

Earnings and Employment Trends ♦ October 2001

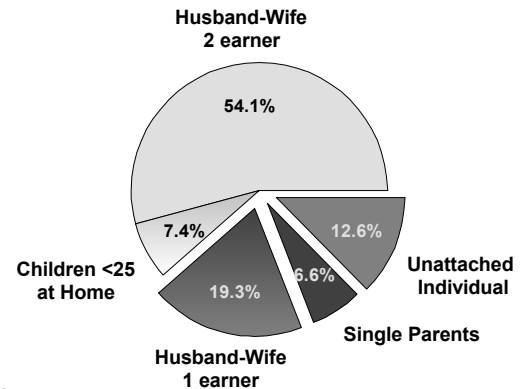
Minimum Wage and Economic Hardship

The minimum wage in British Columbia was increased from \$7.60 to 8.00 per hour in November, 2001¹. There had been a previous increase back in November 2000 from \$7.15 to \$7.60. Therefore, altogether, the minimum wage has increased by \$0.85 in the past year, which represents a 12 per cent annual raise. Below we will examine the extent to which this significant wage increase could impact the standard of living of low wage earners.

Low wage earners are not necessarily living in financial circumstances that mirror their earning capacity. Poverty and standard of living are gauged by the total income of the family. Thus a teenager living at home and earning minimum wage would most likely not be living in poverty as he/she would be sharing in the household income. The same holds true for a minimum wage earner with a working spouse.

The distribution of the 72,600 minimum wage earners in BC shows that the majority had this status, that is, they were either adults living in households where both husband and wife were working (54%), or were children living with their parents (7%).

Distribution of Minimum Wage Earners British Columbia -- 2000



BC Stats

This leaves 27,000 minimum wage workers who are likely supporting either themselves or a whole family unit on a minimum wage salary. They are comprised of unattached individuals; single parents; or husband-wife single earner families. For this group, a raise of \$0.85 per hour would represent a significant improvement in their standard of living.

An individual who earns the minimum wage of \$8.00 per hour and works a 40 hour week, for 50 weeks of the year (2,080 hours per year) is now able to earn \$16,640 per year. Does an income of \$16,640 per year provide an adequate income?

¹ At that time, a "training wage" was also introduced for employees in their first 500 hours of work experience that was set at a minimum of \$6.00.

To answer this, we will compare this \$16,640 minimum wage standard to Statistics Canada measure of the “Low Income Cut-Off” (LICO). The LICO provides a guideline to the income level below which an unattached individual or a family would be living in “relative poverty”.²

Currently, for an unattached individual living in a moderate sized city in Canada, the current LICO is approximately \$16,228. In 2001, an unattached individual earning minimum wage could receive a GST refund of \$316, bringing their total income to \$16,956 which exceeds the LICO. Thus, for an unattached individual, the minimum wage of \$7.65 for the 1st ten months of the year would have resulted in an income of slightly above the LICO, but now the \$8.00 minimum wage boosts them above that level.

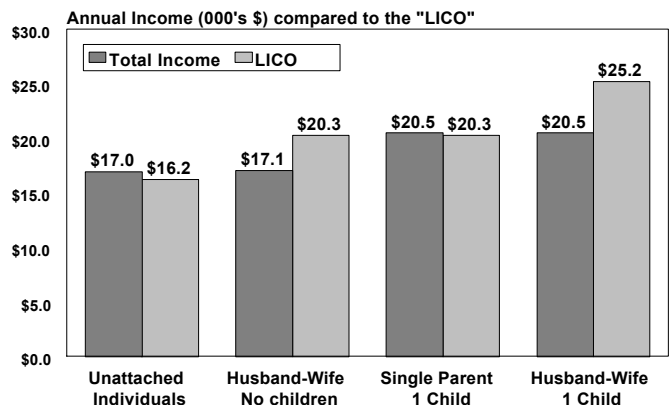
For a family of 2 persons the LICO is currently running at about \$20,285 in medium sized cities. If the family of 2 is a working single parent with one child under 7, their transfer payments (GST Credit, Child Tax Credit, and BC Family Bonus) could be as much as \$3,844. Add that to the \$16,640 earned from a \$8.00 wage rate for the whole year, brings the family income up to \$20,484, also above the LICO.

However, if the family of two is a childless husband-wife family with only one person working and that person earns minimum wage, their transfer payments would only be the GST credit of \$414. If

the earner worked full-year/full-time, the family income would equal \$17,054 (\$16,640 + \$414). Thus their standard of living still remains below the LICO of \$20,285.

According to Statistics Canada, for family sizes larger than two people, income would have to increase by approximately \$5,000 for every additional child to remain above the LICO. Transfer payments for each additional child amount to about \$3,000. Therefore, any family with more than one child and only one person in the family working at minimum wage would be considered “relatively poor” by LICO standards.

Income Potential of Families with 1 Earner who Earns Minimum Wage -- Comparison with the "Low Income Cut-off"



So while many of the 27,000 single minimum wage earner families will still be living in relative poverty, there is now a subset of that group who can earn enough on minimum wage, in combination with transfer payments, to maintain a standard of living above the LICO.

² The definition of income for the LICO referred to in this article is pre-tax income including transfer payments such as Child Tax Benefits and GST Credits.