

Money Never Sleeps

The Newsletter for the Informed Investor



Wealth Management
Dominion Securities

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Here come the unintended consequences

The harsh reality of minimum wage hikes

“Do-Gooders believe passing a law saying nobody shall get less than a minimum wage is helping poor people who need the money. You’re doing nothing of the kind. What you’re doing is to ensure that people whose skills do not justify that wage are unemployed ... it is the exact people who the do-gooders are trying to help that are hurt the most – the poorest.” – Milton Friedman, U.S. economist

The Big Picture

A little vignette to start.

Flashback to 1972 for a moment. It’s a nice sunny summer day. A 12-year-old boy is tossing a baseball in the backyard when the elder Italian neighbor, Maria, yells out to the child’s parents that a job is available washing dishes. The mother says no, “he’s too young.” The father asks, “where do we drop him off?” And so it started. The “kid” worked seven days a week, nine hours a day for the first few weeks. At \$1.65 an hour (Ontario’s minimum wage at the time), the first few pay cheques were about \$100.00 a

piece (When it went to \$2.00 an hour a couple years later, I was ecstatic). I thought I was Thurston Howell III. For you “young’uns”, look it up!). The kid had a taste of a very simple equation: Hard work + more hours worked = more money in the pocket, more vinyl and more freedom.

I’ve never looked back.

Fast forward to 2017.

The Ontario Government has recently proposed the largest increase to the minimum wage in the province’s history, raising it to \$15 an hour, to,

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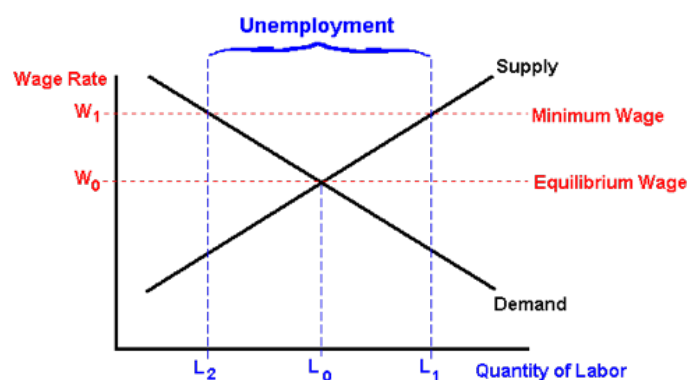
as they put it, a rate “to create better jobs and a fairer” workplace. Currently, it is estimated that approximately 10% of Ontario’s workers currently make the minimum wage, and the change will make Ontario’s the highest minimum wage in the nation.

And while the dollars don’t sound like much, it’s a 30% increase in the cost of wages in stages over just 18 months. It’s going to hurt a lot of businesses, especially small businesses, with very thin profit margins, and put them in jeopardy. And how about those “entry” level jobs, like restaurants, retail stores, corner stores and most service industries (painters, grass cutting, etc.)? How will they be able to compete? Simple...they won’t.

And a bigger issue for me is not just the dollars at the center of it, but rather, where are all the kids supposed to learn the skills required to survive in today’s ever-competitive job market? I already knew how to wash dishes, but having to show up on time, standing on your my feet for nine to 10 hours at a time, dealing with people, communicating, prioritizing, being responsible, etc. etc., were what I really learned. In other words, I learned intangible skills or “street smarts.” Do we really think a basic college or university degree is enough nowadays? In my opinion, that’s the biggest problem from a societal standpoint.

So, one can look at one’s real life experience, or just read Milton Friedman’s thoughts to find out what unrealistic wage increases may mean, but I know there are always skeptics. So why don’t we just reference some recent real-life occurrences and see how they’ve turned out? As luck would have it, 19 U.S. states increased minimum wages starting in 2015, and last October, the city of Calgary jumped their minimum wage. We don’t have to reinvent the wheel here, let’s see real-life examples.

But first, let’s start with a picture (and to prove I didn’t waste four years at university):



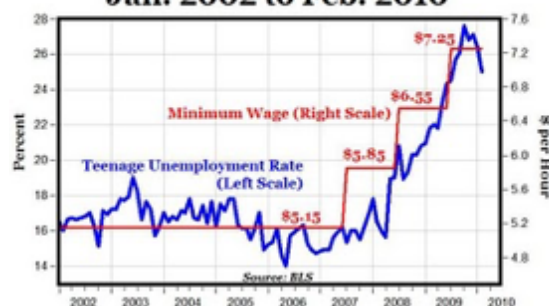
Source: <http://doe.state.wy.us>

The chart above is the one you learn about in any basic economics class. Wages are the vertical axis, labour on the horizontal. It’s easy to follow. As wages rise, the supply of labour increases, the demand for labour decreases, and

when they cross equilibrium, yep, you got it, it creates unemployment. And the farther that gap goes, the more unemployment you get.

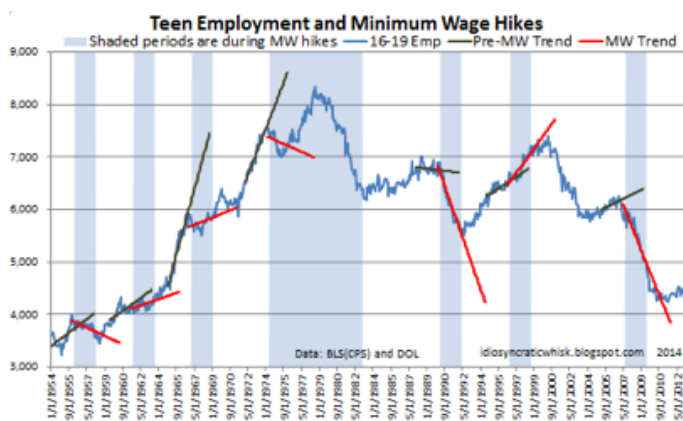
The skeptic will say, “but that’s theory,” not practice. Okay, then I present Exhibit B, which shows the U.S.A. teenage unemployment rate back to 2002, and what happened as minimum wages rose. That’s right, it went parabolic after being flat from 2000 to 2007. That’s not theory, that’s real jobs.

Teenage Unemployment Rate vs. Minimum Wage Increases Jan. 2002 to Feb. 2010



Source: Bureau of Labor Statistics

This one goes back all the way to 1953. Every time minimum wages were increased, teen employment fell. And now we are approaching teen unemployment rates not seen since the 1960s.



Source: Bureau of Labor Statistics

In the U.S.A., minimum wages are set at the state level, because, for numerous reasons, there simply wasn’t enough of a consensus to pass it at the federal level. Businesses in low-wage sectors such as restaurants, retail, warehousing and basic services are seeing devastating effects. The minimum wage increases reduce the total earnings of low-wage workers because the higher pay for some workers gets completely offset by the non-existent pay of those no longer employed.

So let’s leave the “theory” and look at what’s going on in real-life “practice”:

- Wendy's announced this summer that 6,000-plus restaurants will introduce self-service ordering kiosks, due to minimum wage increases.
- Wal-Mart (which has 500,000 employees) incurred a \$1 billion cost due to higher minimum wages. It can only live up to its self-ascribed title of "low price leader" by squeezing suppliers, cutting hours or firing employees. After the first two didn't do enough, Wal-Mart announced it was closing 269 stores globally and firing 16,000 associates.
- In St. Louis, the job loss is over 1,000 people according to a recent study by Trinity University (61% are women, 50% are over the age of 25, and 69% had high school or less).
- McDonald's is replacing 2,500 human cashiers with digital kiosks (just witnessed it personally on my recent trip to NYC).
- In Seattle, something unexpected happened when they became the first-in-the-nation to adopt a \$15-per-hour minimum wage. The University of Washington asserts the new wages boosted worker pay by \$3 per hour, but also resulted in a 9% reduction in hours and a \$125 per month cut to pay cheques. And oh yeah, it cost the city 5,000 jobs.
Source: www.foxnews.com/politics - 06-27-17
- Even altruistic, Seattle-based Starbucks, whose CEO Howard Schultz was quoted as saying "I have always believed that our success as a company is best shared." Well, again, that "theory vs. practice" raises its head again, as Reuters recently reported an online petition

of Starbucks employees accusing the chain of "extreme" cutbacks in work hours, "hurting both employee morale and customer service," was signed by 7,000 employees.

- In a recent visit to Washington DC, I read that DC's restaurants experienced the worst job losses in 25 years (since 1991).
Source: The American Enterprise Institute
- In Calgary, already two years into a painful recession due to collapsing oil prices, the provincial NDP raised the minimum wage in October 2016 to \$12.20. According to the Globe and Mail (06-14-17) 7,214 businesses closed in 2016 in Calgary, up from 6,680 in 2015 and significantly from the 5,865 in 2014.
- On the other end of the spectrum, Switzerland – in a recent referendum – voted 77% against an increase in minimum wage to – get this – just under \$25 an hour, because "it would damage the economy, run small businesses out of business, and make it harder for the youth to find employment."

Even Liberal bastion Harvard University has weighed in. In its research paper titled *Survival of the Fittest: The Impact of the Minimum Wage on Firm Exit*, they concluded each \$1 increase in minimum wages results in roughly 4-10% increase in the likelihood of a restaurant going out of business.

So if Premier Wynne raises Ontario's minimum wage to \$15.00, expect a 25-30% increase in likelihood that existing eateries will disappear based on that research. Not to mention retail

jobs, and so on, and so on

As Milton Friedman correctly quipped: "A minimum wage law is, in reality, a law that makes it illegal for an employer to hire a person with limited skills."

Limited skills. Pretty well what any 12-year-old has, or 14-year-old, 15-year-old or 16-year-old. But what about all those other "intangible" skills that will never be learned? What about any upside potential these kids may have? We may never know.

Prepare for the unintended consequences any time governments become involved in free markets.

By the way, inflation adjusted, that \$1.65 wage in 1972 equates to about \$10.00 in 2017 dollars.

Quotes

"Much of the social history of the Western World, over the past three decades, has been a history of replacing what worked with what sounded good." – Dr. Thomas Sowell, American Economist

"If I ever got elected President, I would never claim credit for anything the market does, because I don't want to be blamed when it goes in the other direction." – Warren Buffet

"The trouble with retirement is you never get a day off." – Abe Lemons, Legendary College Basketball Player and Coach (1922-2002)

The Little Picture...but really the big picture

On July 10-11, the 28th Annual Children's Golf Classic took place at Sunningdale Golf & Country Club. RBC was the title sponsor of this event, which supports, and as many of you know, a cause very close to my heart. I am pleased to announce that we have raised an incredible amount at over \$360,000, bringing our aggregate total to \$4.5 million.

Notes

1. Obama's legacy?

When President Obama took office in January 2009, the Democrats had majorities in the House and Senate, 29 governorships and 27 state legislatures.

When Obama left office in January 2017, the Democrats did not have the House or Senate majorities, only 18 governorships and majorities in only 12 state legislatures, having lost 1,042 state and federal once Democratic-held posts.

Source: dailymail.co.uk - 12-24-17

2. No piece of paper can be folded in half more than seven times, regardless of size (try it!).

3. Sign of the top?

According to Bloomberg reports (March 2017), last year 21.8 million bottles of champagne arrived on U.S. shores, an increase of 6.3% from 2015, and the fourth consecutive year of gains. The U.S.A. is the largest consumer of the French product at \$600 million per year. Last year's shipments were the most bottles since...the market top in 2007.

4. Global oil consumption (all in millions of barrels per day)

Year	No. of barrels consumed	Year	No. of barrels consumed
2011	88.6	2015	94.0
2012	89.8	2016	95.4
2013	90.7	2017 (expected)	97.0
2014	92.6		

(Source: www.iea.org)

A special welcome to all new clients who have joined us

Thank you especially to clients who have mentioned our name to people they know. As a sign of gratitude, four times a year we'll randomly select a client who has introduced our services to a friend for special acknowledgement via a nice dinner at one of the finer restaurants in London.

Nick H. is our winner this quarter!

Please don't keep us a secret!

We are very happy and proud of the clients we serve in our practice and we are always open to serve more clients just like you. Should you be talking to someone who is unhappy with their current advisor, or would like a second opinion, we would be grateful if you passed on our numbers: 519-675-2011 or 1-800-265-5911. Thanks for keeping us in mind.



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