

# Intelligence MEMOS



From: Joseph Marchand  
To: Concerned Albertans  
Date: September 20, 2016  
Re: **ALBERTA'S MINIMUM WAGE SHOULD MOVE WITH INCREASES IN LABOUR DEMAND (I.E. ENERGY PRICES)**

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In the Spring of 2015, the newly-elected Government of Alberta committed to a \$15 minimum wage by 2018, from an initial rate of \$10.20 in 2014. The first \$1.00 hike in the minimum wage took place on October 1<sup>st</sup>, 2015, and another \$1.00 will be added to the minimum wage on October 1<sup>st</sup> of this year.

Despite being the first province or state to do so, Alberta is not alone in hiking its minimum wage by nearly 50 percent to \$15, as California and New York committed to similar increases soon after. The main difference between the plans is the amount of time to reach their minimum wage goals: with Alberta's end goal of 2018 being half that of CA and NY's 2022.

Other policy differences are also notable. For example, New York's minimum wage will first increase in places where average wages (and prices) are already high, beginning with New York City by 2019, then the surrounding counties, and then presumably moving on to the rest of the state. California's plan allows for the postponement of minimum wage increases if labour demand decreases due to a recession.

Alberta's plan also had labour demand in mind when it was first crafted. The [2015 Alberta NDP election platform](#) initially touted a job creation tax credit, along with its \$15 minimum wage proposal. While the government recently scrapped this tax credit, the minimum wage increases continue with their North-American-leading pace.

Why do movements in labour demand matter for minimum wage policy? In theory, a minimum wage is expected to lead to a loss of employment, with larger increases in the minimum wage leading to larger job losses. If labour demand increased at the same time, this would potentially lead to less of an employment loss. In labour markets where employers otherwise have the power to keep wages low, however, a minimum wage may instead lead to an employment gain.

What does the previous evidence of minimum wages on employment show? While the U.S. evidence remains divided between whether higher minimum wages increase or decrease employment on average, the existing Canadian evidence is much clearer. Previous minimum wage increases across Canada have resulted in particularly large employment losses compared to the U.S. estimates.

Alberta's labour market also differs from the U.S. and elsewhere in Canada in an important way. Resource booms in energy prices drastically increase Alberta's labour demand and, therefore, wages and employment. The largest of these increases happen in the energy extraction sector, but there are also [significant spillovers](#) into other local industries. The largest of these spillovers occur in industries that employ the most minimum wage workers, namely in services.

The Government of Alberta clearly had labor demand stimulus in mind when it crafted its proposal for such a large increase in the minimum wage. Now that the job creation tax credit has been scrapped, however, the only proven way to stimulate labour demand in the province is through an upward movement in energy prices. Until those prices begin to move, the province should postpone further increases to the minimum wage, as the potential job loss is just too great a worry.

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