



**GREATER CHARLOTTETOWN AREA
CHAMBER OF COMMERCE**

PROVINCE OF PRINCE EDWARD ISLAND

2008 MINIMUM WAGE REVIEW

**SUBMITTED TO HONOURABLE CAROLYN BERTRAM
MINISTER OF COMMUNITY AND CULTURAL AFFAIRS AND LABOUR**

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Introduction

The Greater Charlottetown Area Chamber of Commerce welcomes the opportunity to provide input into the review of the provincial minimum wage rate.

The Greater Charlottetown Area Chamber of Commerce represents 825 member businesses employing over 16,000 or 20% of the province's experienced labour force. Over 50% of these members are small businesses with five or less employees. Rising costs for business are a major concern for our members.

There are a number of issues we encourage the government to consider in its review of the province's minimum wage.

Overall Workforce Strategy

Any increase to the minimum wage must be considered as part of a larger workforce strategy which includes the proposed changes to the Province's Employment Standards Act. These changes pose significant financial implications to business. We urge the government to consider the total impact of these proposed changes on employers' costs in its review of the minimum wage. Increased costs to business, including through a higher wages and enhanced benefits, cannot be passed on entirely to consumers through increased prices. Often competition and / or regulation preclude such increases.

Higher prices may serve to drive commerce off-Island, reducing important tax revenue for the Province. For example, the Province competes worldwide in the tourism and hospitality sector and competitive pricing is essential if the Island is to maintain or grow its market share. The 2007 Visitor Exit Survey suggests that pricing is already an issue of concern. When visitors were asked to rate travel

services on PEI only “the prices of goods and services” fell below an average score of 4.0 on a 5-point quality measure scale (1 = very poor and 5 = excellent) with a 3.56 rating¹. In the retail sector, more consumers are purchasing products on-line² or are choosing inexpensive imports over locally manufactured goods.

Increased labour costs can result in staff cutbacks, fewer hours worked for employees, and reduced business investment. Employers may also be forced to cut back on the non-wage component of employee compensation including paid vacation time, on-the-job training, and other benefits.

CPI and Productivity

Minimum wage increases continue to outpace CPI for the Province. Between January 1st, 2002 and the end of 2007, minimum wage increased by 25% while the CPI rose by only 14.3%.

¹ *OVERALL RESULTS OF THE 2007 PRINCE EDWARD ISLAND EXIT SURVEY: Results for the Main Season: From June 27 to September 30*
(<http://trc.upei.ca/files/Exit-Survey-Report1.pdf>)

² Internet penetration and On-line Shopping in Canada has more than doubled since 1997. Three-quarters (74%) of Canadians age 12+ are now Internet users and almost half (49%) of Internet Users have made a purchase on-line. (<http://www2.acneilsen.com>)

Rate	Effective Date	% Increase	CPI	% Increase year over year
\$6.00	Jan. 1, 2002	3.4483%	100	2.7%
\$6.25	Jan. 1, 2003	4.1667%	103.5	3.5%
\$6.50	Jan. 1, 2004	4.0000%	105.8	2.2%
\$6.80	Jan. 1, 2005	4.6154%	109.1	3.1%
\$7.15	Apr. 1, 2006	5.1471%	111.6	2.3%
\$7.50	Apr. 1, 2007	4.8951%	114.3	2.4%

Approximately 5% of PEI's labour force earns minimum wage. Minimum-wage work is concentrated in the service sector with accommodation and food services having the highest incidence. Part-time work predominates - minimum-wage work among part-time workers is almost seven times higher than among full-time workers (14.3% versus 2.1%). Working for minimum wage is most prevalent among inexperienced workers who have been in the job for three months or less (1 in 8), and least common among those in a job for more than five years (1 in 83). This suggests that with time and experience, employees move out of minimum-wage jobs.³

³ *Perspectives on Labour and Income*, October 2006, Statistics Canada (<http://www.statcan.ca/english/freepub/75-001-XIE/comm/fact-9.htm>)

There is a great risk these wage increases will curb the size of the entry-level job market for Islanders. These positions help individuals to get into the labour force, earn wages, and gain valuable experience. These entry-level employees play an important role in sustaining and renewing the labour market. Rising labour costs, beyond CPI and any productivity gains, inhibit employers from growing this job entry market – this, unfortunately, at the expense of the people who need the work experience most. Instead employers choose to replace low wage workers with more productive workers. This substitution factor is why minimum wage legislation has the harshest consequences for the least skilled workers. A second option is to substitute capital for labour by automating services where possible.

Gains in productivity have not matched the increase in labour costs in Prince Edward Island. Productivity edged up only 0.7% in 2006 after declining 1.6% in 2005. Productivity growth was faster than the national average of 1.0% in 2006 in the three other Atlantic Provinces while PEI had the highest minimum wage rates in Atlantic Canada during this period.⁴

Rising minimum wage levels also often impact or “bump up” the wage costs of non-minimum wage employees. Responsible employers have wage review programs that reward employee experience and performance. When the minimum wage increases by such substantial amounts, employers are faced with making compression adjustments to other positions to keep the appropriate spread between those entering the work force and those who have gained work experience.

⁴ *The Daily*, Tuesday, November 27, 2007, Statistics Canada

Minimum Wage and Poverty

Attempting to use minimum wage as a means to curb poverty is simply pushing a social problem on to employers. The recent study of minimum wage conducted for the Federal Labour Standards Review⁵ concluded that the minimum wage is among the most ineffective tools for alleviating poverty and can exacerbate it in some cases. The research indicates that many poor do not work or work few hours. As well, poverty is defined in terms of family income and need, while minimum wages affect individual wages. Another fact that needs to be considered is that minimum wages disproportionately affect teens. Almost 60% of all minimum-wage workers live with their parents or other family members, reflecting the large number of minimum-wage workers under 25, many of whom have not finished their schooling.⁶

We strongly recommend that the government explore other means of addressing poverty within our province. We suggest that targeted tax relief is a more effective way of assisting the working poor than an increase in the minimum wage. We urge the government to look at training support for employers to assist in upgrading the skills of employed workers so that we may continue to improve the productivity of our workforce. As well, priority must be given to addressing the challenging problems of adult literacy and job readiness if we are to affect meaningful change in our under/unemployment issues on Prince Edward Island.

⁵ Gunderson, Morley (2006), *Minimum Wages in Canada: Theory, Evidence and Policy*, Federal Labour Standards Review Commission

⁶ *Perspectives on Labour and Income*, October 2006, Statistics Canada (<http://www.statcan.ca/english/freepub/75-001-XIE/comm/fact-9.htm>)

Conclusion

In 2005, 24% of the Island's GDP was generated by small businesses employing less than 50 employees.^{7 8} The majority of new jobs being created in the province are by small, private businesses. The importance of business and commercial development cannot be underestimated. It is a strong employment base that provides the foundation for provincial revenues. PEI must remain competitive with other jurisdictions by providing a cost effective and business-friendly environment if it is to retain its current business base and attract new businesses.

To summarize we recommend that the province:

- Consider the overall financial impact on employers of changes to labour standards when reviewing the minimum wage.
- Minimum wages increases should not outpace the CPI in the province.
- Utilize targeted tax relief not the minimum wage to assist the working poor.
- Provide assistance to employers for training for employed workers as a means of improving productivity.
- Make adult literacy and workplace readiness programs priorities to increase the employability skills of Islanders.

⁷ Industry Canada, Small Business Research and Policy, Key Small Business Statistics, January 2007 (<http://www.ic.gc.ca/epic/site/sbrp-rppe.nsf/en/rd02104e.html>)

⁸ Statistics Canada, Business Register, 2004 There are roughly 6,693 qualifying businesses on PEI; 98.1 per cent of these are considered small (less than 100 employees); 54.9 per cent have between one and four employees.