

Canada needs a raise!



The economic case for a federal \$15 minimum wage

The issue of a \$15 federal minimum wage is a key issue in the federal election.

The popularity of Fight for \$15 & Fairness campaigns in Ontario, BC, Nova Scotia and elsewhere, have given two federal parties – the New Democratic Party and the Green Party – the confidence to promise a \$15 minimum wage for all federally-regulated workers.

Establishing a \$15 federal minimum wage would be an important victory in the fight for decent work – and would send a message that workers in every province deserve at least \$15 an hour.

The vast majority of Canadians support calls for a higher minimum wage and we need to let our elected representatives know this – especially during the federal election.

When candidates request your vote, ask them these clear questions: “Does your party believe that a minimum wage should lift fulltime workers out of poverty? And if so, does your party support a \$15 federal minimum wage that rises enough each year to keep up with price increases?”

For more about why we need a \$15 federal minimum wage, read on.

Won't raising the federal minimum wage right now hurt the economy?

No. In fact, there are many economists who support higher minimum wages.¹ In May 2014, the internationally-read British financial magazine, *The Economist*, admitted it had been wrong in opposing minimum wage increases: “No-one who has studied the effects of Britain’s minimum wage now thinks it has raised unemployment.”²

And while there is little evidence to show that raising the minimum wage hurts the economy, there is convincing evidence that raising the minimum wage *helps* the economy.

Raising the minimum wage is good for the economy

When workers have more money in their pockets, they tend to spend it in their communities not deposit it in offshore accounts the way corporations and CEOs often do. Higher wages means workers have the income necessary to support local businesses. Supporting local businesses strengthens the economy and stimulates employment.

Clearly, what small businesses need most are customers; that’s why raising the minimum wage now would make good economic sense.

1 Woellert, Lorraine. “Seven Nobel Laureates Endorse Higher U.S. Minimum Wage.” *Bloomberg.com*. January 1, 2014. <http://www.bloomberg.com/news/articles/2014-01-14/seven-noble-laureates-urge-increase-in-u-s-worker-minimum-wage>.

2 “The Minimum Wage: What you didn’t miss.” *The Economist*, May 3, 2014. <http://www.economist.com/blogs/democracyinamerica/2014/05/minimum-wage>. “*The Economist* opposed the introduction of the minimum wage in Britain in 1999 on [the] grounds [it would increase unemployment]. ... No-one who has studied the effects of Britain’s minimum wage now thinks it has raised unemployment. Partly as a result of this experiment on our homestead *The Economist* has changed its mind. A colleague who surveyed the most recent evidence on employment found that some formerly implacable academic opponents of the minimum wage have softened their stance towards it, and that the IMF and the OECD both now reckon that minimum wages do little harm and may do some good.”

Customers create jobs

Businesses hire more staff only when they need to provide more services or make more things to sell. That's why workers with money to spend on goods and services are the real job creators. In fact, consumer and household spending (the spending made possible due to wages) supports more than half of Canada's total economic output.^{3,4} In other words our ability to spend money on goods and services keeps Canada's economy afloat.

But when our wages are cut or stay the same for long periods of time, we have less to spend as consumers and households – and that harms the economy. Lately, workers have been relying on credit cards and bank loans to make ends meet. But this can't keep the economy going in the long term.

It's time workers – especially low-income workers – got a raise.

Corporate tax cuts don't create jobs

Corporations got a big raise between 2000 and 2012. That's when different federal governments cut corporate tax rates in half (from 29% to 15%)⁵ arguing that these profitable corporations would spend their windfall on job creation.

But if corporations believe they don't have enough customers to buy all their goods and services, they are unlikely to produce even more goods and services – even if they're making a profit! When a business is stalled, it *doesn't* produce more stuff and it *doesn't* hire more workers. This helps explain why corporate tax cuts haven't produced the jobs that many expected.⁶

Corporations are hoarding profit

Instead, profitable corporations have simply pocketed their windfalls and rewarded themselves with huge salaries. The Canadian Centre for Policy Alternatives calculates that “by 11:41 am on January 2 [2015], the first official working day of the year, Canada's top 100 CEOs already pocketed \$47,358 – what it takes most Canadians an entire year, working full-time, to earn.”⁷

It would take those same 100 CEOs only about one hour to make the same amount of money as a full-time Ontario minimum wage earner in a whole year.

Meanwhile, the remaining profits are just piling up in corporate bank accounts. Statistics Canada data from 2013 reveals that corporations have accumulated a mountain of cash totaling more than \$630 billion⁸ – about 2.5 times the entire federal budget of Canada!⁹

This pile of “dead money” could be brought to life by using it to increase the wages of low-income workers and taxing it fairly to fund the public services we all need like health care, child care, education, social assistance and more.

3 The World Bank. “Household final consumption expenditure, etc. % of GDP [Gross Domestic Product] 2010 to 2014.” <http://data.worldbank.org/indicator/NE.CON.PETC.ZS>.

4 Statistics Canada. “Personal Debt.” *Perspectives on Labour and Income*. January 2007. <http://www.statcan.gc.ca/pub/75-001-x/com-mun/4235072-eng.pdf>. “Consumer spending as a percentage of GDP rang[ed] from 52.8% to 58.9% over the last 25 years...”

5 Generally speaking, corporate tax rates apply to corporate **profits**. If a company is not profitable, there's nothing to tax.

6 Howlett, Karen. “Corporate tax cuts don't spur growth, analysis reveals as election pledges fly.” *The Globe and Mail*. April 6, 2011.

7 Canadian Centre for Policy Alternatives 2015. <https://www.policyalternatives.ca/ceo>.

8 Isfeld, Gordon. “Canadian corporate cash hoard rises to \$630-billion in first quarter.” *Financial Post*. June 19, 2014. <http://business.financial-post.com/2014/06/19/canadian-corporate-cash-hoard-rises-to-630-billion-in-first-quarter/>.

9 Tencer, Daniel. “Canada's Corporate Cash Hoard Is Nearly One-Third Of GDP: IMF.” *The Huffington Post*. March 25, 2014. http://www.huffington-post.ca/2014/03/25/canadas-corporate-cash-hoard-imf_n_5030345.html

Won't raising the federal minimum wage just make everything more expensive?

No. According to Statistics Canada, between 1975 and 2013 after adjusting for the effects of rising prices, the minimum wage increased by only one single penny.¹⁰ Yet the prices of food and housing have increased much faster. For example, between 1980 and 2010, average home prices increased 400% faster than after-tax income.¹¹ Between 2007 and 2012, the price of food increased nearly twice as fast (19%) as other goods (10.7%)¹² and about four times faster than average wages (5%).¹³ Increases in the price of food and housing hurt low-income workers more because such workers need to spend a higher proportion of their wages on shelter and food.¹⁴

Wages have far less impact on prices than we are led to believe because wages typically comprise a relatively small portion of the price of a product. For example, if we look at the price of a car: labour costs represents less than 10% of the price,¹⁵ while the remaining 90% covers everything from the cost of supplies (or raw materials), transportation, advertising, the multi-million dollar salaries of the various corporate CEOs and, of course, profit.

In a few cases where the production of goods or services is labour intensive, there may be some modest price increases as wages rise. But generally speaking, labour costs are not decisive in the price of goods and services, and in any case we feel it is important to insist that corporate competition be based on the quality of the services offered, not on how poorly workers are paid.

What really causes prices to go up?

Prices tend to rise (or fall) when there are increases (or decreases) in the cost of the supplies used to make things. For example, increases in the cost of oil or even of cereals like corn can force prices higher.¹⁶ A rise in price could be triggered by low supplies, high demand and/or speculation on the stock market that artificially inflates prices. Similarly, a fall in the Canadian dollar can make imported things more expensive and cause local prices to rise if they use imported goods.^{17, 18}

What happens when workers' wages don't increase when prices rise?

Minimum wage earners know firsthand how hard life gets when prices rise and wages don't keep up. In Ontario, the minimum wage was frozen for nearly a decade between 1995 and 2004 while prices increased by nearly 21 percent.¹⁹ That's the same as having a wage-cut by one-fifth! It's usually bad for the economy when workers have less to spend and businesses have fewer customers.

10 Statistics Canada. "The ups and downs of minimum wage, 1975 to 2013." *The Daily*. July 16, 2014. <http://www.statcan.gc.ca/daily-quotidien/140716/dq140716b-eng.pdf>.

11 Pembina Institute. *Priced Out: Understanding the factors affecting home prices in the GTA*. Toronto. 2013. p. 9. <http://www.pembina.org/reports/priced-out.pdf><http://www.pembina.org/reports/priced-out.pdf>.

12 Rollin, Anne-Marie. "The increase in food prices between 2007 and 2012." Statistics Canada. June 27, 2013. <http://www.statcan.gc.ca/pub/11-626-x/11-626-x2013027-eng.htm>. "Prices of food in Canada have increased faster than any other major component of the Consumer Price Index since 2007 [CPI is a measure of rising prices]. Between January 2007 and December 2012, food prices rose by a cumulative 19.0%, while the All-items CPI excluding food gained a cumulative 10.7%."

13 CBC News. "Canada's dismal wage growth still better than most of G20." December 5, 2014. <http://www.cbc.ca/news/business/canada-s-dismal-wage-growth-still-better-than-most-of-g20-1.2862236>.

14 Oxfam Canada. "Why food prices are rising." *Grow Fact Sheet*. 2011. http://www.oxfam.ca/grow/learn/why_food_prices_are_rising.

15 Leonhardt, David. "\$73 an Hour: Adding It Up." *The New York Times*. December 9, 2008. <http://www.nytimes.com/2008/12/10/business/economy/10leonhardt.html>.

16 Oxfam Canada. "Why food prices are rising." *Grow Fact Sheet*. 2011.

17 CBC News. "Canadian dollar slump hikes cost of US imported goods: Loonie's plunge of 10% will lead to higher prices, BMO says." January 13, 2015. <http://www.cbc.ca/news/business/canadian-dollar-slump-hikes-cost-of-u-s-imported-goods-1.2898150>.

18 CBC News. "Canadian dollar closes at 78.67 cents US: Worsening economic picture and low oil prices weigh on loonie." January 30, 2015. <http://www.cbc.ca/news/business/canadian-dollar-closes-at-78-67-cents-us-1.2938112>.

19 According to Statistics Canada the Consumer Price Index increased by nearly 21% between 1995 and 2004. <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ46a-eng.htm>.

In today's fragile economy, however, a failure to ensure workers' wages keep up with rising prices, will further depress demand for local businesses and could accelerate a downward spiral in the Canadian economy.

But won't some businesses go under if they have to pay higher wages?

It is true that companies relying on poverty wages may not survive when the law requires all workers to be paid wages that bring them above the poverty line. However, not all businesses rely on poverty wages. There are plenty of successful businesses that pay decent wages. In fact, contrary to what many people may assume, the research shows that large firms with more than 500 employees are far more likely to be minimum wage employers than smaller firms.²⁰ Many small businesses pay their staff well because they know that treating staff fairly reduces turnover and generates repeat customers, fair businesses shouldn't have to compete with large corporations that rely on poverty wages.²¹

That's why the best employers benefit – and can even expand their businesses – when laws demand workers be treated fairly. As long as the laws are proactively enforced, fair minimum wages and employment standards protect decent employers as well as workers. As a case in point, Nelson Lichtenstein, in his book: *The Retail Revolution: How Wal-Mart Created a Brave New World of Business* shows how Walmart's systematic avoidance of minimum wage laws gave Walmart an unfair advantage over their competitors that paid better wages.²²

A decent national standard

Re-instating the federal minimum wage at \$15 an hour and increasing it annually to keep up with rising prices (as measured through the Consumer Price Index), would create a national standard that raises low-income workers' wages to at least 10% above the poverty line, as measured by the pre-tax Low Income Measure.

Because there is no single, high standard for a pan-Canadian minimum wage, workers doing the same job in one province can earn lower wages than others doing the same job elsewhere. Such wage differentials also mean that low income workers have variable access to income support through the federal Employment Insurance program, which already suffers from the problem of regional fragmentation and unfairness. Workers must re-assert the importance of establishing a high, universal, pan-Canadian minimum standard for wages – and for high, universal standards for all social programs.

20 Edmonds, Sydney and Navjeet Sidhu. "Where are Minimum Wage Earners Working?" Social Planning Toronto. 2014. <http://www.socialplanningtoronto.org/wp-content/uploads/2014/11/Min-wage-November-25.pdf>.

21 The Institute for Public Policy Innovation. "The Duplicity of Employers Who Support Minimum Wage Increases." January 6, 2015. http://www.ipi.org/ipi_issues/detail/the-duplicity-of-employers-who-support-minimum-wage-increases.

22 Lichtenstein, Nelson. *The Retail Revolution: How Wal-Mart Created a Brave New World of Business*. New York, New York: Holt and Company, 2009, 9-12.