

November 27, 2018

Sent by email

Honourable Bernard Davis (MHA for Virginia Waters-Pleasantville)
Minister of Advanced Education, Skills and Labour
Confederation Building, West Block
P.O. Box 8700
St. John's, NL
A1B 4J6

Re: Minimum wage in Newfoundland and Labrador

Dear Minister Davis,

The Canadian Federation of Independent Business (CFIB) is a non-partisan and not-for-profit organization that represents independently-owned small- and medium-sized enterprises. We represent 110,000 members across the country and have 2,000 members in Newfoundland and Labrador. On behalf of those members, I would like to congratulate you on your recent appointment as Minister of Advanced Education, Skills and Labour.

I am writing to you today concerning the issue of minimum wage in Newfoundland and Labrador. Recently, a public campaign was launched advocating for an increase in the minimum wage to \$15 per hour, with the expectation it would become a living wage in the future. As you will know, CFIB has strongly opposed an increase in the minimum wage to \$15 per hour. We even have a concern related to the indexing of minimum wage to the national consumer price index as announced by the provincial government in February 2018. That concern lies in the fact that the new model can be changed at any moment the provincial government deems necessary. Any legislative changes can be introduced in the House of Assembly and potentially adopted within three days, without due consideration given to stakeholders' views. Thus, small business owners do not have the certainty and assurance they should expect from their government on how minimum wage will increase in the future.

We reasonably suggest minimum wage is not the most effective policy for those who most need the help. We have conducted research, using Statistics Canada data, and conclude most minimum wage earners in the province are single, live with family, and are not single parents (attached). CFIB recognizes there are people in Newfoundland and Labrador who are struggling to live comfortably, especially seniors and those on fixed incomes. For example, members who are independent pharmacists have stated a number of seniors are choosing to make drug prescriptions go farther by skipping scheduled dosages in favour of being able to place food on the table. But we question how a \$15 per hour minimum wage will be beneficial. Rather, we note that the provincial government offers a multitude of poverty reduction initiatives at a cost of \$281 million in 2018-19, which is an increase of \$9 million over the previous year. If poverty is increasing in Newfoundland and Labrador, then it is incumbent upon the provincial government to ensure these initiatives are working. Otherwise, changes should be implemented. From CFIB's perspective, we would like to see the income thresholds of the

Low Income Tax Reduction program increased to the current annualized minimum wage and future threshold increases tied to provincial inflation. It would be further beneficial if personal income tax rates were lowered to pre-2016 levels.

From a small business perspective, an increase in the minimum wage to \$15 per hour will mean having to adjust to increased labour costs, which will vary for each business. For illustrative purposes, a full-service restaurant would incur an additional cost of \$8,690 per full-time employee annually (background is attached). This figure includes not only the \$8,008 increase in wages, but also the current payroll charges for Employment Insurance, Canada Pension Plan and workers' compensation. This will have an effect on the ability of youth, especially in rural parts of the province, to find employment, as we had noted in a [submission](#) in 2017.

Operating costs have increased in recent years and small business owners are struggling to generate the necessary revenues. This is particularly true for businesses that rely on provincial government entities to set prices or profit margins for them. For instance, despite the re-introduction of the Retail Sales Tax on insurance premiums (which is not subject to an input tax credit), increases to the minimum wage, and other business costs, independent gas retailers have not had an increase in the markup on petroleum products since 2015. CFIB asked the Board of Commissioners of Public Utilities to initiate a review to increase the markup, but that has been rejected. We also requested the Minister of Service NL adopt legislative changes allowing for automatic increases for the petroleum products markup tied to the national consumer price index similar to the minimum wage; this request was also rejected.

There is significant concern amongst small business owners about the current state of the provincial economy and CFIB knows many are pessimistic about what the future holds. With a provincial general election less than a year away, the public can expect to hear about small business being the backbone of the economy and one of the pillars of the local community. However, political leaders have to go beyond rhetoric and show small business owners they are valued, rather than people to be taken for granted. It is time for provincial political parties to explicitly state in unequivocal terms that a \$15 per hour minimum wage is unnecessary, outline what they will do to maintain the current model, and realistically address the plight of low- and fixed-income earners in the province.

We welcome the opportunity to discuss this issue with you or any other member of the House of Assembly. If there are any questions or someone would like to schedule a time to meet, please do not hesitate to contact me by phone at 753-7764 or by email at vaughn.hammond@cfib.ca.

Sincerely,



Vaughn Hammond
Director of Provincial Affairs, Newfoundland and Labrador

Copy: Members of the House of Assembly

Attachments

Who Earns the Minimum Wage?

Profile of Minimum Wage Earners in Newfoundland and Labrador

Marvin Cruz, Senior Research Analyst

Supporters of big increases in the minimum wage argue that a higher minimum wage would help families escape poverty. Yet, our research suggests a weak relationship between the minimum wage and poverty. In fact, only a small fraction (10%) of minimum wage earners in Newfoundland and Labrador live in a low-income household. Ultimately, minimum wage policy is an imprecise anti-poverty tool with consequences for employers and the economy, including layoffs, reduced hours and fewer opportunities for young workers, increased automation and higher prices for consumers. If the bulk of households below the poverty line do not benefit from minimum wage policy, then we must establish who in fact benefits from this approach. Here we show data from Statistics Canada for 2017¹, the latest year of available data, that paints a different picture from the common perception of minimum wage earners as low-income adults struggling to support their families. The reality is that most minimum wage earners are predominantly young, live with family members, only a small percentage are single parents, the majority are part-time workers, and a large proportion are in entry level positions.



KEY FINDING #1

ONLY A SMALL FRACTION OF MINIMUM WAGE EARNERS LIVE IN A LOW-INCOME HOUSEHOLD



Source: Statistics Canada, Income Statistics Division, Canadian Income Survey. Special tabulation: Percentage of employees below the LICO-after tax or not, by minimum wage status, 2016.

Minimum Wage Research Series

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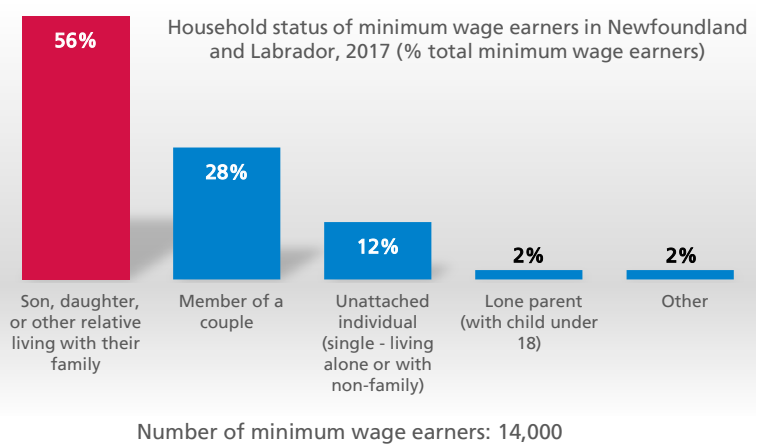
¹ Statistics Canada, Labour Force Survey estimates, Custom tabulation. Annual, 2017. Percentages may not add up to 100% due to rounding.

Who Earns the Minimum Wage? – Profile of Minimum Wage Earners in Newfoundland and Labrador

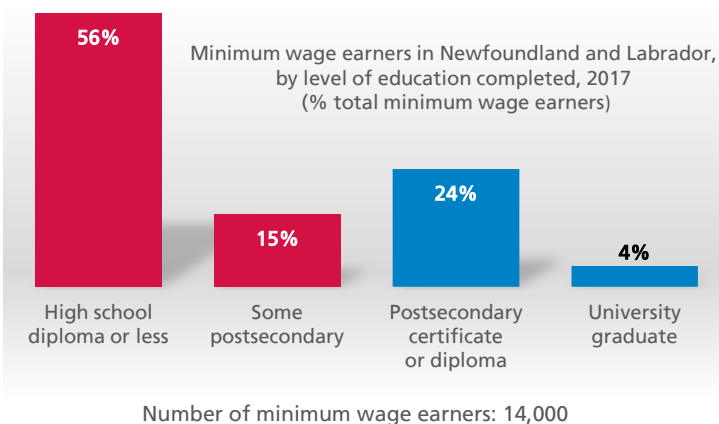
KEY FINDING #2 MOST (57%) MINIMUM WAGE EARNERS ARE YOUNG (UNDER THE AGE OF 25)



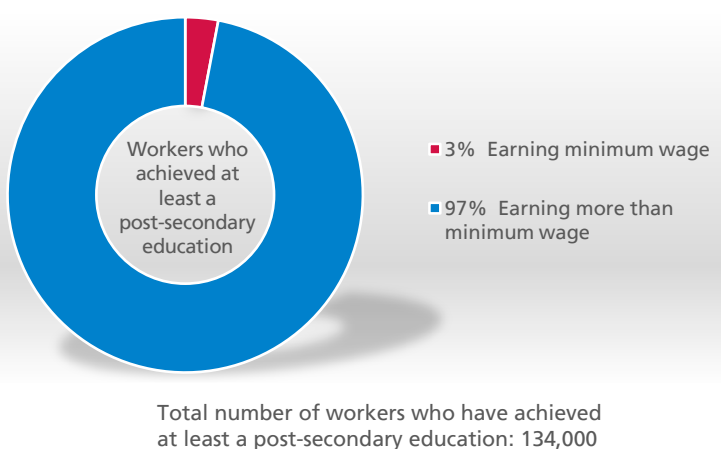
KEY FINDING #3 MOST (56%) MINIMUM WAGE EARNERS LIVE WITH THEIR FAMILY; AND ONLY 2% ARE SINGLE PARENTS



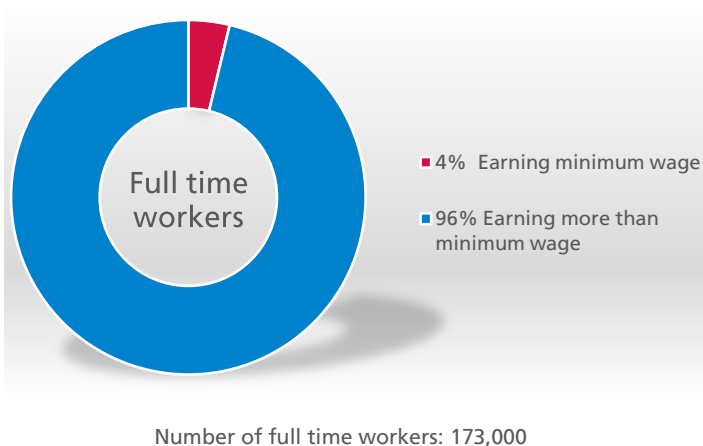
KEY FINDING #4 MOST (71%) MINIMUM WAGE EARNERS HAVE NOT ATTAINED A POST-SECONDARY EDUCATION



KEY FINDING #5 ONLY 3% OF WORKERS WHO ACHIEVED AT LEAST A POST-SECONDARY EDUCATION EARN MINIMUM WAGE



KEY FINDING #6 ONLY 4% OF FULL-TIME WORKERS EARNED MINIMUM WAGE



KEY FINDING #7 48% OF MINIMUM WAGE EARNERS HAVE BEEN IN THE JOB LESS THAN ONE YEAR



RESEARCH SNAPSHOT

Why Don't Minimum Wage Hikes Help the Poor in Newfoundland and Labrador?

BY **MARVIN CRUZ**, SENIOR RESEARCH ANALYST

OCTOBER 2018

Minimum Wage Research Series

This publication is part of CFIB's new Minimum Wage Research Series. The series aim to show how dramatic minimum wage increases are a poorly targeted measure to fight poverty. They reveal the true impact of such increases on small business employers, the Canadian workforce and our economy in general. They also promote better economic and social alternatives that will more effectively help those that are really in need, while keeping the Canadian economy strong.

MAIN CONCLUSIONS

- As a means of helping those struggling with poverty policymakers often propose hikes to the minimum wage. Yet, in 2016 (latest available date), only 10% of minimum-wage earners in Newfoundland and Labrador lived in low-income households.
- Hikes to the regulated floor on wages creates additional labour costs for employers, particularly since employers not only feel pressure to increase the wage of all employees, but they must also cope with higher payroll taxes.
- The ripple effect of the decisions by business owners trying to cope with increases in labour carries consequences such as layoffs, reduced hours and fewer opportunities for young workers, increased automation and higher prices for consumers.
- Governments should instead focus on implementing policies that aim to increase the take-home pay of workers in low-income households, while at the same time minimizing the adverse effect on employers and the economy.
- CFIB will be examining policy alternatives to minimum wage increases that many employers have difficulty absorbing in forthcoming research.

INTRODUCTION

Some provincial governments (British Columbia, Alberta) have pledged to hike the minimum wage to \$15 per hour. This increase has been made with the aim of, among other things, helping families escape poverty. While the goal of helping low-income families living is commendable, minimum wage policy is an imprecise and largely ineffective tool. For instance, only 10% of minimum-wage earners in Newfoundland and Labrador live in low-income households. Additionally, from an economic standpoint, minimum wage policy is inefficient in terms of the additional labour costs (wages and payroll taxes) involved for employers. This is further compounded by the resulting negative consequences on the economy such as layoffs, reduced hours and fewer opportunities for young workers, increased automation, and higher prices for consumers. This suggests that governments should explore more effective options to help those struggling with poverty rather than looking to minimum wage increases as a solution.

The Relationship between Minimum Wage and Poverty

Poverty is commonly defined in terms of family or household income, therefore, in order to determine whether increasing minimum wage will help lift families out of poverty it is essential to examine the extent to which low-income households benefit from it. Analysis shows there is a weak correlation between being a minimum wage earner and those belonging to a low-income household. In fact, in only 10% of minimum wage earners in Newfoundland and Labrador lived in low-income households (see Figure 1).¹ As such, income gains from minimum wage policy would spill over to a large number of higher income families.

Figure 1

Share of Minimum Wage Earners Living in Low-Income Households, Newfoundland and Labrador, 2016 (%)



Source: Statistics Canada, Income Statistics Division, Canadian Income Survey. Special tabulation.

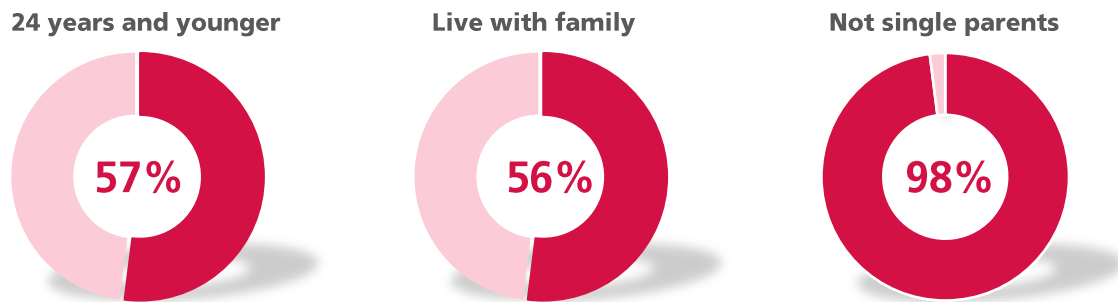
If the bulk of low-income households do not benefit from minimum wage policy, then who does? The latest data paints a different picture than the common perception of minimum wage earners as low-income adults struggling to support their families. Instead, most minimum wage earners are predominantly young, live with family members, and the vast majority are not single parents (see Figure 2).

¹ Statistics Canada, Income Statistics Division, Canadian Income Survey. Special tabulation. 2016.

Figure 2

Profile of Minimum Wage Earners in Newfoundland and Labrador (% of total minimum wage earners)

MOST minimum wage earners are **YOUNG, LIVE WITH FAMILY**, and are **NOT SINGLE PARENTS**



Source : Statistics Canada, Income Statistics Division, Labour Force Survey. Special tabulation. 2017.

Overall, the findings in this section suggest that minimum wage policy is an imprecise approach that does not effectively target low-income families.

Risks Associated with Minimum Wage Policy

The likelihood that minimum wage policy will help low-income families is complicated by the effect of minimum wage increases on the costs to employers. Hikes to the regulated floor on wages creates additional labour costs for employers, particularly since employers not only feel pressure to increase the wage of all employees, but they must also cope with higher payroll taxes (e.g. Employment Insurance, Canada Pension Plan, and Workers Compensation premiums).

Adjusting to additional labour costs can be difficult for business owners. With narrow profit margins—ranging from 3.7% to 7.4% for small and medium-sized businesses—entrepreneurs are forced to make some tough decisions to keep their operations going.² This scenario becomes even more problematic when the increases to the minimum wage are ‘aggressive’ (i.e. large increases over a short period). The ripple effect of the decisions by business owners has the potential to negatively impact the employment status and earnings of workers from low-income households, the very demographic that minimum wage policy is intended to help. The associated risks include job losses, reduction in employee hours, cuts in training opportunities, cuts in employee benefits, and price hikes.

Job Losses & Reduction in Employee Hour

To accommodate for additional labour costs, the decision to cut jobs is one of the toughest choices that businesses owners face. It is estimated about 60,000 jobs would be lost by 2019 due to the increases in minimum wages across the country.³ Employers may also respond by delaying or eliminating hiring plans, and reducing employee hours.

² Industry Canada. SME Operating Performance. 2015.

³ Bank of Canada. The Impacts of Minimum Wage Increases on the Canadian Economy. 2017.

Minimum wage increases can spur the automation of business processes, which in turn can have a negative impact on jobs and employee hours. In fact, a CFIB survey of Ontario businesses owners revealed that in preparation for a \$15 minimum wage, 22% of businesses have replaced workers with technology.⁴

Those most likely affected by these decisions to cut jobs or reduce hours are younger and less skilled workers — a group that typically relies on entry-level jobs to get them on a path to better paying opportunities.⁵

Training Opportunities

Providing training and benefits comes at a significant cost in both time and money for business owners. So it is not surprising that employers may choose to respond to higher labour costs by reducing non-wage benefits and on-the-job training.⁶ Reductions in job training would mean the first step of a worker's career ladder leading to higher potential future earnings is in danger of being lost.

Cuts in Employee Benefits

Providing employee benefits helps employers to remain competitive in the labour market. In order to control the higher labour costs imposed by minimum wage hikes, employers may choose to reduce such benefits. A CFIB survey shows that nearly 30% of Alberta business owners cut back employee benefits as the province's minimum wage increased to \$15.⁷ In the case of employee benefits, such reductions would be particularly detrimental for those earning an entry level wage.

Price Hikes

Business owners may also choose to pass their additional labour costs onto consumers through higher prices. In fact, a CFIB survey revealed a 23% hike in Ontario's minimum wage rate, from \$11.40 per hour to \$14 per hour, led those in the restaurant sector to increase the price of their most popular menu item by 9%.⁸ Consumers can absorb only so much in the way of price hikes before it starts to impact demand, thereby impacting businesses struggling to remain competitive and profitable. In addition, such impacts also have the potential to further decrease the standard of living of families living under the poverty line.

Conclusion & Recommendations

Taken together, the findings noted herein suggest that minimum wage policy, in reality, represents a blunt anti-poverty tool with potentially harmful risks. Governments should instead focus on implementing policies that aim to increase the take-home pay of workers in low-income households, while at the same time minimizing the adverse effect on employers and the economy. CFIB will be examining policy alternatives to minimum wage increases that many employers have difficulty absorbing in forthcoming research.

⁴ CFIB. Economic Impact Analysis of Ontario's Minimum Wage Increase. March 14 – April 17, 2018. Total responses: 988.

⁵ Wong, Queenie. \$15 Minimum Wage: Jobs for Canada's Youths at Risk. 2017.

⁶ Godin, Keith and Veldhuis, Niels. The Economic Effects of Increasing British Columbia's Minimum Wage. 2009.

⁷ CFIB. Alberta Pre-budget Survey. February 1 – February 22, 2018. Total responses: 1,040.

⁸ CFIB. Economic Impact Analysis of Ontario's Minimum Wage Increase. March 14 – April 17, 2018. Total responses: 988.

HOW MUCH WILL THE COST OF ENTRY-LEVEL JOBS GO UP IN NEWFOUNDLAND AND LABRADOR?

Queenie Wong, Senior Research Analyst

Overview

The possibility of a \$15 minimum wage spreading to Newfoundland and Labrador is real.¹ Employers in Newfoundland and Labrador already face cost pressures of operating their business but are now faced with the risk of provincial governments following bad policy. What does a \$15 minimum wage mean for employers? Proponents of a higher minimum wage claim a \$15 minimum wage will make workers in entry-level jobs better off but fail to demonstrate how job creators will be affected. This backgrounder takes a look at how employers in Newfoundland and Labrador would be affected by a \$15 minimum wage in terms of the total cost of creating entry-level jobs that typically pay minimum wage.

In Newfoundland and Labrador, a \$15 minimum wage would further exacerbate the high costs of being in business. Going from \$11.15 to \$15 would mean higher costs for the typical small business owner. Wage costs would go up from \$23,192 to \$31,200, an additional cost of \$8,008 for each minimum wage worker annually (see Table 1). Employers would have to pay an additional \$397 in CPP, \$173 in EI, and \$113 in WCB. Total payroll costs would increase by \$8,690 (from \$25,033 to \$33,723), an increase of 35%. For an average business with 5 minimum wage workers, a business owner would have to pay an additional **\$43,452** in the province each year (see Table 2), while a business with 10 employees would pay an additional **\$86,903**.

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HOW MUCH WILL THE COST OF ENTRY-LEVEL JOBS GO UP IN NEWFOUNDLAND AND LABRADOR?

TABLE 1

Annual cost of employing a minimum wage worker, At \$11.15 minimum wage and at \$15 minimum wage, Newfoundland and Labrador

Newfoundland and Labrador	\$11.15 Minimum Wage (April 2018)	\$15 Minimum Wage*
Minimum wage (per hour)	\$11.15	\$15.00
Gross income (40 hrs/week)	\$23,192.00	\$31,200.00
CPP	\$974.74	\$1,371.24
EI	\$539.08	\$711.98
WCB**	\$327.01	\$439.92
Total cost to employer	\$25,033	\$33,723.14
Additional cost to employer (\$)	—	\$8,690
Additional cost to employer (%)	—	35%

*This is an illustration of a \$15 minimum wage in Newfoundland and Labrador compared to current minimum wage rates. The additional cost of employing a minimum wage earner is an illustration based on the change in the minimum wage from \$11.15 per hour to \$15 per hour.

**Workers' Compensation Board (WCB) contribution is calculated based on a full-service restaurant.

Table 2

Annual additional cost of employing minimum wage workers, Increasing the minimum wage from \$11.15 to \$15, by number of minimum wage workers, Newfoundland and Labrador (\$)

Number of Minimum Wage Workers Employed in a Business	Annual Additional Cost to Business
1	\$8,690
5	\$43,452
10	\$86,903

This is for illustration purposes. Figures are based on data presented in Table 1.

What is the aggregate impact on private sector employers from a \$15 minimum wage? A \$15 minimum wage would cost² private sector employers an additional **\$72 million** in Newfoundland and Labrador each year.

Conclusion

As seen from the illustrations above, a \$15 minimum wage does not come without a cost for the economy. These significant additional costs to employers could be used towards job creation, job training for employees, or investment in the business instead. CFIB will be examining policy alternatives to minimum wage increases that many employers have difficulty absorbing in forthcoming research.

¹ The \$15 minimum wage is in effect in Alberta and will be in effect in British Columbia by 2021.

² Note: This is an illustration of the annual increase in the cost of employing minimum wage workers among private sector employers in Newfoundland and Labrador.

The illustration for Newfoundland and Labrador is based on a minimum wage increase from \$11.15 per hour to \$15 per hour in 2018.

Based on payroll deduction calculations in 2018.

Source: Canada Revenue Agency. Payroll Deductions Online Calculator. <https://apps.cra-arc.gc.ca/ebci/rhpd/startLanguage.do?lang=English> Accessed February 1, 2018.

The number of minimum wage workers employed in the private sector was estimated for Newfoundland and Labrador and is based on 2017 Labour Force Survey data and Statistics Canada estimates on the share of minimum wage earners.

Source: Statistics Canada. "The ups and downs of minimum wage." July 2014. <http://www.statcan.gc.ca/pub/75-006-x/2014001/article/14035-eng.htm>. Accessed February 1, 2018.