

# Backgrounder

## SOME REASONS WHY A WAGE FREEZE IS NOT A GOOD ECONOMIC PLAN

The concept of a wage freeze for public sector workers makes for good politics; however, the economic effects of doing so can be far more damaging. While the current economic situation is in obvious disrepair, we must remember that the current economic situation was caused by factors much more profound than the cost of wages and benefits for public sector workers.

### Reasons why a wage freeze is a bad idea:

1. It reduces the ability of affected workers to spend thus further slowing the economy. With less money in circulation, demand for goods is reduced, which leads to more layoffs and unemployment. This notion that cuts and short-term deficit reduction will grow the economy is being tried in Europe now and it isn't working.
2. People will fall behind due to the increase in inflation. In 2011, the average monthly CPI was 3%. That means on average for the 2011 calendar year, the price of goods and services increased by 3% from the previous year. If there had been a wage freeze in 2011, a person would find themselves with 3% less spending power than the year previous. That lost income could be the difference between making a large purchase or not. If the wage freeze was for two years and the CPI was the same, that earning power would be reduced by 6%. On an after tax salary of \$30,000, that amounts to \$900 after one year and \$1800 after two years and another \$1800 for each year after that.
3. A wage freeze is likely lost income forever, never to be recovered, unless it is bargained back later. Consider the wage freeze from above that lost \$1800 after two years. Project that over 20 years and the cost of that two year wage freeze is now approaching \$36,000.

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4. It is more about political optics than economic theory. It is politically easy to proclaim that public sector workers must freeze their salaries. This fact is proven in recent public opinion polls that show that the public is in favour of wage freezes. In reality, the savings obtained by forcing a wage freeze is a drop in the bucket compared to debt levels. For the Ontario education system, a wage freeze that would have been comparable to CPI at 3% would save the province about \$450,000,000 in one year. The current deficit of Ontario is at \$16,300,000,000. The savings from a wage freeze only saves 2.7%. At this rate, it would take 37 years of wage freezes to eliminate the deficit. If the government were serious about reducing the deficit, it would consider a modest change in the tax regime. The best economic policy to reduce debt is to build an economy to generate tax revenue and jobs.
5. The population of Ontario is about 13,000,000. If half of the population were tax payers, the savings from a wage freeze would provide \$6 in savings to each of those Ontarians in one year. Compare that to the benefit of a wage increase that provides \$1200 on average in one year to education workers. Which do you think is better for the economy, 6.5 million people with \$6 to spend or 200,000 people with \$1200 to spend?