Understanding the Social Implications of Ontario's Minimum Wage Policy:
A Comprehensive Qualitative and Quantitative Analysis

Avery Bennett
Corey Van De Waal
University of Waterloo
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Abstract

Ontario's Minimum Wage Policy profoundly shapes labour markets, addresses economic disparities, and influences employment trends. This paper examines the social costs and benefits associated with the policy, evaluates its impact on various stakeholders, and explores the externalities resulting from wage adjustments. Through a mixed-methods approach, combining economic theories, empirical data analysis, and stakeholder perspectives, this study highlights the trade-offs involved with setting minimum wage levels. The overall findings suggest that while wage increases contribute to poverty reduction, enhanced worker productivity, and economic growth, they consequently pose challenges for small businesses and may lead to negative employment shifts. The finalized policy recommendations of this report include gradual, indexed wage adjustments, additional support for small businesses, and refined social welfare programs to mitigate negative externalities.

Introduction

The minimum wage is defined as a basic labour standard that establishes the minimum compensation an employer is legally required to pay their employees. It serves as a fundamental labour protection mechanism, that ensures fair compensation and reduces income inequality. In Ontario, wage rates are adjusted based on economic indicators such as inflation, labour market trends, and the Consumer Price Index (CPI). However, increasing the minimum wage remains a contentious issue, balancing the benefits of higher earnings for workers with the potential risks of job losses and increased business costs. This paper will explore the social costs and benefits of Ontario's Minimum Wage Policy, through the assessment of trade-offs between worker protection and economic impact.

Policy Background

Minimum wage policies have existed in various parts of the world since 1896, but it wasn't until 1918 that Canada saw its first implementation, led by Manitoba and British Columbia. Ontario followed shortly after, officially enacting its first minimum wage legislation in 1920. The earliest minimum wage legislation in Ontario was largely focused on improving working conditions and fair wage standards in female-dominated industries, reflecting the broader influence of the women's suffrage movement of the early 20th century. (Poulin, 2024) With women securing the federal right to vote in 1918, the introduction of minimum wage policies soon after aligned with the evolving political landscape at the time. In 1937, these protections were extended to male workers, reflecting a broader labour rights movement and the growing recognition of wage fairness as a key economic issue. Initially set at modest levels, such as $1.00 in 1969, the minimum wage has seen periodic increases influenced by factors such as inflation, cost of living adjustments, and labour market conditions. (Government of Canada, 2024) However, the frequency and extent of these adjustments have varied based on government priorities, business interests, and broader economic trends.

One of the most significant factors influencing minimum wage in Ontario is inflation, which is measured through the Consumer Price Index (CPI). As the cost of living rises, policymakers have periodically increased the minimum wage to maintain workers' purchasing power. However, these increases have not always been automatic or consistent. Until the 2010s, adjustments were often politically driven, with governments choosing whether to raise wages based on economic conditions and stakeholder pressures. Unemployment rates and business considerations have also played a crucial role. Higher unemployment can discourage wage hikes, as policymakers fear that increased labour costs might lead to job losses. Conversely, when the labour market is strong, minimum wage increases are seen as more sustainable. Business groups, particularly small and medium-sized enterprises, have historically lobbied against sharp increases, citing concerns over rising labour costs and potential reductions in hiring.

A major shift in Ontario's minimum wage policy occurred with the Fair Minimum Wage Act (2017), introduced by the Liberal government under Premier Kathleen Wynne. This legislation significantly increased the minimum wage, raising it from $11.60 per hour in October 2017 to $14.00 per hour in January 2018, with a planned increase to $15.00 in 2019. The act also introduced measures to provide more predictable wage adjustments by tying future increases to inflation, ensuring that the minimum wage kept pace with the rising cost of living. (Ontario.ca, 2017) However, the rapid wage hike sparked debates about its impact on businesses, with some arguing it placed undue strain on small employers and led to reduced hiring, increased automation, or price hikes.

In 2018, the newly elected Progressive Conservative government under Premier Doug Ford passed the Making Ontario Open for Business Act (2018), which froze the planned increase to $15.00 per hour and removed the automatic CPI-based increases. This move was framed as a pro-business policy aimed at preventing job losses and keeping Ontario competitive. (Ontario.ca, 2018) Critics, however, argued that it hurt low-income workers by reducing their earning potential and delaying necessary wage adjustments. The government later reinstated the commitment to CPI-related increases, allowing the minimum wage to rise more predictably based on economic conditions.

Ontario's minimum wage policy reflects an ongoing balancing act between supporting workers and addressing business concerns. While increases help reduce poverty and boost consumer spending, they also raise labour costs, potentially affecting employment and business sustainability. As inflation, labour market dynamics, and political considerations continue to evolve, minimum wage adjustments remain a critical and often contentious aspect of Ontario's economic policy.

Analysis

Ontario's minimum wage policy has been a subject of debate, balancing economic efficiency, equity, and social stability. This analysis will evaluate the social costs and benefits of the policy through theoretical frameworks, empirical evidence, and stakeholder perspectives.

Three major theories dominate the discussion on minimum wage policies. Firstly, the Efficiency Wage Theory. This ideology states that higher wages improve worker productivity, morale, and reduce employee turnover, ultimately improving a firm's efficiency. The guiding idea argues that higher wages create stronger incentives to work, which consequently, increases the opportunity cost of not working. This claim has been supported through several historical examples. For instance, in 1914, the Ford Motor Company implemented a wage of $5.00 per day, at a time when the minimum was around $2.00-$3.00 per day. Henry Ford had defined a set of requirements for workers to follow, in order to be given the bonus. The employees began taking their jobs more seriously, resulting in boosted worker productivity, and a higher loyalty to the company, since it would be difficult to find such high pay elsewhere. (EconPort, 2006) A more recent example is Costco, reporting enhanced employee performance and customer satisfaction following wage increases. According to the Harvard Business School, Costco pays its workers an average of $26 an hour, in contrast to the current minimum of $17 an hour in Ontario. This has reportedly resulted in a reduced turnover rate of 8%, in comparison to a staggering 60% at other retailers. (Perman, 2024) Furthermore, A report by the Canadian Centre for Policy Alternatives highlights that improved job satisfaction among low-wage workers correlates with wage adequacy, fostering long-term benefits for both employers and employees. However, these advantages are unevenly distributed, meaning that some firms benefit more than others. While larger firms can absorb increased labour costs through operational adjustments or innovation, small businesses often face a financial strain, sometimes reducing hiring or cutting hours to manage payroll increases. (Block, 2015) The second theory, known as the Neoclassical Theory, suggests that a minimum wage increase results in job loss among low-skilled and vulnerable workers, such as youth and part-time employees. The idea is supported by the argument that firms will reduce labour demands to offset higher labour costs. Data from Ontario's Financial Accountability Office (FAO) has estimated a net loss of 50,000 jobs following wage hikes between 2017 and 2019. (FAO, 2024) Youth workers and part-time employees were disproportionately affected, as small businesses in sectors like retail and hospitality reduced staffing levels or hours to offset increases to payroll. Cross-sectional data from 2014–2024 further reveals that youth employment rates fell by 4.2% after wage increases, while adult employment remained relatively stable. (Statistics Canada, 2024) These findings suggest that while the policy benefits full-time workers and adults, it can create barriers for the younger population who want to enter the labour market. Lastly, the Post-Keynesian Institutional approach views the minimum wage as a tool to foster broader economic stability and growth. It advocates for minimum wage policies that aim to reduce inequality, promote employment stability, and stimulate aggregate demand. For instance, when minimum wages rise, consumer spending also increases, stimulating economic activity. Evidence from Ontario has proven this, by showing that that higher wages have increased disposable income for over 760,000 workers, which in turn, boosted economic activity through more consumer spending. (First Reference, 2025) Broader economic issues were also addressed in this study, as the FAO estimated a 1.3% rise in real labour income following wage hikes, however, only 25% of these higher labour incomes directly benefited low-income families. (FAO, 2020) Since the increased income would not specifically target low-income families, raising the minimum wage could be an inefficient policy tool for reducing overall poverty.

Moreover, many forms of empirical evidence help reveal both social benefits and challenges. The following analysis examines quantitative trends, consumer spending, and stakeholder responses to assess further.

Employment Trends

Ontario's Minimum Wage has undergone significant changes over the past decade, with notable increases aimed at improving worker incomes. Between 2017 and 2019, the minimum wage rose by 27%, from $11.40 to $15.00. Since then, annual inflation-based adjustments have brought the rate to $17.20, making Ontario's Minimum Wage among the highest in Canada. (Statistics Canada, 2024) The Financial Accountability Office estimates these hikes caused a net loss of 50,000 jobs, which accounts for 0.7% of total employment. (FAO, 2024) Youth workers, aged 15-24, bore 78% of these job losses, disproportionately affecting service industries like hospitality. (Scott, 2024) Ontario's unemployment rate remained relatively stable in 2024 at 5%, reflecting broader labour market tightness and strong demand for workers in other sectors. (Bank of Canada, 2024) On the positive side, the wage increases boosted total labour income by 1.3% after adjusting for inflation. This means that while some jobs were lost, those who remained employed earned higher wages overall, improving their financial stability. (FAO, 2024)

Poverty Reduction & Income Distribution

A full-time minimum wage worker in Toronto who works 35 hours a week would earn approximately $27,125 annually, which is below the 2022 poverty line of $27,343. Part-time workers, averaging 20 hours a week, earn much less at $15,500 annually, and depend on social assistance to earn $17,746, still below the benchmark of deep poverty at $20,508. (Maytree Foundation, 2023) The introduction of the new Canada Working-Age Supplement (CWAS) can lift full-time minimum wage earners above the poverty line while reducing the depth of poverty for others by 9 to 18 percentage points. (PBO, 2023) However, the economic disparities are broader because wealth remains overwhelmingly concentrated at the top. The wealthiest 20% of Canadians share 67.7% of the nation's wealth, with the poorest 40% owning a mere 2.7%, a stark reminder of the deep-rooted issue of economic disparity. (Yassin, 2024)

Business Performance

Ontario's Minimum Wage Policy has had a huge and disproportionate impact on the business community, with small companies bearing the burden of higher labour costs. An astounding 83% of small business owners have complained about paying additional wages, and 60% have resorted to raising prices to meet the additional costs. (CFIB, 2024) Consequently, many businesses have intensified their automaton race, with an estimated 50% of work activities automated by 2055, which is seven years ahead of the pre-2017 projections. (Caughill, 2017) The shift suggests that there will be a rise in reliance on technology to buffer labour costs, which could restructure the nature of employment in low-wage sectors. In addition, large firms have been better at absorbing wage increases without extreme price hikes. For instance, Loblaw Companies Limited recorded a profit of $459 million during Q1 2024, up 9.8% from the last year, a demonstration of the ability of large employers to stay profitable despite rising wages.

(Loblaw Companies Limited, 2024) The comparison is an example of how there is a difference in how wage policies affect the sizes of businesses, with small businesses struggling while giant corporate companies tend to do well.

Consumer Spending & Inflation

Historical data shows that rising minimum wages in Ontario have had a minimal impact on overall inflation, as opposed to the common myth that wage hikes lead to significant price inflation. For example, when the province increased the minimum wage by 21% in 2018, the Consumer Price Index (CPI) rose by just 2.4% that year, well within typical inflationary pressures. (Bank of Canada, 2024) Most recently, the Ontario Financial Accountability Office estimated that an increase in the minimum wage of 27% would increase overall inflation by only 0.5 percentage points, an insignificant effect compared to broader macroeconomic determinants. (FAO, 2024) Such reports clarify that corporations' pricing choices, supply chain input prices, and global economic conditions have an exponentially greater effect on inflationary trends than wage adjustments do. Rather than causing across-the-board price rises, wage increases have their effect primarily on the consumer buying power of low-wage workers, who can then afford the necessities and participate more actively in the economy. This kind of evidence refutes explanations that place higher wages as a significant source of inflation and instead points to the role of corporate decisions in setting prices.

Stakeholder Perspectives

Ontario's Minimum Wage has inscribed its own challenges and opportunities for various groups, indicating that the social costs and benefits have a complex interplay with perceptions and realities. Financial stability has really benefited workers, as many of them said it was easier to meet their basic needs, such as rent and groceries. With these gains comes the potential for harm: losing hours of work or having already precarious jobs is still significant for them. In contrast, among the unionized workers, 74% have improved terms, as their contracts now call for wage adjustment based on inflation, which could be considered a cushion against inflation. (Boyko, 2022)

Small businesses are said to have incurred high costs because of wage increases. 60% raised prices on goods and services in response to increased labour costs and imposed those costs on consumers. (CFIB, 2025) Price increases are also being felt by small businesses through reduced hiring or business hours, which translates into shrinking opportunities in the restaurant and retail sectors, especially. To ease this burden, business groups have argued for an alternative proposal: replacing mandatory wage increases with tax credits for employers of low-wage workers, thereby protecting both jobs and wages.

Treading the policy waters were large businesses, potentially with fewer capsize options. The Loblaws Company reported record profits, $459 million in early 2024 while ensuring its employee compensation at only 12-15 % of revenues, an indication that their operations were sustaining wage increases regardless of the profitability of business. (Loblaw Companies Limited, 2024) Many offset their costs through annual productivity improvements and automation (like self-checkout) which few small businesses have the luxury of employing.

To sum up, the policy effectively helps workers regain their wages and provides protection, especially with union support, against unfair penalties. In contrast, it places a significant financial burden on small businesses. Large corporations and unionized workers find themselves relatively in "the winners' corner", while non-unionized workers in low-margin industries bear the ongoing risk of unemployment and wage violations. These inequalities demonstrate the necessity of pairing the minimum wage with allied policies that include targeted tax relief, along with strengthening labour law enforcement to obtain an equitable distribution of benefits.

Conclusions & Recommendations

The minimum wage policy in Ontario is a complex issue with a variety of effects upon stakeholders. In general, when wages are increased, there will be greater financial security and job satisfaction, especially among full-time and unionized workers. There still exist challenges, though. Some examples include increased unemployment and wage theft.

Many small businesses struggle to face these higher costs, usually trying to offset them with increased prices, reduced hours, or job lay-offs, all of which translate into shocks to the local economy. In contrast, large companies are better positioned to absorb those higher costs through productivity increases and automation, thus widening the competitive divide between small and large firms.

Although inflation concerns were raised, evidence shows that corporate pricing powers and economic conditions are far more controlling on consumer prices than the minimum wage hikes. Nevertheless, the effectiveness of such a policy to reduce poverty is very limited since its benefits do not always filter down to the low-income families that need it most. Thus, this analysis presents costs such as shifts in employment or challenges for businesses against benefits such as poverty alleviation and economic stimulus.

There must be a combination of fundamental and focused approaches because these are complicated issues. For instance, there should be sustained wage growth complemented with adequately targeted tax credits for small businesses, strict enforcement of the labour laws in order to curb workers' exploitation, and finally, comprehensive social support programs towards income redistribution equity. Indexed wage increases tied to the economic indicators would also ensure smoothness and hence, minimize economic shocks and predictability. This response system as a whole will help protect workers while promoting sustainability and equity.

It is also essential that future research includes addressing the particular concern of how automation shapes responses in the labour market to minimum wages, especially in low-wage sectors. It is crucial to examine impacts in the long run of wage increases in employment rates, inflation, and poverty levels to provide knowledge for policy decisions in future.

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