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Minimum Wages in Western Canada



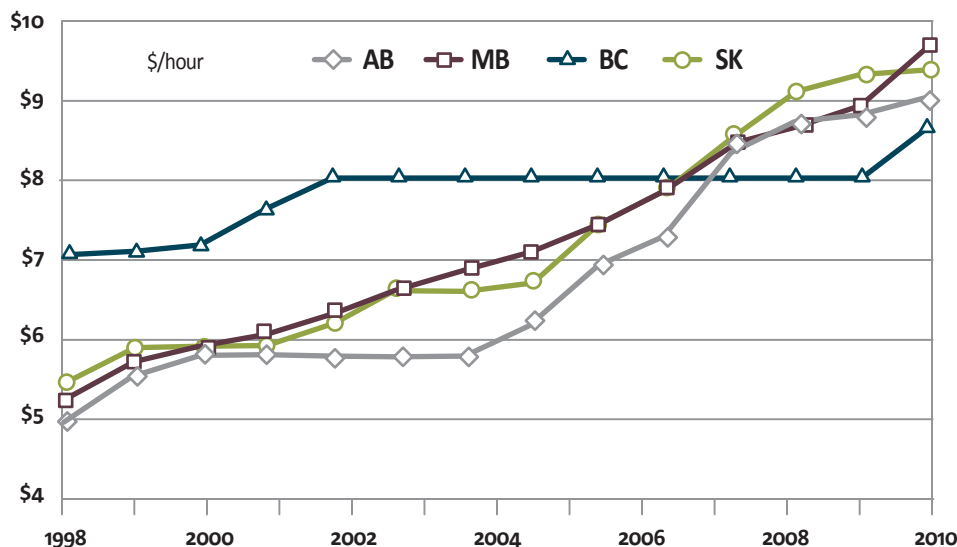
By Lihui Zhang,
Assistant Professor,
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In Canada, each province and territory has a minimum wage stipulation in its employment standards legislation. The minimum wage is the lowest hourly wage that an employer can pay to employees who are covered by the legislation. Similarly, it is also a violation for employees to accept remunerations lower than the minimum wage.

The level of the minimum wage rate differs from one province to another and each province/territory may have different minimum wage rates for certain occupations or have different exclusions. To name a few, Alberta and B.C. set a lower minimum wage for liquor servers considering their gratuity income. Manitoba has separate minimum wage rules for some parts of the construction sector. Saskatchewan has a minimum call-out pay regulation. Each province/territory also revisits its minimum wage legislation from time to time as social and economic conditions change.

This article will focus on the general minimum wage rate only. All four western provinces (Alberta, B.C., Manitoba, and Saskatchewan) have recently increased or announced forthcoming increases to the minimum wage. In the analysis that follows, we will first review the evolution of the actual minimum wage

Figure 1: Minimum Wages in the West



in western Canada since 1998, then consider minimum wage adjustments in relation to consumer price inflation, and finally compare the minimum wage to the average wage rates in the general labour market.

Actual Minimum Wage

Figure 1 shows how the minimum wages have evolved since 1998. Throughout the late 1990s and early 2000s, B.C. had much higher minimum wage rates than the other western provinces. For example, at the beginning of

1998, the minimum wage was \$7.15 in B.C., but only \$5.00 in Alberta, \$5.40 in Manitoba, and \$5.60 in Saskatchewan. However, over time the other provinces have increased their minimum wages frequently, while B.C. made no adjustment to its minimum wage rate at all between 2002 and 2010, causing its minimum wage to become the lowest in the West in recent years.

With announced increases in the near future, the western provinces will have similar levels

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for the minimum wage by the end of 2011 with Manitoba taking a moderate lead at \$10.00, compared to \$9.40 in Alberta and \$9.50 in B.C. and Saskatchewan.

Minimum Wage in 2002 Constant Dollars

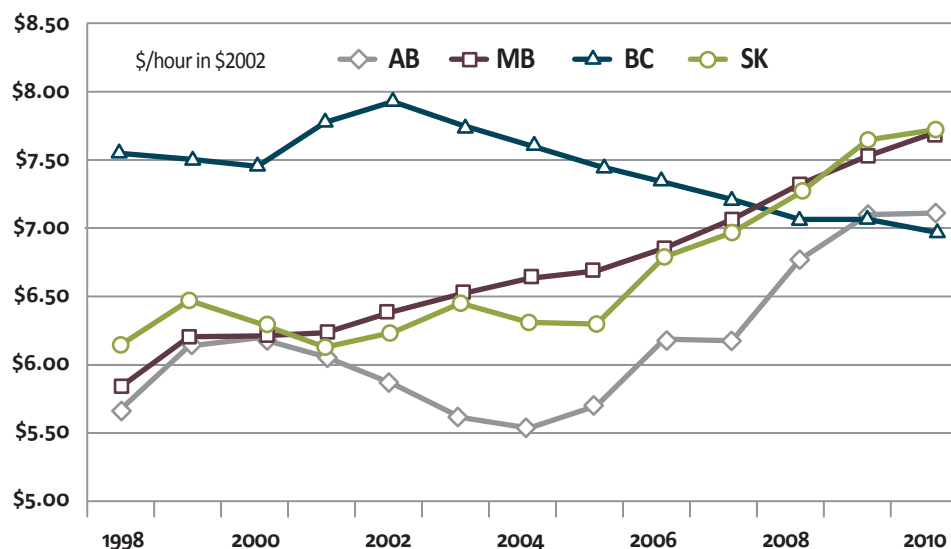
The minimum wages described above are quoted in nominal dollars and do not reflect the purchasing power in a world with changing prices. A decade ago, \$10 might have been enough to feed a family of four for one meal but today it might only pay for a single person's meal. To take this into consideration, we first calculated the average minimum wage in each year by prorating the wage by month¹. Then we used the annual consumer price index (CPI) to convert average minimum wage into constant dollars, the so-called real minimum wage. This provides the basis to judge how the purchasing power of minimum wages has varied over time.

Figure 2 illustrates the real minimum wage from 1998 to 2010. Measured in constant \$2002, B.C. started out with the highest minimum wage but it has declined steadily since 2002.

Between 2002 and 2010, B.C. made no adjustment to its minimum wage rate causing it to become the lowest in the West in recent years.

Manitoba's and Saskatchewan's real minimum wages tracked each other quite closely most of the years and have risen gradually over time. Alberta's real minimum wage tracked Manitoba's between 1998 and 2001, but then fell for a number of years until recent increases brought it to the level of the real minimum wage in B.C., though still below that in Manitoba and Saskatchewan. As of 2010, B.C. was the only province in which the real minimum wage was lower than in 1998. In the other three provinces, the purchasing power of the minimum wage is significantly higher than it was five years ago.

Figure 2: Real Minimum Wages in the West



¹ For example, the Saskatchewan rate went from \$9.25 to \$9.50 in September of 2009. Prorated by month, the minimum wage for 2009 would be $\$9.25 \times (8/12) + \$9.50 \times (4/12) = \$9.33$.

Minimum Wages Relative to Average Wages

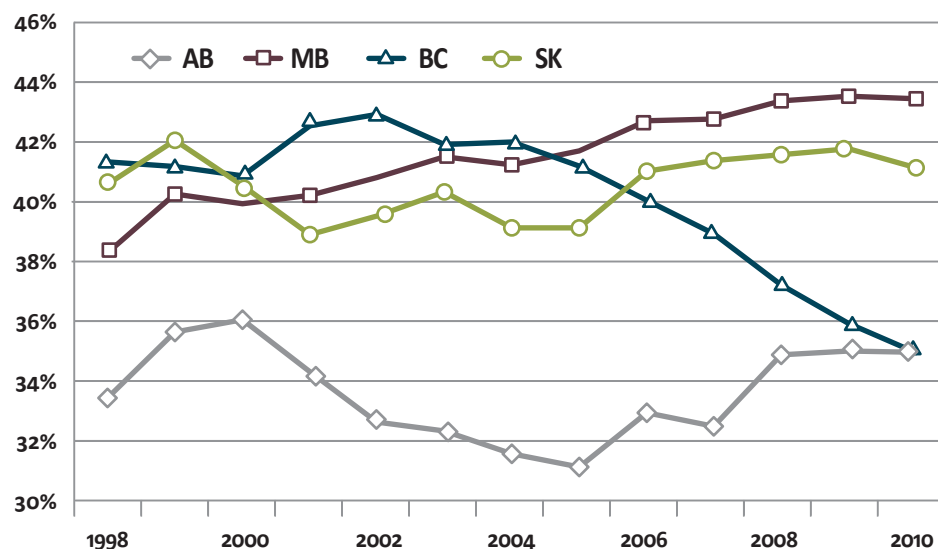
Besides purchasing power, it is also useful to look at minimum wage in the context of the broader labour market, in particular, the ratio of minimum wage to the average wage in a given province. This minimum/average wage ratio, which measures minimum wage as a fraction of average wage, is an important indicator for the relative price of low-skilled labour.

As seen in Figure 3, until 2009 minimum wage workers in Alberta had the lowest hourly pay relative to average workers in the West. After reaching its peak at 36% in 2000, the minimum/average wage ratio in Alberta dropped continuously to less than 32% in 2005, but recovered in the past few years to near 35% in 2010.

Manitoba's and Saskatchewan's real minimum wages have tracked each other quite closely over the last decade and have risen gradually over time.

Between 1998 and 2006, the minimum/average wage ratios in B.C., Manitoba and Saskatchewan were close to each other in the range of 38% to 43%, with B.C. at the high end of the range and Saskatchewan at the low end. Since 2006, however, B.C. diverged from Manitoba and Saskatchewan and joined Alberta to become the two western provinces with the lowest relative price for low-skilled labour. In Manitoba, the minimum/average wage ratio had been slowly edging upwards over the years from 38% in 1998 to near 44% in 2010. The minimum/average wage ratio has been virtually

Figure 3: Minimum Wages as a Percentage of Average Wages



constant in Saskatchewan, fluctuating within the narrow band of 39% to 42%.

Summary

Between 1998 and 2010, the purchasing power of the general minimum wage increased in all western provinces except B.C. In Alberta and Saskatchewan, such increases were roughly comparable to those experienced by an average worker, though the relative price of low-skilled labour was significantly lower in Alberta than in Saskatchewan. In Manitoba, minimum wage workers gained slightly relative to average workers, whereas in B.C. minimum wage workers lost ground. Recently implemented minimum wage increases for May and another increase scheduled for November will improve the position of minimum wage earners in B.C.

The main purpose of instituting a minimum wage is to protect non-unionized low-skilled labour and reduce poverty rates although economic theory suggests that there may be some unintended effects. In more competitive sectors like the labour-intensive service industries (e.g., hotels and restaurants), employers have limited room to absorb the increased labour costs by curbing their thin

profit margins. They may, as a consequence, either lay off workers or not hire as many as they would with a lower minimum wage. As a result, some low-skilled workers become involuntarily unemployed. These workers may very well be those who need work the most – even at lower than the minimum wage. This is not to say that minimum wage is outright a bad idea. Rather, such unintended effects need to be weighed against the benefits enjoyed by those who get to be employed earning the stipulated minimum wage that is still higher than their minimum willingness to accept.

Overall, it appears that the rationale of using minimum wage as a poverty reduction strategy had been less entrenched in Alberta and B.C.'s public policy arena in much of the last decade.

Sources: Canadian Minimum Wage Database; CPI; Statistics Canada CANSIM Table 326-0021: Average Wage Rates; Statistics Canada Labour Force Survey

Residential Energy Use



By Murray Fulton, Professor and Graduate Chair, Johnson-Shoyama Graduate School of Public Policy

A recent report issued by Statistics Canada

(Households and the Environment) provides a snapshot of some of the activities Canadian households are undertaking to conserve energy. Among the activities are the use of energy saving light bulbs, unplugging appliances when away from home, reducing heating and cooling in unused parts of the home, closing blinds and drapes during the hottest part of the day, and putting plastic film on windows in the winter.



Table 1: Energy Conservation Strategies, 2007 and 2009, Percent of Households

	2007					2009				
	BC	AB	SK	MB	Canada	BC	AB	SK	MB	Canada
Use at least one type of energy saving light bulb	87%	80%	84%	78%	84%	89%	89%	91%	86%	88%
Use dimmers on household lights	52%	49%	46%	43%	50%	53%	47%	43%	42%	50%
Unplug electronics when away for an extended period of time	62%	65%	55%	58%	56%	62%	65%	60%	56%	57%
Reduce heating or cooling in certain areas	66%	53%	54%	59%	61%	61%	51%	54%	46%	60%
Use clothesline or drying rack	54%	53%	48%	55%	63%	57%	54%	54%	46%	64%
Use fans for cooling in summer	68%	71%	67%	60%	66%	72%	73%	65%	57%	66%
Close blinds or drapes in hottest part of day	85%	93%	93%	93%	85%	86%	88%	93%	89%	83%
Put plastic film on windows in winter	...	...	...	...	...	10%	15%	26%	20%	21%
Put on more clothes in winter instead of adjusting temperature	...	...	...	...	...	84%	83%	87%	79%	80%

... = not surveyed in 2007

As Table 1 illustrates, the adoption rates of each of these strategies across the four western provinces in 2009 is fairly uniform, with no province being an obvious outlier. Moreover, there has been no major change in the use of these activities since 2007 and the behaviour of westerners is not noticeably different from the behaviour of those living in other parts of Canada.

While the statistics shown in Table 1 are useful in providing a snapshot of energy conservation activities, they do not provide any evidence of how successful households in western Canada have been in conserving energy. Figures 2 and 3 provide a more comprehensive indication of how residential energy use has changed over the period from 1990 to 2008. These figures use information derived from Natural Resources Canada's *Comprehensive Energy Use Database*.

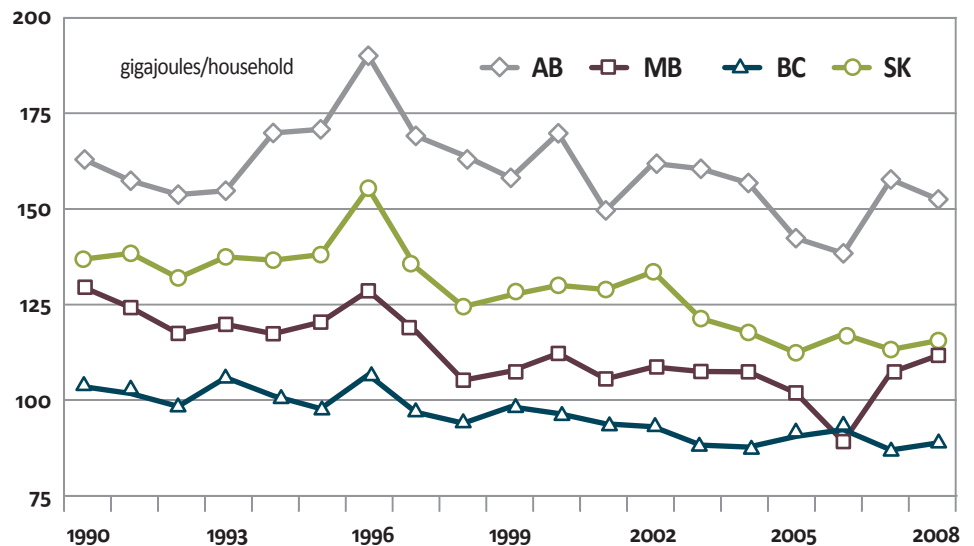
Figure 1 shows residential energy intensity in terms of gigajoules per household. As expected, households in B.C. use less energy than do their counterparts in the other three prairie provinces. Indeed, not only is weather a source of the differences that exist among the provinces, it is also a source of the fluctuation over time in energy use. For instance, 1996 was particularly cold for all of the provinces in western Canada; the result was a dramatic jump in the amount of energy used per household.

Fluctuations in weather notwithstanding, Figure 1 indicates that households have been making more efficient use of energy over the last two decades. The only caveat to this conclusion concerns Alberta. Although energy intensity has fallen in that province since 1996, the amount of energy used per household in 2008 is roughly comparable to the amount used in 1990. In contrast, the other western provinces have seen a decrease in energy use per household.

Figure 2 shows an alternative measure of energy efficiency, namely gigajoules per square metre of household size, that is, the area being

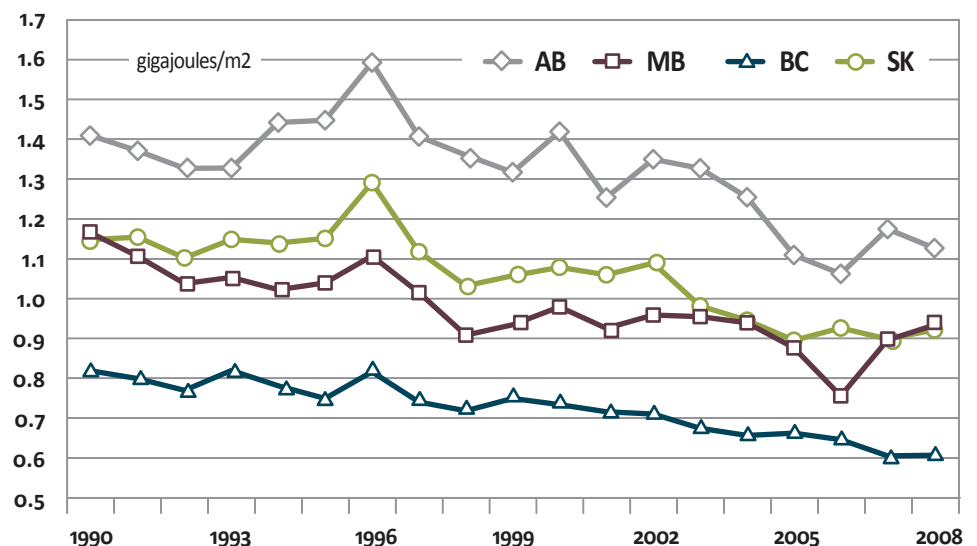
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Figure 1: Residential Energy Use per Household



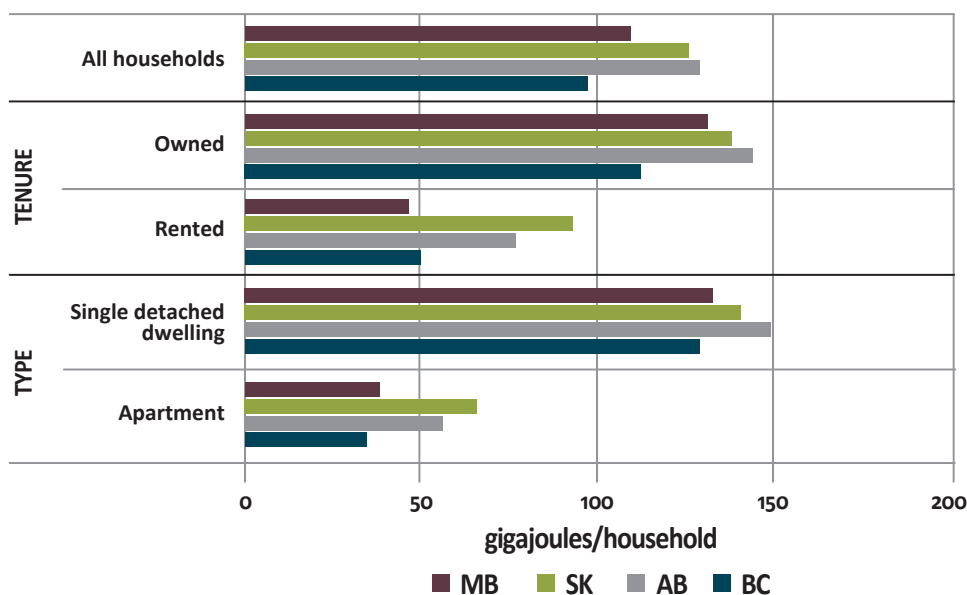
The overall pattern of energy use is one of increased efficiency - households are using less energy per square metre.

Figure 2: Residential Energy Use by Household Size



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Figure 3: Residential Energy Use by Household Type, 2007

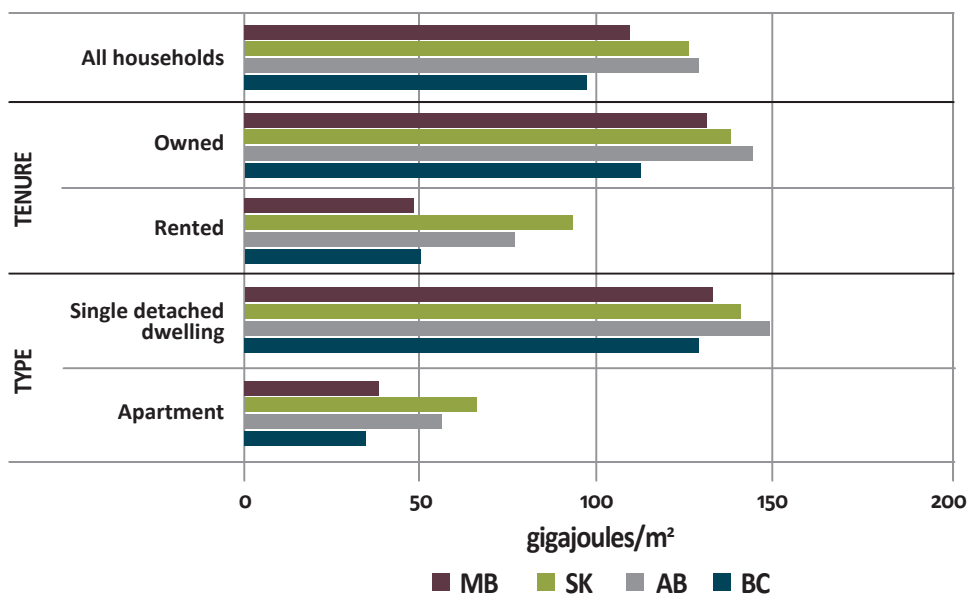


heated. Once again, differences in this measure over time and geographical region can be partly explained by differences in weather. In addition, the overall pattern is one of increased efficiency – households are generally using less energy per square metre.

More efficient use of energy on a per square metre basis, however, does not necessarily lead to less energy use per household, as illustrated by the Alberta case. If households are heating larger areas – because of larger houses, for instance – then increased energy efficiency on a per area basis need not translate into increased efficiency on a household basis.

The adoption of energy saving strategies is fairly uniform across the four Western provinces.

Figure 4: Residential Energy Use by Household Size, 2007



While Figures 1 and 2 indicate that households are using energy more efficiently, they do not provide any insights into why this increased efficiency has occurred. A previous report from Statistics Canada sheds some light on this question.

Figures 3 and 4 show energy intensity by province for 2007 broken down by household type (Note: Due to a difference in the source of the data, the values in Figures 3 and 4 do not match the 2007 values in Figures 1 and 2). On both a GJ/household and a GJ/m² basis, households living in apartments are more energy efficient than households living in single detached dwellings. As well, households that rent their homes use energy more efficiently than do those that own their home, perhaps because rented units tend to be apartments.

This pattern, of course, is affected by household income. Not only does income affect whether households live in apartments or own their own dwelling, income also affects energy use directly. The report indicates that the highest level of energy use is among households with \$40,000 to \$80,000 per year in income. Lower income households presumably have lower energy use because of smaller dwellings and a need to cut back on energy expenditures, while higher income households likely are able to afford more energy efficient appliances and more energy efficient homes.

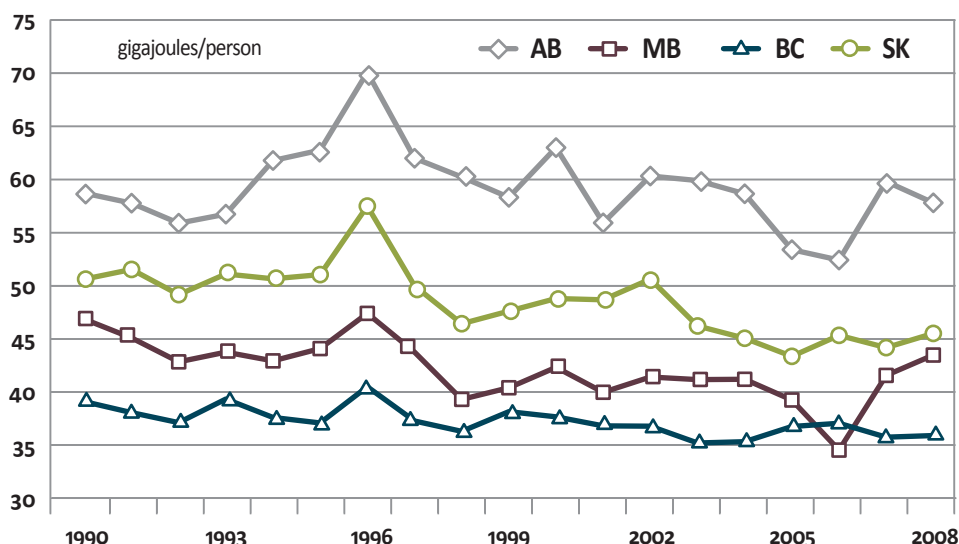
The patterns described above suggest that one source of the increase in energy efficiency over time could have been a change in the mix of households living in apartments versus single detached dwellings, or in the percentage of households that are renting versus owning. Similarly, changes in the distribution of income over time could have altered energy efficiency. More research is required to determine if these aspects have been important.

Other factors could also be at work. The age of the housing stock, for instance, makes a difference in energy efficiency. The report shows that while dwellings built in the period from 1946 to 1960 were often no more efficient than dwellings built earlier, energy efficiency in dwellings built since 1960 has improved considerably.

Household composition can also play a factor. The report indicates that smaller households use less energy than do larger households (although on a per person basis, larger households use less energy). Thus, a move to smaller households could be a reason for the increase in energy efficiency observed in Figures 1 and 2.

While households are the key decision making entities in the economy, ultimately it is important to know what impact changes in household energy use have on per capita energy use. Figure 5 shows that residential per capita energy use has fallen in the western

Figure 5: Residential Energy Use per Capita



The rate of decline in energy use per capita is very low.

provinces over the period 1990 to 2008. The rate of decline, however, is very low – 0.6% per year for Saskatchewan, 0.4% per year for Manitoba and B.C. and less than 0.1% per year for Alberta. Indeed, for the latter part of the 1990s and the early part of the past decade, Alberta's per capita energy use was above that in 1990.

To make significant changes to per capita energy use, households will need to take more drastic measures than those listed in Table 1. Such measures include changes to the size and the nature of dwellings (e.g., smaller units that are joined together), improvements in building materials (e.g., windows, insulation), and investments in highly energy efficient appliances.

While an obvious policy response is to make it less expensive for households to make these kinds of changes, it is likely that real change will only occur if and when the price of energy rises substantially. The policy dilemma for government, however, is that while allowing, or even encouraging, such a price rise would assist with meeting policy goals associated with reduced energy use (e.g., less pollution, fewer greenhouse gas emissions), such policy actions are almost sure to be politically unpopular.

Sources: Statistics Canada, *Households and the Environment*, 11-526, 2007 and 2009; Natural Resources Canada, *Comprehensive Energy Use Database*

The Employment Insurance Program as a Transfer Payment



By Doug Elliott, Editor

In the Canadian federation, there are a number of fiscal transfers with money flowing from the federal to the provincial

governments. The most visible of these are the “equalization payments” that flow to the “have not” provinces. Two other important transfers are the Canada Health Transfer and the Canada Social Transfer which transfer funds to help provincial governments deliver health, education, and social programs.

Other transfers are not as visible because they are not direct payments between governments but rather indirect and probably inadvertent flows across provincial borders that arise for specific government programs. Examples include the Old Age Security payments to seniors (which will go disproportionately to provinces with older populations) and support programs for fisheries or farmers. Another is the subject of this article – the Employment Insurance (EI) program.

EI is a national program so the premium rates for employers and employees are the same across the country. The rate is a proportion of payrolls so provinces with higher rates of pay tend to contribute a higher dollar value. Benefits are also related to average earnings so higher premiums will, in theory, coincide with higher payments. In fact, a cap on payments limits the effect of this.

The statistics in this article compare benefit payments from the program with premiums paid by employers and employees. Figure 1 shows that the EI program has, since the early 1990s run a large surplus, taking in more from premiums than it pays in benefits. The extent of this surplus is somewhat exaggerated because administrative expenses are not included¹ but the pattern is unmistakable.

The most recent data available are for 2008; undoubtedly this surplus will have been much smaller in recent years. In fact, the federal

Figure 1: Employment Insurance Surplus (premiums paid less benefits received)

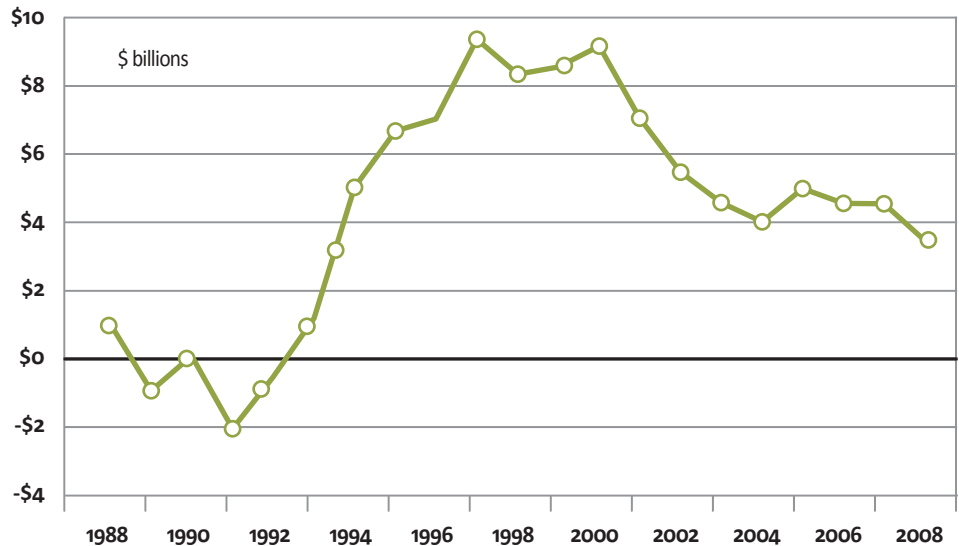
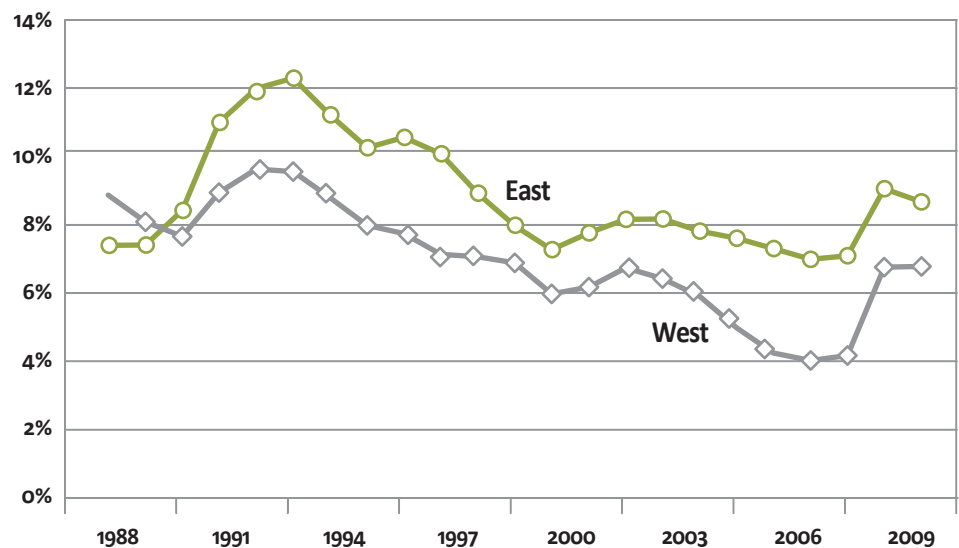


Figure 2: Unemployment Rates in Canada



¹ According to Table 5.9 of the 2011 budget, benefit payments account for approximately 90% of EI program expenditures with administrative expenses accounting for the remaining 10%.

government reports that the program was in deficit in 2009-10 if administrative expenses are included.

Provinces with higher unemployment will, of course, receive more benefits. This happens in two ways. Firstly, with more unemployed people, there are more beneficiaries² and secondly, eligibility requirements are not as stringent for regions with a high unemployment rate – it is easier to get EI benefits and you are able to receive them for a longer period.

Western Canada

The West typically has lower unemployment rates than the East (see Figure 2). In 2010 for example, the four western provinces had unemployment rates ranging from a low of 5.2% in Saskatchewan to a high of 7.6% in B.C., averaging 6.7% overall. All of the other six provinces had unemployment rates that were higher, ranging from 8.0% in Quebec to 14.4% in Newfoundland. This was not an atypical year. With the exception of a period in the mid-

The imbalance is more pronounced in Alberta where, in 2008, EI benefit payments were 45% of premiums collected.

1980s, the unemployment rate in the West has been below the rate in the East for each of the past thirty-five years.

This has a predictable effect on EI program payments, generating a net flow of funds from western Canadian employers and employees to those in eastern Canada. Figure 3 shows that this has been the case since the early 1990s

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Figure 3: Employment Insurance Surplus in Western Canada (premiums paid less benefits received)

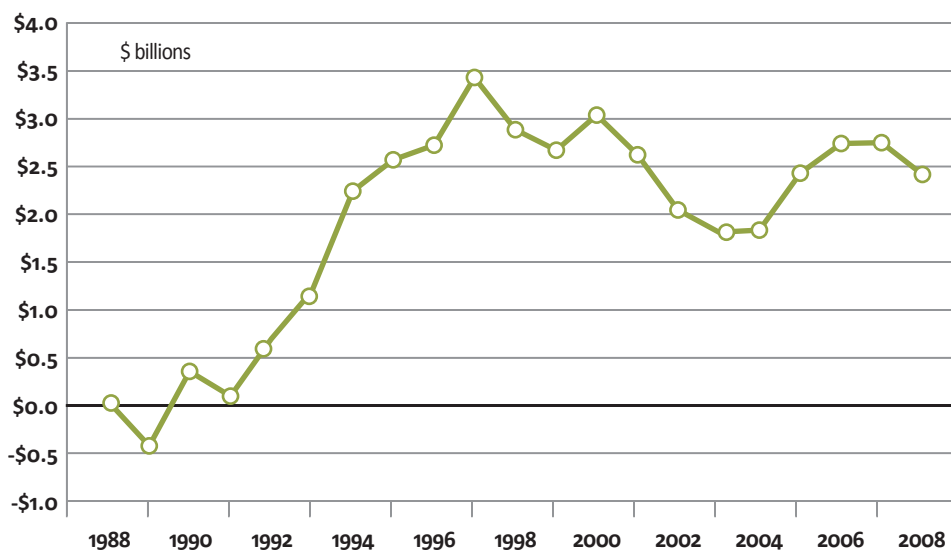
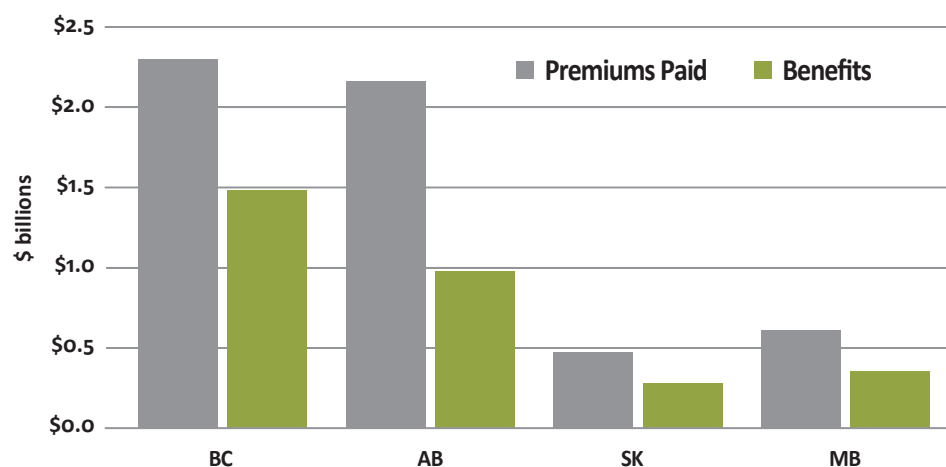


Figure 4: Employment Insurance Benefits Received and Premiums Paid, 2008



² The number of unemployed is only partly related to the number of persons receiving EI. One can be unemployed without being eligible for EI and some EI benefits (e.g. maternity benefits) go to persons not "unemployed" in the labour market sense.

continued from page 9...

and that the size of the financial flows has been near \$2.5 billion in recent years. Looked at another way, the West was responsible for 33% of the contributions but received only 24% of the benefits in 2008.

Broken down by province, Figure 4 shows that the imbalance is particularly pronounced in Alberta where, in 2008, EI benefit payments were 45% of premiums collected. This compares with 60% to 65% in the other three western provinces.

Summary

The EI program generates a flow of funds from western Canada to eastern Canada by virtue of

the fact that premiums paid by westerners are much higher than benefits received. This arises because the EI program typically runs a surplus and because a disproportionately high share of that surplus comes from western Canada.

There are a number of public policy questions that arise. Should there be such a large surplus in the program? Should there be lower premium rates in areas where unemployment is lower as is the case in some other kinds of insurance programs?

Source: Statistics Canada CANSIM Tables 384-0006 and 384-0009, Public Accounts of Canada

The employment insurance program generates a flow of funds from western Canada to eastern Canada by virtue of the fact that premiums paid by westerners are much higher than benefits received.

STATISTICALLY SPEAKING...

○ CONSUMER PRICE INDEX (CPI) (APRIL 2010 TO APRIL 2011)

Higher energy and food prices continue to drive the rate of inflation.

□ EMPLOYMENT GROWTH (MAY 2010 TO MAY 2011)

In early 2011, employment growth continues to slow in Manitoba and Saskatchewan and continues to increase in Alberta.

