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SMART SOCIAL POLICY – "MAKING WORK PAY"

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Submitted to the
TD Forum on Canada's Standard of Living

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Content

Smart Social Policy – "Making Work Pay"

Executive Summary

Over the past quarter century, disparities in earnings from employment have widened. The well paid have experienced earnings gains, while market incomes at the low end of the spectrum have stagnated or even declined. Almost two million adult Canadians work for less than $10 an hour – about one in six employed people. These jobs do not pay enough to support a family, yet workers face barriers to advancing their incomes.

Workplace barriers occur because employers concentrate more on controlling payroll costs than they do on productivity growth and the development of skills. Public policy barriers occur because the structure of taxes and transfers can create punitive marginal effective tax rates, and the cost of high quality child care far exceeds the budget of low-paid workers.

Low-paid work is concentrated in retail trade, hotel and accommodation services, manufacturing, finance, and personal service industries. The people in these jobs are generally well-educated: 40 percent have completed high school, and 36 percent have a post-secondary diploma or degree. About 35 percent of these jobs are temporary and 36 percent are part-time. About one third of the workers are the only breadwinner in their family. But tracking studies show that people working for low-pay are spending more time than they used to in this type of job. This raises the prospect that Canada is establishing a low-wage equilibrium, in which workers do not use their full productive potential and employers do not exploit their productivity possibilities.

In Canada and the United States, a number of new policy initiatives have been undertaken to try to "make work pay" or to create a "living wage." These include refundable tax credits based on family size, for families with low income; wage supplements for people leaving welfare to work full-time; municipal laws requiring all bidders on municipal contracts to pay a "living wage;" and incentives for savings known as individual development accounts.

Evaluations of these programs show that a high proportion of the beneficiaries increase their attachment to work, and use the extra income to improve the family standard of living – by investing in better housing, or more education, for example. There is also some preliminary evidence to suggest that employers gain in terms of less labour turnover and greater work intensity. Except for the living wage experiments, however, the programs constitute a wage subsidy to employers.

The social and economic waste associated with low-paid work raises a number of questions for decision-makers. What is that work worth? And who should be paying the cost? Smart social policy choices will aim to ensure that every child has the chance to develop her potential, and that every educated adult is able to use his skill productively. That is the resource base for raising standards of living in the future.

Une politique sociale intelligente – « Faire en sorte que le travail paie »

Par Judith Maxwell
Réseaux canadiens de recherche en politiques publiques

Résumé

Depuis un quart de siècle, les disparités dans les salaires se sont accentuées. Ceux qui sont bien payés ont connu des augmentations de revenu alors que le revenu marchand, à l'autre bout de l'échelle, ont stagné, voire baissé. Presque deux millions de Canadiens adultes, ce qui représente un employé sur six, travaillent pour moins de 10 dollars de l'heure. Ces emplois ne rapportent pas assez pour subvenir aux besoins d'une famille et, pourtant, les travailleurs rencontrent des obstacles lorsqu'ils cherchent à améliorer leur revenu.

Ces obstacles peuvent être propres à l'entreprise, car les employeurs portent plus d'attention à la maîtrise des coûts salariaux qu'à l'augmentation de la productivité ou au perfectionnement des compétences. Les obstacles peuvent aussi être dûs aux politiques publiques, car la structure d'imposition et de transfert peut créer des taux marginaux d'imposition effectifs pénalisants, et faire que les tarifs des garderies de qualité sont trop élevés pour le budget des travailleurs à bas salaire.

Les bas salaires se rencontrent surtout dans le petit commerce, l'hôtellerie, le secteur manufacturier, la finance et les services personnalisés. Les gens qui occupent ces emplois ont généralement un bon niveau d'études : 40 p. 100 ont terminé leurs études secondaires et 36 p. 100 ont un diplôme de l'enseignement supérieur. Environ 35 p. 100 de ces emplois sont temporaires et 36 p. 100 à temps partiel. Un tiers, environ, de ces travailleurs sont les seuls soutiens de famille. Mais des études ont montré que les gens qui travaillent pour un bas salaire restent plus longtemps qu'autrefois dans ce genre d'emplois, ce qui laisse à penser que le Canada est en train d'établir un équilibre du bas salaire dans lequel les travailleurs n'utilisent pas tout leur potentiel productif et les employeurs n'exploitent pas toutes leurs possibilités de productivité.

Au Canada et aux États-Unis, un certain nombre d'initiatives pour une nouvelle politique ont été entreprises pour essayer de faire en sorte que « le travail paie » ou pour instaurer un « salaire viable ». Ces mesures comprennent des crédits d'impôt remboursables, variables selon la taille des familles, pour celles qui ont un faible revenu; des suppléments de salaire pour ceux qui renoncent à l'aide sociale pour travailler à plein temps; des arrêtés municipaux demandant que tous les entrepreneurs répondant à des appels d'offres de la municipalité prévoient un « salaire viable » et des mesures incitatives à l'épargne, connues sous l'appellation : comptes de perfectionnement individuel.

Une évaluation de ces programmes montre qu'un grand nombre des bénéficiaires sont de plus en plus attachés à leur travail, et utilisent le surplus de revenu pour améliorer le niveau de vie de leur famille, en investissant dans un meilleur logement ou dans plus

d’éducation, par exemple. On a aussi tout lieu de penser que les employeurs y gagnent en termes de renouvellement de personnel ou de plus grande intensité de travail. À l’exception des expériences de salaire viable, cependant, ces mesures constituent une subvention salariale pour les employeurs.

Le gaspillage social et économique que représente le travail à bas salaire soulève un certain nombre de questions pour les décideurs. Quel est le prix de ce travail ? Qui devrait en supporter le coût ? Les choix d’une politique sociale intelligente auront comme objectif de s’assurer que chaque enfant aura la possibilité de développer son potentiel, et que chaque adulte éduqué puisse utiliser ses compétences de manière productive. C’est de cela que dépend l’élévation du niveau de vie canadien.

Smart Social Policy – "Making Work Pay"

By Judith Maxwell[1]

Canadian Policy Research Networks

Over the past quarter century, disparities in earnings from employment have widened. The well paid have experienced earnings gains, while market incomes at the low end of the spectrum have stagnated or even declined. Despite all the talk about the explosion of knowledge-based economic activity and its contribution to greater well-being, almost two million adult Canadians work for less than $10 an hour – about one in six employed people. These jobs do not pay enough to support a family, yet workers face barriers to advancing their incomes.

Many Canadians are working full-time, but they do not earn a "living wage." A glance back in time reveals that the living wage was a major preoccupation before the Second World War and in the 1940s, when recruiters for the armed forces found that young men who grew up in the 1920s and 1930s were often under-nourished and "unfit" to fight. The fact that one full-time job did not provide food and shelter for a family was a major factor prompting post-war social policy reforms, including the family allowance system and minimum wage laws. It is ironic that at the beginning of this new century we are now back to the same basic issue.

This paper documents the scope of low-paid work in Canada, and then reviews several experiments with government and community programs designed to "make work pay" or ensure "a living wage."

Context

In the 30 golden years after World War II, the labour market generated a wage structure that provided sufficient well-paying jobs, especially in industry, for workers with limited skills. Thousands of factory workers found jobs that enabled them to buy homes, educate their children, and so on, often with a single salary. The result was an expanding middle class. After the mid-1970s, however, economists began to track the polarization of the wage structure. New job creation has been concentrated mainly in highly skilled, professional occupations, and the skill requirements for a broad sweep of occupations have been increasing as new technologies have transformed the way work is organized. At the same time, globalizing markets have encouraged industries to shift low-skill production to low-wage countries, while some other low-skill jobs have been replaced by technology. As a result, good opportunities for low-skill workers in Canada are harder to find.

Families have adapted to this shift in several ways. They have sent more family members into the labour force, with wives taking jobs to fill the earnings gap, and high-school and college age children working to meet some of their own living and education costs. At the same time, younger generations have adapted to this trend by staying in school longer and investing more in their own education. High school completion rates have risen dramatically in the past decade in Atlantic Canada and Saskatchewan, though not as much for young men from low income or single parent families. The national average completion rate in the late 1990s was 88 percent.[2]

Despite these individual and family efforts to maintain market incomes, Canada and other industrial countries, have begun to worry about the consequences of having large numbers of workers trapped in a low-wage "ghetto," that is those earning $8 or even $10 an hour. In the European Union, the debate focuses on the question of social exclusion and the consequences for the next generation of children. If they grow up in a situation of social and economic disadvantage, will they face a similar future themselves? Because low-wage labour markets also include large numbers of people who are visible minorities or recent immigrants there are also concerns about lines of fragmentation that follow racial or ethnic differences.

Canada is an ageing society with fertility rates well below replacement rates and baby boomers now approaching retirement. This has two implications for the future of low-wage work. First, as the labour supply begins to diminish in coming decades, and the ratio of employed to non-employed people declines, Canada will be seeking to ensure that each working age adult is able to make his or her full contribution to productive potential. Second, the larger proportion of retired and ageing people will have greater need for services which now pay low wages – household cleaning and maintenance, home care services, and a variety of social and health care supports.

In the longer term, as labour supply tightens, the pressures of an ageing society may put upward pressure on wages for these activities. In the meantime, successful efforts to make work pay could support continued development of this untapped human talent and create better opportunities for the new generations joining the labour market.

What Constitutes Low Pay?

Legislated minimum wages in Canada vary from $6 an hour or less in Atlantic Canada and Alberta to about $7 an hour in Ontario and Quebec, and $8 an hour in British Columbia. The minimum wage has decreased by 20 to 30 percent in real terms in most provinces since 1980, although it has remained flat in Ontario and British Columbia.

Canada does not have an official measure of poverty, and the matter has generated significant debate. One might, as the Fraser Institute does, define poverty as the capacity simply to meet the most basic needs for food and shelter, that is to *stay alive*.[3] An alternative is to define poverty as being unable to participate in the mainstream because of vulnerability and lack of income. The low income cutoff (LICO) is the most widely used measure to indicate vulnerability. It is the income level where household needs for food, clothing and shelter will, on average, take a share of pre-tax income that is 20 percent higher than the average family. The cut-off varies according to the real circumstances (that is the size of the city, town or rural area) in which the family lives.

Table 1 compares the LICO (for families of different sizes) with the earnings from minimum wage jobs. A Nova Scotian working full-time for the minimum wage of $5.80 an hour would earn $12,100. This would not support an individual, let alone a family. It would take two full-time jobs at this wage to support a family of three. In comparison, the cost of living is much higher in a large city in Ontario, where the minimum wage is $6.85 an hour. Again, one earner cannot support herself, and would need two full-time jobs at this wage to support a family of three.

Table 1: Minimum Wage Earnings In Perspective, 2000

A Large City In Ontario
(Population over 500,000)

Family Size	**Low Income Cutoff in 2000**	**Annual Full Time Earnings at Minimum Wage ($6.85), One Earner**
One	$18,400	$14,200
Two	$23,000	$14,200
Three	$28,600	$14,200
Four	$34,600	$14,200

A Small City In Nova Scotia
(Population under 30,000)

Family Size	**Low Income Cutoff in 2000**	**Annual Full Time Earnings at Minimum Wage ($5.80), One Earner**
One	$14,600	$12,100
Two	$18,200	$12,100
Three	$22,600	$12,100
Four	$27,400	$12,100

Source: Based on Canadian Council on Social Development, Canadian Low-Income Cutoffs, 2000. The full time earnings are based on a 40-hour week for a 52-week year.

And even these estimates are unrealistically generous. The numbers in Table 1 are based on the assumption that people are paid for 52 weeks a year. The fact is that many low paid workers cannot find work for a full year. About one in three work part-time, and another 29 percent are in temporary jobs, which can be seasonal, casual, or contract positions. About one in four low-paid workers have multiple jobs in order to get more hours of pay (Statistics Canada, Labour Force micro data file).

Who Works for Low Pay?

The conventional wisdom is that the people who work for low pay (again less than $10 an hour) are teenagers just starting out, high school dropouts without skills, second earners in the family seeking “pin money,” or people who live alone without family responsibilities. A review of the statistics finds a more complicated picture. Table 2 provides the portrait of low-wage workers (excluding people under 20 and full-time students), using two wage boundaries – those who work for less than $8 an hour and those who work for less than $10. Note that low-wage earners are overwhelmingly female, that one third are the only earners in their families, almost half are over the age of 35. Most surprising, perhaps is that one third have a post-secondary diploma or a degree – even those earning less than $8.

Table 2: Characteristics of Low-Wage Workers in Canada, 2000

	Workers Earnings Less Than $8.00 Per Hour	**Workers Earnings Less Than $10.00 Per Hour**
Men	31%	35%
Women	69%	65%
Total	100%	100%
Aged 20 to 24	27%	25%
Aged 25 to 34	25%	26%
Aged 35 or older	48%	49%
Total	100%	100%
One earner in family	33%	32%
Two or more earners in family	67%	68%
Total	100%	100%
Less than high school	26%	24%
Completed high school	40%	40%
Completed certificate or diploma	26%	28%
Completed university degree	7%	8%
Total	100%	100%

Source: 2000 Labour Force Survey micro datafile.
Calculations limited to employed persons aged 20 years of age or older who are not full-time students.

Where are the jobs located? Sales and service occupations account for more than half of the low-paid jobs in Canada. The pre-dominant industries are retail trade, accommodation, food, and related industries, manufacturing, and finance. Although low wage jobs employ a higher proportion of the workforce in Atlantic Canada, more than half of them (1.1 million) live in the two largest provinces: Ontario and Quebec.

One of the striking characteristics of this work force is the predominance of women. Their low wages do not conform at all with their skills and educational attainment. More women than men complete high school, and women are more likely than men to pursue post-secondary education. In 2000, women accounted for 54 percent of full-time students and 61 percent of all part-time students enrolled in universities and colleges. They are also setting independent career goals for themselves.[4]

Nevertheless, a surprising number of men and women with advanced education get trapped in low-wage jobs. In the post-war period, it was not uncommon to see a young man graduate from high school, take a job in a factory and earn a reasonably high income in a unionized setting. Or he could take a white-collar job in a bank, an accounting office, or a small business and, through learning on the job, rise to a well-paid position. The skills required to advance in the enterprise could be acquired in the workplace. Today, however, few, if any, low-paid sales and service jobs are structured in that way. Indeed, work-based training programs are targeted mainly to high potential employees, who are already well-educated (Betcherman *et al*., 1998).

In order to determine whether workers are being trapped for longer periods of time in low-paid jobs, it is necessary to follow a group of workers over time and compare the time spent in low-paid work. René Morissette and Charles Berubé were able to track a large sample of men over the period 1975 to 1993, using income tax files. They concluded that:

- After controlling for the effects of recessions, men under 35 were less likely to move out of low end of the labour market in the period 1985-92, than they were in the earlier years studied.
- The relative importance of low earners increased across all age groups over the period 1975 to 1993, especially among men under 35 – a full 40 percent earned less than $21, 000 in 1993, up from 23 percent in 1975.
- More men are experiencing periods of low-wage work, and they stay in low-paid jobs for longer periods than in the past.

They conclude that long-term earnings inequality has increased over the 18 years studied, although they do not have evidence to show whether this reflects a change in the structure of the economy or the depressed labour market conditions of the period studied.

In sum, low-paid work is becoming more like a separate labour market ghetto, where there are barriers to advancement. Most people who work in this job ghetto are hired for what they can do today, not for what they might be able to do in 20 years. Employers offer few, if any, job ladders to advance to well-paying jobs. Compounding the workplace barriers to advancement are the barriers built into social programs.

How Policy Treats Low Paid Work

The dominant theme in social programs over the past two decades has been fiscal restraint, restrictions on social benefits, and redesigned use of the limited funds still available.[5] Governments have tightened eligibility requirements for programs like social assistance and employment insurance, as well as subsidies for child care, housing, etc. In the process, benefits have been targeted to the most needy cases, and benefit levels have also been reduced in real terms.

The goal of such changes is often to encourage people to move into employment rather than to receive income support. From a fiscal perspective, moving people into work saves money in three ways: it reduces the direct cost of income transfers, it reduces eligibility for related subsidies with respect to child care, housing, and supplementary health benefits, and it produces higher tax revenues.

There are unintended consequences, however. The combination of low wages and the design of these programs actually restricts the upward mobility of the working poor. For example,

- Many workers face extremely high marginal effective tax rates when they earn more income. This is because their social benefits (like the Canada Child Tax Benefit or subsidies for child care or housing) are reduced in line with any increases in income. Suppose for example, that a worker makes an extra $100. She will then owe about $20 in income tax, plus an increase in rent for social housing of $25 and a reduction in child care subsidy of $25. This leaves the worker with $30 in discretionary income, and a marginal effective tax rate of 70 percent. Box 1 provides a real-life example, as reported in the *National Post*. These high tax back rates are a serious deterrent to advancement for some workers, and can create major setbacks in family finances.

Box 1
Crystal's Story

Crystal lived in Toronto with her common-law partner. Her partner lost his job in late 1998, just at the time that her second child was born. To cover her rent and utility bills, she withdrew $2,000 from her RRSP. This was counted as taxable income, *and* it pushed her income above $25,400 which was the threshold where families lost entitlement to the basic supplement to the Canada Child Tax Benefit. So, when she filed her tax return in March, she lost the benefit supplement, valued at about $2,000 for the two children at the time, and paid tax on the RRSP money. The *National Post* estimated that she was $2,800 worse off as a result of the withdrawal. (April 17, 1999)

- One of the most frequent blockages to parents moving into work is that they will immediately face very high, out-of-pocket costs for quality child care.[6] In Ontario a regulated child care space costs, on average, $1000 a month, an amount that exceeds the monthly take-home pay of someone paid $10 an hour. Even unregulated babysitting is expensive. While provinces offer some subsidies for child care, they are often restricted to people leaving social assistance (that is in training or the immediate transition from welfare to work). Only Quebec provides universal access to child care for pre-school children for a modest fee – $100 a month per child for care with the provincial curriculum.

- Training programs offered by federal and provincial governments are usually restricted to people who are unemployed. A low-paid worker therefore faces high barriers to acquire new skills. In most cases, the worker must not only pay the cost of the training but also do without the earnings for any time taken off to do the training. Many are eligible for student loans, but low-income people are often reluctant to build up debt burdens.
- Most low paid workers do not have access to supplementary health insurance. Those with chronic health problems (or with children with health care needs) are especially vulnerable when expensive drugs are prescribed (except in Quebec where drug insurance is compulsory and subsidized for people with low income). Box 2 provides a real life example.

Box 2
Juliette's Story

Juliette (not her real name) and her husband George live with their six-year-old son in Coal Harbour, outside Halifax, Nova Scotia. They both commute to Halifax to work for minimum wage. He averages 50 hours per week. She works a minimum of 20 hours a week, but "I take every extra shift I can get." Juliette has health problems. Every time she goes to the doctor, she has to miss a shift, and lose that pay. She says: "Minimum wage is not enough. I can't afford my prescriptions." If the family were on social assistance, her drug costs would be paid.

In effect, the policy cards are stacked against exit from low-paid work. Increases in earnings are taxed back in a variety of ways which discourage extra work effort, and the out of pocket caregiving costs incurred when a second earner goes out to work can also absorb all or most of the income gain.

As these negative incentives have become more evident, a number of countries have begun to experiment with programs to transform low-paid work into opportunities to improve living standards in both the short and the long term.

Policies to Make Work Pay

As societies begin to address the social and economic consequences of low-paid work, they often search for ways to top up wages. Frequently the goal is to do so without disrupting the way the labour market operates, but some experiments directly intervene in the market to insist on a living wage. Five different programs are reviewed here. The first two are well-established: the Earned Income Tax Credit, which is an integral part of U.S. social policy and the National Child Benefit, managed in part through the Canadian tax system. The other three – Canada's Self Sufficiency Project, plus the Living Wage requirements and the Individual Development Accounts in the United States – are more experimental in design and are still pilot projects. The five examples are compared in Table 3, at the end of this section.

Earned Income Tax Credit

The Earned Income Tax Credit is a refundable credit designed to increase the rewards of work for low-income families with children and those without children who earn less than $10,000 a year. It was first enacted by Congress in 1975 and then significantly enriched in 1996 in conjunction with the welfare reforms instituted during the Clinton presidency. It costs American taxpayers about $30 billion a year.

The credit is designed to support individuals with very low incomes. In 1998, American families with two or more children with an income less than $32,000 (U.S.) were eligible for EITC support. The income threshold is slightly lower for families with one child ($28,000), while unattached individuals are eligible for EITC credits if they made less than $11,000 in 1998. Eligibility is determined when workers complete their annual tax return. If the taxpayer is eligible, she or he receives a lump sum payment which can range from $2,271 for families with two children to $3,756 for those with three or more children. The average credit in 1999 was $1,600 per worker. When the family's earned income exceeds $12,260, the credit is phased out at a rate of 19 cents for each dollar earned.

The credit was paid to over 18 million families in 2000, and lifted almost 5 million of them out of poverty (Berube and Forman, 2001: 2). Evaluations show that 90 percent of the benefits go to the bottom third of wage earners (Sawhill and Thomas, 2001: 5). They also show that families use the tax credit mainly to finance strategic investments, including education, moving out of bad neighbourhoods, and major car repairs. The poorest families also use it to meet immediate needs such as paying the rent (Berube and Forman, 2001: 3).

National Child Benefit

The Canada Child Tax Benefit (CCTB) and its low income supplement form a key component of the National Child Benefit. It is a refundable tax credit available to families whether their income is from employment, social assistance or child maintenance from a non-custodial parent. It was introduced as part of a federal-provincial joint project. The federal government committed to provide more income support while the provinces committed to extend social supports for families with children. Each province could choose its own package from a list including child care and early childhood services, maintaining health and drug benefits as parents leave social assistance, providing their own child benefit payments, and so on.

The initial funding commitment to the CCTB was modest, but the grant has been enriched several times since it was introduced in 1998, to the point where in 2002, families with income less than $22,400 will be eligible for $2,440 per child. However, the benefit is reduced as income rises, so that by $32,000, the benefit is $1,150 per child, it then diminishes more slowly and disappears when income reaches $77,000 (The National Child Benefit 2001 Progress Report).[7]

In 2000-01 the CCTB and low income supplement transfers to low-income families totalled close to $6 billion, 75 percent of which went to one-earner and single-parent families in 1999 (Senate of Canada – Budget 1999: Building Today for a Better Tomorrow). By July 2002, the annual benefit to low-income working families with two children will amount to $4,652 (Beauvais and Jenson, 2001: table 8).

The NCB was a landmark in social policy history in Canada for a number of reasons:

- The CCTB component of the NCB was designed to help poor families whether they have earnings or not;
- The NCB as a whole combines income support and social services. Both are essential to families coping with the demands of raising children on a low income;
- The collaboration between federal and provincial governments on social policy design is unusual; and
- The size of the CCTB (and provincial benefits where they are paid) are becoming large enough to make a real difference to low-income families in their financial planning.

While governments report annually on the progress of the National Child Benefit, there is not yet enough experience to do an in-depth evaluation.

Wage Supplementation

The Self–Sufficiency Project was a wage supplementation experiment undertaken between 1994 and 2000 by Human Resources Development Canada in collaboration with the governments of British Columbia and New Brunswick. It was targeted to lone parents with children who had been on social assistance for one year or more, if they would leave social assistance and work full-time. The supplement was designed to add from $3,000 to $7,000 to the family's earned income for up to three years. The experiment included a control group of lone parents in similar circumstances who did not receive the supplement so that the experiment could make a reliable estimate of the way the supplement changed behaviour and outcomes. Thus the impacts reported by the project are truly incremental. There were 1,380 participants who received the supplement during the experiment period, and a similar number were in the control group. About two-thirds of the parents in both groups had at least a high-school education, and half had attended a post-secondary institution (Michalopoulos and Hoy, 2001: 9).

Compared to the control group, the participants reported higher incomes (a combination of their earnings and the supplement), more employment, and gains in well-being. The supplement paid to people with a short history of receiving welfare did not increase the net costs of the three governments, as the supplements were fully financed by the combination of savings on social assistance payments and higher income and payroll tax revenues. However, extra supports such as counselling, training, child care supports were required to help families with a longer term dependence on social assistance (more than one year) (SRDC, 2002).

Living Wage Requirements

Living wage requirements provide another model. They put the onus on the private sector to pay reasonable wages if employers are to benefit from tax dollars paid to contractors. Such requirements have been enacted by local governments in the United States in Baltimore and in several California cities. The law requires firms bidding on municipal contracts (to provide garbage collection or maintenance or other services) to pay a living wage. This means, for example, a wage sufficient to support a family of four at or above the poverty line. The impacts from these requirements appear to be positive, although the evaluation reports to date cover relatively few workers.

While the employer must carry the cost of the living wage, preliminary evaluations indicate that the net cost to the employer may be neutral, as efficiency gains appear to outweigh the higher wage bill. (The efficiency gains are created because higher wages reduce labour turnover and increase work intensity.) Thus, in the case of Baltimore, the cost of the 26 contracts let under these arrangements rose by only 1.2 percent per year during the period studied, less than the rate of inflation. However, the impacts on the worker are significant. In Baltimore, the hourly wage paid by the contractors rose 35 percent from $4.94 to $6.66 an hour. Interviews with workers also revealed a greater sense of responsibility and a higher sense of self-worth. There was no evidence of job loss, although some contractors refused to bid because of the higher wage requirement (Niedt *et al.*, 1999).

The fact that the efficiency gain covered the extra wage costs from such a significant increase in earnings is a remarkable finding. It will be important to monitor other evaluations to see if the result holds for larger groups of workers.

Individual Development Accounts

Individual development accounts are designed to encourage people to save, by offering to match deposits on condition that the savings are used for certain activities such as education, home ownership etc. The American Dream Demonstration project, which began in 1997 was the first such project to be evaluated. By 2000, 2,400 people were participating in 14 program sites across the United States (Schreiner *et al.,* 2001).

The participants saved an average of $25 per month, and the deposits were matched at a rate of 2:1. Thus the average grant per person was $600 per year. While some participants dropped out of the program, most were able to continue. Two thirds said that they found the savings by changing their consumption patterns; 30 percent worked more hours; and 7 percent borrowed from friends. Only 13 percent of the participants had made withdrawals by June 2000. They used the money to purchase a home, start a micro-enterprise, fund home repairs, or to pay for education. Those who had not made withdrawals were saving with the same objectives in mind. Follow up interviews indicated that the program had a significant impact on well-being – people felt more confident, more secure, and more in control of their lives. About six in ten said they were more likely to work or to stay employed, and were also making educational plans for themselves and/or their children (Schreiner *et al.*, 2001).

While the evidence is still fragmentary, much larger experiments are now planned for 2003 and 2004[8] (U.K.) or in progress (Canada).

Table 3: Strengths and Weaknesses of Policies to Make Work Pay

	Work Incentive?	**Higher Income?**	**Improved Well-Being?**	**Stabilizes Income?**	**Who Pays?**	**Net Cost**
EITC	Yes	Yes	Don't know	No	U.S. govt	$1,600 / family
NCB/CCTB	Yes	[a] Yes	Don't know	Yes	Canadian govt	No estimate
SSP / Wage Supplement	Yes	Yes	Yes	No	Province or Ottawa	Neutral to modest
Living Wage	Yes	Yes	Yes	Don't know	Employer	[b] Neutral
IDA	Yes, may be modest	No, savings	Yes	Yes, modest	[c] Sponsor	Varies, $600 / family

a. Except for welfare recipients in provinces where the tax credit is clawed back.
b. Neutral effect in one preliminary evaluation. Requires validation.
c. Sponsor may be a government or a community organization.
Source: Canadian Policy Research Networks, 2002

In summary, there is evidence that wage supplements, the living wage, and the individual development accounts can have significant positive effects on the well-being of the beneficiaries. (The verdict on the EITC and NCB/CCTB is still out, pending evaluations.) People feel better about their lives, they are encouraged to work and save, they begin to plan for the future – their own and that of their children. By far the majority uses the extra income to improve the family standard of living. The SSP wage supplement also had favourable effects on the children, although some teens seemed to have trouble adapting when their mothers got a job. Overall, there is reason to expect that long-range evaluations will show positive effects for the next generation, giving the children a better start in life.

The first three initiatives listed in Table 3 are, in effect, a subsidy to employers who pay low wages. However, there is a strong interdependence between wage levels and wage top ups. The less the employer pays, the greater the financial burden on the state.

"Properly used, the EITC and the minimum wage fit together like well-cut jigsaw puzzle pieces and have the potential to fill much of the wage gap of the working poor. . . .[But the 1995 minimum wage of $5.15 in the U.S.] by itself is too low to do much about wage poverty, and the EITC is expensive and will become even more costly to taxpayers over time, especially if the minimum wage is not indexed. . .The EITC requires a higher minimum wage if wage poverty is to be challenged effectively" (Bluestone and Ghilarduci, 1996: 11-12).

This tension between public and private costs contrasts with the living wage idea, where preliminary evidence suggests that employers can actually raise wages without increasing total costs because of the payback from reduced job turnover and greater work intensity. The Living Wage experiments are now under more intensive review and further evaluations will tell us more about how well they work.

The fundamental question posed here is whether Canada has slipped unwittingly into a low wage equilibrium, where labour supply conditions enable employers to pay low wages and thereby discourage employers from making innovations in the way the work is organized, workers are trained, and so on. Indeed, the low-wage equilibrium may well be an inhibitor to productivity growth, as firms can survive without market pressure to be more efficient.

Implications for Canadian Leaders

This survey of low-paid work demonstrates that work and family behaviours change when earnings rise. It also raises the question of whether low minimum wages and the willingness of Canadians to accept low-pay has become a barrier to productivity growth.

Together, these findings pose some challenging questions for employers as well as for governments.

- Would some or all of the employers who depend on low-wage workers to keep the firm operating be beneficiaries of the same efficiency pay-back from a higher wage that the contractors in Baltimore experienced? If so, which industries and occupations offer these possibilities?
- Has the labour market settled into a low-wage equilibrium, where the excess supply of people who feel they have no choice but to work for low pay enables employers to pay less than a living wage? Are employers taking the easy way out of simply paying less, rather than seeking ways to increase productivity, foster worker loyalty and so on?
- Is it the responsibility of taxpayers to supplement (and subsidise) low-wage employers rather than encouraging them (or compelling them, via higher minimum wages) to pay higher wages and reap the benefits?
- Why are so many Canadians caught in these low-paid jobs, and why are their chances of advancement so low? Many of them have made considerable investments in education. Some will have health limitations or family responsibilities that prevent them from working more intensively, but that is unlikely to affect them all.
- Is this labour market structure the one that we want to support and maintain? Are we undermining the future and the knowledge-based economy by simply “topping up” low wages, rather than working to dismantle the low-wage ghetto, as the Living Wage Initiatives seek to do.
- Should we only subsidize low wages in services that are essential to people, such as child care, home care, the environment and so on?

- Should governments be more assertive in setting minimum wages, after two decades of declining or stagnating real wages?

Smart social policy choices will aim to ensure that every child has the chance to develop her potential, and that every educated adult is able to use his skill productively. That is the resource base for raising standards of living in the future.

In the short run, Canada is devoting a lot of its potential talent to low-paid work. Some of that work is essential to economic growth and efficiency – blue collar workers, grocery store clerks, food service workers, and cleaning staff for offices, hotels and industrial facilities, to name a few. Other work is essential to meet Canada's social objectives – child care workers and support workers for the frail elderly – and to free up others so they can perform the work they have been trained to do.

What is that work worth? And who should be paying the cost – families, employers, or the state?

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Endnotes

[1] The author wishes to acknowledge the research assistance of Adam Seddon and helpful comments from Jane Jenson, Grant Schellenberg, Kathryn McMullen, and Mary Pat MacKinnon.

[2] In 1998, about 56 percent of young people aged 18 to 21 from the poorest 25 percent of Canadian families participated in post secondary programs. However, participation in university was quite a bit lower for those from poorer families than for those from wealthy families. While close to two in five young adults from the wealthiest 25 percent of Canadian families attended university in 1998, less than one in five from the poorest 25 percent of families did so. (Statistics Canada, 2002)

[3] Christopher Sarlo of the Fraser Institute has estimated a poverty line based on his assessment of the cost of basic needs (food, clothing, transportation, telephone) This produces estimates which are 30 to 40 percent lower than the low income cut off. However, Sarlo has used a very stringent budget, assuming that a family of four can purchase a nutritious diet for $16 per day in 2002, that is $4 per person.

[4] Indeed, the growing professionalization of the female work force has contributed to the widening polarization of family earnings in Canada. Typically, high earners marry other high earners (a doctor marries a lawyer) while low earners marry other low earners (two people with limited education, for example). In this second case, there is a risk that both earners will be working for low wages.

[5] One important exception to this statement was the creation and gradual enrichment of the Canada Child Tax Benefit, which is a refundable tax credit paid to families with children.

[6] For purposes of this paper, we have removed the young people under the age of 20 because it is so difficult to distinguish those who may be independent or heads of households from those who are still living as dependents with their parents. By the time young people have reached the age of 20, they are beginning to face the reality of financing at least part of their own education, establishing an independent household, and possibly forming a family.

[7] The federal and many provincial governments have agreed that the funds provided by Ottawa may be 'clawed back' out of welfare benefits and reinvested in other provincial child programs. Today, 8 of the 13 Provinces and Territories in effect 'claw back' CCTB benefits, but there are 5 exceptions: Newfoundland and New Brunswick have been passing on increased federal transfers to families since the programs inception in July 1998, and since that time, three additional provinces have altered their delivery of the CCTB. In July 2001, Manitoba ceased clawing back benefits to families with children under age 7, a practice Nova Scotia adopted in August of that year. Quebec has also altered its delivery by passing on CCTB benefits to all families in the province of Quebec that receive its provincial family allowance benefits.

[8] See for instance the work of the Institute for Public Policy Research in the UK, and in particular, *The Asset Effect* (2001) by John Bynner and Will Paxton.

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