Advice to the Minister

EMPLOYMENT STANDARDS REGULATION – MINIMUM WAGE AMENDMENT

ISSUE:

- An amendment to the Employment Standards Regulation is required to adjust the minimum wage rate.

BACKGROUND:

- The Regulation sets the basic minimum wage for workers in Alberta. Separate categories apply to liquor servers, certain salespeople and governed professions, and domestic workers. The Regulation also sets the maximum permissible charges for meals and lodging.
- The current minimum wage is $10.20 per hour, and it is proposed to increase to $11.20 effective October 1, 2015. This is an increase of 9.8 per cent. Amounts for the other categories will also need to be increased by 9.8 per cent.
- The current $1.00 differential on the minimum wage for liquor servers is being reduced to $0.50 less than the basic minimum wage. This rate is based on the assumption that workers serving liquor will earn enough in tips to offset the difference in wage.
- The adjustments will be announced in July and become effective October 1, to allow business owners time to prepare for the changes.
- These changes were approved at Cabinet on June 23, 2015.
- Weekly and monthly minimum wages always increase proportionately to the main minimum wage rate, ensuring consistent increases across all of the wages. Weekly minimum wage is based upon a 40 hour work week at the current minimum wage rate. Monthly minimum wage was introduced later than the weekly or hourly rates and is based on a work month of 191 hours.

ANALYSIS:

- The calculations for the new figures are as follows:

Section of the ES Regulation	September 2014 figures	Calculations	October 2015 figures
9(a) Minimum wage	$10.20	- 10.20 to 11.20 is an increase of 9.8%	$11.20
9(a.1) Liquor server minimum wage	$9.20	- 11.20 – 0.5 = 10.70	$10.70
9(b) Weekly minimum wage for governed professions	$406	- 406 x 9.8 per cent = 39.788 - 406 + 39.788 = 445.788 445.788 is rounded up to 446	$446

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Section of the ES Regulation	September 2014 figures	Calculations	September 2015 figures
9(c) Monthly minimum wage for live-in employees	$1,937	- 1937 x 9.8 per cent = 189.826 - 1937 + 189.826 = 2126.826 2126.826 is rounded up to 2127	$2,127
12(1)(a) Maximum deduction for a single meal	$3.35	- 3.35 x 9.8 per cent = 0.3283 - 3.35 + 0.3283 = 3.6783 - 3.6783 is rounded to 3.68	$3.68
12(1)(b) Maximum deduction for lodging	$4.41	- 4.41 x 9.8 per cent = 0.43218 - 4.41 + 0.43218 = 4.84218 - 4.84218 is rounded to 4.84	$4.84

KEY MESSAGES

- Alberta's current minimum wage does not allow people earning minimum wage to meet their basic needs. Our government promised we would implement a minimum wage that is fair and just and that's what we're going to do.
- Effective October 1, 2015, Alberta's general minimum wage will increase by $1 to $11.20 per hour and the liquor server minimum wage will increase by $1.50 – from $9.20 to $10.70. This is the first step in the process towards $15.
- Alberta families are better off when all our families are better off. A higher minimum wage will make life better for ALL Albertans.
- Our government is committed to listening to Albertans and will continue to consult to find the best way to meet the goal of $15 per hour by 2018.
- The minimum wage in Alberta has not kept pace with the earnings of Albertans in general. The Parkland Institute states Alberta has the highest average weekly earnings at $29.24 per hour, yet the lowest general minimum wage of $10.20 resulting in the one of the highest levels of wage inequality in Canada. We must start bridging that gap.

COMMUNICATIONS PLAN OVERVIEW

- Cabinet approval of plan for 2015 increases – June 23 (Done)
- Inform Employment Standards frontline staff of pending announcement – Prior to June 29
- Inform Employment Standards frontline staff and other affected Government of Alberta departments of new rates and effective dates – June 29
- Inform MLAs of announcement; provide key messages, questions/answers regarding new minimum wage rates
- Distribute social media posts regarding pending announcement

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- Hold news conference on June 29. Minister media availability. Social media posts. Representatives from supportive organizations to be present at event and speak to media.
- Post launch – op-ed pieces will be developed for local newspapers, media opportunities will be sought for the minister
- Prior to implementation - distribute 'Working Wise' article to media, social media posts will continue and a paid awareness campaign will be launched in September.

RECOMMENDATION:

[redacted] 24 (1) (a)

Honourable Lori Sigurdson

June 24, 2015
Date

[redacted] 24 (1) (a)

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The Economic Impact of Alberta's Proposed Minimum Wage Policy

Preliminary Observations – June, 2015

Introduction

The Alberta Government has announced it intends to raise the minimum wage to $15 per hour by 2018. Since that time, policymakers, business and employee advocates and academics have been engaged in an active dialogue over the minimum wage and its effects and potential impacts upon the province, both at a societal and economic level. The vitality of this debate was evident during the recent consultation with employer and employee stakeholders that took place June 11-12, 2015. At that time government was presented with contrasting, and in some cases, contradictory predictions around the potential impacts of the government's minimum wage policy with both sides citing their own economic studies and predictions. The debate has continued in the wake of the consultations, with employer stakeholders in particular challenging the government's rationale for moving the minimum wage rate to $15 per hour, and in some cases making dire predictions around the impact of the minimum wage rate increases on Alberta's employment rate, business confidence and young and vulnerable workers.

The possibilty that there may be negative economic consequences arising from the new minimum wage policy underscores the importance for government in ensuring that it has the proper empirical and analytical tools in place to properly assess, predict and monitor probable outcomes that could accompany the new minimum wage. This document provides a preliminary overview of some of the challenges around that task , as well as some initial conclusions around the probable likelihood that negative economic outcomes, in particular job loss, may be encountered. Of course, those conclusions are preliminary and Jobs Skills Training and Labour will work with Treasury Board and Finance, and other internal partners to ensure that proper econmic models are quickly developed.

Theoretical Challenges

Most predictive models based on classical economic theory assume that any minimum wage rate increase that exceeds the expectations or tolerances of current labour market conditions will result in employers taking steps to ensure their own continued profitability by directly reducing labour costs or otherwise reducing their need for labour. While employers may initially attempt to offset these additional costs by passing them along to the consumer, higher prices may carry their own negative consequences that may force the employer to look more closely at their labour costs. Under this model, the larger the minimum wage increases are, the more likely employers will take steps that could result in temporary or permanent job loss.

Empirical studies have varied in their assessment of this form of job loss hyptothesis, but more recent empirical work has begun to challenge some of the assumptions and predictions associated with the classical model, which in itself continues to develop and evolve. Several studies, including some carried out in Canada, have supported the contention that minimum

wage increases can have negative employment effects, especially on younger workers. (Gunderson 2006, others) However, other studies have concluded just the opposite and concluded that there is no significant causal linkage between minimum wage increases and employment levels (Canadian Centre for Policy Alternatives, others). Other studies in fact suggest a positive linkage, theorizing that changes in minimum wage policy can promote virtuous cycles of local consumption, productivity and employee retention that can create an "efficiency wage effect" and could even promote increased employment (Card and Krueger). The overall debate around the positive and negative impacts and effects of minimum wage increases is complex, fact driven and nuanced, but most agree that it is a debate that remains controversial and divided.

The remainder of this preliminary analysis attempts to provide an initial, high level overview of what kinds of mininum-wage related economic predictions may be feasable, and how much risk these predictions carry, both with respect to the initial increase expected for October 1, 2015 and the subsequent series of increases that will culminate in the minimum wage set at $15 per hour by 2018.

1. The October 1, 2015 increase.

There is some evidence to suggest that the initial October increase, especially if treated on its own merits, may not independently cause significant negative job loss or economic impact. This is particularly true given the relatively low number of Albertans who currently earn the mininum wage, and when the first increase is expected to be relatively moderate.

While the Alberta government has yet to make a final decision around the minimum wage rate for the 2015 period, it appears likely that the increase will fall between $11 per hour and $11.50 per hour, in other words, an increase ranging from $.80 cents to $1.30 per hour. This rate is considerably higher than the $0.35 per hour increase that would have been expected had the province's previous mininum wage index based on an average of CPI and average weekly earnings, continued to be in effect.

The size of the increase, therefore is higher than expected, but not extreme, and there are a number of recent examples across Canada where the annual rate has been raised by similar amounts, either as a stand-alone increase, or in sequence with other substantial annual increases. There have been notable increases, ranging from between $0.75 to over $1.00 per hour, in some of the provinces over the last 10 years, and most do not appear to have lead to or caused significant macroeconomic problems for the affected province. (Many of the particularly large increases (one dollar or more) took place in the territories, where it is more difficult to draw conclusions around the impact of the policies, due to low sample sizes and the unique economic conditions in the north.)

Alberta itself made a substantial increase to the minimum wage in 2007, raising the minimum wage by $1.00 to $8.00 per hour. While this increase was controversial at the time, and was challenged by parts of the busines community, it did not appear to have any large scale impacts

on the Alberta economy – the unemployment rate rose by 0.1 percent to 3.6% the subsequent year. Through this increase, the percentage of minimum wage earners rose from 1.0% of the workforce to 1.6%, and it may be the case that the very low number of minimum wage earners minimized the effects of the increase.

Elsewhere in Canada there is evidence of cases where provinces have made relatively high adjustments to the minimum wage without major negative consequence. For example, Quebec raised its minimum wage from $8.50 per hour to $9.50 per hour in 2010 at a time when their unemployment rate was at 8.0% - the rate actually dropped marginally in 2011. Likewise, the number of minimum wage earners marginally dropped in the province in 2011 (199,600) in comparison to 2010 numbers (235,700) (roughly 6% of the Quebec workforce). Ontario, BC and Nova Scotia all made sizeable multi-year increases that do not appear to have independently affected employment levels.

(What makes the analysis somewhat challenging is that most jurisdictions did witness a sharp increase in their unemployment rates in 2009, but this jump took place in the context of the global economic turndown that came into full effect that year. However, it does not appear that subseqent minimum wage increases necessarily led to further unemployment problems, and in most cases the provinces' unemployment rates have rebounded in roughly the similar way, despite whatever domestic minimum wage approach they have adopted in the meantime)

In British Columbia's case, the rate was increased by $2.25, from $8.00 per hour to $10.25 per hour in two stages between May 2011 and May 2012. Over that time period, the province advises that they did notice some softening in provincial employment numbers with respect to provincial employment and unemployment rates, but did not attribute that to the minimum wage rate, but instead other economic forces or effects. While many employers strongly challenged the British Columbia government's announced plan to substantially raise the minimum wage, the province advises that there has been little negative feedback from the employer community since the increases were implemented and the business population appears to have normalized its operations to the new climate.

Part of the reason that the impact of the increase in British Columbia was perhaps muted is because, like Alberta in 2007, a very limited number of workers that were impacted by the rate changes. As of May 1, 2011, the number of minimum wage earners was low- approximately 2.3% of the overall workforce, which was second lowest in the country, behind Alberta. The province now estimates that the overall proportion of their workforce working at the minimum wage is approximately 7%, although some estimates suggest a lower percentage.

The 2015 increase may lead to a similar outcome for Alberta. The province continues to have the lowest proportion of minimum wage earners in the country – according to the 2014-2015 Minimum Wage Survey, 38,600 Albertans currently earn the minimum wage or 2.2% of the workforce. A projected increase of the minimum wage for October 1 of $1.20 per hour, would expand the scope of coverage to 131,800 employees, which would represent 7.5% of the workforce at the time of the Minimum Wage Survey. (The overall size of the workforce has

risen since then, so the 7.5% number would likely have to be assumed downwards for October 2015). The 131,800 number is high by Alberta standards, but still does not represent a signficant portion of the Alberta workforce and is comparable to other Canadian jurisdictions that have introduced relatively large minimum wage increases with limited macroeconomic consequence.

However, it should be noted that while there is a strong case for treating the 2015 increase as "normal" and within the normal range of expectations for an annual increase, there are a few mitigating factors that should be kept in mind. Most obviously, the province's current economic uncertainty, and diminished oil and gas related rents and revenues will still likely be the major determinant of employment outcomes in the province – recent labour force survey data is already revealing that unemployment in the province is starting to grow, and that growth is expected to continue.

At a more narrow level, the overall impact of the government's minimum wage policy may also exert an independent effect on outcomes. Employers may, especially in the face of challenging economic conditions, make employment and investment decisions that are based more upon the eventual $15 per hour rate, than the comparatively modest 2015 increase. The degree of unhappiness with the proposed $15 rate may also impact some business decisions – a "capital strike" may take place – either spontaneously or through more organized methods to retaliate against the government's policy approach.

However, it is worth noting that most of the employer stakeholders who participated at the consultation sesson did not make such threats, although many felt that vulnerable employee communities would be the first to feel any negative economic effects as a result of the new policy. It was also clear that many employers were not particularly concerned with the likely size of the 2015 increase, although some did express frustration that the increase was not the $0.35 per hour amount as suggested by the government's previous index policy. Moreover, some of the employer stakeholders appeared to be relatively willing to talk about the Alberta rate as benchmarked against those provinces with traditionally high minimum wage rates (typically, Ontario), but were concerned what would happen once Alberta's rate surpassed the current high rate ($11.00 per hour) and proceeded towards $15 per hour

(It is also worth noting that the ADM committee reviewing the overall impacts of a modest 2015 increase and $15 by 2015 generally felt that the October 2015 increase would not cause significant issues – but the rate would cause some challenges once the $15 per hour rate was reached.)

In summary, there is some premlimary evidence that suggests that the 2015 rate increase is best viewed as "normal" and not exceptional, for the purposes of economic forecasting. Of course, much more sophisticated and multi-faceted analysis is required, but there is some evidence to suggest that even with a significant increase in the number of provincial minimum wage earners, major unemployment and other economic effects may be unlikely.

2. Subsequent staged increases 2016 through 2018.

The spectre of a minimum wage of $15 per hour is really the driver in the current dialogue in Alberta (and elsewhere) between and among stakeholders around the merits of Alberta's minimum wage policy. As noted above, this debate is not significantly focused around the extent to which the 2015 increase is "normal", but is very much focused upon the broad goal of $15 per hour by 2018, and whether such an increase is sustainable (or not) and whether positive and sustainable societal transformation can achieved by this policy (or not).

Compared to the forthcoming 2015 increase, it will be a much bigger challenge to find useful and releant comparators or examples to properly contextualize the subsequent increases that will likely take place from 2016 through 2018. By 2018, these changes will almost certainly result in Alberta having the highest mininum wage in the country, and likely still the highest rate after taxes. Likewise, Alberta's minimum wage as a percentage of the median wage in the province will rise from 41% to nearly 60% of the fiscal 2014-2015 median hourly wage (as the median wage will likely continue to increase, this percentage will drop somewhat).

While there is some validity in noting that a staged approach will spread out the pain of the large increases over multiple years, each annual change will significantly change Alberta's labour market shape. The subsequent changes to the minimum wage (assuming annual increases of $1.20 per hour) will increase the number of minimum wage earners as follows:[1]

	2015	2016	2017	2018
Potential Minimum wage rate	$11.40	$12.60	$13.80	$15.00
Approximate no. of workers directly impacted if MW changed to this level	131,800	194,400	251,300	305,400

By 2018, it is estimated (based on fiscal 2014-2015 values) that the number of minimum wage earners could reach 17.7% of the Alberta workforce. While this estimate is likely high, given population growth, it still points to a pool of minimum workers that on a percentage basis will be much larger than anywhere else in Canada. Ontario's percentage of minimum wage earners sits at 11.7% for 2014-2015. Alberta will reach that threshold by 2016.

As such, Alberta minimum wage earners will no longer be a statistically marginal component of the Alberta workforce: The impacts of further changes as that group grows in size and as the increases get larger probably cannot be assumed away, and wage pressure may be a future challenge for the province's labour market. This may be doubly true in future years as more and more workers currently well above the minimum wage will come into direct or proximate

[1] Figures for the numbers of workers impacted was estimated using the Labour Force Survey, also conducted by Statistics Canada; figures do not include adjustments for population growth.

range of the increasing rate. At this point it is not fully known what the overall impact of this kind of upwards wage pressure would have on what is still an uncertain economy, but it is reasonable to assume that job loss, and perhaps significant job loss is one realistic possiblity.

However, "possibility" is not really "prediction," and the major research needed to better understand these impacts has not yet been carried out. The challenge for this province is that the research needs will be considerable - it may well be that Alberta's forthcoming minimum wage policy implementation will be unique for Canada, and indeed, almost without similar example anywhere else in the world. Even countries with notably high minimum wage rates like New Zealand and Australia will likely have lower rates of mininum wage "participation" than Alberta (OECD 2013) and may be resistant to comparison.

The challenge for government, is how to quickly build a knowledge capacity around the minimum wage policy, and develop solid economic models, while continuing to act in the absence of any current anaylsis that could show conclusively and objectively the way forward. A number of research initiatives are currently underway within JSTL, and as noted above, an ADM group has also been established to better undestand the impacts for government of the new rate. It may be the case that the 2015 increase and aftermaths will serve as an important starting point for this new stage of minimum wage research in the province, and help suggest better and more meaningful connections between and amongst the government's many and varied social and economic initiatives.

3. Conclusions

Alberta's new minimum wage policy represents a significant, and practically unique moment within the history of the minimum wage in the province, and the country. The proposed movement from $10.20 to $15.00 by 2018 represents a major change for the province, and it stands to completely transform the nature of low wage work in the province. Stakeholders have of course started to make their views known about the issue, in some cases loudly, and a long and contentious academic debate has been imported into the Alberta context.

Determining the overall economic impact of the new policy presents many challenges – the complexity of analysis, the multiplicity of potential causal variables, and the sheer uniqueness of the Alberta situation make it difficult to make meaningful predictions, short of very complex and sensitive economic analysis, which has not yet taken place. In the absence of this kind of analysis (which, as tailored to Alberta's specific facts, may not exist yet at all), a few basic conclusions can be drawn:

That the first of the four incremental raises to the minimum wage, on its face, resembles past increases in both Alberta and elsewhere in Canada. While it is significantly higher increase than what was expected in the province, the likely increase is not "abnormal." Likewise, even though an increase up to an (expected) $11.20 will affect a significantly larger component of the Alberta working force, it is still likely not large enough (at an initial level of analysis) to have

strong overall impacts on employment levels. Relatively muted employer concerns around increases that would be comparable to rates in Ontario and other jurisdictions also suggests that the first increase may not cause significant issue.

However, for subsequent years of increases, the same assumptions cannot be made. Alberta will essentially be sailing into uncharted waters at this point – while Canada has seen many provinces outlining large increases of the minimum wage over multiple years, most do so to play "catch up" - Ontario's move in the late 2000s to be the first province to move to $10 per hour, is perhaps the only sequence of increases that comes close to what Alberta is proposing, and even in that case other provinces closed the gap and crossed the (psychologically vexing) $10 threshold fairly quickly.

On the other hand, while cross-Canadian comparisons suggest Alberta's outcomes are highly exceptional, internal comparisons between Alberta low wage workers and other employees in the province suggest less radical change, arguably more in keeping with the expectations of workers in a strong and rich economy – especially if the minimum wage ultimately ends up reflecting between 50-55% percent of the median wage in the province, a typical ratio for many Canadian provinces.

Alberta needs to build more analytic and research capacities to make better sense of a renewed minimum wage policy that is intended to produce not just economic but social effects. It is recommended that this research and analysis continue and intensify, even as the first rate is announced, and that the additional knowledge that is gained through this exercise be used to ensure that the adoption of the minimum wage policy be as informed and smooth as possible in the years to come.