– may cut costs, hire less, or automate either through direct replacement of tasks by machinery or e-commerce.

As the FWC considers the pathway to a \$15 minimum wage, there will be upward pressure on other wages economy-wide even if the increases are modest and regular. In this regard, the Average Hourly Earnings rate in B.C. is currently \$26.58, while the average wage in the construction industry is \$27.68. Increases to the minimum wage should not, therefore, immediately impact the construction sector, though there will be indirect impacts as the cost of some goods and services increase.<sup>13</sup> After all, the final incidence of minimum wage increases is borne by consumers.

On a final note, the academic literature is clear that policy makers should track where the minimum wage stands relative to average hourly earnings. Academic studies show that if the minimum wage is less than 50 per cent of the average hourly wage, it tends to have little negative effect on employment levels.<sup>14</sup> Conversely, if the ratio is higher than 50 per cent, negative effects on employment levels can be expected. A basic principle of economics is that impacts happen at the margin, “...and the fact that a small change will have small effects does not mean that a large change will still have small effects.” The cut-off point is “45% - 50% of the average wage: go above that level and we’re harming low paid workers (by reducing employment), not helping them.”<sup>15</sup>

In summary, extreme caution is warranted in moving to a \$15 minimum wage. The FWC should consider the following principles when crafting its report:

- Increases to the minimum wage should consider other aspects of compensation (e.g. tips in the restaurant business).
- B.C. should neither lead the country with the highest minimum wage, nor should it be at the bottom. Though aggregate business competitiveness depends on numerous inter-related factors, establishing the minimum wage in the mid-range of other provinces is prudent.
- Minimum wage positions offer entry-level opportunities to students, young people and immigrants as the “first rung” on the ladder to higher-paid, more-skilled employment. Entry level positions, paid at minimum wage, often provide basic lifetime skills for young workers or others who have not previously been attached to the workforce.
- Employers may be compelled to replace minimum wage employees when faced with increases, with fewer, higher-wage, more experienced employees to boost productivity and revenue. In turn, this may have negative implications for entry-level workers who, in effect, may be priced out of the labour market.
- A relatively healthy economy can better absorb a minimum wage increase than one that isn’t. British Columbia is in its fourth year of above 3.0 per cent real GDP growth, which is not likely to last.
- Minimum wage hikes may give rise to replacing employees with automation or e-commerce. As the marginal cost of automation decreases, this will be an increasingly attractive option for employers to make. Large increases to the minimum wage will likely accelerate this process.

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<sup>13</sup> Statistics Canada, Labour force survey estimates (LFS), wages of employees by type of work, NAICS, <http://www5.statcan.gc.ca/cansim/a47>

<sup>14</sup> Richard Blackwell and Tavia Grant, “Minimum wage increases reignite livable income debate”, Globe and Mail, October 1, 2015.

<sup>15</sup> Tim Worstall, “The Absurdity of a \$15 minimum wage”, Forbes, September 1, 2013.

- The minimum wage has grown quite rapidly in British Columbia in recent years, and the ratio of the minimum wage to average hourly earnings has increased as well.<sup>16</sup> Currently the ratio of the minimum wage to average hourly earnings stands at about 43 per cent in B.C. The FWC should ensure this ratio is kept below 50 per cent.

### **The Pathway – Certainty, Predictability and Offsetting Measures**

For some time, the business community in general, and ICBA in particular, has argued for certainty and predictability in the method for determining increases to the minimum wage. Small and medium sized business investment and planning horizons require advance knowledge, to the greatest extent possible, of increases in fixed business costs, including minimum wage rates.

The government committed to a \$15 per hour minimum wage in the last election, and has confirmed this intention in the FWC Terms of Reference. Accordingly, we recommend that the government take the following approach in mapping a pathway to a \$15 per hour minimum wage:

- Equal increases be made annually in 2018, 2019, 2020, 2021, and 2022<sup>17</sup>. The FWC should consult broadly with the small and medium sized business community on the exact timing of each annual increase; and,
- Annual increases in 2023 and beyond should be calculated using the B.C. Consumer Price Index (CPI). ICBA is strongly of the view that government should return to using CPI as the basis for determining increases to the minimum wage post-2023. This is how Seattle intends to proceed once their minimum wage reaches \$15 per hour.

As the FWC recommends the pathway for achieving a \$15 minimum wage, consideration should also be given to offsetting measures to help employers cope with shifts to higher rates. As noted earlier, during the last term of the previous government, the decision was taken to vary from the established process of tying further increases to the B.C. CPI rate. At that time, many business associations advocated for offsetting measures, principally in the form of training assistance for minimum wage workers. For a modest sum of money – at that time \$2.88 million – the previous government provided a pool of funds that small businesses could access to assist with training costs and to help offset some of the impacts of moving to a higher minimum wage<sup>18</sup>.

A training assistance fund to help small businesses provide job-ready, basic skills for previously unemployed workers is readily justified on the basis of mutual benefit to small businesses and new workers in the short-run, while helping workers ladder into higher-skilled, higher-paid positions over the long run.

Other business associations may also have ideas for “offsetting measures” that can cushion the effect of minimum wage hikes. In addition, ICBA encourages the FWC to recommend that the government

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<sup>16</sup> Diane Galarneau and Eric Fecteau, The ups and downs of minimum wage”, Statistics Canada, July 2014, page 1 - 5.

<sup>17</sup> Using this approach, the minimum wage would increase by 75 cents annually until it reaches the \$15 per hour threshold in 2022.

<sup>18</sup> Government of British Columbia, Minimum wage increases coupled with new training supports”, May 4, 2016, <https://news.gov.bc.ca/releases/2016PREM0048-000715>

continue to provide other information, resources, and supports to help small businesses improve markets for goods and services, increase firm level productivity and, collaterally, boost job and employment prospects, particularly for new labour market entrants and low skilled workers.

### **Conclusions and Final Considerations**

ICBA appreciates this opportunity to provide the FWC with its thoughts on the pathway for increasing the minimum wage in British Columbia.

We encourage the FWC to be mindful of inevitable unintended consequences of any precipitous increases to the minimum wage.

We urge the FWC to recommend to the provincial government an orderly, predictable, incremental, and certain process – as described above – which will take B.C.’s minimum wage to \$15 per hour in 2022. Further increases should thereafter be indexed annually to the prevailing B.C. CPI rate.

Sincerely,

**Independent Contractors and Businesses Association**



Chris Gardner  
**President**