

**The Minimum Wage in New Brunswick**  
Report Prepared for the Common Front for Social Justice

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**Introduction**

Those working for the minimum wage in New Brunswick have experienced a wage freeze that has now gone on for more than two years. This is the result of the inadequate way in which the minimum wage is determined in the province. This report suggests some simple commonly-used principles that could be used to set and to adjust the minimum wage on a regular basis in a way that should benefit both workers and employers.

The first principle is that the minimum wage should be indexed to the Consumer Price Index on a regular basis, preferably annually (but more frequently in the unlikely event that inflation is high). The resulting adjustments would keep the purchasing power of the minimum wage constant. Each change would be relatively small and its timing would be predictable, facilitating appropriate responses by employers.

The second principle is that the purchasing power of the minimum wage should also be set relative to some standard, such as the economy-wide average wage. If the minimum wage were indexed only to inflation, it would slowly diverge from the average real wage if real wages rose over time. The periodic adjustments would keep the minimum wage in line with other wages in the economy.

The report begins by reviewing some facts about the minimum wage and minimum wage earners in New Brunswick. It then briefly surveys the results of some recent research by economists about the effects of changes in minimum wages before making a case for these two principles. Tying the minimum wage to changes in the consumer price index over the last two years and to changes in the average wage can justify an increase of \$0.30/hour in the minimum wage.

**1. The minimum wage and minimum wage earners in New Brunswick**

Figure 1 shows the minimum wage in New Brunswick since 1965, expressed in 2014 dollars. By adjusting for inflation to get 'real' values that can be compared over time, we can see that the purchasing power of the minimum wage in New Brunswick was the highest in 1977 (about \$10.38/hour in today's dollars). Increases in the nominal minimum wage from \$2.80/hour in 1977 to \$10/hour currently have not quite kept up with inflation.

The increase in the minimum wage in recent years has also significantly increased relative number of workers who earn minimum wages. Table 1 shows that by 2012, when the minimum wage was last increased, 11.1 percent of employees in New Brunswick worked for the minimum wage, the highest proportion in Canada.<sup>1</sup> This fell to 7.9 percent in 2013, when no change in the minimum wage took place.

The increases in recent years have not left minimum wages in New Brunswick higher or out of line with those elsewhere. Table 2 shows the current values for the minimum wage, along with changes that are planned for later this year, in the provinces and territories. If no adjustment is made in the minimum wage in 2014, New Brunswick, along with Newfoundland and Labrador and the Northwest Territories, will have the lowest minimum wage in Canada.

Who earns the minimum wage? The stereotypical minimum wage worker is a teenager working part-time in a small business, but reality is more complicated. It is true, as Table 3 shows, that just over half of employed teenagers work for the minimum wage. The percentage of workers working for the minimum wage declines with age, but as Table 3 also shows, there are more workers in the older age groups. As a result, about half of minimum wage workers were 25 or older in 2013. Studies of the effects on employment of increases in the minimum wage (described in the next section) have found that negative effects on employment (or hours of work) are highest for the youngest workers and negligible (or positive) for older workers.

Table 4 shows that almost half of minimum wage workers are employed in large businesses with more than 500 employees, in line with the national average. Because such large firms account for around 35-37 percent of total employment, minimum wage workers are actually disproportionately concentrated in large firms.<sup>2</sup>

## **2. The economics of changes in the minimum wage**

Some effects of changes in minimum wages have been extensively studied by economists, particularly the employment impacts on some minimum wage workers.<sup>3</sup> However, the minimum wage affects the behaviour of businesses and of workers in complex ways, some of which have not been as closely studied.

Many studies of minimum wage changes have found little effect on employment (eg. the studies reviewed in Schmitt 2013), although it is always possible to ‘cherry pick’ results to generate large employment effects (eg. Braun-Pollon *et al.* 2011). Brochu and Green (2014a) note that the employment effects “even for young adults (age 20 to 24) ... tend to be .. not

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<sup>1</sup> Values for all provinces can be seen in the original table in Yalnizyan (2013).

<sup>2</sup> Employment shares by firm size are found in CANSIM Table 5270006. Small businesses with 5 or fewer employees account for 10 percent or less of total employment. Businesses with 20 or more employees account for three-quarters of total employment; those with 50 or more employees have just over 60 percent of employees.

<sup>3</sup> Ontario Minimum Wage Advisory Panel (2014, Chapter 3) contains a good overview.

economically substantial. Effects for older adults are so small that few papers bother to report them.” Even in the case of teenagers, where employment effects seem to be the largest, they seem small enough that increases in minimum wages lead to an increase in the total wages paid to teenagers (Fortin *et al.* 2012, p.139).<sup>4</sup>

Why are the employment effects so small in many of the cases examined? Schmitt (2013) reviews the American evidence and suggests that “the most important channels of adjustment are: reductions in labor turnover; improvements in organizational efficiency; reductions in wages of higher earners (‘wage compression’); and small price increases” (p.1). He adds: “Given the relatively small cost to employers of modest increases in the minimum wage, these adjustment mechanisms appear to be more than sufficient to avoid employment losses, even for employers with a large share of low-wage workers.”

The American environment where many of these results have been generated is one of very low minimum wages. Naturally, one cannot assume that employment effects would always be small regardless of the level of the minimum wage. For example Fortin (2010) concludes that once the minimum wage gets sufficiently high relative to the average wage, then employment effects, at least for the youngest workers, can become significant.

Recent work has examined the effects of minimum wage changes on worker turnover of newly-hired workers. Using Canadian data, Brochu and Green (2013) find that for workers over the age of 20 who have been on the job for less than a year, an increase in the minimum wage is associated with lower turnover rates which just offsets their lower chances of getting a job if unemployed, leaving little effect on their long-term employment rate. The effects are similar for teenagers, but their lowered probability of getting a new job leaves their long-term employment rate lower.

Brochu and Green (2014) note that the lower turnover rates for newly hired workers of all ages with a high school education are largely due to lower layoff rates rather than lower quit rates, although the reason for this is unclear. They conclude that “when the minimum wage is higher, all low educated workers face jobs that are more stable... but harder to get” raising the question of whether “workers are better off with improved job stability or improved chances of finding a job when unemployed.”

Increases in minimum wages also affect economic inequality. They clearly reduce inequality in the wage distribution. The effects on the distribution of family income are less clear; it depends on the family circumstances of minimum wage workers.<sup>5</sup>

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<sup>4</sup> This is consistent with the results for teenagers reported by Myatt and McDonald (2010).

<sup>5</sup> Fortin and Lemieux (2000) seems to be the most recent study of this. Based on 1988 and 1995 data, they conclude that increases in the minimum wage have only a small effect on family income inequality. Given their results, Fortin *et al.* (2012, p.140) remark that “one would not want to rely on it [i.e., increases in the minimum wage] solely or even to a large extent to reduce overall inequality”.

### **3. The case for indexation of the minimum wage**

Figure 1 highlighted the drawback with the way that minimum wages are currently set in New Brunswick. First, by adjusting the money value of the minimum wage on an irregular basis with no direct connection to the cost of living, the real value of the minimum wage has been eroded by inflation for long periods. Is there any good reason why minimum wages in the 1980s, 1990s and into the mid-2000s should have been lower than in the 1970s? After all, education levels, labour productivity and real wages in general increased since that time.

Second, irregular changes in the minimum wage make planning by businesses more difficult. The real increase of about 37 percent in the minimum wage between 2005 and 2012, which can be viewed as a long overdue catch-up after decades of stagnation, came quite rapidly and must have been a surprise with which some employers would have had difficulty. A series of predictable and relatively small annual changes leading up to the same result would surely have been preferable from their point of view.

It is apparent from Table 2 that provinces are starting to adopt the practice of adjusting the minimum wage annually at a fixed date. Table 5 summarizes current practice across those provinces that have regularized adjustments of the minimum wage. The most recent addition to this list is Ontario whose government recently accepted the recommendations of its Minimum Wage Advisory Panel (2014) to revise the minimum wage annually in line with changes in the cost of living.<sup>6</sup>

If the New Brunswick minimum wage were to be changed now in line with the 2.8 percent inflation since the \$10/hour rate was set on 1 April 2012, the minimum wage would rise by about \$0.30/hour.<sup>7</sup>

### **4. What is the appropriate level for the minimum wage?**

Indexing the minimum wage to the CPI keeps its real purchasing power constant. But what should that purchasing power be? Should it change over time? What is the appropriate point of comparison?

There are no unique and correct answers to these questions, which have been raised in many studies of the minimum wage. Some studies examine how changes in the minimum wage compare with changes in labour productivity. Some compare the minimum wage to estimates of a 'living wage' or estimates of poverty lines. In Nova Scotia, for example, the minimum wage was set in 2012 to match one value of the Low-Income Cut-Off (LICO), often used as an

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<sup>6</sup> The Panel (2014, p.4) also recommended that notice of a minimum of four months be given for wage changes with full reviews every five years of the minimum wage rate and its revision process, while establishing an on-going research program to address minimum wage issues.

<sup>7</sup> The CPI in March 2012 was 121.4; it was 124.8 in March 2014, an increase of 2.8 percent.

informal proxy for a poverty line.<sup>8</sup> The LICO, however, is becoming outdated. It is based on household expenditure patterns that are more than 20 years old and Statistics Canada is not going to update it.

One approach that is widely adopted is simply to compare the minimum wage with median or average wages in the labour market as a whole. Minimum wages that are far below the average wage are likely to be ineffective, as wages would be higher than the legal minimum anyway. Minimum wages that are ‘too high’ relative to average wages could have significant negative effects on the work hours or employment of some that could be judged to offset the benefits others would experience in the form of higher wages.

Figure 2 compares minimum wages in New Brunswick to the New Brunswick economy-wide average wage (excluding overtime wages). Before the increase in the real minimum wage in the mid-2000s, the minimum wage in New Brunswick was about 40 percent of the average wage. The increases in recent years have raised it to around 50 percent. When the \$10/hour minimum wage took effect in 2012, average wages were \$19.57, making the minimum wage 51.1 percent of the average wage.

Average wages, adjusted for inflation, rose by about 11 percent between 2001 and 2011 (from \$18.17 to \$20.15 in 2014 dollars). For example, if minimum wages had just been indexed to inflation in 2001, its value relative to the average wage would have declined (from about 41 percent of the average wage to 37 percent). This highlights the need to adjust the minimum wage periodically to reflect changes in real wages generally, not just the rate of inflation.

What change in the minimum wage in 2014 would keep the ratio of the minimum wage the same as when the minimum wage was last changed in 2012, namely 51.1 percent of the average? If 2013-2014 wage inflation is 1.5 percent, then the average wage would be \$20.15 in 2014.<sup>9</sup> A minimum wage of \$10.30 would keep it at 51.1 percent of the average wage. This is the same amount that would restore the real value of the minimum wage to what it was in April 2012.

For someone working a 40-hour week, this amounts to only a \$12 increase in before-tax earnings. It is hard to believe that this adjustment for the cost of living would impose an undue burden on business owners. After all, it just compensates workers for the price increases during the last two years on what these same businesses have been selling.

Is about 50 percent of the average wage an ‘appropriate’ level for the minimum wage? Economists cannot answer that; it is a matter of value judgements about the tradeoffs involved. In an ideal world, the political system and the policy choices it produces would reflect a social

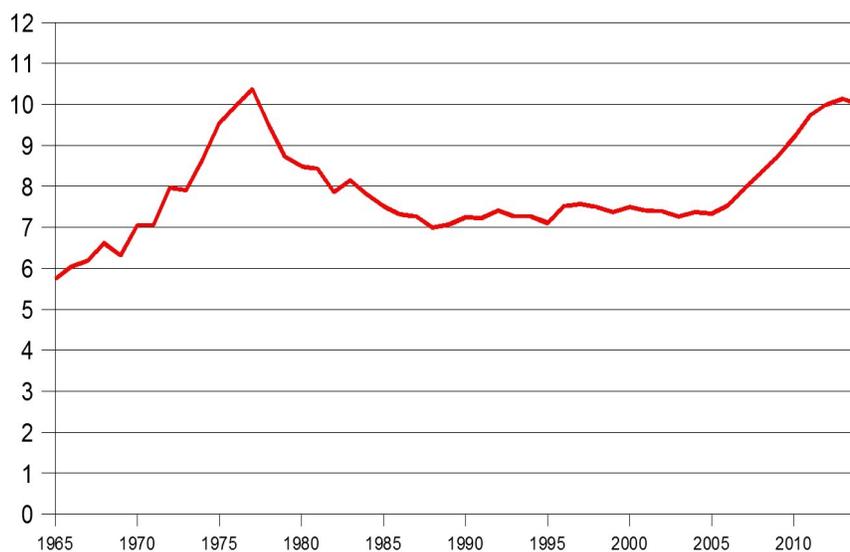
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<sup>8</sup> The before-tax LICO in 2011 dollars for a single person in a city with a population between 30,000 and 100,000 was \$19,941. That would be about \$20,722 in 2014 dollars. A full time worker (40 hours/week, 50 weeks/year) would have to earn \$10.36/hour to reach the LICO. See CANSIM Table 202-0801.

<sup>9</sup> See Appendix Table 1 for values of average wages.

consensus about this. The current political system, with all its flaws, does seem to be reflecting the judgements of the public that minimum wages have been too low and that wage inequality has been too high; hence the significant increases in the minimum wage in recent years, taking it back to the level of the mid-1970s in real terms. Many are making a case for a further increase in minimum wages compared with average or median wages (eg., Hennessy *et al.*, 2013). No doubt the social consensus will shift further in the future and adjustments to the minimum wage will reflect that.

**FIGURE 1**  
**The Real Minimum Wage in New Brunswick, 1965-2014**



Sources & notes:

*Real wage (in 2014 dollars)* calculated using average nominal wage for each year and the Consumer Price Index from *Canadian Economic Observer*, Cat. 11-210, *Historical Statistical Supplement*, Table 12. Updated from 2007, using CANSIM series V41690914 reproduced in Table H8, Bank of Canada *Banking and Financial Statistics*, March 2014. CPI value for 2014 assumes 1.5% inflation from 2013-2014.

*Nominal wage:* 'Hourly Minimum Wages in Canada for Adult Workers', Labour Program, Department of Labour. A weighted average nominal minimum wage is calculated for each year if the minimum wage changed during the year.

At <http://srv116.services.gc.ca/dimt-wid/SM-MW/rpt2.aspx?lang=eng&dec=1>

**Table 1**  
**Share of employees working for minimum wage or less,**  
**Canada and New Brunswick, annual averages 2000 to 2013 (percent)**

	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Canada	4.7	4.8	4.8	4.1	4.6	4.3	4.4	5.1	5.2	5.8	7.0	6.8	7.0	n/a
New Brunswick	6.0	4.3	4.2	4.0	2.5	3.1	4.2	5.7	4.8	5.4	6.7	9.7	11.1	7.9

Source: Yalnizyan (2013); For 2013 data, N.B. Department of Post-Secondary Education and Labour. All data is originally from Statistics Canada special tabulations from the monthly Labour Force Survey.

**Table 2**  
**Minimum Wages in Canada, 1 May 2014**

<i>Province</i>	<i>Minimum Wage</i>	<i>Comments</i>
Newfoundland & Labrador	\$10.00	Last changed 1 July 2010.
Nova Scotia	\$10.40	Changed annually, 1 April. Indexed.
Prince Edward Island	\$10.00	To be \$10.20 as of 1 June 2014; \$10.35 on 1 October 2014. Last changed 1 April 2012.
New Brunswick	\$10.00	Last changed 1 April 2012.
Quebec	\$10.35	Changed annually, 1 May.
Ontario	\$10.25	To be \$11.00 as of 1 June 2014.
Manitoba	\$10.45	Changed annually, 1 October.
Saskatchewan	\$10.00	To be \$10.20, 1 October 2014. Last changed 1 December 2012.
Alberta	\$9.95	Changed annually, 1 September.
British Columbia	\$10.25	Last changed 1 May 2012.
Yukon	\$10.72	Changed annually, 1 April.
Nunavut	\$11.00	Last changed 1 January 2011.
Northwest Territories	\$10.00	Last changed 1 April 2011.

Source: 'Hourly minimum wages in Canada for Adult Workers', Labour Program, Department of Labour. Url: <http://srv116.services.gc.ca/dimt-wid/sm-mw/rpt2.aspx?lang=eng&dec=5>

**Table 3**  
**Minimum Wage Workers in New Brunswick, 2013**

<i>Age Group</i>	<i>15-19</i>	<i>15-24</i>	<i>25-54</i>	<i>55 &amp; over</i>	<i>Total</i>
1. Percent of group employed at minimum wage	51.9	28.4	4.1	6.1	7.9
2. Number of employees in this age group	---	43,600	208,700	59,300	311,600
3. Number working at minimum wage	---	12,382	8,617	3,617	24,616

Sources: Row 1 - N.B. Department of Post-Secondary Education and Labour. All data is originally from Statistics Canada special tabulations from the monthly Labour Force Survey. Row 2 - CANSIM Table 282-0220, New Brunswick, all employees, by age group. Row 3 - calculated from rows 1 and 2.

**Table 4**  
**Employees Earning Minimum Wage or Less, Working in Firms of 500 or more Employees,  
 Canada and New Brunswick, Annual Averages, 2000-2012 (percent)**

	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Canada	34.4	36.7	38.1	38.2	41.0	39.8	42.5	41.0	42.1	43.6	42.4	44.7	45.3
New Brunswick	37.9	45.2	40.0	33.9	41.6	44.8	41.9	41.1	44.8	44.1	51.9	47.9	44.7

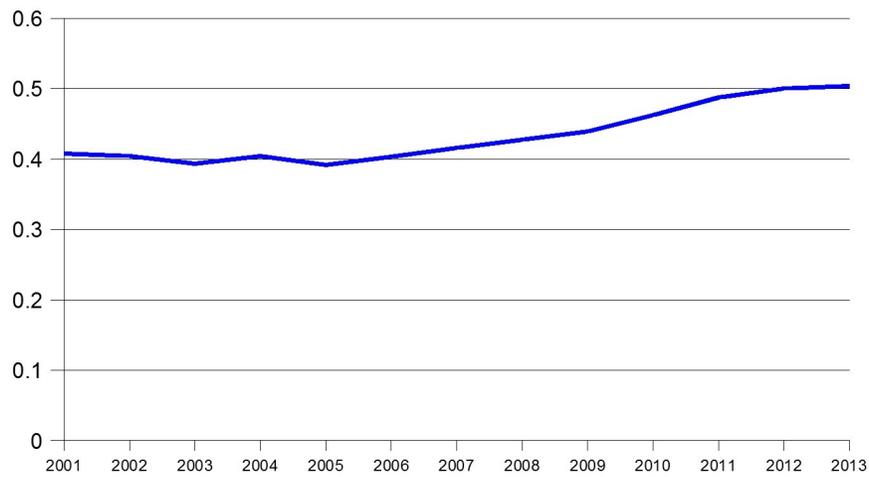
Source: Yalnizyan (2013)

**Table 5**  
**Regularizing Changes in Minimum Wages in Canada**

<i>Province</i>	<i>Comments</i>
Nova Scotia	Benchmarked to Low-Income Cut-Off in 2012. Adjusted annually by changes in the CPI.
Ontario	Regular annual changes to reflect changes in the CPI.
Saskatchewan	Adjust minimum wages annually based on average of CPI change and change in average hourly wages. (Intent of government, not in legislation.)
Alberta	Annual adjustment based on average of changes in CPI and in average weekly earnings.
British Columbia	Stakeholder agreement that future increases be linked to CPI to ensure “relatively incremental, predictable and depoliticized” changes.
Yukon	Annual adjustment based on CPI changes.

Source: For provinces other than Ontario, Ontario Minimum Wage Advisory Panel (2014, Table 8, p.27). Ontario’s practice now reflects the recommendations of this Panel.

**FIGURE 2**  
**The Minimum Wage Relative to the Average Wage,**  
**New Brunswick, 2001-2013**



Sources:

Average wage: CANSIM Table 281-0030, series v1809521. Average hourly earnings excluding overtime, Industrial aggregate excluding unclassified businesses. Minimum wage: see notes to Figure 1.

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**APPENDIX TABLE 1**

Year	Average Minimum Wage	Consumer Price Index (2014 = 100)	Real Minimum Wage (2014 dollars)	New Brunswick Average Wage	Ratio of Average Minimum Wage to Average Wage
2001	\$5.825	78.5	\$7.42	\$14.26	0.408
2002	\$5.94	80.3	\$7.40	\$14.69	0.404
2003	\$6.00	82.5	\$7.27	\$15.21	0.394
2004	\$6.20	84.0	\$7.38	\$15.33	0.404
2005	\$6.30	85.9	\$7.34	\$16.07	0.392
2006	\$6.60	87.6	\$7.54	\$16.39	0.403
2007	\$7.125	89.5	\$7.96	\$17.14	0.418
2008	\$7.625	91.6	\$8.33	\$17.83	0.428
2009	\$8.01	91.8	\$8.72	\$18.23	0.439
2010	\$8.604	93.5	\$9.20	\$18.58	0.463
2011	\$9.375	96.2	\$9.74	\$19.21	0.488
2012	\$9.78	97.67	\$10.01	\$19.57	0.500
2013	\$10.00	98.55	\$10.15	\$19.85	0.504
2014	\$10.00*	100.0	\$10.00	\$20.15**	0.496**

Sources & Notes: See sources to Figure 1. New Brunswick average wage: CANSIM series v1591032. Consumer Price Index assumes 1.5 percent inflation between 2013-2014.

\* Assuming no change in 2014.

\*\* Projections based on the assumption that the average wage increases 1.5 percent from 2013.