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Making Every Job a Good Job

A Benchmark for Setting Ontario's Minimum Wage

Trish Hennessy, Kaylie Tiessen and Armine Yalnizyan

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Executive Summary

In the summer of 2013 — three years after the provincial government froze Ontario's minimum wage at $10.25 an hour — the Ministry of Labour struck an advisory panel to "examine the current approach to setting the minimum wage and to provide advice on how to adjust Ontario's minimum wage" (Ministry of Labour, 2013). Upon striking the panel, the government stated: "Addressing the minimum wage is a key part of the Ontario government's strategy to build a stronger economy, a more prosperous province and help the most vulnerable" (Ministry of Labour, 2013). The panel consists of representatives from business, worker, labour and youth organizations. After consulting with Ontarians across the province, the panel will report to the Ontario government by December 2013.

This paper proposes a core benchmark against which to set the minimum wage: 60% of the average industrial wage, which would be roughly $14.50 today. Once the benchmark is reached, it proposed that the minimum wage be adjusted annually for inflation. This is an approach that balances the needs of vulnerable workers with the dual goal of shared prosperity and ensuring that every job in Ontario is a good job.

It is commonly understood that Ontario's current approach to setting the minimum wage is ad hoc, and sometimes subject to intense political campaigns and business lobbying efforts. An examination of the history of Ontario's minimum wage reveals the politically contested nature of determining the minimum wage has subjected it to a roller coaster pattern of inflation-adjusted minimum wage increases and freezes — ups and downs — since 1965.

The roller coaster pattern reflects a history of fairly regular nominal minimum wage increases that are occasionally interrupted with stretches of wage freezes. During those periods, the value of the minimum wage erodes, requiring a political game of catch-up in subsequent years. In fact, the longer the freeze, the bigger the roller coaster hill to climb in terms of catch-up.

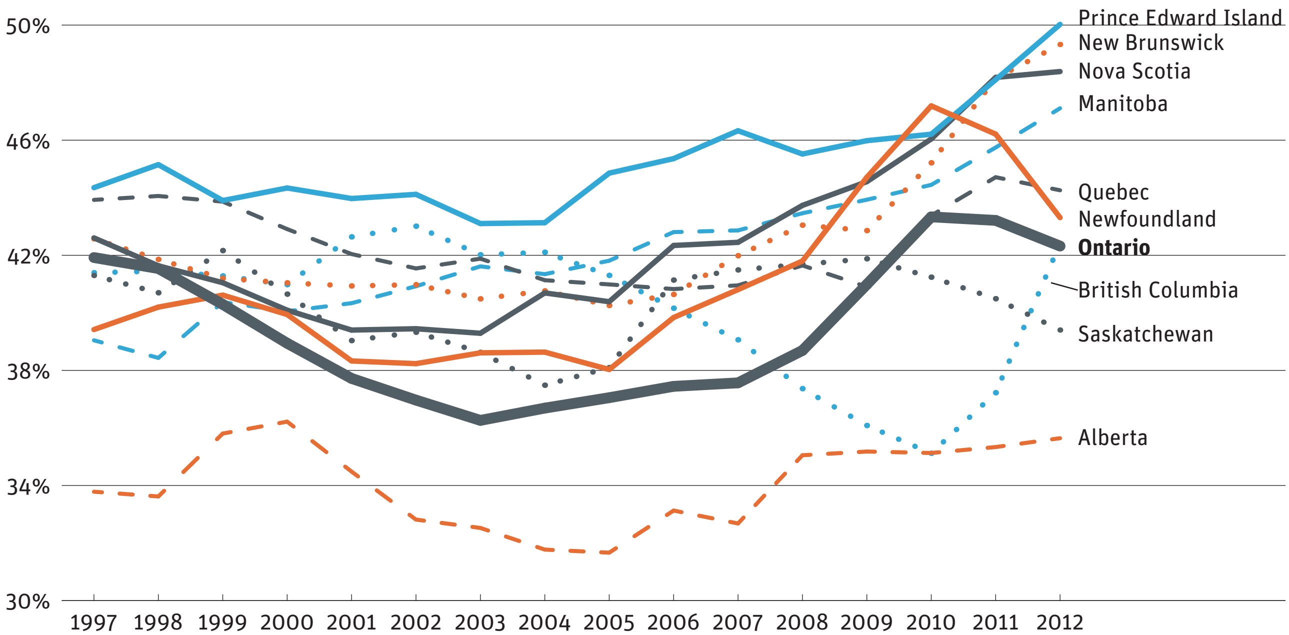
Due to the politically contested nature of the current approach to assessing minimum wage adjustments, debate about wage levels is often considered relative to one sole question: how much businesses are willing to compensate their lowest paid employees. It's an imbalanced approach that fails to adequately factor in the needs of low-waged workers and the role the minimum wage can play in addressing larger social and economic goals of reducing working poverty and addressing the significant labour market inequities that disproportionately affect workers from racialized, First Nations and immigrant backgrounds as well as women and workers living with disabilities.

What if the goal of Ontario's minimum wage fit into a broader strategy to ensure that every job in the province is a good job — one that pays enough for a household to make ends meet? This report proposes a way forward. It assesses the adequacy of the minimum wage relative to a broad range of measures — the Low Income Measure (LIM), labour productivity, the Consumer Price Index (CPI), several Ontario living wage calculations, and perhaps most importantly, the Ontario average industrial wage — and finds the current minimum wage falls short on all counts.

LIM: The current minimum wage of $10.25 an hour for a full-time (35-hour work week) full-year (50 weeks) job is 24.3% less than the pre-tax Ontario LIM for a single person, living alone, in 2011 ($23,690, from Statistics Canada, custom tabulation from the Survey of Labour and Income Dynamics).

Productivity: The real minimum wage has grown at a much slower pace than labour productivity. The real minimum wage has grown only 44%, while labour productivity has grown more than 120% since 1965 (Statistics Canada, Table 383-0021), demonstrating that the province's lowest paid workers are not capturing a fair share of those gains.

FIGURE 1 Minimum Wage as a Percent of Average Industrial Wage, By Province, 1997–2012



Source Statistics Canada, CANSIM 282-0070

CPI: The real minimum wage has also lagged behind the CPI, the measure that tracks the rising cost of living in Ontario. Since the minimum wage was frozen in 2010, minimum wage workers' purchasing power slid by 7%. And this during the very years the provincial government has relied on consumer spending to help revive a flagging post-recession economy.

Living wage: Ontario's current minimum wage standard is set well below the poverty line. In contrast, many regions across the province have joined the movement to promote a living wage. The living wage is calculated based on what one must earn in order to afford a decent quality of life. The real minimum wage of $10.25 falls considerably short of living wage calculations in many Ontario regions to date: $18.69 in Halton, $15.95 in Guelph, $16.60 in Toronto, $16.47 in Peterborough, $16.29 in Kingston, $14.95 in Hamilton.

Industrial wage: And, perhaps the biggest shortcoming, at $10.25 an hour the real minimum wage is only 42% of the 2012 Ontario average industrial wage of $24.22 an hour. On this measure, Ontario minimum wage workers track lower than every other province in Canada except Saskatchewan and Alberta.

Full-time, full-year minimum wage earners, along with many others who voluntarily or involuntarily find themselves in part-time and precarious employment, fall into the ranks of the working poor. What's more, this report documents several developing demographic trends that suggest low- and middle-income households may be coping with an increasingly precarious work environment by taking on minimum wage jobs and pooling the resources to keep the family household afloat.

This is a particularly important consideration for the panel, given one of the political arguments against raising the minimum wage to a living wage standard rests on the fact that many minimum wage earners are young. An examination of the data suggests that's all the more reason to consider a robust minimum wage: a growing share of young adults, aged 20 to 29, are living in their parental home in a phenomenon known as 'delayed adulthood'. In 1981, only 26% of Canada's young adults lived with their parents but by 2011, this number had grown to 42% — that's an increase of 62% (Statistics Canada, 2013a). By 2011, Ontario's share of young adults living at home reached more than 50% (Statistics Canada, 2013b). Statistics Canada (2012a) reports that young adults are living at home longer because they are having difficulty finding work, are pursuing higher education — where they carry a bigger share of the tuition cost burden than previous generations (Macdonald and Shaker, 2013) — and/or because the cost of housing is too high.

Another demographic shift on the other end of the age spectrum shows that the share of workers aged 55+ who are holding down some kind of minimum wage job grew by 75% between 2006 and 2011 (Wellesley Institute, special tabulations). Whether they're working full-time, part-time or casual jobs, this rapid growth in older workers earning the minimum wage reinforces the growing body of literature showing Ontario is becoming host to more precarious, low-wage jobs. And this at a time when the income security systems and public services Ontarians have relied on in the past have been eroding.

There are many principled reasons to raise the minimum wage. One is to reduce the number of working poor in Ontario. A second is to reduce the burden that Ontario's increasingly low-paying and precarious labour market is having on middle- and low-income people alike. With older workers taking on more minimum wage jobs and young people living at home while trying desperately to break into the higher-paying labour market, it appears that the minimum wage may have become a coping mechanism for households whose incomes would otherwise fall much closer to the poverty line.

The authors propose a mechanism by which the minimum wage would be benchmarked to 60% of the average Ontario industrial wage to meet three core aims:

- Ensure that people working at a full-time, full-year job paying the minimum wage can lift themselves out of poverty;
- Provide a better balance between the needs of employers and workers; and
- Implement a legislated mechanism for automatic, predictable future adjustments relative to what it takes to live in Ontario — a move that would help de-politicize the perennial minimum wage debate in this province. Once the minimum wage reaches this benchmark, the authors recommend annual adjustments based on CPI, to reflect the reality of the cost of living for low-waged workers.

Meeting this benchmark — raising the minimum wage so it is within 60% of the average Ontario industrial wage — would mean the minimum wage would rise to $14.50 an hour. This report provides a potential pathway for reaching this goal in steady, manageable increments by July 2016. Once this benchmark is reached, the province would have succeeded in de-politicizing the question of future minimum wage adjustments because those would be automatic and simply reflect changes in the cost of living according to CPI. It would also eliminate any future sharp rises in the minimum wage, making it predictable to both workers and employers.

On the question of potential disemployment effects: the authors acknowledge the lack of consensus in the economic literature and point out the dearth of Canadian-based studies upon which to assess the claim. Where there is agreement in the literature, it's generally that disemployment effects tend to be concentrated among youth. The authors suggest youth employment incentives could be addressed by strengthening the province's current youth employment strategy, and working with other provinces to reverse federal policies that have rapidly accelerated the use of the low-skill pilot project in the temporary foreign worker program and the work permit component in the international student exchange program. As for the important and much debated disemployment effect, this paper makes the argument that raising the minimum wage has both positive and negative employment effects which net out to improved business conditions.

Finally, a thorough review of the connection between the minimum wage and the economy suggests the business case for steady, predictable minimum wage adjustments may be vastly overlooked. A minimum wage that is above the poverty line for a full-time full-year worker is good for business and the economy in three important ways: (1) businesses and workers would have a predictable basis on which to plan for the future; (2) businesses would likely achieve a stronger worker retention rate, lowering training and recruitment costs; (3) a decent minimum wage would increase the purchasing power of low- and middle-income households who typically spend their money locally. This would contribute to increased consumer demand and local economic growth. That's good for workers and it's good for business.

Introduction

In the summer of 2013, the provincial government created a minimum wage panel that is mandated to recommend a process to set and adjust the minimum wage that is both "fair to workers and predictable for business" (Ministry of Labour, 2013). This report briefly reviews the history of Ontario's minimum wage since its inception and considers a range of relative measures to factor in when setting the minimum wage and adjusting it in the future. It assesses the merit of the current campaign underway in Ontario to set the minimum wage to $14 an hour. The authors recommend a target value for the minimum wage based on a core benchmark of 60% of the average Ontario industrial wage, or $14.50. We also set out a plan to get there by 2016. Given the current politicized nature of the minimum wage debate, the authors also evaluate the merit of several arguments against increasing the minimum wage and they address the business case for a higher minimum wage.

Ontario's Minimum Wage: Historical Norms

The origin of minimum wage legislation in Ontario reflects an historical norm that placed the provincial government in the role of proxy protector and negotiator on behalf of some of the province's most vulnerable workers. Ontario's first minimum wage law was introduced in 1920 to protect women who were working in specific types of paid employment from exploitation in the labour market. Back then minimum wage legislation applied only to women workers — it was assumed that male workers would be protected by the labour movement through collective bargaining mechanisms (HRSDC Minimum Wage Database, 2005). In essence, minimum wage legislation put government in the de facto position of bargaining with the province's private sector employers with the clear mandate to protect workers' interests.

The movement to introduce a basic wage floor began long before minimum wage law came into being in Ontario. The first wave of legislation designed to protect workers' interests emerged in the late-19th century as governments began to introduce fair wage policies in the construction industry to ensure that public construction contracts could not be won by undercutting the labour market and reducing workers' wages (HRSDC Minimum Wage Database, 2005). The first fair wage policy in Canada was instituted in Toronto in 1893 for publicly funded construction projects (City of Toronto, 2013). Federal and provincial governments across the country soon followed suit, implementing legislation to ensure workers were not subject to wage suppression in the name of cheap infrastructure. The principle that shaped government implementation of fair wage policies was to protect workers from aggressive competition in the bidding process, which always resulted in corners being cut on wages and safety standards.

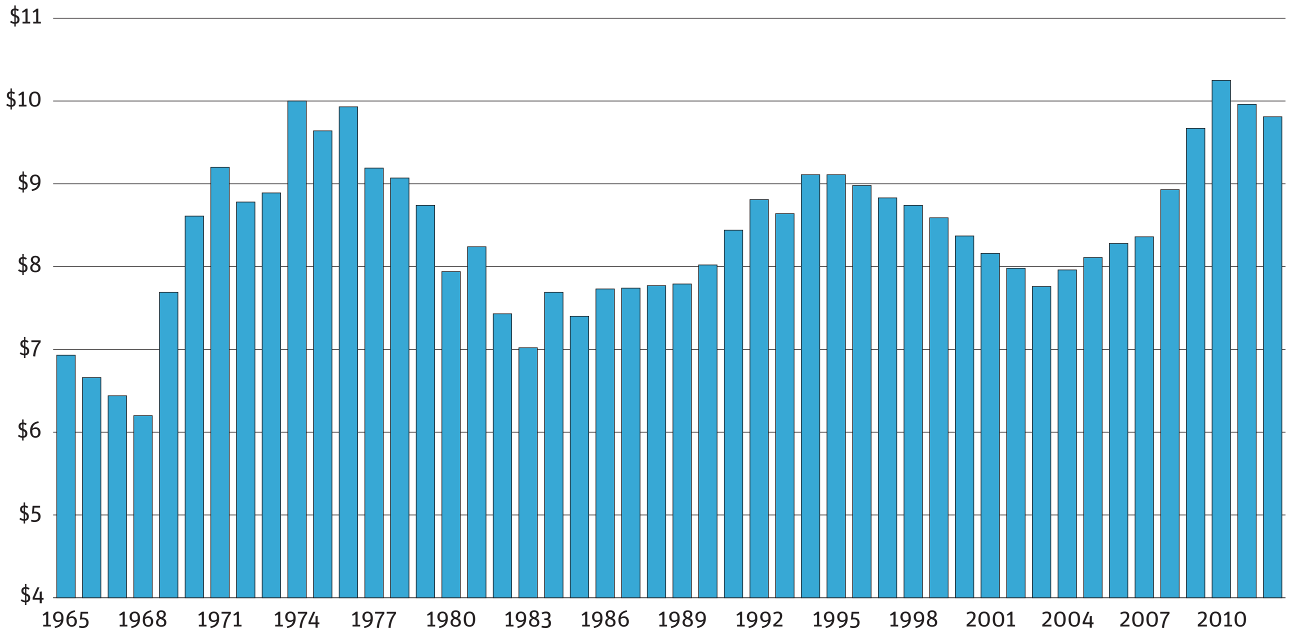
By 1937, minimum wage legislation had evolved to protect all workers and was most often discussed in terms of its relation to the average industrial wage. By 1965, the minimum wage in Ontario was $1 an hour — 42% of Ontario's average industrial wage (calculated from CANSIM 281-0021). Between 1968 and 1974, large and rapid increases more than doubled the minimum wage to $2.25 an hour, bringing it to 50% of the average industrial wage. With the exception of the nine-year minimum wage freeze from 1995–2004, the nominal minimum wage has usually been raised through fairly steady increases, reaching $10.25 in 2010, where it has remained since.

Adjusting the minimum wage for inflation — the real minimum wage — tells a very different story. Expressed in 2010 dollars, Ontario's real minimum wage in 1965 was $6.93 an hour. The real value of the minimum wage rose to a 20th century peak in 1975 at $9.93 an hour. This represented a 43% increase in the purchasing power of minimum wage workers over the 1965 rates (Brennan, 2012).

Since 1975, minimum wage workers — unlike any other group of workers in Ontario — have experienced wide fluctuations in their real living standard as the real value of the minimum wage has undergone major swings, as the following chart illustrates.

Between 1975 and 1983, minimum wage workers lost 33% of their purchasing power and the real value of the minimum wage bottomed out. A second stream of real and fairly steady increases continued from 1984 to 1995

FIGURE 2 Inflation Adjusted Minimum Wage, Ontario, 1965–2012 (2010 Constant Dollars)



Source Minimum Wage, HRSDC; Consumer Price Index (Canada, all items) from CANSIM Table 326-0021

and minimum wage workers regained much, but not all, of the purchasing power losses from the previous decade's wage freeze.

The freeze between 1995 and 2004 marked an historical departure from the norm, where the normally annual progression of nominal minimum wage increases (with rare short-term freezes) was replaced by a nine-year minimum wage freeze. During this time minimum wage earners lost 15% of their purchasing power. This explicitly political decision marked the longest period of freezing the minimum wage in Ontario's modern history. It also demonstrates the problem of catch-up that's required after long stretches of minimum wage freezes to redress workers' purchasing power within a consumer-driven economy — a problem that becomes a greater burden during periods of high inflation.

In 2004, the government earned cheers when the minimum wage freeze was lifted and the province resumed the historical norm of fairly steady raises. The series of steady increases helped restore the purchasing power of minimum wage workers by increasing the real value of the minimum wage by 32% between 2004 and 2010. This stream of minimum wage increases ended in 2010 with the highest inflation-adjusted minimum wage on record of $10.25/hour (Brennan, 2012). And it was still less than 44% of the average industrial wage, less than in the 1970s.

Since 2010, Ontario's minimum wage has been frozen and minimum wage workers are once again experiencing real losses in purchasing power. The Consumer Price Index (CPI) has increased by 7% since 2010 and minimum wage earners' purchasing power will continue to erode, especially since CPI for many basic needs, including food, transportation and health and personal care, is rising faster than the all-items CPI (Statistics Canada, Table 326-0021). This means that low-wage workers, who spend a much higher proportion of their income on basic needs than higher income earners, are experiencing an even faster decline in incomes than can be expressed through the inflation rate.

Government has an influential and historical role to play in adjusting the wages of the lowest-paid workers in the labour market, who are less likely to be unionized. In the absence of any organized power for most minimum wage workers to bargain collectively, the government becomes the sole arbiter of the standard enforceable rate for the lowest-paid workers in the province. The public debate about adjusting the minimum wage frequently focuses on concern about setting the bar too high, but the real problem is that the bar is increasingly being set too low.

Ontario's Shifting Labour Market

Ontario's labour market has shifted in recent decades as both income inequality and working poverty have increased. The minimum wage has a very important role to play in mitigating the results of this shift. This section will explore the minimum wage within this changing labour market context.

Income Inequality

Since the Great Recession of 2008–09 hobbled the global economy, the problem of income inequality has entered centre stage on the public's radar — perhaps best summarized by the Occupy Movement's iconic 99%. This section briefly explores where minimum wage earners are situated on the income spectrum and what impact a raise would have on income distribution.

Over the course of the past generation, income inequality in Ontario — market or tax-adjusted — has gotten worse. In fact, recent Statistics Canada data show Ontario is the second most extreme province in Canada in terms of a growing gap in market income gains going to the richest 1% of workers while the bottom 90% are experiencing a shrinking share of the income pie. Between 1982 and 2010, the richest 1% of Ontarians enjoyed a 71% increase in their average income, inflation-adjusted, while the bottom 90% only saw a 5% increase (Hennessy and Stanford, 2012). And, it is not only low-income earners who are struggling to make real income gains in this context, but middle-income earners as well.

In 2010, the top 10% of Ontario's income earners took home 36% of the income pie while the bottom 50% received only 16% of Ontario's income pie. The median pre-tax income of the top 10% of income earners is just over $108,000. The bottom 50% has a median pre-tax income just shy of $14,000 (Statistics Canada, Table 204-0002).

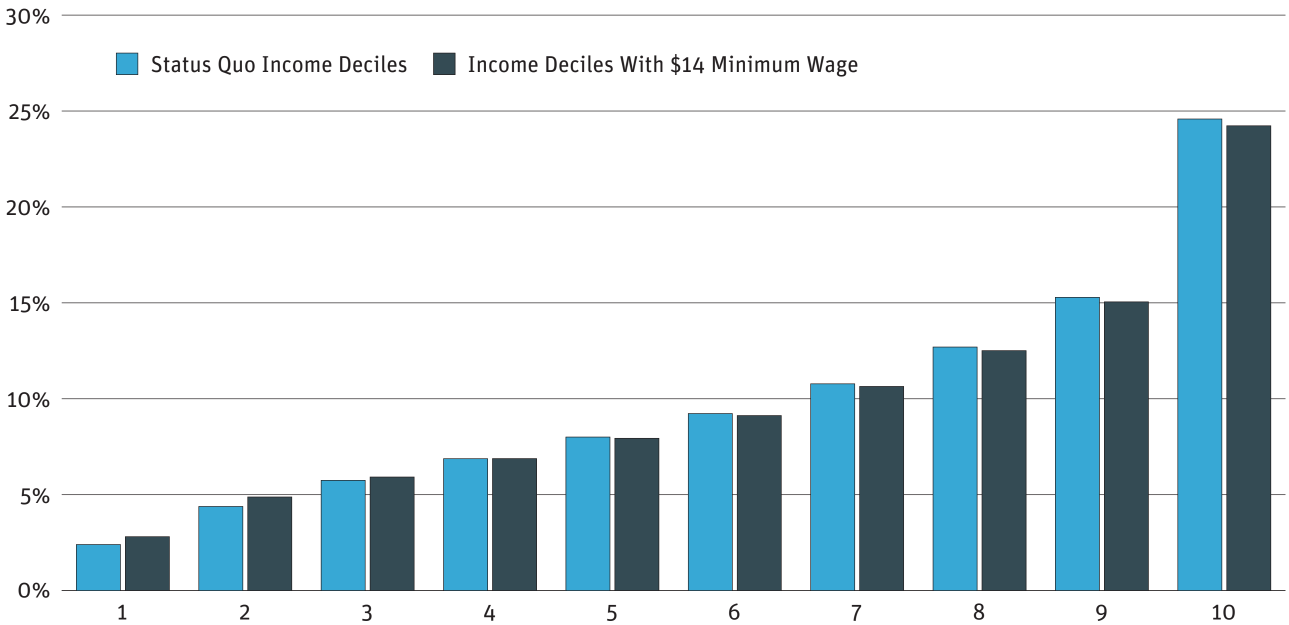
The key driver behind Ontario's widening market income gap has been a shifting labour market dynamic that hyper-values some workers at the higher end of the income spectrum while undervaluing a growing proportion of employees at the bottom end of the income spectrum. As Alexander and Myles (2013) point out, too many workers are having trouble "climbing up the income ladder" and extra attention should be paid to improving the outcomes of those on the bottom half of the income scale. Since the minimum wage is the absolute lowest level employers are legally permitted to pay their workers, minimum wage and other low-wage workers fall into the lower end of the income distribution.

Raising the minimum wage to $14 an hour — the target of the current campaign to raise Ontario's minimum wage — would have a significant effect on income distribution. *Figure 3* illustrates just how the income distribution of full-time, full-year workers would change if the minimum wage was raised to $14.

As the chart shows, at the current minimum wage rate of $10.25 an hour, the bottom 20% of full-time, full-year workers with at least $1,000 in earnings or wages take home 6.8% of the income share. Raising the minimum wage to $14 an hour would boost the income share of the lowest 20% of workers to 7.7%. Deciles 3 and 4 would also see a slight increase in their share of the income pie. In this scenario, wages and salaries in the higher income deciles do not decrease, though their share of total income does decline.

Governments can play an influential role — and have done so historically — in mitigating income disparities in the labour market by deploying a range of redistributive tools, by investing in public services and income supports, and by setting employment standards to ensure that employers can-

FIGURE 3 Income Share by Decile and Estimated Income Share With a Minimum Wage Increase to $14, Ontario 2006–09 Average



Note The impact of a $14 minimum wage was estimated by increasing the hourly wage rate to $14 per hour for those individuals working full-time, full-year with earnings or wages of at least $1,000. This increment was then added to the earnings of the individual. A few high earnings individuals may have had jobs paying a low hourly wage (mixed with high self-employment earnings, so even these individuals may benefit from an increase in the minimum wage).

Source Analysis based on the SLID PUMF files 2006 to 2009; in 2009 Dollars.

not undercut the labour market or take advantage of Ontario's most vulnerable workers. The minimum wage also plays an important role in this realm.

Low Wage and Precarious Work

Looking at the lowest-paid workers along Ontario's income spectrum, the labour market issue that has been drawing increased scrutiny of late has been the growth in precarious work, particularly since the recession. Precarious work is characterized by four main things: (1) Low pay; (2) Few or no benefits and/or pension; (3) Short-term, temporary, part-time and/or casual work; (4) greater risk of injury. This section explores how the nature of Ontario's labour market is changing and the role the minimum wage can play within this context.

There is a growing body of literature documenting the rise in precarious work in Ontario. Among the latest findings: 40% of workers in the Greater Toronto and Hamilton Area are working in insecure jobs (Lewchuk et al., 2013). According to the Law Commission of Ontario (2012), at least 22% of Ontario's workforce is experiencing precarious employment. Ontario's workers can no longer expect to begin in the mail room and work their way up to management. Our traditional understanding of progression in the labour market where workers slowly work their way up the responsibility ladder is being replaced by an hourglass, where workers who start in the bottom tend to stay at the bottom and the path for advancement is narrow. And, those who start at the top often stay at the top (Zizys, 2011).

Behind health care, the second largest growth in jobs between 2006 and 2012 in Ontario was in sales and services occupations — sales clerks, food and accommodation servers, cooks, etc. (Hennessy and Stanford, 2012). Given that at least 20% of Canada's minimum wage workers fall into this category (Statistics Canada, 2010), the mandate of the panel makes it essential to factor in this important economic shift and consider the role the provincial government can reasonably play in stemming a slide into a precarious, low-wage economy; a shift that is not only trouble for workers and working families, but is also a red flag for businesses, small and large, relying on consumer spending to maintain a healthy bottom line.

This is an aspect worthy of consideration, given the provincial government's own reliance on consumer spending to drive economic growth in Ontario in the coming three years. The 2013 provincial budget identifies household spending as the strongest contributor to real GDP growth between 2013 and 2016, followed by plant and equipment investments and net trade. Government contribution to real GDP growth is estimated at -0.1% during this time frame due to austerity budget plans (Ministry of Finance, 2013).

Full-time, full-year minimum wage earners, along with many others who find themselves in part-time and precarious employment, fall into the category of the working poor. Stapleton, Murphy and Yue (2012) define working poverty by this measure: "People between the ages of 18 and 65 living independently and earning more than $3,000 but less than the low income measure (LIM), defined as 50 per cent of the median income".

Many minimum wage workers live in middle-class households. As more people are being pushed into the low wage and/or precarious labour market, these households are having to rely on jobs with lower pay and greater precarity in order to piece together the middle class lifestyle they expected to achieve before the labour market shifted. This final point is worth considering given one of the chief claims by the business lobby against raising the minimum wage is that it "won't help the poor" (CFIB, 2013). Not only will raising the minimum wage help the working poor, it will also help households that find themselves increasingly reliant on the precarious and low-wage labour market to piece together a middle-class lifestyle.

Set against this shift in the nature of work and the economy, the share of minimum wage workers in Ontario has more than doubled in the past 10 years, now comprising more than 9% of the total workforce (Yalnizyan, 2013). If you include everyone working in a job that pays less than $14.25 an hour, the share of Ontarians working for near or below poverty wages is a stunning 28% (Block, 2013). Ignoring this shift in the labour market guarantees a race to the bottom and further economic decline. It would also perpetuate Canada's colour-coded labour market (Block et al., 2011), in which workers who are racialized, immigrants, First Nations people, women and those living with disability are disproportionately over-represented in low-wage work and under-represented in high-wage work.

Demographic Trends

The mythology laid out by critics of minimum wage policy is that minimum wage workers are students and/or young people living at home with their parents earning extra money but not dependent on their earnings for their living standards. This claim is often intertwined with assertions that minimum wage is not a poverty reduction issue. There is, however, evidence that suggests the minimum wage may not only be a tool to address working poverty in Ontario — it may be what's required to keep middle-income households afloat.

In 2011, a full 40% of all minimum wage workers in Ontario were adults over the age of 25. Not only that, but 20% of all prime-aged workers held jobs that paid near or below poverty wages, hovering between 21% below and 10% above the poverty line (Block, 2013). Also: a growing share of workers aged 20 to 29 are living in their parental home (Statistics Canada, 2013a). In 2011, the share of young adults living at home in Ontario reached more than 50% (Statistics Canada, 2013b). Statistics Canada (2013a) reports that young adults are living at home longer because they are having difficulty finding work, are pursuing higher education and even because the cost of housing is too high. The current mantra that any job is a good job isn't necessarily holding.

Another demographic shift on the other end of the age spectrum shows a similar pattern: the share of workers aged 55+ who are holding down some kind of minimum wage job increased more than 75% between 2006 and 2011 (Wellesley Institute, Special Tabulation). A recent CIBC World Markets Report shows older Canadian workers are now competing with youth for entry-level retail and service sector jobs — jobs that tend to be low wage or minimum wage. As Shenfeld (2013) writes: "…the real story is that the job market has not been strong enough to generate higher quality employment for older workers".

In addition, 400,000 working Ontarians have been classified among the involuntary part-time in 2012 — meaning they had part-time jobs but really wanted full-time work (Hennessy and Stanford, 2012). This is an important consideration, given the evidence that many minimum wage workers are employed part-time.

Not only has the shape of Ontario's labour market morphed into an hourglass, the changing nature of both work and the cost of living means that households require multiple incomes to make ends meet. As more women enter the labour force, the share of female workers who work for the minimum wage is also growing. Between 2003 and 2006 only 2.6% of women earned the minimum wage. By 2009–11, the share of female earners working in minimum wage jobs more than doubled to 6.3% (Block, 2013) — which could mean that more of the women who enter the labour force are starting (and getting stuck) in low-wage jobs.

This data suggests the need to consider that many workers of varying ages may be scraping by trying to support their family, buy a home or a car — consumers whose spending is helping with post-recession economic recovery — relying on minimum wage jobs to make their bottom line.

The minimum wage also has important equity implications. Whether one is an immigrant or born in Canada, racialized individuals face a higher risk of living in poverty due to discrimination and barriers in the labour market. Racialized Canadians make up a disproportionate share of low-wage workers: 12.5% of all racialized workers earn the minimum wage, which reinforces earlier findings about Canada's colour-coded labour market — that racialized workers do not have equal access to opportunity (Block et al., 2011).

Whether they're working full-time, part-time or casual jobs, this rapid growth in young adults living at home and older workers earning the minimum wage reinforces the growing literature showing Ontario is becoming host to more precarious, low-wage jobs; a trend that was clearly documented before the 2008 recession took hold (Morissette, 2008). To suggest that reducing poverty is the only reason to raise the minimum wage casts a smokescreen over a phenomenon that merits government attention: multiple generations within a household may be piecing together a living relying on minimum wage jobs. With more young adults living at home and older workers taking on more minimum wage jobs, the minimum wage job may have become a coping mechanism for households that would otherwise fall out of the middle class, or into a deeper level of poverty.

Relative Measures

Minimum wage workers don't exist in a vacuum. They work within a labour market that values some workers more than others. They work within a social context that purports to value the principle of poverty reduction and decent jobs. This section reviews three relative measures that have been advanced by various analysts and advocates to ascertain the adequacy of the minimum wage: the median wage, productivity gains, and Ontario living wage calculations. On each measure, the minimum wage of $10.25 an hour falls short.

Median Hourly Wage

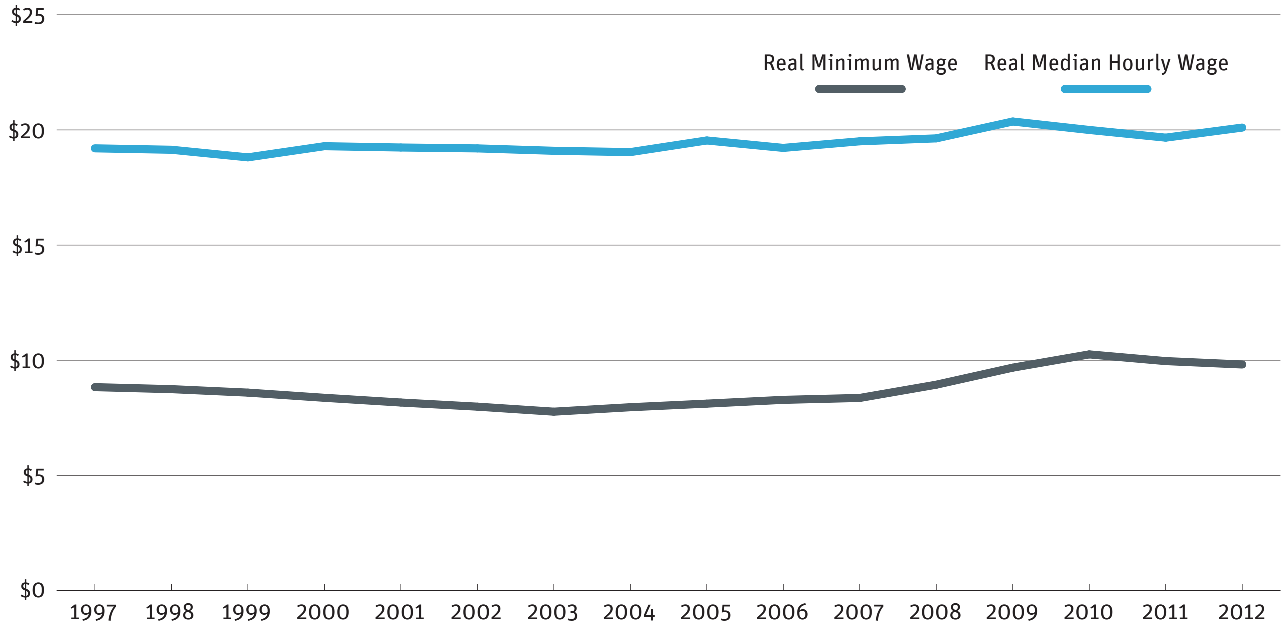
Comparing minimum wage earners to the rest of income earners in Ontario can be done through several measures. The median hourly wage compares workers at the bottom of the income spectrum to those at the exact middle point of all earners in the province: half of Ontario's workers earn above this point, half earn below it. In 2012, the minimum wage was 49% of Ontario's median hourly wage of $21 (Statistics Canada, Table 282-0070). While it is important to know what the exact middle wage in the labour market is, the median wage only tells half of the story of our labour market today. The median wage reflects only that 50% of workers earn less and 50% earn more. It does not reflect the steadily increasing incomes that have been seen in the top half of the labour market, increases which have not occurred widely. As the economy has grown, income gains have become increasingly concentrated at the top end of the wage distribution.

Productivity Gains

It is sometimes argued that minimum wages should be set according to productivity gains. Here again, the minimum wage has not kept up.

Between 1965 and 2011, labour productivity grew by 123%. Minimum wage growth during the same time period was only 44%. As can been seen in *Figure 5*, the minimum wage tracked increases in productivity until the

FIGURE 4 Real Median Industrial Wages and the Real Minimum Wage, Ontario, 1997–2012 (2010 Dollars)



Source Minimum Wages, HRSDC; Consumer Price Index (Canada, all items) from CANSIM Table 326-0021; Median Industrial Wages from CANSIM Table 282-0070

mid-1970s. Since then, the minimum wage has become completely decoupled from productivity gains. This is particularly important in light of the fact that some sectors with the highest proportion of low-paid workers in Canada, such as retail sales, have seen above average productivity growth, as well as above average rates of job growth in recent years (Statistics Canada, Table 383-0021).

Living Wage

The question about a minimum wage is often set within this frame: what can employers pay? But that question ignores what workers need to get by. What if the minimum wage was a living wage? The living wage is calculated based on what one must earn in order to afford a decent quality of life in a particular town or city. The real minimum wage of $10.25 falls considerably short of living wage calculations in many Ontario regions to date.

FIGURE 5 Canadian Labour Productivity Growth and Ontario's Real Minimum Wage Growth 1965–2011, Indexed (1=1965)

Note Labour productivity is measured as real gross domestic product per hour of labour.

Source Minimum Wage from HRSDC. Consumer Price Index (Canada, All Items) form CANSIM Table 326-0021. Labour Productivity (Canada) from CANSIM Table 383-0021.

TABLE 1 Living Wage Calculations, Selected Ontario Regions

Region	Living Wage Rate
Halton	$18.69
Guelph	$15.95
Toronto	$16.60
Peterborough	$16.47
Kingston	$16.29
Hamilton	$14.95

Source Hildebrandt and Lau, 2013; Ellery and Wanz1, 2013; Mackenzie and Stanford, 2008; Peterborough Social Planning Council, 2013; Kingston Community Roundtable on Poverty Reduction, 2011; Hamilton Poverty Reduction Roundtable, 2011.

In the context of a living wage, a robust minimum wage that ensures that work pays is a part of a larger strategy to build the social supports and public infrastructure that we all need to live in this province.

Determining the Minimum Wage Rate

While the previous section examined three relative measures by which to ascertain the adequacy of the minimum wage — showing the minimum wage of $10.25 an hour falls short on all measures — this section sharpens the lens on three core measures that should inform the setting and adjustment of the minimum wage. The measures are: Ontario's before-tax LIM, Ontario's average industrial wage, and CPI.

In a free market, there are no minimum wage floors. Labour is like no other factor of production. When wages at the bottom of the income spectrum are not protected from constant erosion, there are market implications that ripple throughout the system. For example, low wages translate into low consumer purchasing power, which slows consumer demand and dampens economic growth — especially at the local level. As an implicit acknowledgement of this documented and predictable market reality, the state in every advanced industrial nation sets statutory minimum wages.

There are two notional ways to peg a statutory minimum wage. Both are rooted in normative values about what a regulated and enforced wage floor hopes to achieve:

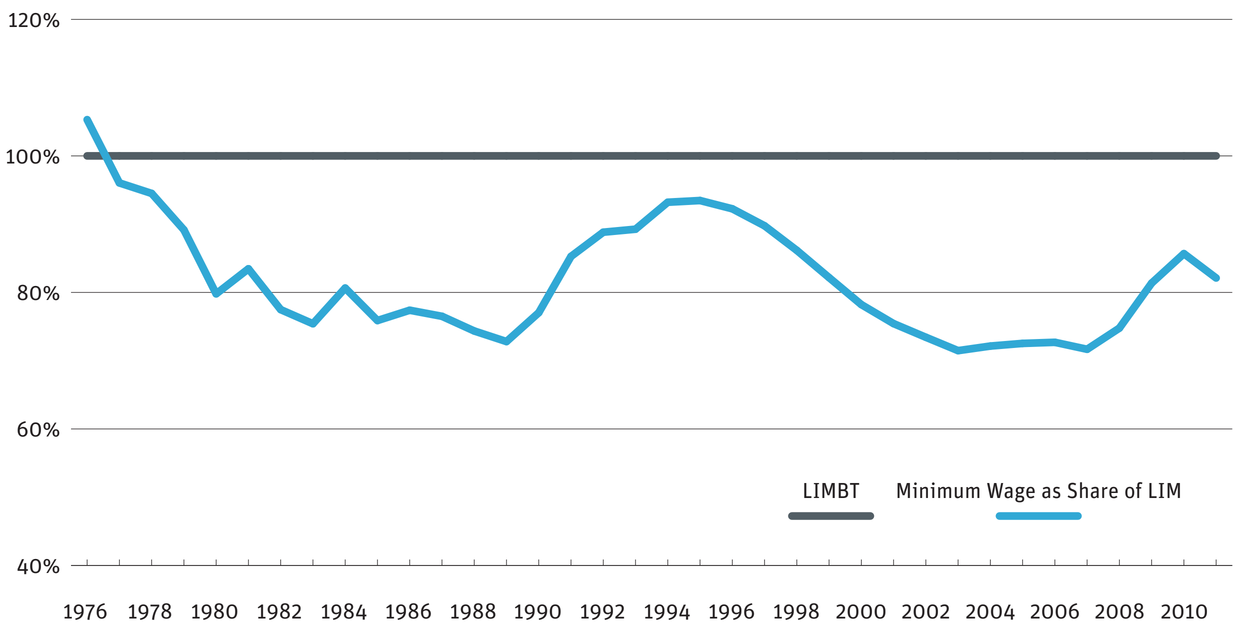
- an hourly value that would raise full-time, full-year employees above some commonly accepted measure of poverty; and
- an hourly rate that links the value of the lowest-paid worker in a society to that of the average or median paid worker, reaffirming the value of all work, shared prosperity, and reduced income inequality.

In both cases, a decent minimum wage reinforces the idea that any job can be a good job, and the best social policy is a decent-paying job. The statutory wage floor can and should be set at a level that transforms these words from rhetoric into reality.

Low-Income Measure (LIM)

There is broad consensus that work should be a pathway out of poverty — that every job in Ontario should be a good job. In 2008, Ontario's first Poverty Reduction Strategy identified the Low Income Measure as the generally accepted tool for measuring poverty in the province (Ontario Ministry of Children and Youth Services, 2008). In this section, we show the relationship of the minimum wage to the pre-tax LIM to demonstrate the wage that would lift a person working full-time and full-year out of poverty.

FIGURE 6 Full-Time Minimum Wage Work as a Portion of the LIM (BT) 1976–2011



Source LIM from Statistics Canada, Low Income Lines, 2011-2012, minimum wages from HRSDC.

The most recent national before-tax LIM numbers available tell us that working at a minimum wage job full-time, full-year brings an Ontario minimum wage earner to 21% below the poverty line (LIM, before tax). By contrast, in the mid-1970s, a full-time, minimum wage job actually meant earning 1% above the poverty line.

Figure 6 illustrates how the minimum wage, as a portion of the national pre-tax LIM, has fluctuated over time. The image in the following chart is one of the minimum wage worker on a roller coaster ride as real wages are continuously gaining and losing value.

There is no publicly available pre-tax LIM measure for Ontario, but custom-ordered data from Statistics Canada show that the pre-tax LIM for a single person living alone in 2011 was $23,690 (compared to $22,720 for Canada's pre-tax LIM for a single person). Increasing the minimum wage by 10% would bring a single person's annual pre-tax income to $26,060 ($24,992—for Canada's before-tax LIM).

At the current provincial minimum wage of $10.25 an hour, a person working full-time (35 hours a week) and full-year (50 weeks a year) earns $17,937.50 *before* taxes a year. That is almost 25% below LIM, despite working full-time and full-year.

To earn enough to catch up to the poverty line, a single individual working full-time and full-year would have to be paid a minimum wage of $13.54 in Ontario ($12.98 nationally). For a single person living alone to earn enough to rise above the poverty line by 10%, the minimum wage would have to be $14.89 in Ontario ($14.28 nationally).

Much like government efforts in the late-19th century to prevent a competitive labour market from undercutting workers' wages, a decision to raise the minimum wage to a level that lifts workers above the LIM would be in keeping with the historical spirit of minimum wage legislation. The reason the LIM appears in a modern-day context of the minimum wage discussion is because Ontario — along with seven other provinces and three territories — is renewing its focus on poverty reduction.

As part of a strategy to wipe out working poverty, there is growing public pressure to "make work pay" and stop the continued erosion of the purchasing power of minimum wages. The current campaign to raise Ontario's minimum wage to $14 is premised on the idea that the minimum wage should provide a full-time full-year worker with an income that lifts them out of poverty. That would mean a single person working full-time, full-year at the minimum wage would have a pre-tax income that is 10% higher than the pre-tax LIM for a single person, living alone.

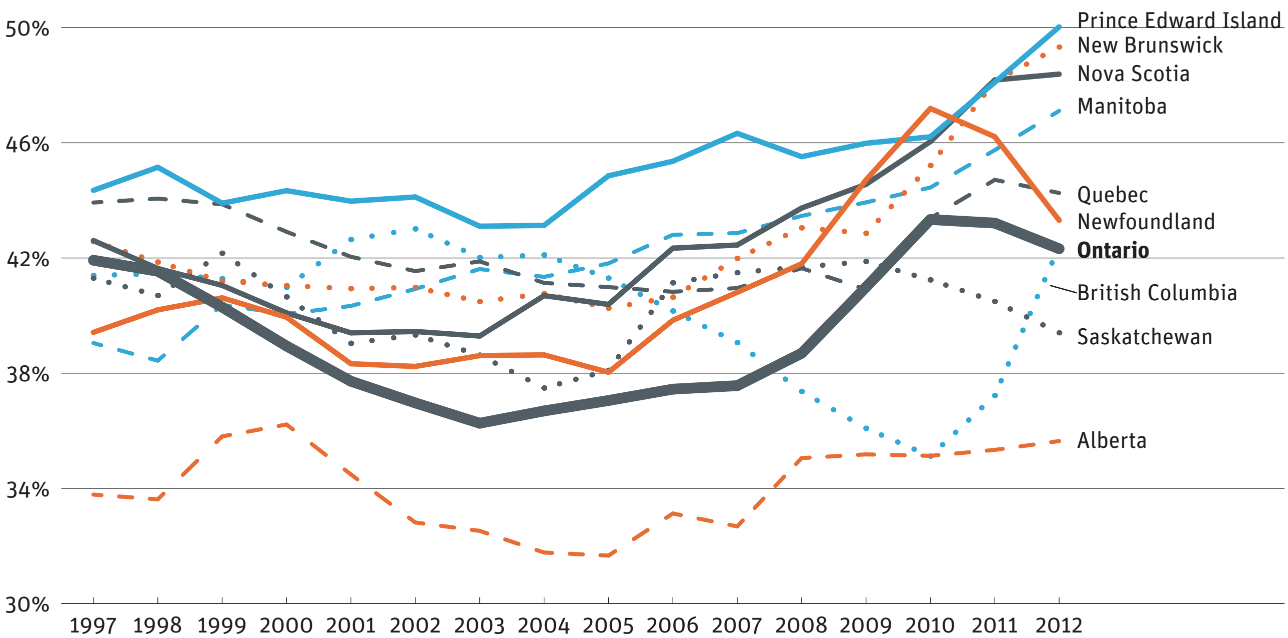
To set this target in relative context, a $14 an hour minimum wage would still fall below the median wage, it would still fall below productivity gains and it would still fall below current living wage calculations in a wide range of Ontario communities. Further, it would be insufficient to support a single parent and one child above the poverty line. But it would meet the standard of raising a full-time, full-year minimum wage earner out of the trap of working poverty. It would be the minimal step towards making work pay.

The LIM is not the only measure by which to benchmark an appropriate minimum wage, however. The next section examines the merits of bringing minimum wage earners within closer range of the average industrial wage.

The Average Industrial Wage

For decades, the traditional approach to setting the minimum wage was to peg its value to the average industrial wage (the average of all wages paid to all employees, full and part-time, across all industries). The common target was between 50–60% of the average wage. This represented an implicit acknowledgment that wage compression and lower income inequality can be beneficial to a consumer-driven economy — more mass consump-

FIGURE 7 Minimum Wage as a Percent of Average Industrial Wage, By Province, 1997–2012



Source Statistics Canada, CANSIM 282-0070

tion — and to society — greater stability and fewer public costs due to greater social inclusion.

In 1965, the highest minimum wage in Canada was the federal minimum wage. At $1.25 it was 51% of the Canadian average industrial wage of $2.43 an hour.

By the 1970s, Ontario had the highest minimum wage in the country, as well as the highest average industrial wage. From 1971 to 1976 the Ontario minimum wage was half the average industrial wage.

Today Ontario's minimum wage of $10.25 an hour is 42% of the average industrial wage of $24.22 (Statistics Canada, Table 282-0070). Ontario was the only jurisdiction in Canada that, between 1997 and 2007, saw its share of workers earning less than $10 an hour increase (measured in constant 2002 dollars). As you can see in *Figure 7*, Ontario lags behind all other provinces except Alberta and Saskatchewan on this measure. There is plenty of room for catch-up.

Bringing the minimum wage to 60% of the average industrial wage would raise Ontario's minimum wage to $14.53 an hour. To set it within a broader context, a minimum wage that falls within 60% of the average industrial wage is the current goal of public policy in Europe (Eldring et al. 2012) and would track closely with minimum wages in France and New Zealand, Australia, Belgium and Ireland (International Labour Organization, 2013).

Inflation

The historical data shows the consequences of allowing the purchasing power of the minimum wage to erode during lengthy wage freeze periods. Indeed, the latest three-year freeze has resulted in a 7% slide in minimum wage workers' purchasing power in Ontario — during the very years the provincial government has relied on consumer spending to help revive a flagging post-recession economy. The final aspect of this proposal is to adjust Ontario's minimum wage annually to changes in CPI once the province achieves the target of a minimum wage that takes full-time, full-year minimum wage earners within 60% of the average Ontario industrial wage.

Getting From Here to There

Given the politicized context within which the minimum wage debate has been occurring, it's vital that the advisory panel consider a path forward that de-politicizes the debate in future years. It can do so by anchoring the legislated wage floor to a core benchmark, attaining that target level through a series of semi-annual, predictable increments, then tethering future minimum wage increases to annual inflation adjustments, on which point there is broad consensus.

Both the pre-tax LIM and the average Ontario industrial wage are appropriate benchmarks. We have shown that making sure full-time full-year work lifts one 10% above the poverty line, and within 60% of the average industrial wage both converge around the $14 an hour mark. We propose that the average industrial wage is the best benchmark for future consideration, and the minimum wage is less about poverty reduction than creating functional and fair labour markets.

Set within that context, a $14 an hour minimum wage would become the identifiable target for the provincial government, followed by annual inflation adjustments.

How can we get from $10.25 an hour to $14? Build a policy ramp: a series of predictable, principled steps that are built on precedent. This section lays out a potential way forward.

On September 17, 2013, a Toronto Star editorial suggested that the time for addressing the eroding purchasing power of a growing swath of Ontario's workforce was long overdue, and that starting point towards a decent minimum wage should be $11.65 (Toronto Star, 2013). It noted that while this seemed a big step, the current government of Ontario raised the minimum wage by 50% between 2004 and 2010. It failed to note that the biggest increases took place in the middle of the recession — though that is a significant point for the panel to consider. On March 31, 2008, March 31, 2009, and March 31, 2010 the minimum wage was increased by 75 cents each time.

We believe there is a 75-cent solution again today.

Starting January 1, 2014, we recommend a series of semi-annual increments of 75 cents until summer of 2016, when the value of the minimum wage would reach $14.75, a projected 10% above the pre-tax LIM and almost 60% of the average Ontario industrial wage.

- January 1, 2014: $11.00
- July 1, 2014: $11.75
- January 1, 2015: $12.50
- July 1, 2015: $13.25
- January 1, 2016: $14.00
- July 1, 2016: $14.75

By the beginning of 2016, inflation would have taken its toll on the purchasing power of $14 an hour, a target wage that over half a million of Ontario's workers rely upon. An additional 75 cents on July 1, 2016 would adjust for inflation, bringing the minimum wage to $14.75 an hour within a measured, predictable time frame.

Thereafter, annual increases should be tied to the cost of living, traditionally measured by the Consumer Price Index.

This pace of increase would not be a first for Ontario. That was achieved under the Progressive Conservative Premier of Ontario John Robarts, who raised Ontario's minimum wage from $1.00 an hour to $1.65 an hour between 1968 to 1971 — an increase of 65% over three years. His successor, Progressive Conservative Bill Davis, raised the minimum wage further to $2.25 by 1974.

Then, as now, Ontarians were concerned by so much poverty in the midst of plenty, particularly when people were working hard. Then, as now, the province's leaders believed it was wrong that the worst paid workers were being left behind by gains in economic growth and productivity.

A $14 minimum wage is the right thing to aim for, for economic, social and political reasons. It is also an achievable goal. The 75-cent solution can get Ontario from where it is to where it should be.

Finally, an advisory panel recommendation to create an independent commission whose mandate would be to analyze labour market trends for low-wage workers in Ontario's labour market would not only ensure the problem of precarious and low-wage work doesn't fall off the public radar, it could inform other tools required in the policy tool box to eliminate working poverty, reduce income inequality, ensure shared prosperity and future economic growth that is premised on a good job strategy.

The Business Case for Raising the Minimum Wage

Because of the politicized nature of the minimum wage debate, the question of raising the minimum wage is frequently subject to the question of what employers are willing to pay and divorced from the business case for raising the minimum wage. This section briefly examines two aspects of the impact of a higher minimum wage on the economy.

Bolstering Economic Growth

Though the business lobby consistently champions the idea of greater competition in the market, it also uses it as an excuse to keep the minimum wage depressed at below-poverty levels. Such claims run counter to the goal the business lobby purports to be pursuing — economic growth.

Raising the minimum wage can be good for the economy. More than 100 years ago, Henry Ford recognized that running a profitable, sustainable company meant his employees needed to earn enough that they, too, could afford to own an automobile. This is the concept of wage-led growth. People living on low incomes have a higher propensity to consume locally than higher income earners, which means that increasing the share of wages going to lower income people could boost consumer demand, lower indebtedness, dampen income inequality and generate business investment in order to meet that demand and make a profit (Yalnizyan, 2013).

Many economists have pointed out that business needs consumers just as much as consumers need jobs. Stockhammer (2010) has argued that economic growth in the European Union has been significantly dampened by employer-friendly wage policies that depress wages even as productivity is rising.

While the provincial government may be limited in its ability to influence the short-term, temporary nature of precarious jobs, it can play a strong role in addressing the shortfall in benefits and pensions by investing in stronger public services and income supports. Most directly, the provincial government can shape the standard of the lowest paid jobs in Ontario by ensuring the legislated minimum wage no longer confines minimum wage workers to the ranks of the working poor.

The Employment Effect

The business lobby claims a rise in the minimum wage could lead to an undesirable disemployment effect, but the full complement of economic analysis on this subject is inconclusive. At worst, increasing the minimum wage will lead to a 3%–6% decrease in the growth of employment opportunities for teenagers (Gunderson, 2007), which should be addressed through a youth employment strategy. And while economic theory would suggest that when a price goes up, the demand goes down, this is not always the case when it comes to labour (Murray et al. 2007, Schmitt, 2013). Research using Canadian data shows that there is no clear causal connection between real increases to the minimum wage and employment rates. It also shows that the minimum wage is a small player in employment rates in comparison to larger economic trends such as recessions, female labour participation and economic growth (Murray et al., 2007).

Schmitt (2013) finds that raising the minimum wage can have a positive effect on worker well-being, which improves productivity. This increase in productivity comes from two different channels. On the one hand, an increase in the cost of labour will lead employers to invest in their employees' productivity by providing more on-the-job training and/or labour-enhancing (and labour-displacing) capital equipment. On the other hand, employees who have been constantly struggling to make ends meet experience less stress and have more energy to devote to their work. That's especially important, given the high concentration of employment in the retail and service sectors, both marked by low pay and high turnover. Job tenure in retail is 42% lower than average. Job tenure in the restaurant industry is 57% below average, and within travel and accommodation, it's 27% below average (Statistics Canada, Table 282-0040).

Ton (2012) finds that poorly paid, poorly trained employees can have a detrimental effect on operational execution at the retail level — they are actually a drag on productivity and profit. Instead of operating in a vicious cycle of high turnover, sunk costs in training, poor customer service and lower profits, retailers can sustain long-term productivity and profitability by investing in their employees, training them to perform multiple tasks and focused decision-making.

Finally, raising the minimum wage during times of high unemployment can actually boost consumer demand and lead to the creation of more jobs (Bunker, et al., 2012).

Conclusion

This report briefly reviews the history of Ontario's minimum wage and shows how, on a range of relative measures, the current minimum wage falls far short. It makes the case that the bar has been set too low and that the time has come to de-politicize the process of future minimum wage adjustments. It presents a range of relative measures by which to assess the adequacy of the minimum wage and it proposes a way forward that would result in a $14 an hour minimum wage ensuring that a full-time, full-year job at the minimum wage would raise an individual worker 10% above the poverty line, and bring them within 60% of the average industrial wage. Once the target minimum wage is achieved, it recommends annual adjustments to ensure the minimum wage is aligned with rising costs of living since 2010, traditionally based on the CPI. Finally, the report submits the business case in support of a decent minimum wage has been overlooked and is well worth considering in a consumer-driven economy.

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