

# **Indexing Minimum Wage in Newfoundland and Labrador**

## **Summary**

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## INTRODUCTION

The Government of Newfoundland and Labrador is committed to establishing a standardized approach for determining minimum wage that is tied to an inflationary measure, and ensures that future adjustments keep pace with increases in the cost of living. A more transparent and predictable approach will enable employers and their employees to appropriately plan for future increases.

On February 1, 2017, the Honourable Gerry Byrne, Minister of Advanced Education, Skills and Labour, announced that public consultations would commence to help the Provincial Government establish a clear and consistent method of determining future minimum wage increases. Interested individuals and groups were provided the opportunity to submit comments and responses to questions posed in the background document, Indexing Minimum Wage in Newfoundland and Labrador. In addition, seven consultation sessions were held at various locations in the province.

## BACKGROUND

The minimum wage rate is a basic labour standard that establishes the lowest hourly wage an employer can pay to an employee. This requirement is mandated by law in the Labour Standards Act (the Act), which is applicable to over 90 per cent of all employees in Newfoundland and Labrador.

The minimum wage in Newfoundland and Labrador is \$10.75 per hour effective April 1, 2017, and increases to \$11.00 per hour on October 1, 2017. These increases will bring Newfoundland and Labrador in line with other Atlantic provinces and establish an appropriate baseline for future indexed increases.

The recent trend across Canada is to tie adjustments to minimum wage to an inflationary measure (e.g. Consumer Price Index). This approach ensures that adjustments to the minimum wage rate are more predictable for employers, and allows the wages of minimum wage workers to keep pace with increases in the cost of living.

## **SUMMARY**

Public sessions and an online consultation took place between February 1 and March 31, 2017.

During the consultations, the Provincial Government heard from workers, employers, politicians, labour and business organizations, student advocacy groups, as well as interested individuals. While participants were encouraged to address the questions posed in the background document, most presented positions for and against minimum wage increases, the implications, and purpose of minimum wage.

The following is a summation of responses in relation to the questions presented in the background document.

**1. Do you support the Provincial Government linking minimum wage to increases in the cost of living?**

While the consultation did present divergent views on minimum wage increases and its impacts, there was support for a transparent and open method for addressing future minimum wage adjustments.

**2. What are the benefits of introducing a standard methodology for adjusting minimum wage rates in the future?**

Participants indicated that linking future adjustments in the minimum wage to an economic indicator had advantages over the current approach for both employers and the workers they employ. Participants indicated that predictable, annual changes to the minimum wage, linked to changes in the cost of living, would prevent the erosion of purchasing power for minimum wage workers and enhance businesses' ability to adequately plan for incremental adjustments, with sufficient notice.

**3. What are the challenges of introducing a standard methodology for adjusting minimum wage rates in the future?**

Some participants suggested a cap on any minimum wage increase tied to an economic indicator and consideration should be given to whether any increase should take place in times of economic downturn. Others suggested that indexing at the current rate is too low, and it should be more of a "living wage" rather than a minimum wage, in order to promote greater equity in the workplace and further social justice.

#### **4. What method should be used to determine future minimum wage increases?**

Indexing future adjustments to changes in the Consumer Price Index was the preferred option.

Consumer Price Index (CPI), also known as the inflation rate, is the most commonly used and widely accepted measure of change in the cost of living. The CPI is expressed as a percentage change from the previous year, and is available for a number of different geographies, including City CPI (St. John's), Provincial CPI (Newfoundland and Labrador), Regional CPI (Atlantic Canada), and National CPI (Canada). The cost of living varies depending on where a person lives.

While business brought forward caveats that increases should not be automatic in times of economic downturn or that the most volatile components of the CPI should be excluded, they did support the fact that it provided a transparent and predictable process that would enhance their ability to appropriately plan for future increases.

Labour advocates supported linking to CPI to ensure that the purchasing power of minimum wage workers keeps pace with increases in the cost of living.

In addition, CPI was cited as the economic indicator to utilize as the data is easily accessible from Statistics Canada, and easily understood by both employers and employees.

#### **5. If Consumer Price Index (CPI) was used, which area should be used to index for future changes?**

Four provinces and territories base adjustments to their minimum wage rate on CPI. For example, British Columbia and Ontario have chosen to adjust their rates using the Provincial CPI. Nova Scotia adjusts its minimum wage rate using the National CPI, while the Yukon bases its increase on the City CPI (Whitehorse). By comparison, Saskatchewan uses a formula based, hybrid approach that considers both CPI and average hourly wages.

Most participants indicated that future adjustments to minimum wage should be based on changes to the CPI for Newfoundland and Labrador.

## **6. How much notice should be provided prior to a minimum wage increase being implemented?**

There was general agreement from participants that businesses should be provided sufficient notice of any change in minimum wage to appropriately incorporate any increased costs into their operations. With respect to the amount of notice required in advance of any increase, most did not provide any finite suggestions; however, some business groups suggested one year.

If the Provincial Government decides to link future adjustments to CPI, the information is readily available from Statistics Canada on an ongoing basis, enabling employers and employees to predict future increases and plan accordingly.

## **7. How frequently should the minimum wage change?**

Participants indicated that an annual adjustment in minimum wage is preferred. Annual increases, based on an inflationary measure, ensures that the wages of minimum wage workers keep pace with increases in cost of living, while providing employers an objective, transparent process that enables them to appropriately operationalize any increases.

The Maritime provinces have agreed that minimum wage adjustments will occur once a year on the first of April. The concept of joining the Maritime provinces in establishing this fixed date for future adjustments was discussed during the in-person consultations and received support from stakeholders.

## **ADDITIONAL COMMENTS**

Some participants suggested that minimum wage increases can cause unemployment, have a negative impact on businesses, and are not an effective tool to address poverty. Others suggested changes in tax policy would be better for low income workers and that Provincial Government should look at reducing other costs to businesses in order to offset any increase in minimum wage. Supporters of minimum wage increases suggest they lessen income inequality, narrow the gender pay gap, alleviate poverty and create a better, more equitable society.

## **NEXT STEPS**

Stakeholder response to this consultation confirmed support for the commitment of the Provincial Government to establish a standardized approach for determining minimum wage that is tied to an inflationary measure and ensures that future adjustments keep pace with increases in the cost of living in Newfoundland and Labrador.

Through The Way Forward: A Vision for Sustainability and Growth in Newfoundland and Labrador, the Provincial Government has committed to ensuring our people are supported by responsive, innovative and efficient programs and services. By working with our stakeholders, we will continue to ensure our labour legislation, including minimum wage, is relevant and responsive to the needs of employees and employers throughout the province. The input provided will help inform the Provincial Government on this important public policy issue.



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