Why a $15 Minimum Wage Will Hurt Canada's Economy

Description

Wage hikes planned in many provinces

Minimum wage hikes are big news lately; in the coming years, many provinces are going to see significant increases. Alberta is going to see its minimum wage rise twice: once this October from the current $12.20 to $13.60, and another increase next year to $15.00. British Columbia is also seeing an increase later this year, up to $11.25 from its current rate of $10.85. Ontario's minimum wage is going up by $0.20 this year, but if legislation is approved, the province could see the rate rise to $14 by the new year and $15 the year after that.

Increases are far more than inflation

Increasing the minimum wage is justifiable since inflation raises the cost living for everyone, but these hikes are well in excess of just covering for inflation. In 2007, Alberta, Ontario, and British Columbia had minimum wages of $8.00 per hour. Inflation has averaged less than 2% for the past decade, and if inflation were constant at that rate for 11 consecutive years from 2007 to 2018, the cost of living would have increased by 24%. An inflation-adjusted minimum wage would suggest $9.92 is the minimum that workers should be getting paid per hour in these provinces.

Note that this is using a simplified inflation rate of 2%, which is higher than what the actual rates of inflation have been. Meanwhile, the actual wage increases will result in minimum wage rising by over 87%, which is equivalent to annual raise of over 5.8% every year for 11 straight years.

Impact on workers and businesses

Politicians have no doubt made steps towards these increases as a way to get votes and improve popularity, as the minimum wage advancements are clearly far in excess of what would be required to compensate for increasing costs. Although $15 sounds nice, whether or not it will improve the situation for minimum wage workers is unlikely and may just increase costs for everyone.

The retail environment, specifically, is already very competitive with tight margins. **Sears Canada Inc.** (TSX:SCC) is currently in the liquidation process, while **Hudson's Bay Co.** (TSX:HBC) and many other retailers are struggling. In Alberta, the economy is still recovering, and a wage hike of almost 23% due within 17 months is just an irresponsible and reckless thing to do; it will put even more pressure on retailers there. A significant increase in labour costs could lead to store closures and layoffs, resulting in a negative impact on minimum wage earners.

Loblaw Companies Ltd. (TSX:L) expects its costs to rise by as much as $190 million by next year as a result of the increases. Loblaw is a large organization, and those costs won't have an adverse impact on the company or its future. But for other retailers that don't have as much capital, it could be the difference between profits and losses, and expansions and closures.

Increased minimum wage hurts more than just retail

A minimum wage increase and its effects aren't exclusive to the retail industry. The Automotive Parts Manufacturers' Association has recently stated that the proposed minimum wage increases in Ontario will make it more difficult for auto parts manufacturers to be able to attract skilled workers and bid for work, even though most workers don't make minimum wage.

The problem is widespread, because a worker that currently gets paid $15 an hour now will be making minimum wage when the wage is increased. That worker was previously making more than minimum wage, and it would be completely reasonable for that same worker to expect to get paid a premium over unskilled, entry level workers making $15 an hour.

Impact on foreign investment

In a globalized world where a low Canadian dollar is good for business, rising domestic costs will do nothing to help increase foreign investment, especially from south of the border.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2017/08/01
Author
djagielski