



**CANADIAN FEDERATION
OF INDEPENDENT BUSINESS.**

1888 Brunswick Street, Suite 819
Halifax, Nova Scotia B3J 3J8

March 21st, 2017

Minister Kelly Regan
Labour and Advanced Education
PO Box 697
5151 Terminal Road
Halifax, Nova Scotia B3J 2T8

Re: Proposed \$15 Minimum Wage Legislation

Dear Minister Regan,

The Canadian Federation of Independent Business (CFIB) is a non-partisan, non-profit organization representing 109,000 small- and medium-sized businesses across Canada, with more than 5,200 in Nova Scotia. CFIB members operate in every region of the province, in every sector of the economy, and employ almost half of Nova Scotia's residents. CFIB's one member, one vote policy ensures all CFIB policy positions are shaped directly by our members and reflect their priorities and perspectives.

Small business owners are growing very concerned with ongoing discussions surrounding the threat of a \$15 minimum wage being imposed in Nova Scotia. While good intentions are driving the discussion, the solution to eradicating poverty is not as simple, nor as one-dimensional, as implementing a \$15 minimum wage.

In December of 2016, CFIB conducted an *Employment and Wages Survey* examining small business owners' perspectives on minimum wage, including the possible impact of a \$15 minimum wage. The results of the survey are contained herein.

Who earns minimum wage?

The majority of studies on minimum wage show increases do not, in fact, reduce poverty. The reason: most minimum wage earners are not the working poor. The typical minimum wage earner is a young, inexperienced, part-time worker still participating in the education system. They live with family members and are not from low-income households. Furthermore, the proportion of minimum wage earners has not increased in real terms over the past thirty years, indicating minimum wage jobs continue to be vehicles used by young Canadians to enter workforce, learn skills and gain experience which, combined with their education, leads to career development¹. Given this understanding of who earns of minimum wage, significant minimum wage increases are largely ineffective policy levers to address poverty reduction.

¹ For a review of the research, please see *Minimum Wage: Reframing the Debate*, CFIB, 2011, page 4 – 6.

The impact on employment

A landmark study by Dr. Morley Gunderson at the University of Toronto revealed for every 10 per cent increase in minimum wage there is a 3 to 6 per cent decrease in youth employment levels. To extrapolate, increasing Nova Scotia's minimum wage to \$15 an hour (a 28 per cent increase) would theoretically produce a 9 to 18 per cent decrease in youth employment levels.

In other words, increasing the minimum wage would help some workers in entry-level jobs earn slightly more per hour, however, it will come at the expense of many other workers, especially young workers, who will find it increasingly difficult to find employment or, for those with jobs, will see their hours reduced. For those workers who would end up making more per hour, after an increase of their tax rate and higher payroll taxes they may see a comensurate reduction in their hours, thereby not realizing any real increase in their take home pay or standard of living.

According to small business owners in Nova Scotia, implementing a \$15 minimum wage will increase prices on products and services, further compress profit margins, and force increases in wages for other employees already making above the current minimum. Reductions in hiring and hours would also be likely consequences of such a significant increase (Figure 1).

Figure 1:

If the minimum wage rate was increased immediately to \$15 an hour in Nova Scotia, which of the following actions would your business take? (% response)



Source: CFIB, *Wages and Employment Survey*, December 2016, n=287

According to CFIB analysis, only 6 per cent of workers employed by small businesses earn minimum wage. Most employees (40 per cent) working for small businesses are paid above the minimum wage, up to \$15 per hour, followed by 36 per cent who earn between \$15 and \$20, and about one-fifth who are paid above \$20.00 per hour.² These results show the majority of workers employed by small businesses do not earn minimum wage. While the direct impact of a \$15

² CFIB, *Employment and Wages Survey*, 2016.

minimum wage would not initially be felt by many small businesses, a dramatic increase in the wage floor would put upward pressure on all wages. Employees currently being paid \$15 an hour would expect \$20, and so on.

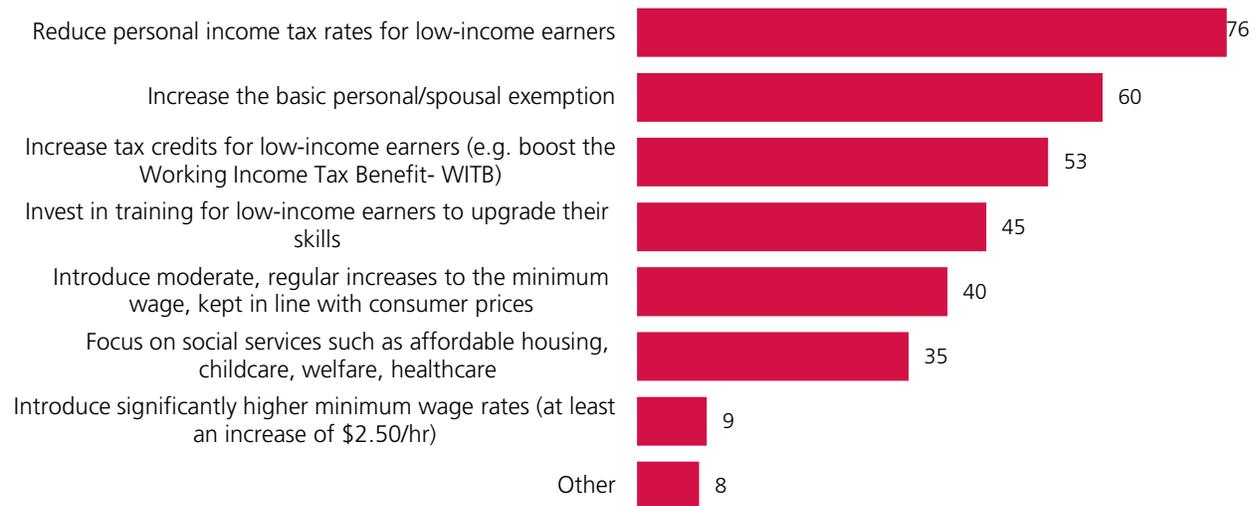
Better Options

1. Tax Reform

The majority of CFIB members suggest the best way for the Nova Scotia government to improve the standard of living for low-income earners is through targeted reduction in personal income taxes rates. About two-thirds of business owners support increases to the basic personal/spousal exemption for low-income earners. About half of respondents support investing in upgrading skills for low-income earners and/or increasing tax credits targeted at low-income earners (Figure 2).

Figure 2:

What is the best ways for governments to improve the standard of living for low-income earners? (% response)



Source: CFIB, *Employment and Wages Survey*, December 2016, n=287

Targeted tax reform is a better option to assist individuals who have not made the transition from minimum wage to higher wage levels. Nova Scotia has the **second lowest** basic personal exemption (BPE) in Canada. This means low income earners pay more tax on more of their income than in other provinces. Increasing the BPE leaves more pre-tax income in the pockets of those who need it most.

In addition, Nova Scotia remains one of only two provinces refusing to index personal income tax brackets to inflation, another significant disadvantage for low income earners. The refusal to address “bracket creep” means inflation acts like another small tax increase each and every year. Not only is this practice unfair, it continues to eat away at the spending power of those who can least afford it and the quality of life of their families.

2. Skills Development

One of the biggest determinants of an individual's earning potential is the level of their education and training. Focusing on helping workers with low skill levels get training is a much more effective poverty reduction strategy than a \$15 minimum wage. In CFIB's *Employment and Wages Survey*, a majority of business owners cited increasing training for low income earners as the best way for government to improve their standard of living.³

Nova Scotia's small businesses provide the majority of highly valued on-the-job training. This type of training requires businesses provide significant investments of both time and resources. Despite the high value placed on this training and how resource intensive it is to conduct, there is little in the way of support for the small businesses making these important investments in the workforce.

Small business owners invest billions every year providing training for their employees. In CFIB's recent report, *Small Business, Big Investment: Improving training for tomorrow's workforce*, we found small business owners across Canada invested \$14 billion to train employees in 2014. Of that total, \$9 billion was spent on informal, "on-the-job" training. This may involve, for instance, pulling another employee or owner from his or her regular duties to train a new employee. A small business owner spends an average of \$2,700 per employee per year on training and, for new employees with no experience; this cost rises to \$5,400 per employee.⁴

Despite the importance and frequency of informal training among smaller businesses, this type of training is currently not well recognized, and employers receive little credit for the time and expense associated with this investment. The cost of training a new employee with no experience is even higher than training those with work experience. Combine this with the fact smaller firms are more often a source of employment for those entering the workforce; it underscores the challenge workplace training places on the small business sector.

Due to limited scope and complexity of application for training incentives, programs have limited take-up among small businesses. In order to be effective, program efforts must reflect the realities of many business owners. Programs and incentives must be as administratively simple as possible. Whatever incentives government chooses to implement, there is a clear preference by small businesses for tax credits which are more easily accessible to the small business owner, and generally associated with a limited amount of red tape.

³ CFIB, *Employment and Wages Survey*, 2016.

⁴ CFIB, *Small Business, Big Investment: Improving training for tomorrow's workforce*, 2015.

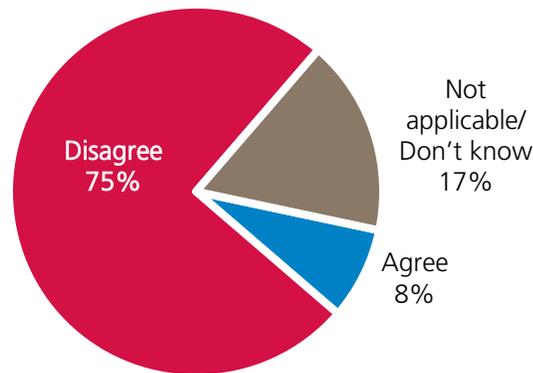
3. Minimum Wage Review

Since implementing the Minimum Wage Review process in 2011 and capping increases in minimum wage and inexperienced wage at the Consumer Price Index (CPI), small business owners in Nova Scotia have benefitted from a measure of predictability and transparency around minimum wage increases, however; when the economy is soft there are limited funds available to absorb any increases in wage costs, however minimal, without having to cut in other areas such as staff hours.

In our recent *Employment and Wages Survey*, three-quarters of business owners disagree with governments increasing the minimum wage during economic downturns. Only eight per cent agree with this, and 17 per cent don't know.

Figure 3:

Governments should increase the minimum wage rate during economic downturns.



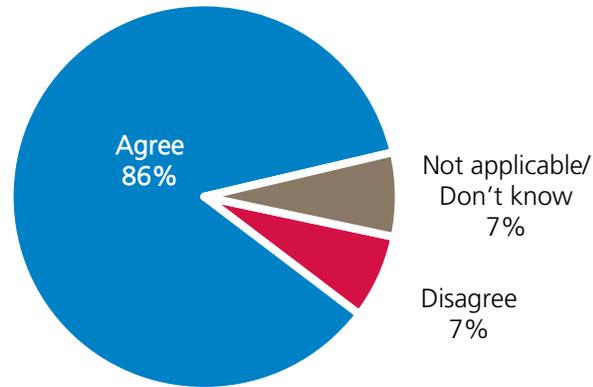
Source: CFIB, *Employment and Wages Survey*, December 2016, n=287

The majority of CFIB members believe government should be required to conduct and publicly release the results of a thorough employment and economic impact analysis for proposed minimum wage increases. Given this government's focus on principles around regulatory reporting and accountability, measurement and reporting of economic impact should simply be a matter of course. Minimum Wage is a regulatory requirement; therefore it should be viewed through the same lens as any adjustment to regulation that adds additional cost or burden on business.

Our survey clearly shows the process and analysis conducted by the Minimum Wage Review Committee could be better communicated to small businesses, especially how Nova Scotia's economic conditions are accounted for in the process. Government should then illustrate how it plans to mitigate any additional regulatory requirement imposed by an increase.

Figure 4:

Governments should be required to conduct and release the results of a thorough employment and economic impact analysis for proposed minimum wage increases.



Source: CFIB, *Employment and Wages Survey*, December 2016, n=287

Conclusion

If the intent behind implementing a \$15 minimum wage is to improve the lives of low-income earners and their families, then it's CFIB's position that government has several options available to choose from that would be much more effective than implementing a \$15 minimum wage. CFIB recommends the Government of Nova Scotia exhaust its ability to assist low-income earners through tax reforms, skills development and training tax credits for small businesses who provide much valued on-the-job training.

We welcome the opportunity to meet with you to discuss our members' perspectives in more detail.

Sincerely,

Jordi Morgan
Vice-President, Atlantic

Kate Allen
Policy Analyst, Nova Scotia

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Deputy Minister Montgomerie, Labour and Advanced Education
Minister Delorey, Finance and Treasury Board