

Intelligence MEMOS



From: Anindya Sen
To: Kevin Flynn, Ontario Minister of Labour
Date: May 9, 2018
Re: **MINIMUM WAGE BOOST VERSUS TAX CREDITS, THE TALE OF THE TAPE**

The Ontario minimum wage increased from \$11.60 to \$14 on January 1 and is scheduled to rise to \$15 next January. Progressive Conservative Party leader Doug Ford, has indicated that he would, instead, eliminate income tax for minimum wage earners. Some recent analysis suggests that a \$15 minimum wage increase would leave workers with [roughly \\$700](#) more than Ford's proposal of keeping the minimum wage at \$14 with income tax credits. This calculation implies that a minimum wage hike is a superior policy alternative, as it leads to a higher income.

However, a higher minimum wage bids up the price of labour, resulting in increased operating costs that are particularly felt by small businesses. Businesses then have an incentive to increase prices and/or cut jobs. Many Canadian studies find higher minimum wages to be associated with lower employment, particularly among teens. My recent [study](#) also finds adverse employment outcomes for prime-working-age immigrants. In this respect, the Ford proposal might be a better strategy than a further minimum wage increase. While minimum wage earners will experience a reduction in monthly income of roughly \$60, there will not be any further unemployment effects. The province will be losing tax revenue, but it will also be sharing the burden of ensuring a fair and livable wage with small and medium-sized businesses who have already experienced the brunt of the minimum wage increase. This is only fair.

It is possible that the Ontario minimum wage hike so far has not had any labour market impacts. In order to study this, I looked at employment trends in Ontario and Quebec, before and after January 2018, when the minimum wage increased to \$14 in Ontario. I chose Quebec as a counter example, given the size of its labour force and because its minimum wage has remained constant at \$11.25 since May 2017. As a simple test, I took the three-month averages of the number of employed persons (full time) for October-December 2017 and January-March 2018 in the age groups of between the ages of 15-19 and 20-24 years. In both provinces, there were no significant changes to employment for the entire population aged 15 and over. However, Ontario experienced a roughly 21 percent and 8.3 percent drop in full time employment for 15-19 and 20-24 year olds, respectively. In contrast, there was no perceptible change in teen employment in Quebec and only a 2.4 percent drop in employment among 20-24 year olds. There were also no significant changes in part-time employment. The publicized drop in part-time jobs earlier in the year smooths out across three months.

Of course, it will take time to more fully assess the impact of the changes. However, these results are suggestive of unemployment resulting from a higher minimum wage. Reducing the income tax for low income individuals is an attractive alternative strategy.

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