Small Businesses in Canada and the United States: Issues and Problems

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Small businesses (those firms with 100 or fewer employees) account for a large portion of total employment in both Canada and the U.S., and provide much of the job creation in these two countries. Establishing a successful small business in Canada or the U.S. requires the use of many resources. Naturally, the need for a particular product or service must first exist for the founder to start the business. This requirement is the same in both Canada and the U.S. Another consideration is the firm's financial structure. How will the owner finance the assets of the firm? The owner of the small business has several options available, each with its own implications.

There are many similarities and differences involved in the operation of a small business in Canada and the United States. Among the similarities that will be discussed are the difficulties small businesses have in obtaining private funding, the availability of government assistance and the availability of venture capital. Some concerns, such as survival rates, minimum wages and corporate income taxes, vary between the two countries. Issues concerning the Goods and Services Tax (GST), health care and pay equity also play roles in the operation of the small business. Although these issues and problems may seem formidable, the importance of small businesses to both Canada and the U.S. is significant because of their contribution to employment and job creation.

Similarities

There are several elements that are common to small businesses in both Canada and the United States. First, to launch a small business requires a lot of time, effort and money. Usually, the small business originates from a founder's idea, which can be turned into a profit-making venture. These enterprises usually start as part-time occupations, supplementing the owner's income. As the establishment grows, the owner becomes much more involved in its operation, to the point where it is eventually considered his or her primary source of income. Many such entrepreneurs devote most of their time...
and effort to keep their business afloat. Besides time and effort, the owners of small businesses also have to raise funds to start up and maintain the operations of their firm. Together, time, effort and capital are crucial to the survival of the small business.

Small Size Hinders Funding

Raising capital for small businesses is not as easy as it is for larger, more established corporations. The equity structure for small businesses is difficult to decide ahead of time since there are limits on the owners' options. Typical sources of capital for any business come from bank loans, stocks, bonds and retained earnings. Small businesses, however, do not enjoy the same opportunities that larger corporations do. According to a study of corporate finance by Colin Mayer, banks are the main source for external financing for most firms. (Mayer, p. 313) This holds especially true for the small business. To secure a loan, the owner must supply the bank with a detailed budget and projected financial statements. This allows bank managers to judge the viability and the risks involved with the loan. Bankers want to be prudent in assessing the risks involved with lending to a small business. According to a report written by the OECD, the volume of investment loans to small businesses is apt to fluctuate because financial institutions tend to cut loanable funds to smaller firms when money is tight, and increase loan availability when money becomes easier. (OECD, 1971, p. 10) As shown above, there is a high probability that a small enterprise will fail in the start-up phase. Thus, to protect its depositors' money, the bank charges a higher interest rate to cover the riskiness of the loan. This high rate increases the likelihood that the firm will fail.

Besides the high interest rates charged to the owners of small firms, there are other terms designed to protect banks against the failure of small businesses. For example, a bank may require that some personal assets of the owner be secured as collateral on the loan to a sole proprietorship. The bank will Foreclose on the collateral should the loan payments go into default, thus transferring the risk of failure back to the owner. This type of stipulation often puts the loan out of reach for the small business operator, as the mortgaging of his or her personal property becomes an unreasonable condition to the loan. Many operators want to start up a business and succeed, yet do not want to lose most of their possessions if they fail.

Small businesses are nearly always shut out of the stock and bond markets. The high flotation costs and the relatively small size of the funding required all but exclude small businesses from this option. Furthermore, there is a floor for the underwriting of stocks and bonds that would require small businesses to raise and pay for more capital than required. Another finding from Mayer's study is that retained earnings are the main source of finance for most companies regardless of size. (Mayer, p. 310) This easy access to their own funds would be ideal for small businesses. However, without being established and successful for a long period of time, small businesses do not have sufficient retained earnings to fund capital projects or to use as working capital. Typically, small businesses, if they survive, must operate for 3-5 years before they become profitable. Only after becoming profitable will they have any retained earnings with which to fund their projects.

Government Assistance

Public sources of financing are overlooked by many trying to establish or maintain a small business. Both Canada and the United States have programs that help small businesses in obtaining financing when most other sources are unavailable. The United States recognized the need to help small businesses when Congress set up the Small Business Administration (SBA) in 1953. Canada similarly acknowledged the importance of small businesses by passing the Small Business Loans Act in 1961 and establishing the Federal Business Development Bank in 1975.

In the U.S., the SBA provides various financial programs through seventy-six district and branch offices throughout the country. A typical function of the SBA is to provide loan guarantees to banks for qualified borrowers. The loans are quite competitive with those from other lending institutions to small business — up to 2.25 percent above the New York prime
rate for loans up to seven years, and 2.75 percent above the prime rate for loans of seven years or more. Loan guarantees provide banks with the assurance that up to 95 percent of the funds lent will not be lost if the firm should fail, similar to FDIC insurance for depositors in banks. The SBA also uses some funds set aside by Congress for direct loans when other sources are not available. These funds go to the Veterans Loan Program for Vietnam-era and disabled vets, to the Handicapped Assistance Loan Program for businesses 100 percent owned by significantly handicapped individuals, and to the Economic Opportunity Loan Program which helps fund businesses in areas of high-unemployment or low-income. In these ways, the SBA helps the small businesses to get funding. ("Small Business Administration Dispels..."

In Canada, the Federal Business Development Bank (FBDB) is a Crown corporation that was established to help small businesses in their start-up or in other stages of their development. Similar to the SBA, financing is available through loans and loan guarantees. Firms must qualify by showing that they are unable to get financing from private sources at reasonable rates. These loans are a supplementary source of financing; thus they do not compete for borrowers with other financial institutions. Funds can be used for financing of long-term assets, refinancing existing debt or for working capital purposes. The loans are typically for five years, with rates 2-3 percent above Canada's prime rate, but longer terms can be negotiated. Similar to the SBA, the FBDB has branches across Canada, making its financial and management services quite accessible.

In addition to the financing available through the FBDB, Business Improvement Loans are available to small businesses because of the Small Business Loans Act (SBLA) of 1961. The purpose of the SBLA is to help small enterprises secure long term financing from chartered banks and other designated lenders to help finance up to 90 percent of land costs and up to 80 percent of equipment costs. The SBLA guarantees to repay lenders up to 85 percent of the losses resulting from the default of small business loans. These loans carry an interest rate of one percent above prime, secured by the equipment or property purchased, and are to be repaid within ten years. Unlike the financing from the FBDB, these loans cannot be used for the financing of inventory, working capital or the refinancing of existing debt. Additionally, the firm's revenue must not exceed CDN $2 million during the year of application. Since 1961, there have been over 250,000 loans worth over CDN $6.5 billion that small businesses have taken advantage of as a result of the SBLA. (Davis and Pinches, p. 805)

Venture Capital

For some entrepreneurs, even the guarantee by the government that the loan will be backed will not satisfy the financial institution. These rejected loan requests are the result of the high risk assessed in the firm's operation. Some start-up companies create products on the leading edge of technology; thus the loans are thought of as too risky and are usually rejected by loan officers. It is this area where venture capital becomes a source of funding for a small number of companies. Venture capitalists are mainly interested in those companies that can grow into multimillion dollar enterprises. The amount of funding provided typically runs into the hundreds of thousands of dollars; thus only the serious and the most carefully planned proposals are considered. Venture capital firms expect to be rewarded with high returns in exchange for the high risk that they assume by their investment in the emerging firm. (Berle, pp. 49-50) In one aspect, these capitalists are similar to banks, in that they demand detailed financial plans to make their decision. However, unlike banks venture capital firms are using their investors' money, not depositors' money as banks would. Consequently, investors in venture capital firms are well aware of the risks taken with their funds, whereas depositors at banks expect that their money will be available whenever they want.

Considerable differences exist in the Canadian and U.S. venture capital markets. As with other sources of financing, venture capital has both public and private sources. Federally licensed small business investment companies (SBICs) comprise approximately one third of the public venture capital market in the U.S. These SBICs have smaller capital bases,
make smaller dollar amount investments in companies offering lower technologically advanced goods or services, rely on more debt-like financing structures, and are more local in their choice of investment locations than their private counterparts. Furthermore, SBICs leverage their founding capital with the SBA for an extra measure of security. (Green, p. 185-86)

The rapid growth of the U.S. private venture capital industry has been aided by changes in government policies regarding certain types of investments. To stimulate investment and risk taking, the U.S. government has reduced the capital gains tax to 20 percent (subsequently raised to 28 percent) and relaxed certain rules on capital investments. Among these rule changes, permission was given to pension funds to invest in high risk ventures. (OECD, 1986, p. 56) Easing the restrictions on pension funds frees up billions of dollars that could be used by venture capital firms, but the risks of losing someone's retirement fund remain high. Private venture capital firms typically have large capital bases, invest in a wide range of technology and look to equity financing rather than debt. (Silver, pp. 311-545)

In Canada, the main source of public venture capital is the FBDB. In contrast to its American counterparts, the FBDB has a very large capital base and closely resembles the operation of private venture capital firms. Provincial governments have also established venture capital programs. Some of these programs are based on the U.S. SBIC model, while others are more in the FBDB mold. (Green, p. 186) The FBDB provides venture capital through its Venture Loan program. Although there is no limit to the amount borrowed, the loans are usually in excess of CDN $100,000. The return the bank requires is a relatively low rate of interest on the loan (ranging from 7.7 percent for one year to 9.7 percent for five years as of March 1994) plus a royalty on the sales of the business that is determined at the time of the loan. (FBDB)

Private venture capital firms in Canada are similar to their U.S. counterparts, except fewer in number. Like the U.S., the Canadian government has used fiscal measures to increase the availability of finance for business. The Canadian tax structure has features such as capital cost allowances and investment tax credits to improve cash flow and self-financing capacity. Investors, such as private venture capital firms, also benefit from favorable tax treatment on dividends and capital gains. (OECD, 1986, p. 51)

Regional biases also affect these venture capital firms. The population of Canada is mostly distributed within 200 miles of the 49th parallel, and the large consumer market concentrations are widely spaced. Thus the private firms tend to make investments within 200-300 miles of the venture capitalist's office. (Green, pp. 192-93) Unlike the U.S. market, which is more evenly distributed throughout the country, Canada's markets are organized into pockets of populations. Therefore the private venture capital firms tend to concentrate on those markets. For the entrepreneur who is outside this area, even the private venture capital market may be unavailable to him, merely because of the distance.

Other Current Problems Affecting Small Business

Obtaining the necessary financing does not guarantee that the business will survive and succeed. An initial analysis of the survival rates for small businesses suggests that firms set up in Canada outlast those established in the United States. Between 1986-88, there were nearly three times more business start-ups in terms of absolute numbers in the U.S. than in Canada. However, Canada had a growth rate in terms of the percentage of net small business starts of 18.88 percent, twice that of the U.S. (Colombo, p. 205; SBA, p. 188)

An examination of the probability of success for small businesses in Ontario (Canada's most commercialized province) for the years 1978-87 shows that survival was not based solely on the first year of the business operation. The first year of operation is particularly hard on small business, with a 24 percent rate of failure. By the fourth year, 54 percent of the aggregate total of small businesses started in the first year have disappeared. However, after the first two years, the yearly attrition rate falls below ten percent. (Ministry of Industry, Trade and Technology, p. 14) This implies that after three years of operation, management tends to have
a relatively good grasp of how to keep the small business operational.

There are other factors, such as minimum wages and corporate income taxes, that impact small businesses in Canada and the U.S. in a relatively similar manner. The Goods and Services Tax and pay equity are among the more important issues to Canadian businesses. In the U.S., however, the health care reform debate has small businesses paying close attention to Washington.

**Minimum Wages**

Comparing the minimum wage in the United States to that of Canada is quite difficult. In the U.S. there is both a federal minimum as well as various state minima. Canada's federal government sets the minimum wage for employees under the age of 17, while the provinces set the rate for employees 17 and older. To simplify the comparison here, only the provincially mandated basic hourly minimum wage will be discussed.

The U.S. federal minimum wage, as outlined in the Fair Labor Standards Act, is currently $4.25/hour. Some states deviate from this rate, with the highest minimum being in the District of Columbia at $5.25. Overall, the average state minimum rate is $4.33. (Bureau of National Affairs, §14:1841-65) In Canada, minimum wage rates currently range from CDN $6.70 in Ontario to CDN $4.75 in Newfoundland and Prince Edward Island. The overall average minimum wage for Canada's provinces and territories is CDN $5.52. (Commerce Clearing House, p. 445) With the current exchange rate of 72¢ U.S. to $1 Canadian, the Canadian average rate is the equivalent of $3.98 per hour. This shows that if the small business owner paid his or her workers only the minimum wage, it would be more expensive on average to hire and keep employees for a small business in the United States than in Canada.

Changes in the minimum wage rate affect small businesses in Canada and the U.S. in a similar manner. U.S. studies have shown that a 10 percent increase in the U.S. minimum wage (ceteris paribus) results in a 0-3 percent decline in employment. Similarly, Canadian studies have shown that a 10 percent increase in a provincial minimum wage decreases the level of employment for that province by 1.0-2.7 percent. For those small businesses that are dependent on low wage labor, these studies show that increases in the minimum wage would result in the scaling back of the business' labor force and in some cases the forcing of some firms out of business. (Gunderson and Riddell, pp. 211-12)

**Income Taxes**

Income taxes are another major concern for small businesses both in Canada and the United States. When looking at the tax rate differences between the two countries, one is tempted to assume that Canada taxes both its citizens and corporations more heavily than does the U.S. However, when considering corporate income taxes, especially those paid by small businesses, further study shows that taxes paid may not always be higher in Canada.

The first significant item in a comparison of the corporate tax systems is their structure. In the U.S., the level of earned income is the basis for the corporate tax rate, as shown in Table 1. This graduated tax structure does not differentiate companies by industry, but merely by earnings. Except for the corporate surtax (for the portion of income between $100,000 and $335,000, taxed at 39 percent), the federal income tax rises with the level of income, to a maximum of 38 percent. A state income tax, ranging from zero to 10 percent, is then added to the tax liability of the firm. (IRS: Internal Revenue Code §§11, 1201)

<table>
<thead>
<tr>
<th>Portion of Taxable Income Between:</th>
<th>Tax</th>
<th>Of amount over</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 0 - 50,000</td>
<td>15%</td>
<td>$ 0</td>
</tr>
<tr>
<td>50,001 - 75,000</td>
<td>7,500 + 25%</td>
<td>50,000</td>
</tr>
<tr>
<td>75,001 - 100,000</td>
<td>$ 13,750 + 34%</td>
<td>75,000</td>
</tr>
<tr>
<td>100,001 - 335,000</td>
<td>22,250 + 39%</td>
<td>100,000</td>
</tr>
<tr>
<td>335,001 - 10,000,000</td>
<td>$ 113,900 + 34%</td>
<td>335,000</td>
</tr>
<tr>
<td>10,000,001 - 15,000,000</td>
<td>3,400,000 + 35%</td>
<td>10,000,000</td>
</tr>
<tr>
<td>15,000,001 - 18,333,333</td>
<td>5,150,000 + 38%</td>
<td>15,000,000</td>
</tr>
<tr>
<td>18,333,334 +</td>
<td>$ 6,416,666.54 + 35%</td>
<td>18,333,333</td>
</tr>
</tbody>
</table>

Source: Internal Revenue Service, Internal Revenue Code §§11, 1201.
In Canada, the income tax tables are based more on the type of industry and ownership makeup of the business and less on the amount of income that is earned. The Canadian tables are less graduated than those of the U.S., but rather divided into three main tables: one for manufacturing and processing companies, one for Canadian controlled private corporations, and the third for all others. A Canadian-controlled private corporation (CCPC), as the name implies, is a private firm that does not have shares listed on a Canadian stock exchange. Furthermore, it is neither directly nor indirectly controlled by nonresidents or public corporations. (Price Waterhouse, pp. 122-23) It is safe to assume that most small businesses in Canada would fall under the category of a CCPC, for the reasons previously discussed regarding the difficulty of acquiring funding via stock issues. However, once the firm issues stock, it loses its CCPC status and is taxed on the other set of tables. Tax rates for manufacturing and processing corporations jump to between 37.7 and 38.19 percent and to between 43.5 and 44.34 percent for all other firms. Rates for CCPCs are shown in Table 2.

**Table 2: Canadian-Controlled Private Corporation Tax Rates**

<table>
<thead>
<tr>
<th>Portion of Gross Income</th>
<th>Percent</th>
<th>Reduction for Provincial Tax</th>
<th>Net Federal Rate</th>
<th>Surtax</th>
<th>Total Federal Rate</th>
<th>“Typical” Provincial Rate</th>
<th>Total Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$200,000</td>
<td>Basic Rate: 12.0</td>
<td>(10.0)</td>
<td>2.0</td>
<td>0.06</td>
<td>2.06</td>
<td>15.5</td>
<td></td>
</tr>
<tr>
<td>≥$200,000</td>
<td>12.0</td>
<td>(10.0)</td>
<td>2.0</td>
<td>0.06</td>
<td>2.06</td>
<td>15.5</td>
<td></td>
</tr>
</tbody>
</table>


Besides the basic federal tax, there is a three percent surtax on the taxes paid for the income above CDN $200,000, which is imposed on all firms except for nonresident investment corporations. (Price Waterhouse, p. 148) This surtax is assessed before the deductions for various tax credits, but after the reduction for provincial taxes. A ten percent reduction in the federal tax rate allows the provincial government some leeway to apply a provincial corporate income tax. Unlike the U.S. surtax, the Canadian surtax is applicable to all the income above the limit, not on a range.

It is at the provincial level where the advantage of having CCPC status for the small business is best observed. Generally, provincial income tax rates range from zero to 17 percent, depending on the status of the corporation and the province. CCPCs receive a tax break both at the federal and provincial levels on their first $200,000 of income. This is one situation where the Canadian system does look at the firm’s income, cutting the combined effective rate to roughly half of what other larger corporations would pay. Unlike their U.S. counterparts, however, Canadian firms cannot deduct their provincial taxes paid for federal income tax purposes. (Price Waterhouse, p. 234)

A recent article in the *Financial Post* pointed out that taxes for some small businesses could be lower in Canada than in the U.S. A comparison was made of the taxes paid by hypothetical small business owners in Denver and in Calgary. In both cases, the business and the income was the same, in order to show more accurately the tax effects. The calculations show that for an income of CDN $250,000 the U.S. firm paid more taxes overall, both before and after the adjustment for the exchange rate. (Cohen, p. 12) Although exchange rate fluctuations may affect the results, the conclusion of this study shows that Canada’s business tax rates may not be as high as they seem.

**The Goods and Services Tax**

The Goods and Services Tax (GST) is a multistage Canadian tax that applies to most transactions throughout the manufacturing and marketing process. Most of the goods sold in Canada are taxable at a rate of seven percent, while some items, such as certain groceries, prescription drugs, medical devices and exports, are exempt from tax. Other exempt items include medical and dental services, educational services, and goods and services provided by charities or non-profit organizations. (Revenue Canada, p. 1)

The problems associated with the GST for Canadian small businesses arise from the effect
on cash flow and the costs of recording the tax. The GST is charged by suppliers; thus the small business must pay the tax in order to receive the goods or services. This tax paid is then netted against the tax collected from the small business's sales to calculate the amount to remit to the government. This becomes confusing, as some items, depending on the province, are subject to provincial sales tax while being exempt from the GST, or vice versa. The small business must therefore keep accurate records of the amount of the GST paid and received to file its tax return correctly.

The government provides some assistance to small businesses for tracking the GST collected and paid. First, the government has set a sales minimum. Those small businesses whose annual sales do not exceed CDN $30,000 do not have to register with the government. However, the firm must register and start charging GST within a month of crossing the CDN $30,000 threshold, and continue taxing from that point on. (Revenue Canada, pp. 4-9)

Second, the government provides what it calls the "Quick Method" to make the computing of GST payable as simple as possible for small businesses whose sales are below CDN $200,000. This method allows the firm to calculate the GST it is required to remit to Revenue Canada without having to segregate and keep track of individual transactions. The calculation involves multiplying the sales (including the GST charged to customers) by a percentage ranging from 1-5 percent, depending on the class of business. The Quick Method is a convenient way for small businesses to reduce their recording cost; however, they are not required to use it. A small business can still record its GST collected and paid on an individual transaction basis, should it so desire. (Revenue Canada, pp. 39-41)

Health Care

In Canada, each province has established taxes to collect the funds necessary to finance its individual socialized health care systems. These programs are mutually compatible; a resident of any province can receive medical treatment anywhere in Canada. In Ontario, the employer pays the Employee Health Tax (EHT) at a rate of 98¢ per $100 of payroll. These funds support the Ontario Hospital Insurance Plan (OHIP). With OHIP, Ontario residents can go to hospitals or visit doctors for regular health maintenance without the need to fill out claim forms or insurance reimbursement forms. All Ontario residents qualify for OHIP, as there are no medical, age or other limitations.

The U.S. in contrast has no health care safety net as of yet. The Clinton administration has made health care reform a major issue that it wishes to address in 1994. Subsidized health care is a very important item for all firms, not just small businesses. To fund such a program, Congress will likely need to raise taxes. The responsibility for the collection of the funds will be similar to that of Canada: the business at which the employee works. U.S. small businesses may have to adjust for any legislation that may levy such a tax, as Canadian companies are already accustomed to paying these expenses.

Cost increases to pay for health care would lead to firms eliminating many jobs altogether or a decline in the quality of many other jobs. To remain profitable, employers would have to reduce costs by decreasing hours or cutting other benefits. According to a study released by the National Federation of Independent Business in 1993, requiring small businesses to provide health insurance for their employees could lead to the loss of between 390,000 and 900,000 jobs in the U.S. over the first three years of the plan. Furthermore, the quality of millions of other jobs would deteriorate. The Federation also claims that the increase in compensation costs to small businesses because of health insurance spending would be in the range of six percent. This increase would threaten the profitability and survival of many companies. (Bureau of National Affairs, 1993, p. 1)

Both countries have private group health plans that cover employees. In Canada, these plans cannot cover the services already provided by the provincial health care programs. Plans can compete in the other markets, such as dental care or life insurance, however. In the U.S., of course, private group health plans are much more significant to employees and employers. There are several stipulations that make these plans difficult to obtain for small businesses in the U.S. First, there needs to be
a minimum number of employees. Without sufficient numbers, the employer may not be able to get the plan best suited for his workers. In the worst scenario, the employer might not be able to secure coverage for his employees at all, who would then demand higher wages to pay for the insurance themselves. Secondly, there are often preconditions that may prevent employees from joining. If the small business has the minimum number of employees but some of those employees are rejected due to health qualifications, then the remainder of the group is in jeopardy of being rejected, only because there are not enough eligible employees left. Finally, there may be other costs that arise from a small business not being able to furnish health insurance for the employees. If the workers are not provided with either a health care plan or higher wages, a drop in productivity may result from absenteeism and sick days that accompany untreated illnesses. These are just a few of the concerns that small businesses in the U.S. must weigh when considering the health care issue.

Pay Equity

Another recent matter of concern to small businesses in Canada is the issue of pay equity. Pay equity is an attempt to reduce legislatively the disparity between the pay of men and women in dissimilar jobs which can be shown to be of comparable “worth” or “value” to an employer. Federally, the Canadian government based its comparable worth or pay equity program on Section 11(1) of the Canadian Human Rights Act, which was adopted in 1977. The program applies to public and some private employers in Canada’s federal sector. Employees covered under Section 11(1) are those in the federal civil service, federal Crown corporations such as the Canadian Broadcasting Corporation, federal Crown agencies such as the Canadian Wheat Board, and those employees in the banking transport and communications industries. Among the earliest provinces to enact pay equity legislation were Quebec in 1977, Manitoba in 1985, and Ontario in 1987. Thus far, only Quebec’s and Ontario’s legislation applies to both public and private sector industries. (Cihon and Wesman, pp. 76-77) In the U.S., however, pay equity has not been recognized yet as a major issue in the private sector, although some state and local governments have implemented pay equity plans.

According to the Ontario Pay Equity Commission, pay equity is defined as “comparing the value of jobs women usually do with the value of jobs men usually do.” The Ontario Pay Equity Act was passed in 1987 and, as noted above, applies to both the public and private sectors. By 1989, the act’s gradual phase-in process included all small businesses with 10 or more employees. The act requires employers to “pay people doing jobs usually done by women the same as people doing jobs usually done by men if those jobs are of equal or comparable value.” (Pay Equity Commission, How to Read..., p. 2) The three basic steps in the pay equity process involve identifying the female and male job classes, assessing the value of female and male job classes using a “gender neutral” comparison system, and finally paying female and male classes of equal value the same rate. The gender of the job classes is determined according to the percentage of male or female employees currently in the class, the gender percentages in the job class in the past, and the gender traditionally associated with the kind of work done by this class. (Pay Equity Commission, How to Read..., p. 5)

The employers rate the various job classes in their firm by the level of skill, effort, responsibility and working conditions on a “points” system. Then the point values of the different jobs in the establishment are compared. Those jobs with the same scores must then have the same pay rate, regardless if a man or woman is performing the task. After the pay equity plan has been established, employers must spend up to one percent of their annual payroll to close wage differentials between male and female jobs of equal value. (Pay Equity Commission of Ontario, “Implementing Pay Equity..., p. 8)

The costs to the small business of pay equity are as yet unclear. Time must be spent evaluating different jobs and functions, grading them on the prescribed scale. Only firms with fewer than ten employees are exempt from the act. (Pay Equity Commission of Ontario “Implementing Pay Equity..., p. 7) Since the
statistics do not break down the firms in greater detail, it is difficult to determine how many firms the legislation affects.

In the U.S. there are several states where the issue of pay equity has surfaced. Iowa, Oregon, Ohio, Alaska and Minnesota, for example, have enacted comparable worth legislation. Although they are striving for the same type of pay equality as their counterparts in Ontario, their laws are much more limited in scope. In these states, the statutes apply only to certain public sector jobs. (Cihon and Wesman, pp. 69-71)

The Impact of Small Business on the Economy

Statistics reveal that small businesses are more important to the Canadian economy than they are to the U.S. Since the U.S. population is roughly ten times that of Canada, it is pointless to compare the numbers of small businesses in the two countries. Showing the effects of small businesses on a percentage basis is a more reasonable comparison.

Nearly half of Canada's employment is a direct result of small businesses. During the period 1979-89, on average 47.1 percent of Canada's workforce was employed by firms with 100 or fewer employees. In comparison, for the year 1987-88, the portion of the workforce working in small businesses in the U.S. was 35.1 percent. (Colombo, p. 205; Small Business Administration, p. 121) New job creation by small businesses is also more important to the Canadian economy than to the U.S. economy. During the late 1980s, 83 percent of Canada's new jobs were created by small businesses. In contrast, the percentage of jobs created in the U.S. by small businesses over the same period was only 33 percent. (Colombo, p. 205; SBA, p. 44)

There are government incentives that both countries use in order to foster the growth of the small business sector. For example, both governments give investment tax credits to small businesses to help them purchase equipment. Certain municipalities or counties in both countries offer to perspective businesses “tax holidays” — deferment or elimination of income taxes for a number of years — to encourage job growth and investment in the area. In Canada, the resourceful entrepreneur can take advantage of these tax holidays in combination with the already-lower tax rate offered to small businesses.

In addition to the tax breaks based on equipment purchases, the Canadian government also encourages the firm to hire additional workers. Perhaps it was merely a ploy to win support for the 1993 election, but the former ruling Progressive Conservative Party passed legislation in December 1992 allowing a freeze on unemployment insurance premiums that small businesses would have to pay in 1993. The government allowed small businesses established during 1993 to keep the employer's portion of the insurance premiums that were payable to the government. Furthermore, existing small businesses were made exempt from having to remit the employer's portion for the payroll attributed to the new positions created and filled by new employees during the year. In one way, the government wanted to win the favor of small business owners, who would have higher incomes because of the exemption. However, the government's main motivation was to reduce costs. By getting small businesses to hire and retain more workers, the government would have to pay less in unemployment premiums to those workers out of a job. (Vardy, p. 3)

Conclusion

Small businesses in Canada and the U.S. share some common problems, and are faced with some unique obstacles. For example, small businesses in both countries have difficulty securing the necessary financing to operate. Both also have a very low rate of survival. While pay equity has become an issue in various Canadian provinces, the health care debate has U.S. small business owners concerned about future cost increases.

Despite their size, however, small businesses as a group are a vital part of both the U.S. and Canadian economies. They not only employ a large portion of each country's labor force, but they are also responsible for a major share of new job creation in both countries.
REFERENCES


