

MINIMUM WAGE TIED TO CPI (2023)

Issue

Over the years, depending on the government of the day, the minimum wage has either stagnated in comparison to the cost of living or increased very rapidly via legislation. These swings left workers either falling behind economically; or business owners, particularly those in the service industry, suddenly finding themselves facing large, unanticipated payroll increases. Indexing future minimum wage increases to the Consumer Price Index via legislation will provide stability and certainty for the business community and investors.

Background

The BC Fair Wages Commission (FWC) Report^[1] was released in January 2018. The 3-panel commission recommended that the basic minimum wage be increased to \$15 by 2021. The following increases have occurred since the report's release with the minimum wage reaching \$15.20 by 2021.^[2]

Year	Increase (\$)	Minimum Wage	% Increase
June 2018	1.30	\$12.65	11.5
June 2019	1.20	\$13.85	9.5
June 2020	0.75	\$14.60	5.4
June 2021	0.60	\$15.20 ^[3]	4.1

Over this 4-year period, the first two years of increases to minimum wage far outpaced inflation, but the rationale for this rate of increase was to take advantage of the relatively good economic climate. The increases in 2020 and 2021 were right in the middle of the COVID-19 pandemic and economic conditions were at their worst, but at least this schedule of increases was known ahead of time even if they were still difficult to absorb by businesses. Since the COVID-19 pandemic, we have seen a business climate that is no longer viable for arbitrary increases. We have seen our economy shut down, businesses close, many people out of work who have been slowly returning, and now we're in a state of persistently high inflation. The FWC found that "minimum wage increases have little or no effect on the over-all employment levels when economic conditions are good" (p.xiii).^[4]

The commissioners, in addition to the increases, had three other recommendations, two of which were to establish a permanent commission and an advisory committee. The last recommendation was to establish "predictable indicators to guide future increases to the minimum wage, such as the CPI..." (p.xvi), among other indicators such as poverty levels or average wage levels.

Striking a Balance

The members of the BC Chamber of Commerce have in previous policies, called for stability of minimum wage (2020-2021) and minimum wage increases to reach wages indicated by the living wage by indexing to the Consumer Price Index (CPI) (2021-present). The CPI is a Statistics Canada measurement that is an “indicator of the changes in consumer prices ... of a fixed basket of commodities purchased by Canadian consumers in a particular year.” [5] The collective difference from one year to the next is the rate indicating an increase in the cost of living.

The CPI is used to adjust pensions, child support payments, and any number of social, welfare or other payment that over time will need to be adjusted to take into account the increase of the cost of living. As it is a statistical measurement, it is a neutral (non-political) tool to ensure increases are no more / no less than that required to cover the averaged increases experienced by Canadians from year to year. For 2020, the CPI (percentage change) for each Canadian Province was:[6]

Sept. 2020	Alta	BC	Man	NB	NFL	NS	Ont	PEI	Que	Sask	CAN
	1.5	0.4	0.2	-0.2	0.3	-0.7	0.6	0.0	0.3	0.8	0.5

The obvious benefit of indexing the minimum wage to CPI is it protects workers from increases in the cost of living and prevents erosion in real dollar value compared to inflation.[7] Freezing wages for any length of time, although it might be politically expedient, is not only harmful to workers, who are able to afford less over time, but is harmful to business, particularly retail and food service industries. Such industries find themselves responding to ad hoc jumps in pay roll costs as governments respond to public pressure and jump wages forward in unrealistic and unsustainable amounts. The CPI as noted above, is different for each province, reflecting the real cost impact of living within that province, therefore a very useful tool for determining raises.

Due to COVID-19, we found that prices fell in various provinces when comparing CPI in September 2019 to September 2020. Prices increased modestly in other provinces. Under the current plan, wages are going to increase 5.4% whereas CPI only increased 0.4% since last year. This puts employers at a disadvantage.

Accordingly, several provinces have indexed their minimum wages to the CPI. According to Retail Council of Canada[8] and several other sources, the minimum wages across Canada are:

	Alta**	B.C.	Man	NB	NFL	NWT	NS	Nun[9]	Ont[10]	PEI	Que[11]	Sask	Yuk
			IR[12]	CPI	CPI	CPI	CPI		CPI			CPI	CPI
2018	15.00	12.65		11.25		13.46	11.00		14.00	11.55			
2019		13.85											
2020	15.00	14.60	11.90	11.70	12.15[13]		12.55	16.00	14.25	12.85	13.10	11.45	13.71

2021		15.20				15.20	13.10						
2022		15.65						15.50				13.00	
2023		16.75	14.15	14.75	14.50		14.50		16.55	14.50	15.25		16.77

Note: the gaps within the table means unchanged minimum wages since the first indicated wage.

However, their data reflect sporadic increases of 0% from 2002 to 2011, and increases ranging from as low as 1.95% in 2015, (p.8) to the recommended high of 11.5% this year. While the cost of living in B.C. is acknowledged to be a challenge for low-income earners, the instability created by “playing catch-up” is unfairly carried by mostly small business operators. Consistent raises based on a statistical index, such as the CPI, are required to develop stability for businesses and their employees. And while legislating increases to a predictable economic indicator provides certainty to businesses, it’s also important to provide an adequate amount of lead time for those businesses to incorporate the increased wages. In Ontario, the government announces their new minimum wage in April with the new wage taking effect in October. That is a six-month lead time which is a good best practice for the B.C. government to follow.

We want the government to ensure that minimum wage continues to only increase by CPI, with the government encouraging employers that can pay a living wage to do so.

In any year that the CPI decreases below zero – as is the case in New Brunswick and Nova Scotia –our expectation is that the current base wage would be retained and there would be no downward adjustment based. The base wage would then increase again as the CPI exceeded the past high-water mark. And while it should never be expected to roll back minimum wage should CPI be negative; it should be equally so that businesses don’t bare the brunt of minimum wage that far exceed the 2% target set by the Bank of Canada. In this unusual situation, as we experienced in the past 2 years where CPI exceeded the Bank of Canada’s target by more than double, the provincial government should provide a relief mechanism that allows businesses, in particular small businesses, an ability to absorb that unexpected cost of doing business.

COVID-19 has crippled many industries and small businesses. Many businesses have had to take on massive loans to remain afloat during the pandemic. To ensure that there is equity, there needs to be a mechanism allowing certain businesses that simply cannot afford to provide raises the ability to opt-out. This would ensure that the business’ bottom line is not further eroded.

THE CHAMBER RECOMMENDS

That the Provincial Government:

1. Introduce legislation to index future minimum wage increases to the Consumer Price Index (CPI), unless CPI decreases below zero, that incorporate the following parameters:
 - any minimum wage increases be tied to the CPI level indicated in the month before it is announced;
 - any minimum wage increases need to be announced with at least 6 months lead time before it goes into effect, like the Province of Ontario
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[1] Fair Wages Commission's (FWC) first report, "The Transition to a \$15 Minimum Wage and Subsequent Increases," January 2018: <https://engage.gov.BC.ca/fairwagescommission/>

[2] The additional \$0.20 is optional. The recommendation of the FWC is to consider the increase no less than 6 months in advance. If the economy is doing well, then add \$0.15 to \$0.20; if not, then keep to the \$15.00.

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[4] Table 1 – Minimum wage increases and unemployment rates in B.C.: 2000-2017, p.8, also support the FWC's conclusion.

[5] Your Guide to the Consumer Price Index, Statistics Canada, 1996 (not updated since), p.1 www.statcan.gc.ca/pub/62-557-x/4194961-eng.pdf

[6] CPI by province, <https://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ09a-eng.htm>

[7] Battle, Ken. Canada Social Report: Minimum Wage Rates in Canada: 1965-2015, September 2015, www.canadasocialreport.ca/MinimumWages/2015.pdf

[8] Retail Council of Canada, Minimum Hourly Wage Rates as of October 1, 2020 <https://www.retailcouncil.org/resources/quick-facts/minimum-wage-by-province/>

[9] The minimum wage in Nunavut is adjusted annually.

[10] Minimum wages are specialized <https://www.ontario.ca/document/your-guide-employment-standards-act-0/minimum-wage#section-0>

[11] Quebec's minimum wages for employees receiving tips is \$10.45 an hour <https://www.cnt.gouv.qc.ca/en/wages-pay-and-work/wages>

[12] The minimum wage in Manitoba is adjusted annually on October 1 based on the Inflation Rate.

[13] The minimum wage in Newfoundland & Labrador will return to being adjusted annually on April 1 relative to the Consumer Price Index.