Affordability, minimum wages, and living wages:

Striking a balance for small businesses

CANADIAN FEDERATION OF INDEPENDENT BUSINESS
In business for your business

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Table of contents

Key takeaways

- Most minimum wage workers are young people entering the workforce, with a high school education or less, living with their parents.
- Most minimum wage jobs are transitional, often serving as a starting point for young workers.
- Minimum wage setting processes are unpredictable, subjective, and lack transparency and consideration of economic effects.
- Minimum wage growth has outpaced inflation, labour productivity, and median wage increases in the last 10 years.
- At its core, the concept of a living wage is flawed due to the diversity in individual preferences, varying levels of willingness to pay for goods and services, and unique thresholds for financial well-being.
- Mandating a $20/hour living wage in each province would cost $44.9 billion, potentially fuelling inflationary pressures, and putting more than half a million businesses at risk of unprofitability.
- While businesses are responsible for providing competitive wages based on skills and experience, taxes and regulations significantly impact the affordability of essentials like rent, utilities, food, childcare, and transportation.
- Governments have a responsibility to ensure that workers are better positioned to handle the rising cost of living, without solely relying on businesses to bear the financial burden of addressing the economic challenges workers face.
- Addressing the root causes of the rising cost of living, coupled with providing targeted fiscal support to vulnerable workers, presents a more effective approach to dealing with Canada's affordability challenges, all without burdening small businesses with added expenses and responsibility.

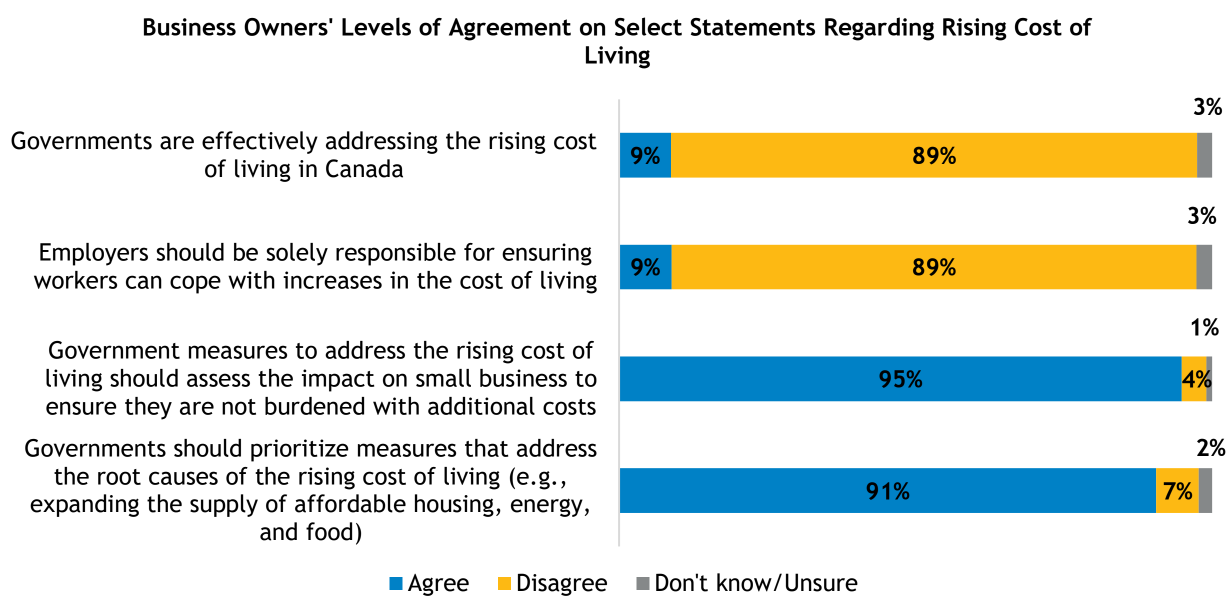
Background

In today's volatile economic environment, affordability has become a pressing concern for Canadians. The rising cost of living has left many grappling with the challenge of making ends meet, particularly vulnerable workers and small business owners struggling to navigate the numerous economic challenges that arose because of the pandemic and its aftermath.

Supply disruptions resulting from lockdowns, substantial monetary and fiscal stimulus, and geopolitical conflicts have all contributed to significant cost-of-living increases in recent years.[1] This scenario raises questions about how to best ensure that vulnerable workers and small business owners are not disproportionately affected.

Many governments have attempted to address the escalating cost of living, yet nearly nine out of 10 Canadian small businesses believe that these efforts have not been effective. Business owners overwhelmingly feel that governments are not adequately considering their perspectives in addressing the rising cost of living, with many bearing the burden themselves (Figure 1).

Figure 1. There is widespread dissatisfaction with the government's response to the rising cost of living among Canadian small businesses



Source: CFIB, Minimum Wage – Small Business Perspectives survey, August 17–September 27, 2023, n = 4,104. Question: "Please indicate the extent to which you agree or disagree with the following statements. (Select one for each line)" Agree = Strongly agree + Somewhat agree, Disagree = Somewhat disagree + Strongly disagree.

This perception stems from the reliance on minimum wage policies as the government's primary tool to address Canada's affordability challenges. However, many business owners view minimum wage increases as a blunt instrument that fails to effectively target the root causes of the country's affordability shock while adding more costs to their operations. For example, if minimum wage increases are not accompanied by improvements in productivity or efficiency, businesses may pass on

[1] Bank of Canada, "What's happening to inflation and why it matters, Remarks by Tiff Macklem Governor of the Bank of Canada," 2022. https://www.bankofcanada.ca/wp-content/uploads/2022/10/remarks-2022-10-06.pdf

the higher labour costs to consumers through higher prices. Additionally, they may choose to refrain from creating new jobs or expanding operations.

This is why a different approach is needed. For example, by addressing the root causes of rising prices (e.g., shortage of housing, lack of competition in some sectors, high energy and food prices, trade barriers, supply chain challenges, etc.), governments can stop unsustainable price growth and ensure that workers keep more money in their pockets. This supply-driven approach benefits both businesses and consumers as it promotes price stability.

Unsurprisingly, 91% of small business owners believe that governments should prioritize measures like boosting the supply of affordable housing, food, energy, and other goods and services (see Figure 1) to help curb the rising cost of living. By taking such actions, both workers and small business owners stand to retain more of their hard-earned money.

In addition, some governments and living wage advocates argue that employers should bear sole responsibility for ensuring their workers can cope with the rising cost of living. However, 89% of small business owners disagree with this approach. Our economy relies on small businesses providing jobs and producing the goods and services Canadians demand. While they are responsible for providing competitive wages that reflect their workers' output, skills, productivity, and expertise, imposing additional costs on them, without a corresponding productivity gain, may edge them towards closure.

In this report, we delve into minimum wage and living wage policies, shedding light on the complexities that surround these issues and their profound implications for small businesses, vulnerable workers, and the overall economy.

The first section analyzes the demographics of minimum wage earners and discusses the drawbacks of minimum wage policies. It reveals how, despite good intentions, these policies often fail to target the most vulnerable workers. In addition, we examine the subjectivity in minimum wage setting policies that exist among Canadian provinces, analyze recent trends around minimum wages, inflation, and productivity, and highlight the impact of minimum wages on small businesses.

Next, we analyze the challenges of implementing living wage policies as governments explore ways to combat the rising cost of living. Finally, we provide key recommendations aimed at achieving a balance in affordability for small businesses and vulnerable workers. These recommendations are designed to empower employees to retain a greater share of their hard-earned income while simultaneously bolstering small businesses, enabling them to grow and create jobs.

The pitfalls of minimum wage policies

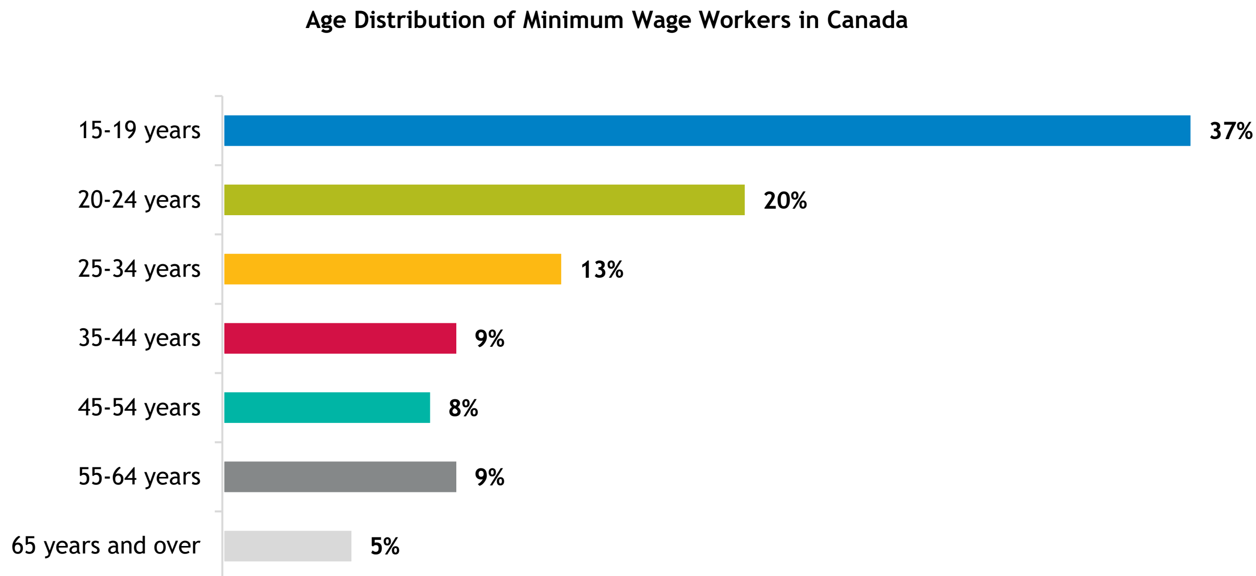
Who earns the minimum wage?

In 2023, Canada's population surpassed 40 million with a workforce of 17 million people. Within this workforce, 6.5%—roughly 1.1 million people—were minimum wage workers. This section explores the demographics of these workers, focusing on age, educational attainment, type of job, job tenure, and household composition. The aim is to understand the characteristics of this segment of the population so governments can better target policies aiming at increasing the living standards of vulnerable workers without imposing additional burden on small businesses.

Age

Canada's minimum wage earners skew towards the younger side. Individuals aged 15 to 24 make up 57% of this group, a figure that stands in contrast with their 15% share of the national workforce. Among them, those aged 15 to 19 are most prevalent, making up 37% of minimum wage positions, and another 20% fall within the 20 to 24 range.

Figure 2. Most minimum wage workers (57%) are young people entering the workforce (ages 15-24)



Source: Statistics Canada, Labour Force Survey, Selected characteristics of employed employees by minimum wage status and sex, Canada and provinces, annual average, 2012 to 2022, sent on October 27, 2023.

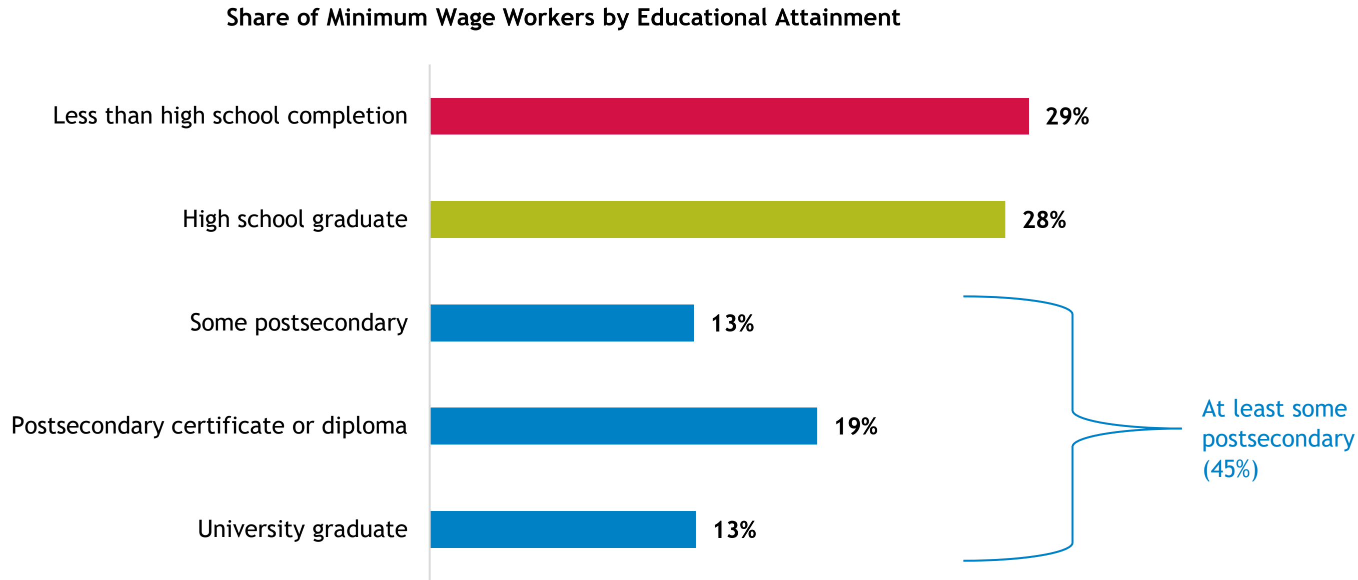
The data suggests that minimum wage workers are mostly young people entering the workforce and navigating the early stages of their professional careers. This finding highlights the need for governments to consider policies that support small businesses in creating jobs and economic opportunities for young people, rather than imposing rigid minimum wage regulations that may inadvertently prevent young individuals' entry into the workforce.

Education

Within the minimum wage workforce, 57% have a high school education or less, suggesting that minimum wage jobs typically demand qualifications that are not highly specialized.

Only 13% of minimum wage workers are university graduates, contrasting sharply with those who have not undertaken any form of postsecondary education. This data underscores the relationship between skills level and wages, while highlighting the importance of prioritizing policies that promote accessible and quality education to enhance earning potential and economic mobility.

Figure 3: Most minimum wage jobs don't require high levels of specialization

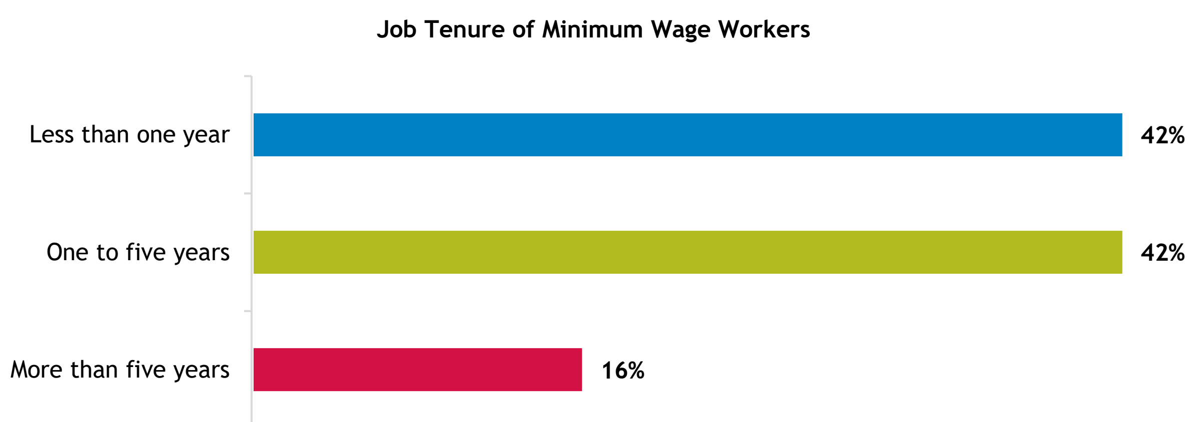


Source: Statistics Canada, Labour Force Survey, Selected characteristics of employed employees by minimum wage status and sex, Canada and provinces, annual average, 2012 to 2022, sent on October 27, 2023.

Job tenure and type of work

Job tenure data indicates minimum wage roles often serve as a starting point, with 42% of minimum wage workers staying in these jobs for less than 12 months, emphasizing the transitional nature of these positions. In stark contrast, only 16% of minimum wage workers remain employed at that rate for over 5 years. Notably, 62% of minimum wage workers engage in part-time employment, highlighting the need for flexibility in labour market regulations, which is crucial for students and those balancing work with other commitments.

Figure 4. Minimum wage jobs are transitional and often serve as a starting point for young workers



Source: Statistics Canada, Labour Force Survey, Selected characteristics of employed employees by minimum wage status and sex, Canada and provinces, annual average, 2012 to 2022, sent on October 27, 2023.

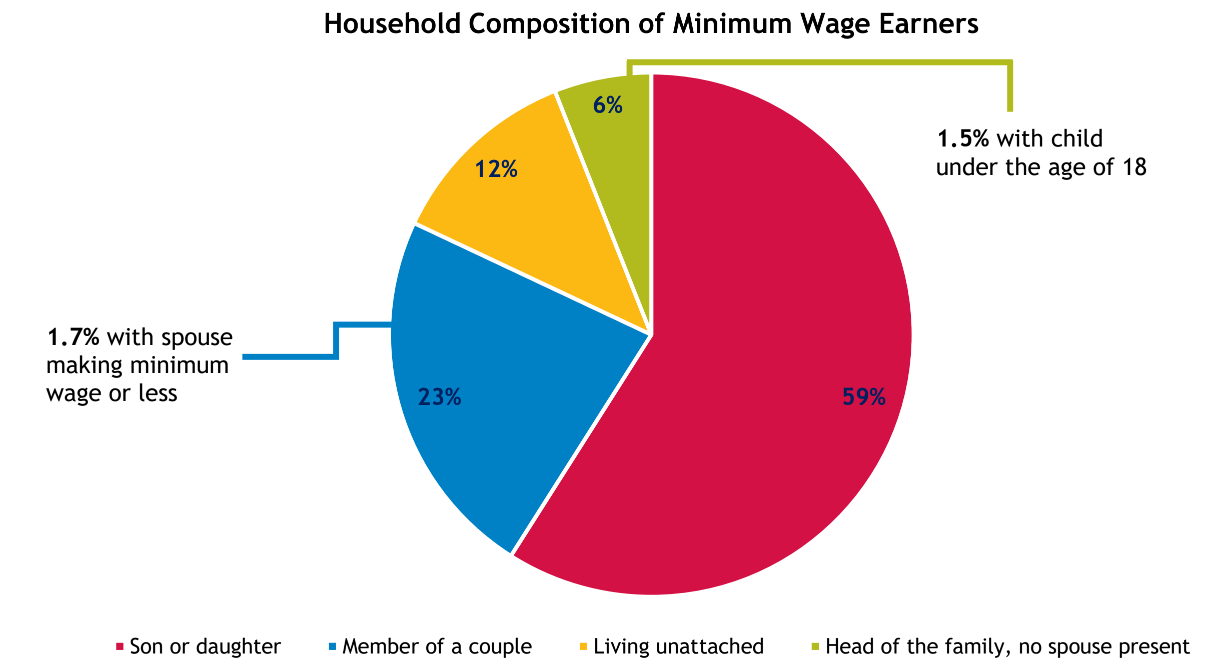
Household composition

Household composition data reveals that almost six in ten minimum wage workers are young individuals living with their parents, representing the single largest segment of minimum wage earners.

In addition, almost a quarter of minimum wage workers (23%) are members of a couple, and approximately 75% of them have an employed spouse. Notably, only a quarter of spouses of minimum wage workers (roughly 0.3% of Canada's workforce) are unemployed. Of all minimum wage workers, only 1.5% are single parents with their youngest child under 18 years old, dispelling the belief that this demographic (roughly 0.1% of Canada's workforce) is the main beneficiary of minimum wage policies.

In summary, the data showcases that most minimum wage earners are young individuals living with their parents, suggesting that increasing the minimum wage might not be the most effective strategy to help vulnerable single parents.

Figure 5. Most minimum wage workers are sons or daughters living with their parents



Source: Statistics Canada, Labour Force Survey, Selected characteristics of employed employees by minimum wage status and sex, Canada and provinces, annual average, 2012 to 2022, sent on October 27, 2023.

Low-income households

A recent report[2] revealed that, after accounting for taxes and transfers, 92.3% of minimum wage workers are not part of a low-income household. The data challenges narratives around the economic vulnerability of minimum wage workers, indicating that a substantial portion of them may not be the primary breadwinners in their families. Instead, many could be contributing as secondary or tertiary sources of income within their households.

[2] Fraser Institute, "Who Earns the Minimum Wage in Canada?," 2021. https://www.fraserinstitute.org/sites/default/files/who-earns-the-minimum-wage-in-canada.pdf

In conclusion, while the stated goal of minimum wage policies is to uplift vulnerable workers, the data reveals a different reality. Most minimum wage earners are young individuals in the early stages of their careers, residing in non-low-income households, and staying in those jobs for less than a year.

How are minimum wages set in Canada?

In contrast to countries with a single national minimum wage, Canada's decentralized approach allows each province and territory to autonomously set its minimum wage. As shown in Appendix A, minimum wages in Canada range from $14 per hour in Saskatchewan to $16.75 per hour in British Columbia, with territories varying from $15.20 in the Northwest Territories to $16.77 in Yukon.

Small businesses express significant concern around the unpredictability, subjectivity, and the lack of transparency in minimum wage setting processes across Canadian jurisdictions.

Unpredictability

Minimum wage increases often pose a significant challenge for small businesses due to their unpredictability. Unlike other operational costs that may fluctuate according to market trends, minimum wage adjustments are ultimately determined by political decisions and legislative changes, which can be difficult to forecast.

The lack of consistent criteria for determining minimum wage hikes further contributes to their unpredictability. While some Canadian jurisdictions have tied minimum wage adjustments to inflation, they tend to deviate the next year or use other criteria in the following years, leading to inconsistencies in the method and timing of wage hikes.

Notably, Saskatchewan deviated from its traditional approach by altering its indexation formula in 2022. Additionally, Manitoba made amendments to its Employment Standards Code to permit larger increases in the minimum wage when inflation surpasses 5% year-over-year. Similarly, in the Atlantic provinces, there have been discrepancies between the minimum wage setting processes detailed in their respective Employment Standards Acts and the processes they utilize. In 2022, New Brunswick broke from its usual practice of tying minimum wage adjustments to the Consumer Price Index (CPI) by implementing two separate increases totalling two dollars.

Over the past three years, six provinces have followed suit, each increasing their minimum wage twice within a single year. Furthermore, two of the Atlantic provinces employ metrics beyond the CPI when determining minimum wage adjustments. For example, Prince Edward Island factors in measures of poverty alongside the CPI in its decision-making process. Nova Scotia, previously known for arbitrary increases, now utilizes a combination of the CPI and a percentage of Gross Domestic Product (GDP) to gauge necessary hikes. Similarly, Newfoundland and Labrador has implemented arbitrary increases in recent years.

This uncertainty creates a challenge for small business owners who rely on stable financial projections to plan and execute their hiring and investment strategies effectively. Without a clear understanding of how minimum wage increases will unfold each year, businesses struggle to anticipate the impact on their bottom line, making it challenging to allocate resources efficiently.

This lack of standardized criteria makes it challenging for small businesses to anticipate future increases accurately. Without a clear framework for how minimum wage adjustments will be calculated and implemented, businesses are left to speculate on potential outcomes, adding another layer of uncertainty to their financial planning processes. As a result, small businesses often find themselves caught off guard, making it difficult to adjust staffing levels, pricing strategies, and overall business operations effectively.

Subjectiveness

The disconnect between minimum wage adjustments and economic indicators poses an additional challenge, as these increases often fail to accurately reflect labour market conditions or overall economic activity. For instance, mandated increases in minimum wages may occur independent of whether there is genuine growth in productivity or demand for labour.

This misalignment between minimum wage adjustments and economic realities underscores the subjective nature of minimum wage mechanisms in Canada, as they often rely on arbitrary or politically driven decisions rather than objective assessments of labour market dynamics.

Without a more evidence-based approach that considers economic indicators that reflect true economic activity, such as productivity and median wage growth, minimum wage policies run the risk of exacerbating rather than alleviating economic challenges faced by low-income workers and small businesses.

Furthermore, the influence of political factors adds another layer of subjectivity to minimum wage adjustments, as policymakers may prioritize ideological considerations or seek to garner support from specific voter demographics. This political expediency can lead to minimum wages that are divorced from the actual needs of low-wage workers or the realities of the labour market.

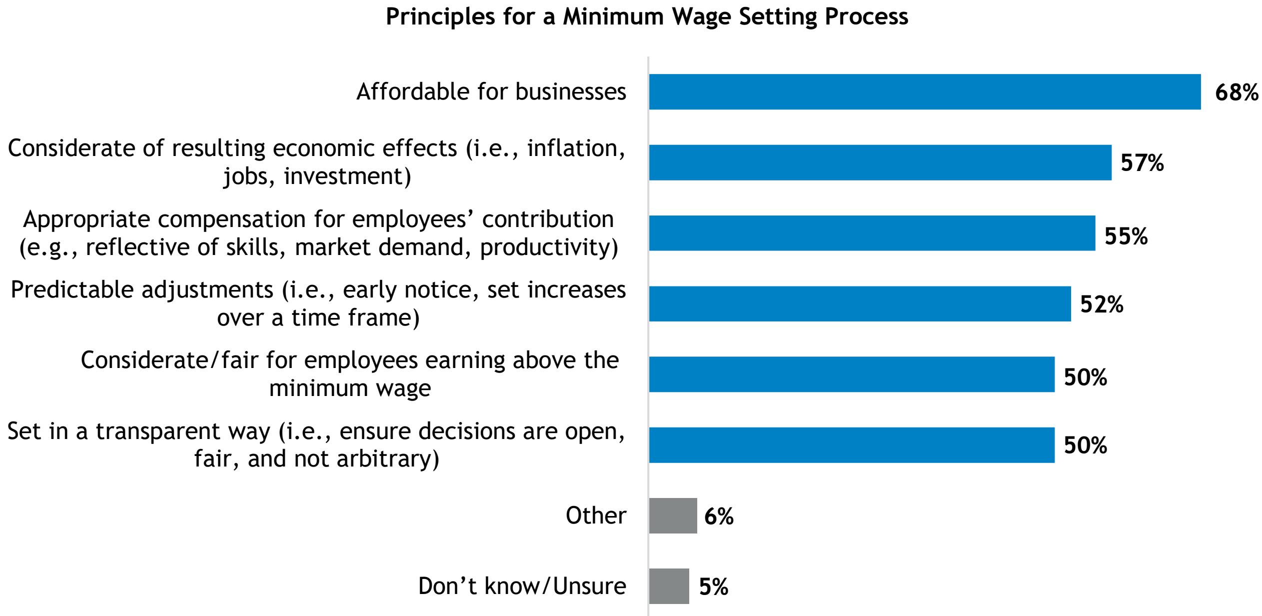
Opaqueness

The processes employed to determine minimum wage increases vary across Canadian jurisdictions, leading to inconsistencies and a lack of transparency in the decision-making process. While certain provinces have implemented indexing mechanisms tied to the Consumer Price Index (CPI) in recent years, deviations in indexation methods and formulas have been observed. The absence of standardized, or even legislated, indexation across most provinces shows the lack of transparency in minimum wage setting processes.

Moreover, the absence of comprehensive and periodical reviews of the impact and effectiveness of minimum wage adjustments further contributes to the lack of transparency. Despite consultations with various stakeholders in jurisdictions such as Quebec, Nunavut, Prince Edward Island, and Nova Scotia, most governments never conduct a comprehensive analysis to confirm that these minimum wage adjustments are helping the most vulnerable workers or that they are not having negative economic consequences.

Figure 6 shows that most small business owners believe that, to promote economic stability and support both workers and their businesses, governments should develop minimum wage policies that are affordable, predictable, and transparent. These policies should reflect prevailing market conditions while also being mindful of their economic impact.

Figure 6. Small businesses want a minimum wage that is affordable, predictable, reflective of market conditions, and mindful of economic impacts

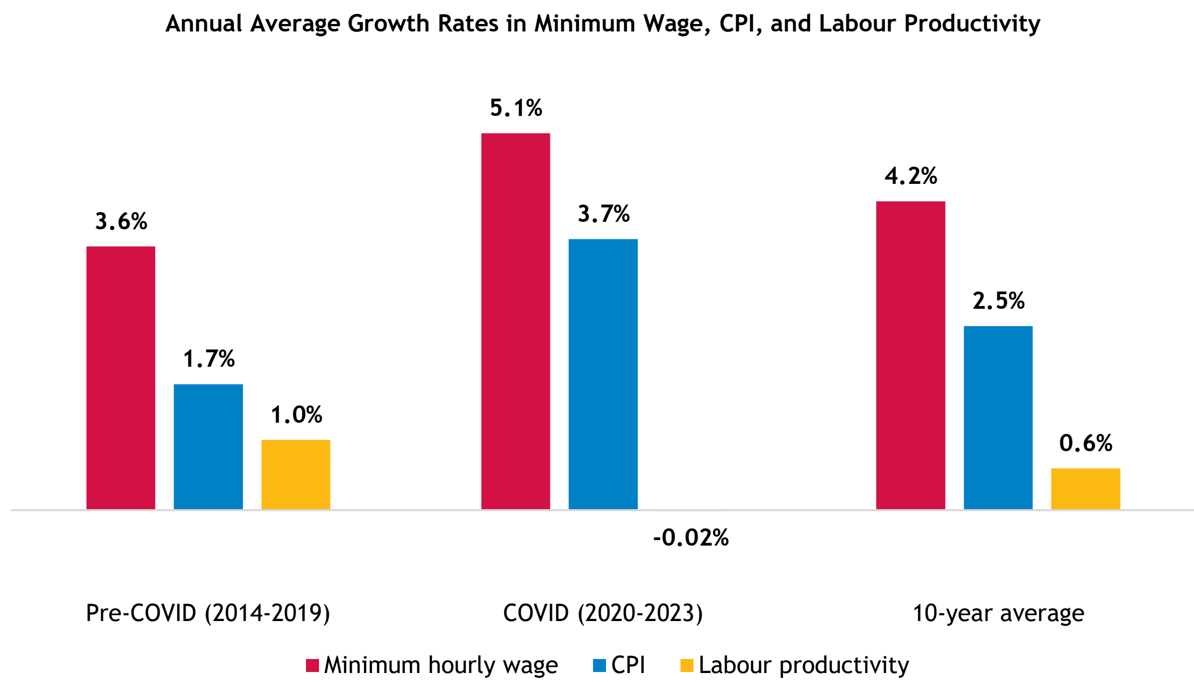


Source: CFIB, Minimum Wage – Small Business Perspectives survey, August 17–September 27, 2023, n = 4,104. Question: "As an employer, which of the following guiding principles do you consider most important in establishing a government process to set minimum wages? (Select all that apply)."

What are the recent trends?

In response to surging inflation, provincial governments have increased their minimum wages to record levels with an average year-over-year increase of 9.3% in 2023, reaching even higher levels in certain provinces like New Brunswick (16%). This contrasts with the average minimum wage increase of 3.4% in 2019, 3.8% in 2020, 2.0% in 2021, and 7.5% in 2022.[3]

Figure 7. Annual minimum wage increases have largely outpaced inflation and labour productivity since 2014



Source: CFIB's own calculations based on Government of Canada, General hourly minimum wage rates in Canada since 1965 https://srv116.services.gc.ca/dimt-wid/sm-mw/rpt2.aspx, using an average of provincial minimum wages, Statistics Canada Table 14-10-0064-01 Employee wages by industry, annual https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410006401, and Table 36-10-0206-01 Indexes of business sector labour productivity, unit labour cost and related measures, seasonally adjusted https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610020601.

Despite the prevalent narrative that minimum wages are not keeping up with inflation, Figure 7 reveals a trend over the last decade: minimum wage increases have consistently outpaced inflation. In fact, on average, minimum wages have risen by 4.2% every year since 2014 while inflation has increased by 2.5% per year since 2014.

If minimum wages rise faster than inflation, it means that labour costs are increasing at a faster rate than the overall cost of living. This can lead to higher expenses for businesses, potentially affecting their ability to operate, expand, and create jobs.

In addition, minimum wage increases have far outpaced labour productivity—measured as GDP per hour worked—suggesting that minimum wage hikes may not be fully aligned with corresponding gains in

[3] Government of Canada, General hourly minimum wage rates in Canada since 1965. https://srv116.services.gc.ca/dimt-wid/sm-mw/rpt2.aspx

overall economic productivity. Labour productivity has stagnated in the last decade, with output per hour worked increasing by only 0.6%. The situation is even worse when we look at the COVID era (2020-2023), where labour productivity declined while wages grew substantially.

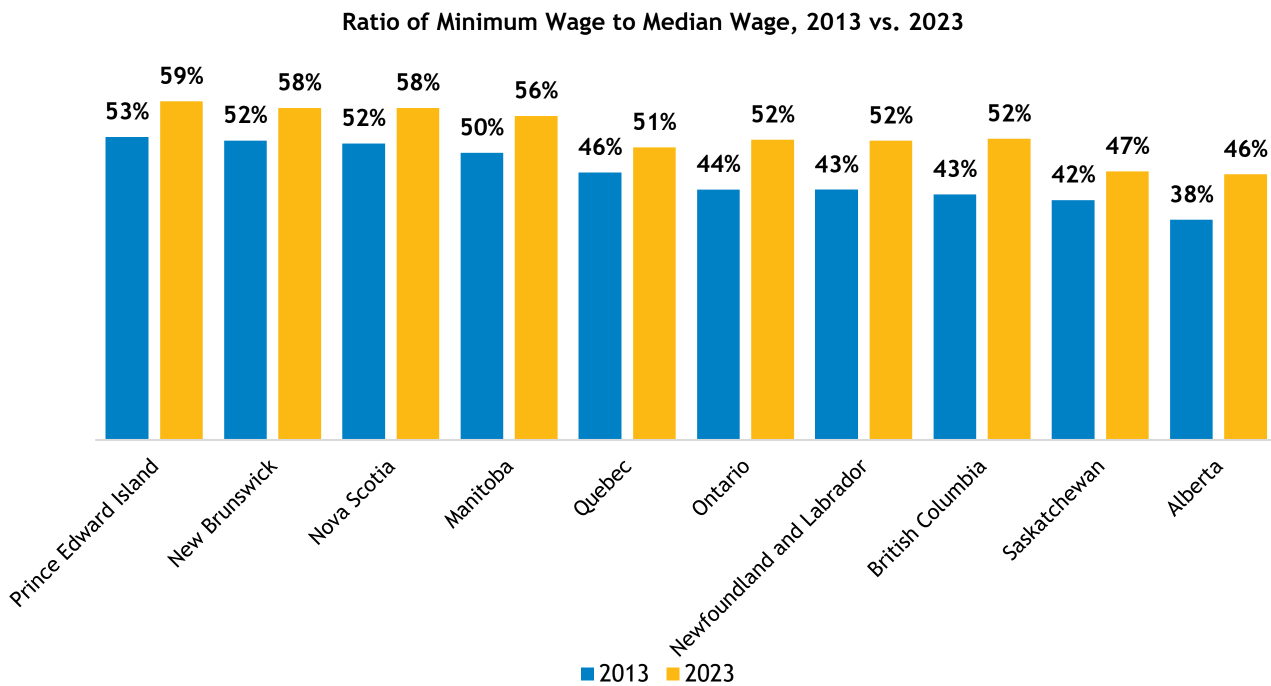
This gap between minimum wage increases, inflation, and stagnant labour productivity raises important questions about the nature of minimum wage setting processes and the criteria used to determine adjustments.

In addition, the ratio of the minimum wage to the median wage—also known as the Kaitz Index or the "bite" of the minimum wage—has grown substantially in the last decade as shown in Figure 8. This index is a measure of how the minimum wage compares to the overall wage distribution, with a higher percentage indicating a higher "bite." When the index surpasses 50%, it reaches a critical threshold beyond which the minimum wage could start having more pronounced negative effects on employment opportunities, especially for lower-skilled workers.

The average provincial minimum wage went from 46% of the provincial median wage in 2013 to 53% in 2023 with some provinces, such as British Columbia and Ontario, experiencing increases of 10 and 9 percentage points, respectively. Alarmingly, four provinces (Prince Edward Island, New Brunswick, Nova Scotia, and Manitoba) are close to 60%, which some studies[4] say is a critical threshold that could have potential negative consequences for the labour market and the economy.

[4] Arindrajit Dube, "Impacts of minimum wages: Review of the international evidence," 2019. University of Massachusetts Amherst, National Bureau of Economic Research, and IZA Institute of Labor Economics. https://assets.publishing.service.gov.uk/media/5dc0312940f0b637a03ffa96/impacts_of_minimum_wages_review_of_the_international_evidence_Arindrajit_Dube_web.pdf

Figure 8. The "bite of the minimum wage" has increased in the last decade with some provinces reaching potentially damaging levels



Source: CFIB's own calculations based on Government of Canada, General hourly minimum wage rates in Canada since 1965 https://srv116.services.gc.ca/dimt-wid/sm-mw/rpt2.aspx, and Statistics Canada Table 14-10-0064-01 Employee wages by industry, annual https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410006401.

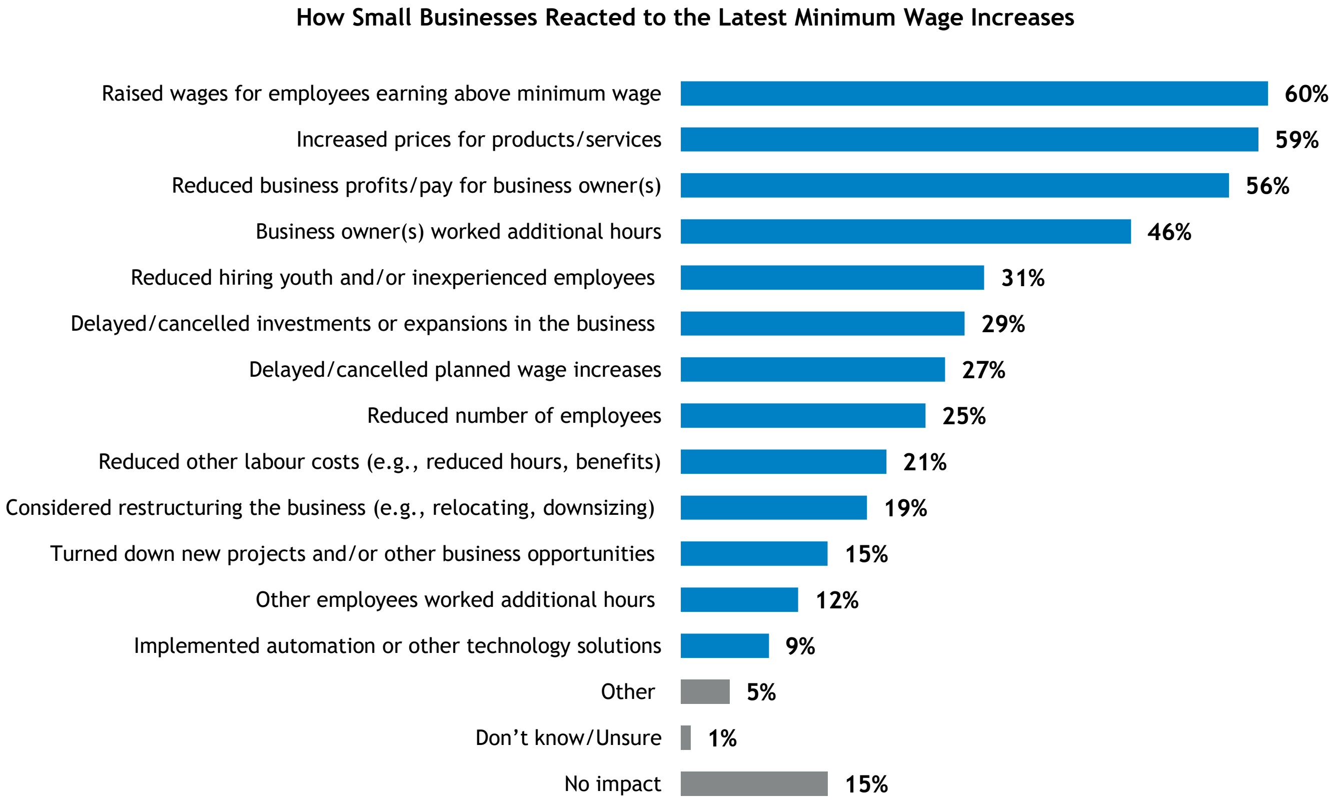
In provinces with lower overall wages, the consequences of a minimum wage hike are more pronounced as a greater number of workers are affected. Conversely, areas with higher overall wages experience less severe effects since fewer workers are impacted, given that wages generally surpass the new minimum level. Supporting this, research from the World Bank[5] indicates that as the minimum wage increases relative to the median wage, the likelihood of substantial adverse employment effects rises.

What are the impacts of rising minimum wages on small business?

Even if only 6.5% of the country's workforce earns minimum wage, 84% of small business owners were impacted by the cascading effects of the recent minimum wage hike. While the intention behind raising the minimum wage is to improve workers' financial well-being, the repercussions on small businesses are multifaceted and may even worsen workers' financial situations in the medium to long term. The varied impact of minimum wage hikes on businesses can be grouped into three distinct themes: financial/monetary, labour, and business strategies and investments.

[5] Rutkowski, Jan, "The Minimum Wage, Curse or Cure?," 2003. The World Bank. https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=57f297ed09186eb3d85097154c64cb7499b57ce2#:~:text=Overall%2C%20the%20impact%20of%20minimum,curse%2C%20nor%20a%20cure%E2%80%9D

Figure 9. Recent minimum wage increases forced businesses to raise prices, reduce employment, and delay or cancel investments



Source: CFIB, Minimum Wage – Small Business Perspectives survey, August 17–September 27, 2023, n = 4,104. Question: "What impact have recent minimum wage increases had on your business? (Select all that apply)."

Monetary/financial impact

Recent minimum wage increases have directly affected small businesses' bottom lines. When businesses were asked about the consequences of these wage hikes, the top three concerns were related to their monetary/financial impact.

One prominent concern was the ripple effect on employees earning above the minimum wage. Notably, three out of five businesses had to increase the salaries of employees earning more than the minimum wage, compounding and adding to the overall cost impact. Similarly, 59% of small businesses indicated they had to increase the prices of their products or services. This price adjustment, while being a direct response to rising labour costs, is less than ideal for small businesses striving to maintain competitiveness and a reliable customer base.

Rising wage pressures and cost pass-through were clear unintended consequences of recent minimum wage hikes that may have contributed to inflation as the increased labour expenses incurred by businesses, coupled with the need to maintain wage differentials for higher-earning employees, forced businesses to raise prices. As small businesses sought to mitigate the impact on their bottom lines, the resulting price increases across various sectors may have added a layer of inflationary pressure to the overall economy.

In addition, it is worth highlighting that 56% of surveyed business owners expressed their willingness to reduce their profit margins and personal compensation when dealing with extra costs of doing business. This decision reflects a commitment to preserving competitiveness and viability amidst the challenges posed by labour shortages and inflation. It is important to note that small businesses, in particular, face limitations in absorbing these additional costs, and such adjustments will inevitably impact their profit margins.

Labour impact

Minimum wage increases have a significant impact, not only on minimum wage workers but on labour markets in general. The most immediate repercussion of a minimum wage hike is felt by business owners themselves, particularly in terms of the number of hours they work. A recent CFIB report revealed that the average business owner currently works 54 hours a week.[6] Minimum wage increases in their provinces are exacerbating this situation, since almost half (46%) of business owners indicated that they have had to increase their work hours to compensate for the additional labour costs. This, in turn, has influenced their hiring strategies and employee compensation structures.

In addition, business owners were more cautious when making new hires or expanding their workforces in response to recent minimum wage hikes. In fact, a quarter of respondents (25%) said that they reduced their number of employees while almost a third (31%) noted that they reduced hiring young or inexperienced workers.

These results show that cost pressures from sharp and substantial minimum wage increases have affected small businesses' capacity to hire young or inexperienced workers.

Impact on business investments and operations

Small business owners have shown themselves to be resilient to challenges. However, the unpredictability and substantial cost increases resulting from recent minimum wage hikes impact their ability to expand and maintain their current business operations. In fact, almost three out of ten small businesses said they needed to delay or cancel investments or expansions as a result of the recent minimum wage increases.

In addition, 19% of small business owners are considering restructuring their business, which may involve relocating or downsizing. This directly influences their competitiveness, sales, and capacity to allocate more money to future wage increases, potentially hindering employees' compensation.

Given that SMEs in Canada employ approximately 88% of the private sector workforce,[7] it is evident that while minimum wage increases may be intended to benefit a small segment of the population, their potentially adverse effects on a vast majority of small businesses exert a significant impact on the entire workforce and society.

What do small businesses want to see?

Small businesses provided insights on measures that governments can implement to alleviate the impacts of minimum wage increases. Reducing payroll costs tops the list as nine out of ten small businesses believe this would be the most helpful policy measure to mitigate the impact of minimum wage hikes. As payroll costs are tied to wages, it is no surprise that small businesses want governments

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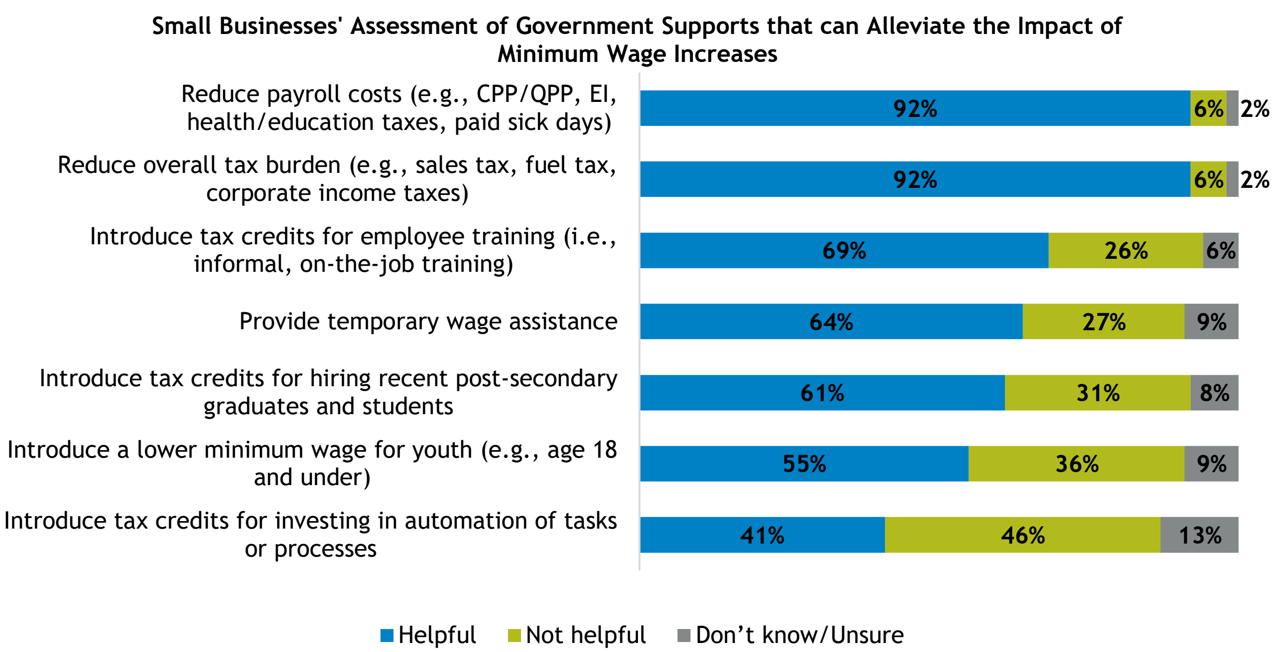
[6] CFIB, The 8-day workweek, 2023. https://www.cfib-fcei.ca/en/research-economic-analysis/8-day-workweek-impact-labour-shortages-on-hours-worked-canada-small-business-owners
[7] Innovation, Science and Economic Development Canada, Key small business statistics, 2022. https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2022#s2.1

to reduce provincial payroll costs, which have increased in the past five years in all provinces except Manitoba and New Brunswick.[8] When it comes to federal payroll taxes, both Canada Pension Plan (CPP) and Employment Insurance (EI) premiums have gone up for employers and employees in the last five years. For employers and employees, these premiums have gone up by 40% and 23%, respectively, reducing take-home pay for minimum wage workers and adding payroll costs to small businesses.

As labour costs rise with minimum wage increases, small businesses would also like to see governments reducing the overall tax burden, whether through sales tax, fuel tax, or corporate income tax reductions.

In addition, six out of ten small businesses state that tax credits for employee training and for hiring recent postsecondary graduates would be helpful. Such measures can offset training and hiring costs associated with employing less experienced workers, reducing the overall cost burden on small business owners. Tax credits for automation investments were rated helpful by two out of five small businesses. Other measures include introducing lower minimum wages for youth, which was rated helpful by more than half of small businesses.

Figure 10. Most Canadian small businesses want to see governments reducing taxes



Source: CFIB, Minimum Wage – Small Business Perspectives survey, August 17–September 27, 2023, n = 4,104. Question: "How helpful would the following potential government measures be in alleviating the impact of minimum wage increases on your business? (Select one for each line)." Net helpful = Very helpful + Somewhat helpful, Net not helpful = Not very helpful + Not helpful at all.

[8] CFIB, The weight of payroll taxes, 2023. https://www.cfib-fcei.ca/hubfs/research/reports/2023/2023-09-weight-payroll-taxes-en.pdf

The challenges of implementing living wage policies

What is a living wage?

The Canadian Centre for Policy Alternatives (CCPA) defines a living wage as the hourly rate at which a household can meet its basic needs once government transfers have been added to the family's income (e.g., Universal Childcare Benefit) and deductions have been subtracted (e.g., income taxes and Employment Insurance premiums).[9] In 2008, the CCPA developed a formula to calculate the living wage for communities in British Columbia. This formula has since served as the model for living wage calculations across Canada. According to the CCPA, the living wage can be calculated using the following formula:

Annual Family Expenses = Income from employment (living wage) – Government Deductions + Government Transfers

Living wage calculations vary across Canadian municipalities. Using this calculation, the average living wage for the 55 municipalities where the calculation has been done was $22.36 per hour in 2023, with Canmore, Alberta having the highest ($38.80/hour) and Brandon, Manitoba the lowest ($15.69/hour). The 2023 living wage rates for large municipalities are as follows: $25.05 in the Greater Toronto Area, $24.08 in Metro Vancouver, $26.50 in Halifax, $18.95 in Saskatoon, and $23.70 in Calgary.[10]

At its core, however, the concept of a living wage is flawed because individuals possess diverse preferences, different levels of willingness to pay for goods and services, and unique thresholds for financial well-being. Attempting to establish a standardized measure for a living wage proves challenging, as these fundamental differences render a one-size-fits-all approach impractical. As such, the inherent flaw in living wage calculations lies in their susceptibility to subjectivity and arbitrary calculations.

Why governments should avoid mandating living wages

The subjective nature of a living wage, the impact living wages would have on the economy, and the government's role in rising prices of essential goods and services are three main reasons why governments should avoid mandating living wages.

Impact on the economy – Case study of mandating a $20/hour living wage

Consider a scenario where a $20/hour living wage is mandated across all provinces. Such a policy has the potential to significantly harm small businesses and the economy. Specifically, as shown in Figure 11, the cost of implementing such a mandate would be $44.9 billion.

To put this into perspective:

- This amount is equivalent to what the government of British Columbia spent on healthcare and education in the fiscal year 2023/2024.[11]

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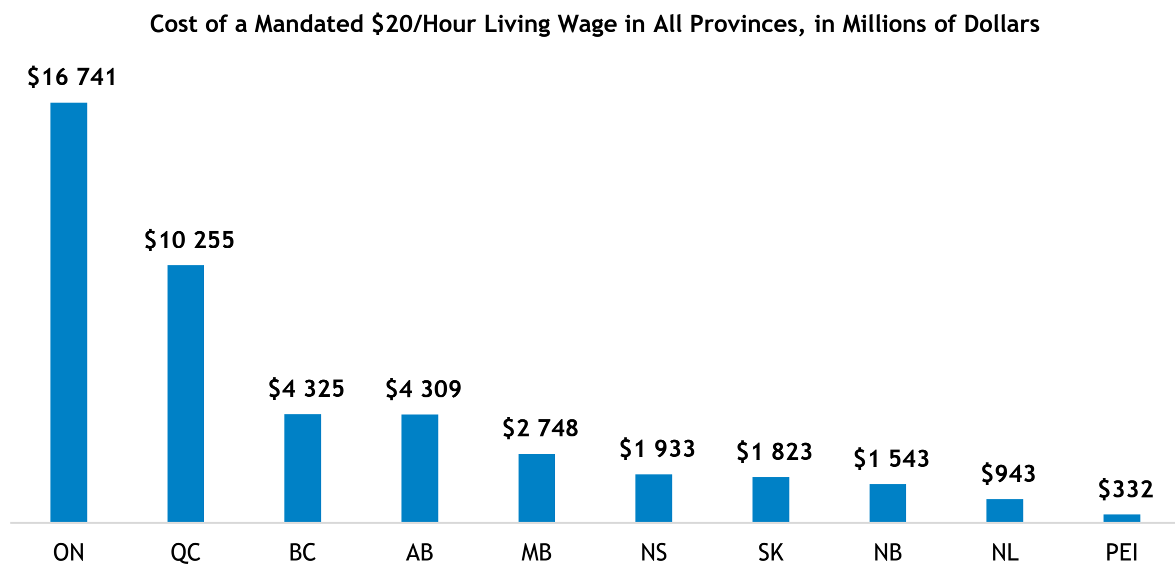
[9] CCPA, Working for a Living Wage, 2022 Technical Appendix, 2022. https://policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2022/11/Working%20for%20a%20Living%20Wage%202022%20Technical%20Appendix.pdf
[10] Living Wage Canada. Rates. https://www.livingwage.ca/rates
[11] Government of British Columbia, 2024 Budget and Fiscal Plan, 2024. https://www.bcbudget.gov.bc.ca/2024/pdf/2024_Budget_and_Fiscal_Plan.pdf

- It is the same value as the combined budgets of Manitoba[12] and Saskatchewan[13] for the fiscal year 2024/2025.
- It is twice the annual cost of the Canada Child Benefit Program.[14]
- It equals the size of Nova Scotia's GDP in 2022.[15]
- It is almost three times the cost of the Site C dam project in British Columbia.[16]
- It is almost equivalent to the cost of the Trans Mountain Expansion (TMX) Pipeline project ($30.9 billion), with $14 billion remaining.[17]
- It is the combined value of all 32 teams in the National Hockey League, with nearly $2.4 billion remaining.[18]

See Appendix B for more detailed information on the methodology.

In attempting to meet mandated-higher wage standards, businesses might face financial strain, potentially leading to closures and job layoffs. This outcome could exacerbate unemployment rates and negatively impact overall economic stability. Additionally, the substantial increase in labour costs may be passed on to consumers in the form of higher prices for goods and services, contributing to inflationary pressures.

Figure 11. Mandating a living wage of $20/hour would cost $44.9 billion



Source: CFIB's own calculations based on Statistics Canada, Labour Force Survey, Employed employees by custom hourly wage distributions, Canada, provinces and territories, annual average, 2012 to 2022, sent on October 27, 2023.

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[12] Government of Manitoba, Budget 2024, 2024. https://www.gov.mb.ca/asset_library/en/budget2024/budget2024.pdf
[13] Government of Saskatchewan, 2024-25 Budget, 2024. https://www.saskatchewan.ca/-/media/news-release-backgrounders/2024/mar/2024-25-budget.pdf
[14] Government of Canada, 2023 Fall Economic Statement, 2023. https://www.budget.canada.ca/fes-eea/2023/report-rapport/FES-EEA-2023-en.pdf
[15] Statistics Canada. Table 36-10-0402-02 Gross domestic product (GDP) at basic prices, by industry, provinces and territories, growth rates (x 1,000,000)
[16] CBC, "Site C dam budget nearly doubles to $16B, but B.C. NDP forging on with megaproject," February 26, 2021. https://www.cbc.ca/news/canada/british-columbia/site-c-announcement-friday-1.5928719
[17] Transmountain, "Trans Mountain Corporation Provides Update on the Expansion Project," March 10, 2023. https://www.transmountain.com/news/2023/trans-mountain-corporation-provides-update-on-the-expansion-project
[18] Forbes, "NHL Valuations," 2023. https://www.forbes.com/lists/nhl-valuations/?sh=7f6b74ca4109

If provincial governments were to mandate a $20/hour living wage, roughly 571,790 Canadian businesses (about 42%) would become unprofitable (see Table 1). That is almost 6 times the number of businesses that closed in April 2020 because of the COVID-19 pandemic.[19]

Newfoundland and Labrador (56%), Manitoba (54%), and Quebec (51%) would be the provinces with the largest share of businesses impacted by a mandatory $20/hour living wage.

Mandating a $20/hour living wage without considering businesses' diverse financial circumstances could exacerbate unemployment, reduce consumer choice, and prevent business investment, especially among small and medium-sized enterprises already operating on thin profit margins. Additionally, differing industry dynamics underscore the importance of nuanced policy approaches to avoid unintended consequences such as job losses, reduced innovation and productivity, and hindered economic growth.

Table 1. Mandating a $20/hour living wage will put almost 600,000 businesses at risk of unprofitability

	Business counts[20]	**Business owners who responded that a $20/hour living wage would make them unprofitable[21]**	**Projection of total businesses at risk of unprofitability**
Newfoundland and Labrador	19,002	56%	10,653
Prince Edward Island	6,976	44%	3,100
Nova Scotia	32,419	43%	14,048
New Brunswick	26,468	47%	12,519
Quebec	278,278	51%	141,927
Ontario	506,632	40%	200,387
Manitoba	43,781	54%	23,485
Saskatchewan	43,007	43%	18,432
Alberta	175,383	42%	73,181
British Columbia	215,519	35%	75,495
Canada	**1,351,744**	**42%**	**572,499**

Government's role in the rising cost of living

One issue associated with the concept of living wages is the underlying assumption that businesses alone should bear the responsibility of addressing the challenges posed by the increasing cost of living for workers. Reality is that governments should also bear this responsibility given the key role they play in influencing the economy as taxes and regulations help shape consumer spending, business behaviour, and overall market conditions.

As shown in Figure 12, housing (39%), food (16%), childcare (10%), and transportation (7%), which collectively account for 72% of the living wage, are goods and services heavily influenced by taxes and government regulations.

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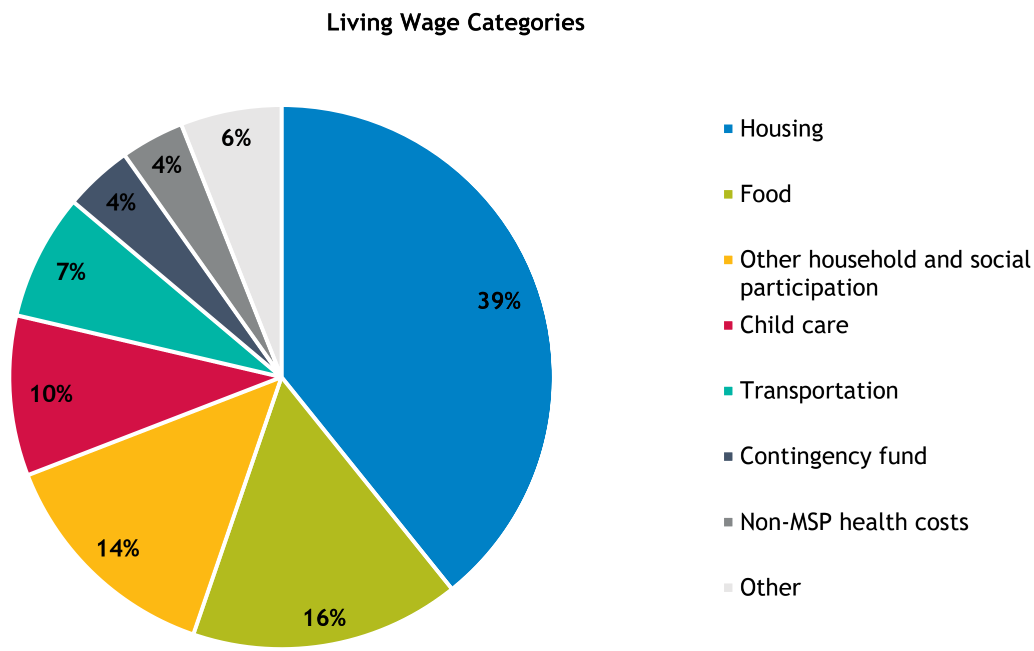
[19] Leung, Danny, "Characteristics of businesses that closed during the COVID-19 pandemic in 2020," 2021. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/36-28-0001/2021003/article/00003-eng.htm

[20] Statistics Canada, Table 33-10-0717-01 Canadian Business Counts, with employees, June 2023. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3310071701

[21] CFIB, Minimum Wage – Small Business Perspectives survey, August 17–September 27, 2023, n = 3,596. Question: "If in the next 12 months the minimum wage was increased to current estimates of the living wage, for example about $20 per hour, what would it mean for your business's profitability? (Select one)," Answer: "Would become unprofitable."

Figure 12. Taxes and regulations influence most of the living wage categories



Source: Canadian Centre for Policy Alternatives (CCPA), "Working for a living wage: Making paid work meet basic needs in Metro Vancouver 2023 Update," 2023, https://policyalternatives.ca/sites/default/files/uploads/publications/2023/11/ccpa-bc-Working-for-a-Living-Wage-2023.pdf

The housing component of the living wage calculation includes rent, utilities, two cell phone plans, internet, and content insurance. While content insurance might not be deemed essential for a household, rent and utilities are necessary expenses for any family. Notably, supply and demand of these two essential items are heavily influenced and regulated by government legislation, rules, and policies.

For instance, stringent zoning regulations, property taxes, permitting red tape, and high development fees all play a role in hindering the construction of new rental units and, in the context of growing demand, contribute to rental price growth. Recent research[22] indicates a correlation between municipalities with strict residential land use regulations and lower housing affordability. Additionally, this study shows that prolonged approval times for housing developments, particularly in areas with severe housing unaffordability such as the Greater Toronto Area and Metro Vancouver, contribute to rising housing costs.

Addressing rising costs of housing requires reform, including reducing taxes and fees, re-evaluating zoning regulations, and streamlining permitting processes to increase rental unit supply. Stabilizing shelter prices through such policy interventions will ensure workers' incomes rise faster than rental prices, leaving more money in their pockets.

Utilities, accounting for a portion of the housing category in the living wage calculation, are heavily regulated by provincial governments with most jurisdictions having Crown corporations controlling the generation, transmission, and distribution of electricity. While market structure does not ultimately

[22] Canada Mortgage and Housing Corporation (CMHC), "Approval delays linked with lower housing affordability," 2023. https://www.cmhc-schl.gc.ca/blog/2023/approval-delays-linked-lower-housing-affordability

determine affordable power prices, most provincial governments certainly have a lot of influence over the factors driving and determining electricity prices.

In addition, agricultural policies, tariffs, non-tariff trade barriers, and food safety regulations are key aspects of government influence on the cost of food. Subsidies for certain crops, for instance, can impact the prices of basic food items as well as taxes on processed foods or imports. Government efforts to promote capital investing in farming or reduce trade barriers can have positive effects on the affordability of food.

Government regulations also play a crucial role in the availability and affordability of childcare services. Licensing requirements, safety standards, and staff-to-child ratios are often dictated by government policies, influencing the cost structure of childcare providers.

The cost of transportation is also influenced by federal and provincial energy taxes. While the prices of most commodities are influenced by global factors, taxes are increasingly becoming a big component of the cost of gasoline. On average, taxes account for 30.8% of gasoline prices across Canada.[23] To put things into perspective, provincial fuel taxes generated $7.5 billion in fiscal year 2022/2023,[24] and simultaneously, the federal government raised $8 billion in carbon tax revenues. In addition, the federal government collects a fuel charge of 10 cents per litre of gasoline while applying GST/HST to both the carbon tax and the federal fuel tax.

While businesses are responsible for providing competitive wages based on skills, experience, and contribution, the impact of taxes and regulations on essential goods and services such as rent, utilities, food, childcare, and transportation highlights the significant role government can play in ensuring that workers can cope with the rising cost of living.

[23] CFIB's own calculations based on Government of Canada, "Fuel Consumption Levies in Canada." https://natural-resources.canada.ca/our-natural-resources/domestic-and-international-markets/transportation-fuel-prices/fuel-consumption-taxes-canada/18885
[24] CFIB's own calculations based on provincial budgets.

Recommendations

Issue 1: Alleviate the impact of rising minimum wages on small businesses by reducing costs in other areas.

The rising cost of doing business is putting a significant financial burden on small business owners, who are grappling with significant cost pressures and making difficult decisions such as whether they should continue hiring or whether they can afford to expand their business. To alleviate the pressure of rising minimum wages and to provide cost relief to struggling small businesses, the government should reduce the overall tax burden on small businesses.

Recommendations:

- Reduce payroll costs such as CPP, EI, WCB premiums, and health/education payroll taxes.
- Reduce the small business tax rate and increase the small business tax rate threshold to at least $700,000 and index it to inflation.
- Introduce tax credits for informal and/or on-the-job employee training to reduce training costs, similar to the Small Business Job Credit of 2016 that reduced EI premiums.

Issue 2: Introduce more predictable, stable, and objective frameworks for setting minimum wages.

Small businesses value predictability and certainty. If they can anticipate what their labour costs are going to be in the medium term, they are able to better plan their investment and hiring plans, which will put them in a better position to contribute to the overall economy. In addition, they would like to see a minimum wage reflective of market conditions, workers' skill levels and productivity, and set in a transparent, fair, and objective way.

Recommendations:

- Link minimum wage adjustments to either private sector wage growth or a predetermined percentage of the median wage to better reflect market conditions and overall productivity.
- Establish a predetermined schedule for minimum wage adjustments.
- Commit to regular reviews of the impact of minimum wage policies on small businesses.

Issue 3: Do more to address the root causes of the rising cost of living.

The government has a role to play when it comes to addressing the root causes of the rising cost of living. The Bank of Canada has consistently identified supply constraints as key contributors to rising prices, often saying that they need to bring back demand in line with supply. To help bring price stability back to Canadians, the government needs to focus on a number of areas including increasing the supply of housing units while also developing affordable rental and homeownership opportunities.

Recommendations:

- Increase the supply of housing units by reducing development costs through tax and fee reductions, streamlining permitting, evaluating rezoning regulations, etc.
- Reduce energy taxes (e.g., carbon tax, provincial fuel taxes, and utilities levies/fees).
- Remove interprovincial and international trade barriers.
- Evaluate and revise regulations to promote competition in the telecommunications sector and other highly regulated sectors (e.g., banking).
- Reduce licensing and operational restrictions on privately-run childcare providers.

Issue 4: Find more targeted ways to assist vulnerable workers.

When minimum wage adjustments surpass the threshold of basic personal exemptions set by provinces, it often results in a significant increase in tax revenues for governments. This occurs because these exemptions, ranging from approximately $10,000 in Newfoundland and Labrador to $21,000 in Alberta, often fall below the prevailing minimum wage rates. Consequently, both workers and their employers contribute to the increased tax revenues.

This revenue surge, which essentially comes on the backs of workers and their employers, highlights a significant benefit to government coffers. Instead of imposing additional costs on small businesses, the government can use fiscal tools at its disposal to ensure that low-income earners keep a larger share of their pre-tax income in their pockets while providing easier access to relevant skills training programs.

Recommendations:

- Increase basic personal amounts, reduce personal income tax rates, and expand tax credits so low-income earners retain a larger share of their income.
- Invest in skills training programs for low-income earners to help them move into higher-paying jobs.

Appendix A: Overview of 2023 minimum wage by province: Current rates, changes, and setting procedures

Province	2023 hourly wage[25]	YoY % change (2023 vs. 2022)[26]	Adjustment timing	Regular reviews	Adjustment tied to economic metric (e.g., CPI, median wage, labour productivity)
Alberta	$15.00 (October 1st)	N/A - Same since 2018	N/A - Same since 2018	No	N/A - Same since 2018
British Columbia	$16.75 (June 1st)	7%	Annually	No	No, but 2023 and 2024 increases were tied to CPI. Not standard practice and not legislated.
Manitoba	$15.30 (October 1st)	13%	Biannually	No	Yes, tied to CPI. Possible larger discretionary increases when inflation exceeds 5%.
New Brunswick	$14.75 (April 1st)	9%	Annually (biannually in 2022)	Yes, legislated	Yes, tied to CPI and legislated since 2019. However, there have been arbitrary increases in the last few years.
Newfoundland and Labrador	$15.00 (October 1st)	9%	Biannually	Yes	Yes, legislated. Tied to CPI, but there were arbitrary increases in 2020 and 2021.
Northwest Territories	$16.05 (September 1st)	6% (over two years)	Annually	No	Yes, tied to percentage change in the average hourly wage.
Nova Scotia	$15.00 (October 1st)	10%	Biannually	No	No. Will be using CPI + 1% from 2024. Legislated.
Nunavut	$16.00 (April 1st)	Same since 2020	Arbitrary	No	No
Ontario	$16.55 (October 1st)	7%	Annually (biannually in 2022)	No	Yes, tied to CPI. Legislated.
Prince Edward Island	$15.00 (October 1st)	9% (from April 22 to October 23)	Biannually	No	Yes, legislated. Tied to CPI in 2006. However, also considers measures of poverty since 2020.
Quebec	$15.25 (May 1st)	7%	Annually	No	No
Saskatchewan	$14.00 (October 1st)	8%	Annually	No	Yes, tied to CPI and average hourly wage, except for 2022, 2023, and 2024. Not legislated.
Yukon	$16.77 (April 1st)	7%	Annually (biannually in 2021)	No	Yes, tied to Whitehorse CPI.
Federal	$16.55 (April 1st)	7%	Annually	No	Yes, tied to national CPI not seasonally adjusted and rounded to the nearest 5 cents. Legislated.

[25] Note: For the purpose of this analysis, we looked at the 2023 minimum wage rates. However, many provinces have already announced their 2024 new minimum wage rates: British Columbia $17.40, Manitoba $15.80, New Brunswick $15.30, Newfoundland and Labrador $15.60, Nova Scotia $15.20, Prince Edward Island $16.00, Quebec $15.75, Saskatchewan $15.00, federal $17.30.

[26] Government of Canada. General Hourly Minimum Wage Rates in Canada since 1965. https://srv116.services.gc.ca/dimt-wid/sm-mw/rpt2.aspx

Appendix B: Methodology for Figure 11 calculations

This calculation analyzes the potential financial cost of implementing a $20/hour living wage for workers currently earning below this threshold, based on Statistics Canada wage distribution data across various provinces. The methodology employed a systematic approach to estimate the aggregate cost implications of such a policy change.

Data collection and wage distribution

Data on hourly wage rates for 2022 was provided by Statistics Canada for all provinces, categorized into the following wage ranges:

1. Hourly wage rate less than $14.99
2. Hourly wage rate $15.00 to $16.99
3. Hourly wage rate $17.00 to $19.99
4. Hourly wage rate $20.00 to $24.99
5. Hourly wage rate $25.00 to $29.99
6. Hourly wage rate $30.00 to $34.99
7. Hourly wage rate $35.00 to $39.99
8. Hourly wage rate $40.00 to $49.99
9. Hourly wage rate $50.00 or more

For each wage range, the number of individuals earning within that range was provided.

Calculation of total wage costs

To estimate the total wage costs associated with each wage range, the following formula was applied:

Total Wage Cost = Lower bound of hourly wage rate range x 40 hours/week x 52 weeks/year x Number of workers

This calculation provided the total cumulative monetary value of wage costs within each wage range across all provinces for 2022.

Estimation of the cost of a mandatory $20/hour living wage on total wage costs

The impact of mandating a $20/hour living wage was assessed by recalculating total wage costs. In this recalculation, it was assumed that all workers earning below $20/hour would now be paid $20/hour. Additionally, it was assumed that no other wage increases within wage ranges would occur, maintaining all other factors equal for simplicity and to obtain a conservative estimate.

The same formula was applied. The difference between this second calculation and the current total wage costs yielded the estimated financial impact of implementing the $20/hour living wage.

Appendix C: Select characteristics of minimum wage earners, 2022, Canada

	Total employees (thousands)	Minimum wage or less (thousands)	Share of minimum wage workers	Share of all workers
Total	17 042.3	1 113.1	100%	6%
Age group				
15-19 years	929.0	408.5	36.7%	43.97%
20-24 years	1 631.7	219.9	19.8%	13.48%
25-34 years	4 048.4	147.1	13.2%	3.63%
35-44 years	3 786.7	95.5	8.6%	2.52%
45-54 years	3 365.9	87.4	7.9%	2.60%
55-64 years	2 657.4	104.0	9.3%	3.91%
65 years and over	623.2	50.6	4.5%	8.12%
Education				
Less than high school completion	1 269.9	318.9	28.6%	25.11%
High school graduate	2 993.1	306.3	27.5%	10.23%
At least some postsecondary	12 779.3	487.8	43.8%	3.82%
Some postsecondary	953.6	140.8	12.6%	14.77%
Postsecondary certificate or diploma	5 951.5	206.0	18.5%	3.46%
University graduate	5 874.3	141.1	12.7%	2.40%
Job status				
Full-time	14 176.4	417.6	37.5%	2.95%
Part-time	2 866.0	695.4	62.5%	24.26%
Household status				
Member of couple	9 469.0	256.4	23.0%	2.71%
Spouse not employed	1 607.6	64.3	5.8%	4.00%
Spouse employed	7 831.8	191.6	17.2%	2.45%
Spouse making minimum wage or less	158.1	19.4	1.7%	12.27%
Spouse making greater than minimum wage	6 737.0	138.7	12.5%	2.06%
Spouse self-employed	936.7	33.5	3.0%	3.58%
Head of family, no spouse present	1 274.3	69.5	6.2%	5.45%
Youngest child less than 18 years	477.2	16.9	1.5%	3.54%
No children or youngest child 18 years and older	797.1	52.7	4.7%	6.61%
Son or daughter	3 400.7	651.9	58.6%	19.17%
Living unattached	2 851.3	129.6	11.6%	4.55%
Living alone	1 813.7	58.6	5.3%	3.23%
Living with non-relatives	1 037.6	71.0	6.4%	6.84%
Job tenure				
Less than one year	3 638.3	505.1	45.4%	13.88%
One to five years	5 686.7	418.3	37.6%	7.36%
More than five years	7 717.4	189.7	17.0%	2.46%
Business size				
Less than 20 employees	2 995.8	299.3	26.9%	9.99%
20 to 99 employees	2 828.3	177.9	16.0%	6.29%
100 to 500 employees	2 740.1	133.1	12.0%	4.86%
More than 500 employees	8 478.1	502.8	45.2%	5.93%

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