

PROPOSAL FROM THE GOVERNMENT OF ONTARIO
INCREASE OF MINIMUM WAGE TO \$15 PER HOUR
ANALYSIS AND COMMENTS

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FACTS

Last May 31, 2017 the Government of Ontario released a proposal to increase the minimum wage. The proposal is to increase the minimum wage in the province of Ontario from the present level of \$11.40 to \$14.00 per hour starting January 1, 2018 and to \$15.00 per hour on January 1, 2019. (Source: <https://news.ontario.ca/opo/en/2017/05/ontario-raising-minimum-wage-to-15-per-hour.html>)

This dollar increase will mean a percentage increase by the beginning of 2018 of 22.8% and a total increase by the beginning of 2019 of 31.6%.

Technically, the total increase in cost for a business will mean 32% in 18 months in respect to cost of minimum wages. Obviously, not all workers are in minimum wage and not all cost are wages. This will affect more industries that are intensive in minimum wage (possibly like a coffee shop or in agriculture) and possibly the impact will be larger in smaller businesses than in larger ones. (see Some Other Facts and Analysis section below)

“The largest increase in the province’s history”, is how the Ontario government presents it. “As part of a plan to create better jobs and fair workplaces” they keep saying. Is this true? Will a mandatory increase in the minimum wage help to create jobs? What does history tells us? What does economic principles can argue about this?

CONCLUSIONS

What can happen?

- a) A company, if possible, will increase prices of its goods and services in the same proportion as the cost increase. This can be done if the consumers are willing to pay more for the product.
- b) A company will increase prices and consumers will prefer not to consume those goods and services at that price. Companies will sell less in this case with the consequences this may bring.
- c) A company will lay off workers in order to try to maintain the cost of wages. This will mean unemployment.
- d) A domestic company, with this increase, may become less competitive with products produced abroad. Therefore, import of goods and services can increase with the reduction in domestic companies and therefore unemployment will increase in the province
- e) All of the above
- f) None of the above

What's for sure:

- a) There will be no more money in the economy. Therefore, there will be no more wealth.
- b) If wages are increased due to a public mandatory policy, the money to pay more to workers will come either from the companies' pockets or the consumers' pockets.
- c) There is only one way there can be more money in an economic system: the central bank prints more money. This must be preceded by an increase in productivity and therefore more output of goods and services.
- d) If a central bank prints money without more productivity there will be inflation and no benefits will be seen by the community. By the way, the central bank is federal, not provincial.
- e) Productivity comes from intelligent strategies and action plans in business, including in this are training and investment in intellectual capital. Export of goods and services can also be included in this strategy. No government can increase productivity with a simple decree.

Is the purpose wrong?

Definitively no. We all want better income for all the population (and for each of us, too). What is wrong is the public strategy. Productivity and wealth is not increased by a decree.

SOME OTHER FACTS AND ANALYSIS

Based on StatCan figures, analyzing the minimum wage in constant dollars (this is, adjusted by inflation) at a national level (Canada), from 1983 to 2013 (Galarneau, D. and E. Fecteau. 2014. "[The ups and downs of minimum wage](http://www.statcan.gc.ca/pub/75-006-x/2014001/article/14035/t/tbla1-eng.htm)," *Insights on Canadian Society*, Statistics Canada Catalogue no. 75-006-X, <http://www.statcan.gc.ca/pub/75-006-x/2014001/article/14035/t/tbla1-eng.htm>) the wage has increased 28.8%. This means a 0.85% average per year. We insist, these increases are in constant dollars, therefore they are above inflation.

This increase in the province of Ontario has been of 34.7% for the period from 1983 to 2013 and therefore an annual average increase of 1.0%. This can tell us that the minimum wage is not lagging behind as some people may have suggested. An emergency large increase is not justified for the coming months.

In 2009, 5.8% of the population in Canada earned the minimum salary or less. Specifically in Ontario 8.1% earned minimum wage or less (source: "Perspectives of Labour and Income: Minimum Wage", March 2010, Statistics Canada, <http://www.statcan.gc.ca/pub/75-001-x/topics-sujets/pdf/topics-sujets/minimumwage-salaireminimum-2009-eng.pdf>). According to the Government of Ontario's communications, this increase will affect one quarter of the employees in Ontario.

Going back to the hard figures from StatCan, from the 5.8% of the national average that earned minimum wage or less, this is different regarding the industry. 22.5% of accommodation and food earned minimum wage or less, 14.3% in agriculture and 12.3% in trade. On the contrary, industries where less people earned minimum wage are construction and utilities (only 1.1% earned minimum wage or less), public administration 1.2%, professional, scientific and technical 1.6%, health care social assistance 1.9% and manufacturing 2.1%.

Education is a key factor in the personal income 17.3% of the population that have not finished high school earned minimum wage or less. 6.6% of high school graduates earned minimum wage or less. 3.0% of those with a post-secondary school certificate earned minimum wage or less and only 2.3% with a university degree.

Smaller companies have more employees in minimum wage. From the 5.8% total rate, companies with less than 20 employees have 9.1% in minimum wage, companies with 20 to 99 employees have 5.6%, companies with 100 to 500 employees have 4.3% and companies with more than 500 employees have 5.0%.

Finally, from the 5.8% of people in minimum wage, 2.9% of full time are making minimum wage compared with 18.5% that are part time. (source: "Perspectives of Labour and Income: Minimum Wage", March 2010, Statistics Canada, <http://www.statcan.gc.ca/pub/75-001-x/topics-sujets/pdf/topics-sujets/minimumwage-salaireminimum-2009-eng.pdf>).

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About Acus Consulting. This firm supports companies, organizations and government agencies in financial and strategic analysis, investment project evaluations, financial modeling, valuation of ongoing companies, financial planning, risk analysis and decision making. Acus Consulting works in consulting projects and offers seminars and workshops of finance for executive training. It is based in Toronto.

About Alberto Calva. His expertise field is finance and economy. He has been a business consultant for more than 20 years. He has given seminars and workshops in 8 different countries having trained with this around 10,000 executives and entrepreneurs from 20 different countries. He has a unique mix of academic, practical, entrepreneurial, hands on experience and board member background. He holds a Bachelor degree of Industrial Engineering, a Master degree of Economics and an MBA with a major of Finance.

About this report. We prepare several reports every month regarding financial, economic and business issues. These reports are sent free of any charge to our database of clients and friends. We have been preparing and sending our reports for 20 years. We send each report to around 16,000 people.

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