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## **RESEARCH PAPER #54**

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## **RAPPORT DE RECHERCHE #54**

# **The Minimum Wage in Canada**

April 2015





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# The Minimum Wage in Canada

## Introduction

One Canadian policy that regularly requires alteration in order to remain relevant is the minimum wage rate. Constantly evolving economic and social factors prevent the minimum wage rate from being set and remaining in place for decades. Instead, the rate must be reevaluated and adjusted to reflect the current financial needs of Canadians. However, deciding what workers are entitled to as a base wage is not easily determined. What standard of living can be achieved, what is economically sustainable for businesses, and many other questions play a significant role in determining what should be viewed as a fair minimum wage.

The intention of this paper is to break down the minimum wage debate, so that the benefits of paying workers decent wages become clear. A profile of minimum wage workers will show that the stereotypical teenage employee is not the reality and many individuals are struggling to provide for their families on minimum wage incomes. Common concerns about increases to the minimum wage, such as a rise in unemployment rates, the financial impacts on small business, and alternative policy changes to address poverty will be discussed in order to break down the myth that an increase to the minimum wage will have detrimental economic impacts.

This paper also contains a section with a special focus on the main employer of minimum wage workers, large firms. Recent examples of minimum wage job advertisements, as well as academic studies on the impacts of large employers on local economies, will be used to demonstrate the significant role these employers play in keeping wages low. Some communities have already recognized this and their strategies to impose better wages on large firms will be examined.

Our end goal is to portray the inadequacy of the minimum wage in Canada, and prove that an increase for these workers is a policy change that helps everyone. Current legislation has demonstrated its incapability

to provide Canadians with a decent wage, so alternatives need to be considered. The regulations surrounding setting a minimum wage rate in each province and territory will be compared, to expose the lack of accountability. Together all of this information, leads to the conclusion that our minimum wage system needs serious reform in order for it to serve the real needs of Canadian workers.

## What is a Minimum Wage?

The minimum wage is a provincial and territorial labour standard that ensures all workers receive a base wage. In some provinces and territories it has been in place since as early as 1918. Legislation, usually the province's *Employment Standards Act and Regulation* (although the name can vary slightly), establishes a floor wage that must be provided to all covered employees. While an employer may chose to negotiate wages above the minimum they legally may not provide a lesser wage. The purpose of this legislation is to protect Canada's most vulnerable workers from exploitation and prevent them from receiving dismal wages for their labour.

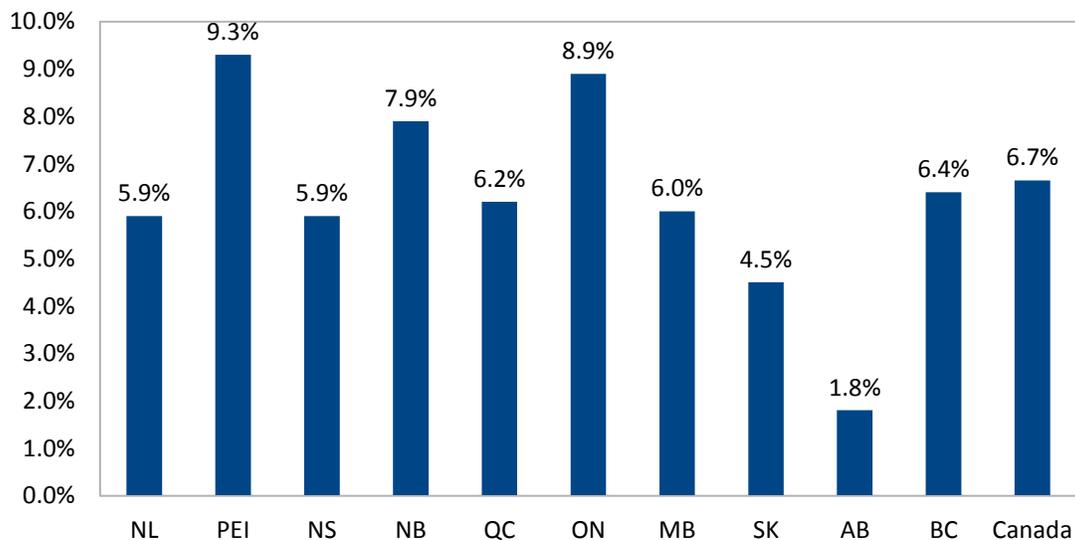
Since the applicable legislation is provincial, all Canadian workers are not entitled to the same minimum wage rate. As of September 2014, the minimum wage ranges from \$10.20 per hour in Alberta to \$11 an hour in Nunavut. Not all employees are entitled to the minimum wage. Most provinces have provisions in their legislation which exempt specific workers from the protection of a minimum wage, but it varies by area. For example both Saskatchewan and Manitoba allow individuals with disabilities to be paid lower than the minimum wage if a permit has been issued. Other individuals will remain covered but are subject to a different minimum wage specific to their profession or experience level. British Columbia, Alberta, and Ontario all have lower minimum wages for employees responsible for serving alcohol. A similar provision occurs in Quebec, although it applies to all workers who regularly receive gratuities in the workplace.

# Demographics of Minimum Wages in Canada

Before discussing the adequacy of current Canadian minimum wage rates it is important to establish all of the relevant facts. In 2010, Statistics Canada released their *Perspectives on Labour and Income* report with a focus on the minimum wage. Using data from the previous year they provide some insight into who actually earns the minimum wage.

In 2013, 6.7% of the labour force was working for the minimum wage, which is more than 1 million people (Statistics Canada, July 2014). This number varied greatly across different provinces. For example Alberta had the lowest amount with 1.8% of their workforce earning the minimum wage and Prince Edward Island had the largest portion with 9.3% (Statistics Canada, July 2014).

Proportion of employees working for minimum wage, 2013



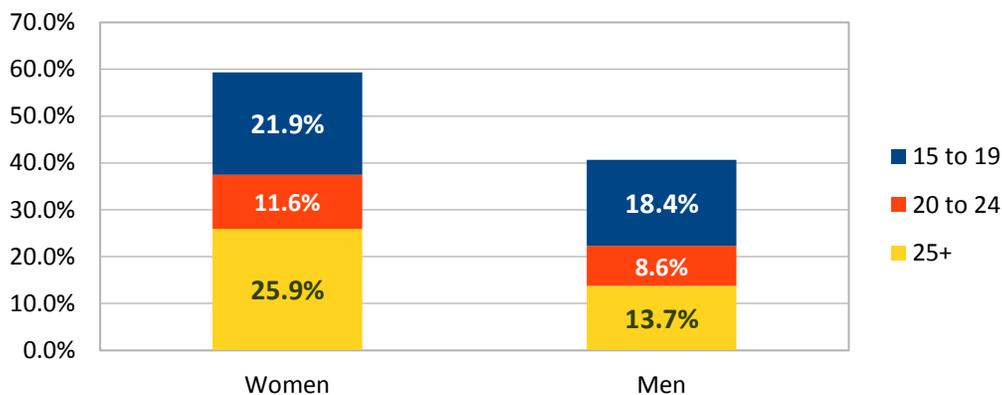
Source: Statistics Canada, July 2014

Statistics Canada provided some other interesting information about who this group of workers is comprised of. Teenagers were the largest age group, accounting for 40% of minimum wage workers, and young workers aged 20-24 made up 21% (Statistics Canada, July 2014). A

previous study found that women aged 25-54 were the second largest demographic composing 22% of workers, and their male counterparts held 10% of minimum wage jobs. (Statistics Canada, March 2010).

Women are not just overrepresented in a specific age range, as they are 60% of minimum wage workers despite making up roughly half the Canadian workforce. Overall, minimum wage workers are more likely to be female than male, and more likely to be adults than teenagers.

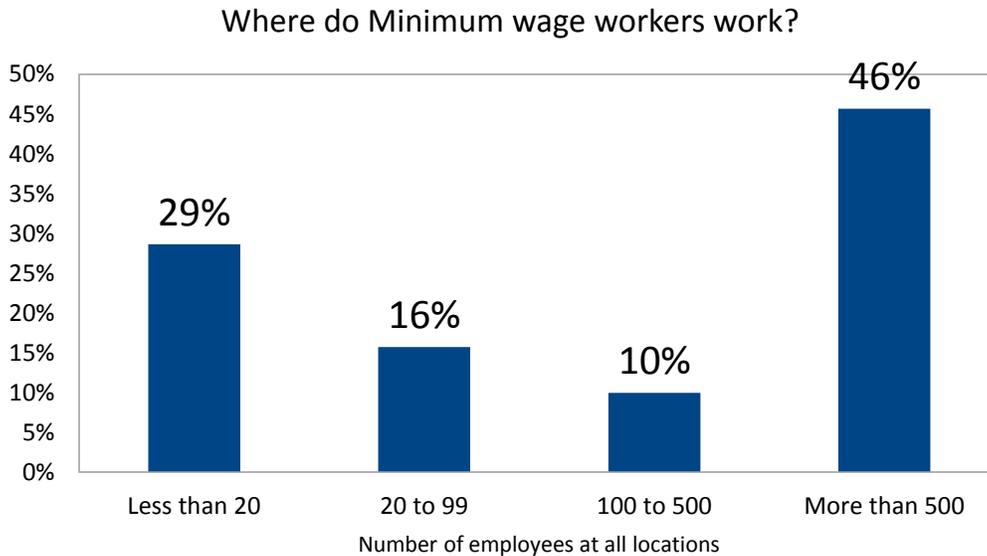
Breakdown of minimum wage workers by age and sex, 2013



Source: LFS Microdata

Looking at where these individuals are employed, 60% held positions in either retail trade, or food and accommodation services (Statistics Canada, July 2014). This could be attributed to the high number of part-time and young workers employed by these industries. Areas of work that had higher rates of unionization tended to pay the minimum wage the least often. This included construction and utilities, as well as public administration (Statistics Canada, March 2010).

The jobs that typically pay the minimum wage are the industries women have been segregated into. For example, in 2012 while 12.2% of the male working population held positions in the construction industry, that was true for only 1.8% of women. The food and accommodation services industry however employs 4.9% and 7.8% of men and women respectively (Statistics Canada, January 2013). This is one factor that can help explain the high volume of women working for the minimum wage.



*Source: LFS Microdata, 2012*

Firm size also affects how likely an employee is to be paid the minimum wage. Large firms (those with over 500 employees) were the most likely to pay the minimum wage, employing more than two out of every five minimum wage earners, while businesses with less than 20 workers employed three out of ten minimum wage workers (Statistics Canada, March 2010). Other sources suggest that this is a rising trend. According to the Canadian Centre for Policy Alternatives in 1998 large firms employed 30% of minimum wage workers and by 2012 that number had reached 45% (McCarthy Flynn, 2013). Additionally, a survey of small businesses in the United States showed that only 15% of the 500 respondents paid at least one of their employees the minimum wage (Small Business Majority, 2013).

The living situations of minimum wage workers varies but the majority—around 55%—live with a member of their family. Just over half of these individuals were actively receiving an education, either on a part or full-time basis. As for the rest of minimum wage workers, 11% were single and living either alone or with a non-relative, 5% were acting as the head of a household and had children but no spouse, and 27% were part of a couple<sup>1</sup> (Statistics Canada, March 2010). By 2012, one in six minimum

<sup>1</sup>Some individuals were excluded from the couples section because their spouse's work activities did not fit with the specific parameters Statistics Canada was examining.

wage workers had at least one child at home (Labour Force Survey, 2012).

## The Welfare of Minimum Wage Workers

With the minimum wage already averaging above \$10 an hour in Canada, does it really need to be increased any further? Answering that question requires the examination of several factors. While it is important to look at how rates have increased over time, the welfare of workers cannot be determined by simply looking at the dollar value of the minimum wage rate. Instead, we must also look at how the buying power of individuals has changed and, as a result, how their well-being has been affected.

When looking strictly at the set dollar amount for the minimum wage, only increases have taken place; no provincial or federal government has authorized a reduction in the minimum wage rate. What has occurred; however, is the freezing of minimum wage rates for extended periods of time, which is essentially a practise used to lower the minimum wage (Battle, 2011). As inflation affects the prices of goods but wages remain stagnant, workers see their buying power erode over time. Larger portions of their income need to be dedicated to necessities that in the past were less expensive, leaving them worse off despite not receiving an actual cut in wages.

A clear example of this can be seen in British Columbia which froze its minimum wage at \$8.00 an hour for almost a decade. After establishing the highest minimum wage rate in the country in 2002, the BC government left that rate in place until 2010, at which point it was the lowest provincial minimum wage. Since the province required a rather drastic increase the government implemented a series of \$0.75 increases between May 2011 and May 2012, until the minimum wage reached \$10.25 an hour. During this freeze period minimum wage earners were put under increasing financial strain as inflation restricted their ability to consume.

If expressed in 2012 dollars, the BC minimum wage was \$9.89 an hour in 2002 (Battle, 2011). The value of the BC minimum wage, in 2012 dollars, steadily declined to a low of \$8.32 an hour, until the first \$0.75 increase took place in 2011 (Battle, 2011). Despite not having the actual rate decreased, minimum wage earners saw their wages decline by over \$1.50 an hour over eight years. If an employee worked 40 hours a week for 52 weeks, they would earn over \$3000.00 less in 2010 than they would have in 2002, despite being paid the same wage in both years.

The value of someone's wage is not determined solely by the actual dollar amount, but by their ability to consume with that amount. Despite how high the current minimum wage rates may seem, compared to the rates offered in the past, the actual buying power associated with those wages has fluctuated depending on how well they were adjusted to compensate for inflation. Currently only two provinces index their minimum wages based on the Consumer Price Index, so only workers in the Yukon and Nova Scotia (Human Resources and Skills Development Canada, March 2, 2013) are offered guaranteed protection from this type of wage erosion.

Another indicator of how minimum wage earners fare, compared to other Canadians, is the Low Income Cut-Off (LICO). The LICO is an estimate of how much income a household must earn so that they will not be required to spend more than the average household of the same size based on three basic necessities: food, clothing, and shelter. While this is not an official measure of poverty in Canada, it does portray how many households are struggling to meet their basic needs.

The LICO varies based on two factors, the size of the community and the number of individuals in a household. For example in 2012, the LICO for a family of two living in a metropolitan area with over 500,000 residents was \$29,440 before tax<sup>2</sup>, but only \$23,055 if they resided in a community of less than 30,000 people (Statistics Canada, 2013).

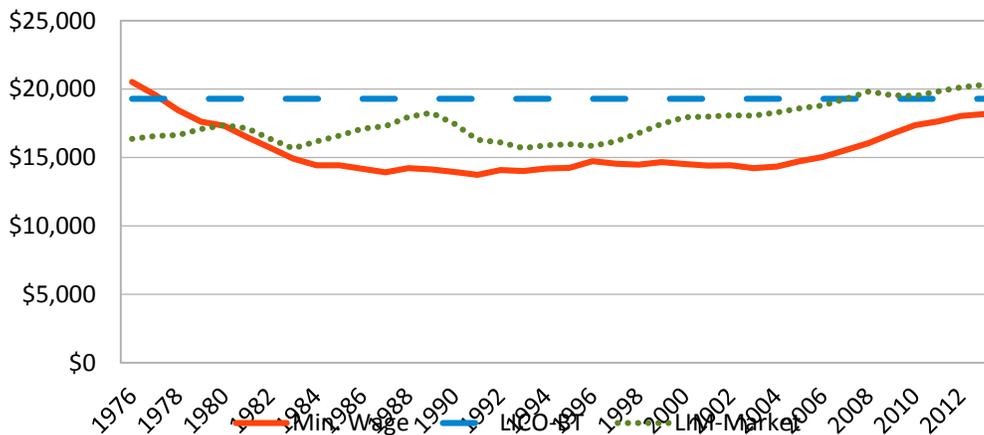
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<sup>2</sup>After tax LICO are also produced and are considered by Statistics Canada to be the more accurate of the two measures. For ease of comparisons with minimum wage, we are using the before tax LICO.

This complicates calculating whether or not an individual earning the minimum wage would fall beneath the LICO threshold. If a worker earning \$10.00 an hour (the mean minimum wage in Canada for 2012) worked 40 hours a week, without any sick or vacation days, then before taxes they would have earned \$20,000 in a 50 week year (with only statutory holidays). The only time this amount placed a person or family over the LICO threshold is if they were a single person living in a rural area or in a community with less than 30,000 residents.

To illustrate how the minimum wage in Canada compares to low-income lines over time, we calculated the average minimum wage from 1976 – 2013, and converted it into 2011 constant dollars. We convert this to an estimated annual income by using the average weekly hours worked for each year, and assumed 50 weeks of employment per year. We compare this with the before tax LICO for a single person in a large urban area, and the Low Income Measure for market income for a single person.

Full-time Minimum Wage vs. Low Income Lines



Source: Department of Labour Minimum Wage Database, CANSIM Table 282-0016 (usual hours worked), Table 202-0808 (Low Income Measure), and Table 202-0801 (LICO)

When the minimum wage was at its peak in the late 1970's, a single person working full-time in a large urban area would have been over the low income threshold. Since then the minimum wage has been too low to even provide necessities for a single person. The gap between the minimum wage and low income lines has been reduced over the past

decade, but is still insufficient to support a single person, let alone a child or partner. Still, research shows that increases in the minimum wage between 2005 and 2012 has made a difference for persons in the lower income quintile in Canada. Fortin and Lemieux (2014) find that this explains a relatively faster increase in earned income for the bottom 10% when compared to the middle 10% of the income distribution.

Instead of looking exclusively at how much an individual earns, other studies have examined what people are able to afford on a minimum wage salary. This issue has been of increased interest recently after McDonald's, in partnership with Visa Inc. and Wealth Watchers International, published a budget in an attempt to help their minimum wage employees manage their finances (Wealth Watcher International & Visa Inc., 2010). Instead of proving McDonald's wages provide workers with a manageable income, the budget actually exposed how workers often struggle to make ends meet. By providing underestimates of the cost of certain necessities, assuming the individual has a second source of income, and providing very little "spending money" for items like food, McDonald's corporate office showed how out of touch they are with the financial needs of their employees.

While this example is based out of the United States where the minimum wage rates are significantly lower, many Canadians face similar budgeting constraints. The Food Action Research Centre (FoodARC) conducts an annual study to determine the affordability of healthy food for at risk families in Nova Scotia, by establishing a monthly budget for typical expenses such as transportation, shelter, childcare, and clothing. After these expenses are accounted for, they determine what would be left over for food and whether or not they could feed their family based on the National Nutritious Food Basket (NNFB) guidelines.

In 2012 FoodARC found that a family of four with both adults working for the minimum wage, one full-time and the other part-time, would face a \$823.03 monthly deficit when trying to feed their family. A single male would be left with \$329.59 in disposable income and a senior woman would have \$155.02. An expectant mother in her third trimester would have \$262.85 left over if she was able to work full-time for the minimum

wage. For a single mother with three children the monthly deficit would be \$823.03, but shockingly if she relied on social assistance her deficit would only be \$715.92 (FoodARC, 2013). In this particular situation it would actually be more profitable not to work.

Not only does this study show that some families cannot afford to eat nutritious meals while earning the minimum wage, but even those who can are placed in dangerously vulnerable situations. These modest budgets do not account for many other expenses such as education, retirement savings, payments on existing debt, or recreational activities (FoodARC, 2013). Unexpected expenses or any other increase to the monthly budget could easily deplete a household's disposable income. Food is usually the most flexible expense (FoodARC, 2013), so if a household cannot find an affordable place to live, for example, they will sacrifice healthy eating in order to keep a roof over their heads. The pregnant mother's budget also shows that she would face significant constraints as she attempts to prepare for a newborn, needing items which are not considered in her initial budget.

There are two clear considerations that must be made when evaluating the adequacy of the minimum wage in Canada. First, rates should not be set arbitrarily because it leads to wages low enough to keep some households in a state of perpetual poverty despite having a full-time income earner; employment should be a solution to poverty not a cause. The minimum wage needs to help people adequately meet their needs and the needs of their families. Once the minimum wage is set at a sustainable rate, the second step is to take the appropriate actions to ensure that it remains sustainable (Battle, 2011).

Letting the real value of the minimum wage deteriorate just creates a cycle of poverty. Indexing using the CPI has been successfully utilized in Nunavut and Nova Scotia, and could protect the buying power of individuals in other provinces as well. This would also prevent massive increases to the minimum wage rate—like the one seen in British Columbia—while individuals continue to earn enough to make ends meet.

# Common Concerns about Raising the Minimum Wage

For those who oppose increasing the minimum wage in Canada, there are several arguments used to justify maintaining low rates. Over the last few years the amount of people earning the minimum wage has remained under 10% of the total working population. This is not a large enough portion of the population to make a difference; if most people already earn above the minimum wage there's no need to increase it. One thing often used to strengthen this argument is that, of the small number of minimum wage workers that exist, the majority are teenagers or students who are not attempting to support a family. Instead, they are working for personal money or for the experience and will soon move up the job ladder.

The first major issue with this argument is that it blatantly accepts discrimination as a reason to pay someone low wages. Age is one of the prohibited grounds outlined in Section 15(1) of the *Canadian Charter of Rights and Freedoms* which guarantees all citizens equal and fair treatment under the law. To say that the wages of adults should be prioritized over the wages of young workers is a clear violation of this right. The purpose of setting a minimum wage is to create a sense of equality for vulnerable workers of all ages.

Second, teens account for less than half of the minimum wage earners, so there are quite a few adults in Canada earning the lowest legal wages. Young adults may not have been active in the labour market for long but they are just that, legal adults who have financial responsibilities. Some do attend a post-secondary institute; however, that does not mean they are working out of choice.

Not all young people have the financial support of their families to help them pursue their education. They rely on their paid employment to cover the ever increasing costs associated with education. For example, for the 2011/2012 academic year the average tuition had gone up 4.3% from the year before, in 2012/2013 there was another increase this time by 5% (Statistics Canada, September 12, 2012). After this increase the

average tuition fee in Canada sat at \$5 581, with Ontario's being the most expensive, costing students roughly \$7 180 annually to attend university (Statistics Canada, September 12, 2012).

The reality is that minimum wage earners are not one specific group of people and they definitely do not fit the stereotype of a few teenagers and students getting their first jobs. They may not make up the majority of Canada's labour force, but the number of people earning the minimum wage has been increasing. Particularly since the recession, Canada has seen a large growth in the number of low wage jobs (McCarthy Flynn, 2013) and this, of course, includes minimum wage work.

The philosophy associated with our economic system is the constant need to keep costs as low as possible, which also means low wages for much of our workforce (McCarthy Flynn, 2013). With minimum and low wage jobs becoming the norm, they are no longer entry-level positions that will lead to better opportunities. For many Canadians, both young and old, minimum wage jobs are their permanent form of employment and they need to use that income to support their families.

The unemployment rate is of major concern when there is a potential increase in the minimum wage rate. The theory is that as wages increase operation costs, employers are forced to find other ways to make up the difference. The solution can be to either reduce the number of hours offered to employees or eliminate positions entirely, which causes an increase in unemployment. When this occurs, increases to the minimum wage rates actually hurt those whom they were intended to help; instead of giving workers the opportunity to earn more money the policy change is actually taking away jobs. Although Canada's unemployment rate has made some recovery since the 2009 recession, as of August 2014 it was still 7.0% (Statistics Canada, Sept. 5, 2014). Given the current economic climate, this argument suggests that the potential repercussions that increasing the minimum wage might have on unemployment rates, could seriously affect Canadian society.

After examining the economic research available on the connection between unemployment and minimum wage increases, it is difficult to say with conviction how the two factors are related, if they are at all. In

1982 a study came out that reported a 0-3% increase in teen unemployment when there was also a 10% increase in the minimum wage. No significant effect was noted for the unemployment rate of adults (Brown, Gilroy, & Kohen, 1982). This report continues to be cited today and appears to have triggered an influx of research into the relationship between young worker unemployment and increases to the minimum wage. The findings of these efforts have been mixed, with some reporting results similar to the 1982 study and others noticing no relationship, or even a decrease, in youth unemployment with increases to the minimum wage. This is true for both Canadian and American based studies.

With all this conflicting data it is impossible to say which studies are “right” and which ones are “wrong” about how the minimum wage affects the unemployment rates of young workers. For example, some of the studies that have found an increase in unemployment rates failed to account for other variables in the labour market, such as increased female participation rates and immigration (Murray & Mackenzie, 2007). On the other hand, one study—finding no link between unemployment and increases in the minimum wage—was criticized for its use of small case studies for evidence (Schmitt, 2013).

According to The World Bank’s *World Development Report 2013: Jobs*, there is no known universal impact of the minimum wage on unemployment rates. In order to say with certainty what the impact actually is, individual countries would have to closely monitor the labour market and compile vast amounts of research (World Bank, 2012). Our opinion on the matter is very similar. Based on the research that has already been done, there is too much contradicting evidence to say with confidence what the real effects on unemployment rates are. The outcomes of each individual study heavily depend on what variables were considered crucial and which were not examined, resulting in substantial academic research to support or dispute either view.

How sustainable is an increase in the minimum wage for small business owners? Many fear that higher wages are unaffordable for those running independent businesses and threaten to cut into such a large share of their profits that they will be forced to reduced their operations or close

entirely. Large corporations, while effected will be able to recover from the wage increase more successfully than small businesses.

Surprisingly, 56% of those who earn the minimum wage are employed by businesses with more than 100 employees. The minimum wage is not a regulation solely impacting small businesses, large corporations are also paying the bottom wage despite their profitability. Two surveys in the United States show the true sentiment of small business owners. The first survey, dealing directly with minimum wage rates, showed that 67% of respondents supported an increase to the minimum wage rate and annual increases indexed to inflation. Most of these individuals believed that this would increase the buying power of the poorest individuals, boosting consumption (Small Business Majority, 2013).

The second poll was to gauge how small business owners viewed regulations. When asked to identify what issue was threatening their businesses' success, the most common response was a lack of consumer demand. The majority of owners believed that regulations were necessary given the current economic situation and even more agreed that they can accept regulations as part of running their business, as long as they are fair and reasonable (Small Business Majority, 2012).

While these examples originate from the United States, there has been some research which suggests similar attitudes among small business owners in Canada. A study aimed at determining the factors influencing minimum wage rates between 1977 and 1996 found that small businesses had a notable positive effect on the increase in the minimum wage. While the exact reasons for this are not known, they did suggest a theory that small businesses feel as though they are acting on behalf of low skilled workers (Dickson & Myatt, 2002). The evidence here shows that not only are small employers able to remain profitable when faced with an increase in the minimum wage, but they often support the increases.

A proposed alternative to increasing the minimum wage is to instead increase the basic personal tax exemption. This is the position of the Canadian Federation of Independent Business (CFIB), which believes that increases to the minimum wage hurt Canada's poorest workers

because businesses are forced to cut hours or lay off staff to compensate for the increase to their wage bill. Altering the tax exemption rate will put more money into the pockets of low wage workers since they are paying fewer taxes, without causing job loss (Braun-Pollo, DeMarco, & Wong, 2011). This scenario presents positives for both parties, as businesses do not see their profits going to higher wages, no jobs are lost, and employees have more income.

Despite there being no known correlation between unemployment rates and the minimum wage increases, it is still important to examine the alternative the CFIB has presented as it has also been considered by provincial minimum wage review boards. This policy does not introduce more money into the economy, it simply redirects it from government revenues to individual households.

For example, in 2010 the CFIB suggested increasing the tax exemption rate in Manitoba rather than increasing the minimum wage. If the exemption rate had been raised by \$1000 (which is less than a fifth of the CFIB's suggested increase), government revenue would have decreased by an estimated \$72 million (Black, 2010). This is money that would normally be used to fund public services utilized by low income Canadians, such as public transit, health care, and education (Black, 2010), and losing large amount of tax revenue could potentially have serious negative impacts on the sustainability of these services. The redistribution of money does not make Canadians better off, it only continues to subsidize the low wages offered by employers.

## **Large Firms and Canada's Minimum Wage Employers**

Minimum wage workers are more likely to be employed with a large firm than a small company; a troubling trend that requires further examination. This recognition that large scale companies are more likely to pay the minimum wage than small businesses raises some serious concerns about who is utilizing minimum wage laws and why.

After the recent recession it must be considered that these once successful companies are facing a time of financial instability, so low wages are more of a necessity than a choice. However, some of Canada's largest companies continue to offer many of their staff members only the minimum wage despite their recent success and profitability. Focusing on industries with high concentrations of minimum wage workers we can see clear examples of large firms taking advantage of minimum wage rates. The following are three examples of jobs advertised in Ontario on the *Working in Canada* website during the summer of 2013:

- I. One of the Canadian Tire locations within the Ottawa area was advertising fifteen permanent part-time retail sales associate positions. The wage range offered was a minimum of \$10.25 an hour—which is the minimum wage—to a maximum of \$13.00 an hour. According to the 2012 Canadian Tire Corporation financial report the company operates over 1700 locations and had net earnings of \$499.2 million (Canadian Tire Corporation, 2012).
- II. The Best Western Mariposa Inn in Orillia has a “fine dining” restaurant located in their hotel, which required a permanent full-time server. The job was advertised with a minimum pay of \$9.00 per hour, which exceeds the provincial minimum wage for liquor servers but still falls short of the general minimum wage. Despite the low wage, this is not an entry level job since applicants were required to have between one and two years of experience, have completed high school, and to be WHMIS, Smart Serve, and first aid certified. Financially, Best Western International seems to be quite stable, as their website boasts that worldwide they have over 4000 hotel locations and bestwestern.com alone has been generating—on average—\$1 million of daily revenue for the last seven and a half years (Best Western International).
- III. A Sudbury area McDonald's location was advertising five permanent, part-time positions this summer. These jobs were aimed at students and offered the student minimum wage rate of \$9.60 an hour. Rather than hire full-time workers at the regular minimum wage rate of \$10.25 an hour, McDonald's would rather hire several students for \$0.65 an hour less. This is a corporation that in 2012 made over \$5 billion in net profits and held over \$35

billion in total assets (McDonald's Corporation, 2012)—  
not a mom and pop shop struggling to stay open.

Not only are minimum wage laws being used by large employers to keep labour costs down, but these companies are seeing significant financial gains. Wal-Mart, McDonald's, and Yum! Brands (operator of the KFC, Pizza Hut, and Taco Bell chains) have all been profitable for the three fiscal years prior to 2012 and the financial benefits were often passed on to top executives in the form of large compensation packages (NELP, 2012). For the most part, large companies have recovered from the recession, and the economic crisis can no longer be used to justify low and stagnating wages. They simply are not necessary.

Others; however, argue that these low wages are part of the reason these businesses have been successful. Using Wal-Mart as an example, the theory is that if wages are driven up, the chain reaction will be that prices will also need to increase significantly so corporate profits do not decline. This in turn hurts those workers who received the wage increase, as the extra money they are now earning is eaten by inflation and higher prices reduces Wal-Mart's appeal to their target clientèle.

A 2011 study by Jacobs, Graham-Squire, and Luce, found that if the minimum wage in the United States was raised to \$12 an hour, Wal-Mart would only need to increase their prices by 1.1%. Wal-Mart workers would get an annual raise of between \$1,600 to \$6,500, but on average individual consumers would be spending less than \$12.00 more at the chain every year (Jacobs, Graham-Squire, and Luce, 2011). Keep in mind this example ignores the fact that businesses do have other methods of compensating for an increase to their labour bill like integrating methods for increasing employee efficiency (Schmitt, 2013).

There is even evidence to support the idea that increasing the minimum wage would actually be beneficial for Wal-Mart and similar big retail stores. Individuals earning low wages are the least likely to be meeting all their needs, so when their wages increase instead of saving their new income they use it to purchase the goods they have been lacking. This directly contrasts the wealthy who are more likely to save or invest additional income than inject it back into the local economy. Since 54%

of Canada's Gross Domestic Product is driven by consumer spending (Yalnizyan, 2013), this will benefit the economy as a whole. More specifically retailers who target low income earners will see their profits increase as their employees and other local workers immediately spend their new income.

Recently, certain communities have taken notice of large corporations abusing the minimum wage policies. To prevent large firms from moving into areas and bringing with them low wage jobs, legislation has been introduced to ensure a living wage. SeaTac, Washington, a small community near Seattle, raised its minimum wage rate to \$15 / hr on January 1st, 2014. Seattle has followed suit, and will be phasing in a \$15 / hr minimum wage rate, beginning in 2015. So far, businesses that lobbied heavily against the minimum wage have not fled, but are actually announcing expansion plans (Milbank, 2014). Mayors of New York, Los Angeles, and Chicago have all backed minimum wage rates of \$13 / hr (Weissmann 2014).

Minimum wage laws can actually benefit communities. Studies have shown that because individuals cannot afford to financially support their households on the minimum wage, they often turn to social services for assistance (Dube & Jacobs, 2004). This means that the taxpayers are essentially subsidizing the low wages of a company that makes billions in profits. Additionally, when large firms move into an area and offer low priced goods, it drives down the wages of workers employed at small firms that need to reduce costs to stay competitive (Dube & Jacobs, 2004). In some cases, not only will wages in the area drop but small employers will be forced to close—eliminating jobs altogether.

Cape Cod recognized these negative effects on the local economy and reacted by forming the Cape Cod Commission (CCC). The CCC is composed of 19 board members, one from each town within Cape Cod, a Barnstable County Commissioners representative, a minority representative, an American Indian representative, and a representative from the Governors office (Cape Code Commission, 2012). Since it was established in 1990, one major area of concern for the committee has

been the economic impacts of large businesses intending to establish locations in the Cape Cod area.

In April of 2013, FMX Associates preformed an economic analysis of the potential impacts a Lowe's home improvement store would have if it open its proposed location in the town of Dennis, which is located in Cape Cod. The report stated that the Lowe's location could displace \$19.2 million in sales from existing Cape Cod businesses and the area would lose 163 jobs from local retailers compared to the 115 workers it was estimated the Lowe's location would require (FXM Associates, 2013). It also stated that the current average income of employees that worked for businesses in the same industry is \$38,528, however the earnings of a Lowe's employee ranged from \$26,794-\$32,957 (FXM Associates, 2013). The CCC decided against the proposed Lowe's location in January 2014, and in the past they have prevented the development of numerous large retail outlets including a Wal-Mart (Mitchell, 2013).

Official means—like these laws and commissions—are not the only way large retailers have been pressured to increase their wages. The employees of major corporations, particularly those involved in fast food restaurants and retail, have been going on strike in cities around the United States. Groups of workers in a number of cities including St. Louis, New York City, Chicago, and Detroit are demanding a livable wage, and spreading their personal stories about how they struggle to make ends meet earning the minimum wage (Wisconsin State AFL-CIO, 2013).

While there are a large number of food service employees involved, what has become known as the “Fast Food Strikes” actually involved individuals from a variety of employers including McDonald's, Sears, Victoria's Secret, (Patton, 2013) Wendy's, Taco Bell, and Burger King (Jamieson, 2013). Since these workers are not unionized, community organizations and unions have stepped up to support them in their fight for a living wage. Initially a grassroots movement that has grown in strength and organization, fast food strikers walked out across the United States 7 times between November 2012 and September 2014 (Weissmann 2014). The strikers call for a living wage of \$15 an hour,

employer provided benefits, the freedom to unionize, and sufficient full-time hours.

## A Decent Wage for Canadians

Regardless of all these potential benefits, for both individuals and the economy, that come with an increase to the minimum wage, the rate remains highly inadequate across the country. This calls into question the legitimacy of the methods used to determine if the minimum wage should be increased and by how much. Because every province and territory establishes their own employment legislation, which includes the minimum wage, there is no universal system for determining how the rate will be set. Since the federal government's minimum wage rate coincides with the rate in the particular province of employment, even they do not set an example as to what the minimum wage should be.

Instead the provinces and territories have the freedom to decide what methodology they will use and while some provide the public with a rather transparent view of the process, others offer little in terms of explanation. These methods need to be evaluated, and their flaws exposed, so they can be altered to reflect the needs of Canadians. This process will be twofold; first, creating provincial accountability through their official mechanisms, and then establishing alternative methods of evaluating the minimum wage increases in the future.

## Current Provincial Methodology

Some of the worst offenders merely state who has the authority to make regulations in that province. For example, in British Columbia's *Employment Standards Act* the Lieutenant Governor in Council is given the authority to set the minimum wage for employees or classes of employees. Quebec is even more vague, with their only regulation on the matter stating that the government will determine the minimum wage. The legislation in Ontario, Alberta, and the Northwest Territories are similarly obscure. However, in May of 2013 the Ontario government established a panel to review items related to the minimum wage, which has requested public feedback on several issues including the

implementation of a formal review mechanism (Ontario Ministry of Labour, 2013).

Most of the provinces include in their Acts a description of how the minimum wage will be determined. While the legislation varies from province to province, a strong example of the use of the minimum wage boards can be seen in Saskatchewan. The Lieutenant Governor in Council establishes a five person Minimum Wage Board which is composed of one neutral chairperson, and equal members of employee and employer representatives. They can be consulted and make recommendations on a variety of issues related to the minimum wage.

Every two years the board will produce a report on the state of the minimum wage after they have considered relevant factors. In the past the Consumer Price Index (CPI), previous trends in minimum wage rates, the Low Income Cut Off (LICO), average hourly wages in the province, and the impact an increase would have on the sustainability of businesses have all been considered. Based on the final product and the board's suggestions, the Lieutenant Governor will make the final decision regarding whether or not the minimum wage should be altered.

Similar board reviews are the norm in New Brunswick, Nova Scotia, Newfoundland and Labrador, Prince Edward Island, and the Yukon. However, there are some differences between how the boards operate in each jurisdiction. For example, while most set a defined time limit, neither the Yukon nor New Brunswick require reviews be done within a specific time frame. Another major difference is that few provinces refer to specific factors the board must consider. Only Prince Edward Island and New Brunswick have such statements in their legislation, both of which cite the economic conditions of the province and changes in the cost of living. Nova Scotia is required by law to make the board's reports public information; however, reports from Saskatchewan and Newfoundland can also be easily accessed online.

There are two areas of Canada that have rather unique circumstances surrounding how their minimum wage rate is set, the first being Manitoba. While a Minimum Wage Board is used in the province, according to Section 7 of the *Employment Standards Act*, there are no

mandatory evaluations of the rate of minimum wage. Instead the board can just be referred to by the Minister on any issues surrounding the subject. The Lieutenant Governor in Council has the final ability to set regulations on the minimum wage. In Nunavut, instead of appointing a board, the Minister is to perform an annual review of minimum wage rates, although it does not state what factors should be considered in the review. Following a presentation of the report at the Legislative Assembly, the Commissioner can make the final decision on setting the minimum wage.

Even with most provinces attempting to conduct neutral reviews on the minimum wage rate, the final decision still remains politically motivated. One team of researchers found that, while the proximity of an election did not influence the decision to alter the minimum wage, the political ideologies of the government in power did. The New Democratic Party in particular were more likely to have a higher minimum wage rate in place than other parties (Dickson & Myatt, 2002).

A 2006 study (Green & Harrison, 2006) found similar trends relating to the minimum wage and political agendas; conservative governments would let the minimum wage stagnate and centre-left parties would approve increases but neither were willing to make drastic changes. Their research also revealed that many political figures valued the concept of appearing fair, so provinces often looked to one another to see how their own rates measured up. No province wanted to have the lowest minimum wage rate but they did not want to set the bar for the highest either, creating what the authors deemed a “race for the middle” (Green & Harrison, 2006).

These results are troublesome, as it appears that despite the legitimate efforts of provincial review boards, the minimum wage rates are not being set with the best interest of workers in mind. What Canadians need to earn to meet their basic needs does not trump the wants of political parties when setting the minimum wage.

These practises are able to continue because, despite the best intentions of review boards, they do not have any legal authority to mandate an increase to the minimum wage rate. Their role is to make

recommendations, with the final decision falling to a separate party. Newfoundland and Labrador has a minimum wage of \$10.00 an hour, which has not increased since 2010 (Human Resources and Skills Development Canada, 2012).

A review committee was established and released a report in the fall of 2012 with two main suggestions:

- I. In 2013 the minimum wage should be adjusted to compensate for the loss in purchasing power experienced since 2010, but the public should be given six months notice of the change.
- II. Beginning in 2014 the minimum wage should be indexed on an annual basis using the CPI (Newfoundland and Labrador Canada, 2012).

Despite the provincial government's promise to consider these recommendations, it took over a year to announce a decision. In November 2013 they announced a 25 cent increase in October 2014, followed by another 25 cent increase in October 2015 (CBCNews, 2013). The decision to index using CPI was not adopted.

Similarly, in 2011 the Saskatchewan Minimum Wage Board recommended that the minimum wage rate be indexed with the province's CPI on an annual basis (Ewert et. al., 2011); however that has yet to be made official policy.

The current mechanisms for determining the provincial minimum wage are obviously not ideal. While review boards are a step in the right direction they need proper guidance to ensure all the relevant factors have been properly evaluated and the ability to meet annually to ensure minimum wage rates do not stagnate for years. The public is often given the ability to participate, by addressing the review board, but each provinces' reports should be made easily accessible to all Canadians.

The government bodies, who make the final decision on rate changes, should be held accountable to prevent incidents like those currently taking place in Newfoundland and Labrador from happening in the future. This could mean establishing a mandatory response time; an official decision regarding a change to the minimum wage rate must be

released within a chosen number of weeks or months following the publication of the board's final report.

Together, these elements create a system with more accountability and help prevent the minimum wage from being set arbitrarily. It is of particular importance that the areas with little to no legislation on their methodology; such as Ontario, Quebec, the Northwest Territories, Alberta, and British Columbia; adapt some version of these principles.

## Future Policy Considerations

Increasing the minimum wage will not, however, be as simple as altering the provincial mechanisms; it also involves changing how we determine what a fair wage is in Canada. Since the goal is to address poverty, the rate should be set high enough to ensure full-time employees will no longer continue to fall into the category of low-income earners. Several different methods have been suggested for calculating an equitable minimum wage, each with its own advantages and disadvantages.

The average earnings of a Canadian, or more specifically average earnings for the province, can be used to determine a minimum wage rate. For example, if an individual works full-time for the minimum wage, their earnings for the year should at least be 50% of the provincial or national average (Battle, 2011). It can be argued that this method would also account for inflation, as average earnings would change over time and it also ensures that the minimum wage does not grow at a faster rate than other wages. The issue with this method is that it is still rather arbitrary, just like the current means to alter the minimum wage rate (McKenzie & Murray, 2007). The average wage for a province may be high or low, and there is no way to say if the minimum wage should be 50% of the average, 30% of the average or any other rate. What continues to be ignored is how the income being provided affects the individual's standard of living and ability to provide.

The Low Income Cut-Off (LICO) is one of the more commonly used measures of poverty in Canada and it has been suggested that the minimum wage rate could be set to ensure people exceed this rate

(Battle, 2011). Since the LICO is adjusted annually to compensate for inflation, the minimum wage would also be fixed accordingly preventing the erosion of wages currently seen in many provinces (Battle, 2011).

Some researchers prefer to support this policy alternative because the LICO has a clear methodology behind it. A household falls beneath the LICO if they spend 54.3% of their earnings on food, shelter, and clothing; the average household spends 34.3% of their income on these necessities (McKenzie & Murray, 2007). This method is actually based on calculating the needs of a household and ensuring that income is sufficient, but has not been updated since 1992. However, some provincial minimum wage rates have exceeded the LICO, so it can be argued that simply meeting this line is not enough. The reality is to meet their basic needs, people require more beyond food, shelter, and clothing.

The concept of a living wage has also become an increasingly popular alternative to the minimum wage. A living wage, as opposed to a minimum wage, is calculated based on the actual cost of living for a family in a specific community. Variables like the cost of different items in certain areas and the size of the household used in the calculations will create different living wages. For example the Canadian Centre for Policy Alternatives uses a family of four to determine a living wage, while other sources have used a family of three. Whatever the differences in methodology may be, the principle remains the same. The purpose of a living wage is to provide a family with a sustainable income that meets their needs and allows them to participate in their community. While it may not allow for things like retirement planning, the living wage does ensure a basic standard for Canadian families (Hennessy, 2012).

Besides the obvious positive effects for families receiving higher incomes, a living wage also impacts both the employers and the community as a whole. For example, a living wage can relieve some of the stress being placed on social programs, overall inequality decreases, education rates rise, and more people can afford to become home owners (Skillen, 2003). Employers may appear to be highly disadvantaged by this policy; however, they will see the benefits of increased productivity, reduced

turnover, improved company image, and a working environment with high employee morale (Skillen, 2003).

Despite the shock that may be associated with the significant increase in wages, as the minimum wage is notably lower than a living wage, it is important to educate employers on what it realistically costs their workers to maintain their households and the improvements they will also see in their workplace if they invest in their employees (Hennessy, 2012). Job loss and inflation continue to be issues, but as we addressed earlier in this paper these are economic factors that depend on more than just wage increases. There is no link between job loss, inflation, and instituting a living wage policy (Skillen, 2003).

Some areas within Canada and abroad, have already committed to living wage policies on a local level. For example, municipal employees in New Westminster and Esquimalt, British Columbia and employees of the Parksville/Qualicum school district are all guaranteed living wages (Hennessy, 2012). Overseas, the United Kingdom has seen success with the implementation of living wages, as employers report benefits related to absenteeism and recruitment (Jackson, 2012).

In London, England municipal employees, cleaning, security, and maintenance contractors fall under a living wage ordinance. The living wage was pushed even further in 2012 to cover contractors during the Olympic Games, with over 100 employers agreeing to comply (Jackson, 2012). While living wage is gaining momentum for the most part on a municipal or city scale, it does have the potential to be expanded to cover more workers.

## **Not Just an Economic Issue**

The issues at play when debating the appropriate minimum wage rate are complex, as it is not exclusively an economic policy. Canadians have shown their widespread support for the minimum wage, which in part is displayed by its continued use for almost a century, despite the majority not actually earning it. Voters do not believe in a government regulated minimum wage because they personally experience the benefits. Rather

it is the ideology of “universal fairness” that generates support (Green & Harrison, 2006).

This attitude is further portrayed by research that suggests the public perception of poverty is not to blame the victim. One study found that respondents, instead of citing the self-destructive behaviours of individuals like laziness and the inability to adhere to a budget, were more inclined to believe structural factors were the major contributors to poverty. This included social and economic factors like low wages (Love, et al, 2006). Individuals also recognized that employment no longer guaranteed people the means to escape poverty, as wages are often insufficient and, while workers are often willing to work more hours, full-time positions are becoming more rare (Love, et al, 2006).

The reality is that minimum wage policy is an economic, political, and social matter. As Canadians we must decide what we need from our minimum wage rates, then determine how to balance all these factors to achieve that goal. Decreasing wage inequality should be the first priority, as minimum wage policies have the potential to prevent extreme poverty. Increase the wages of other low paid workers and allow individuals to accumulate more financial support (World Bank, 2012).

We must decide what quality of life we feel all Canadians deserve. Should full-time workers only be able to meet their basic needs like food and shelter, or are they entitled to a lifestyle that also considers their social and political well-being when determining basic living standards (Ofek-Ghendler, 2009)? It is not possible to set the minimum wage based solely on economic factors because these broader social implications are the end results for Canadians.

## Conclusion

This paper examined the multifaceted debate surrounding the minimum wage in Canada. The inadequacy of current rates, common concerns about wage increases, the lack of accountability for those determining the rates, and the role of large firms have all been important components of this topic. All factors considered, this leads to several areas of concern

that need to be addressed to make minimum wage laws more effective in the future.

Currently, there is no accountability for those actually determining the minimum wage. Despite the implementation of review boards in many provinces, the final decision can still be made quite arbitrarily. Worse still, some provinces contain no legislation on how or when the minimum wage will be reviewed. This lack of transparency leads to stagnant and low wages off of which people cannot survive. Canadians should be provided with minimum wage rates that are calculated based on the financial needs of workers, not the political agendas of current governments.

The businesses that are impacted by minimum wage laws, particularly the large firms, are not always doing so out of financial necessity. Instead they are taking advantage of a system that subsidizes their low wages with social programs for their own financial gain. Workers continue to be exploited, despite the fact that the minimum wage is intended to prevent this practise.

This is not an issue that only affects businesses, so the human aspect needs to be given more priority in the minimum wage debate. While it is important for our economy to remain stable, we must also ensure the needs of workers are being met. They should be able to enjoy a certain standard of living; however, full-time employment is no longer a guaranteed escape from poverty. It is time to evaluate what our society deems fair, and compensate minimum wage workers accordingly. Raising the value of labour at the bottom, is a raise for everyone in Canada.

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