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# **Lifting the Boats: Policies to Make Work Pay**

**by**

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**Executive Summary**

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## **Executive Summary**

Almost one-sixth of full-time workers in Canada earn very low wages – below \$10 per hour in 2001 dollars. The percentage of full-time workers earning such low pay is about the same as it was in 1980 – the rising economic tide has not been lifting all boats. Most low-paid workers are part of households with more than one wage earner, and so manage to escape poverty. However, almost one-third of low-paid workers are poor, because wages below \$10 per hour are insufficient to allow a single-earner living in a large urban centre to avoid poverty, even if he or she were working full-time throughout the year.

Low-paid jobs tend to be low-quality jobs in other respects: poor access to non-wage benefits (such as life/disability insurance, extended medical coverage, dental insurance, and pension plans), more precarious work arrangements (such as more temporary work), less access to employer-sponsored training, and relatively low union coverage.

With government cutbacks to social assistance, unemployment insurance, and skills upgrading programs in the 1990s, many of those left behind by the labour market are not well-positioned to bounce back, and about half of low-paid workers seem to be stuck for long periods in low-paid jobs.

Evidence from CPRN's *Citizens' Dialogue on Canada's Future: A 21st Century Social Contract* suggests that Canadians expect people who work to be able to live decently. Citizens articulated a vision of a “working society” where everyone who can work gets a chance to earn a living wage. Yet we have people working full-time who are poor.

This report aims to identify instruments that would be effective and efficient in making work pay. The instruments reviewed include those focused on incomes (e.g., increasing the minimum wage; providing income supplements), on non-wage benefits (such as better access to Employment Insurance) and supports (such as access to affordable childcare, social housing, or insurance to pay medical costs that are not currently covered by public plans), and on enhancing the assets of vulnerable workers, be these financial assets (savings), or human capital (skills).

### **Instruments to Improve Incomes of the Working Poor**

Increasing the minimum wage would help make work pay, improve the incentive to move from welfare to work, and possibly enhance productivity and investment in skills development. The evidence suggests that sizeable increases in the minimum wage are possible without adversely affecting the employment of adults over the age of 24. While some of the benefits go to people living in well-off households, higher minimum wages disproportionately benefit the less well-off. Moreover, if the increases in the minimum wage are staged, the risks of negative employment effects are mitigated. Based on the evidence and historical experience in Canada, moving quickly (but in steps) to a minimum wage of about \$9.00 per hour seems warranted (with the possibility of a lower target in provinces without large urban centres).

Living wage initiatives that focus on requirements in government contracts are difficult to assess because there has been little research to date on the impact of such initiatives and because of

indications of inconsistent enforcement. The impact on low-wage workers, in any event, seems quite limited in scope. At the very least, however, efforts should be made to encourage firms to voluntarily adopt a policy of paying decent wages. More research documenting the productivity gains from such strategies would also be helpful.

Some countries, such as the US and the UK, provide income supplements to the working poor. The Employment Income Tax Credit in the US, while offering a small benefit to childless working people, is mainly geared to help families with children. In Canada, the National Child Benefit goes only to families with children, and may need to be higher in order to better match the costs of raising children. Canada has no income supplement for working people without children.

A modest income supplement could directly increase incomes of the working poor and improve participation of single parents in the labour force. However, if the clawback were based on family income, it might have adverse effects on the participation of married people. (A heavy reliance on income supplements to alleviate poverty among working people could also generate high marginal tax rates in the range of income where the supplement is being clawed back.) The risk that income supplements could result in a lowering of market wages for less-skilled workers (and become a kind of subsidy to employers who pay low wages) can be eliminated, or at least mitigated, if supplements are accompanied by increases in the minimum wage.

An income supplement with a maximum benefit of \$200 to \$250 per month, coupled with a minimum wage of about \$9.00 per hour, would go a long way towards meeting our objective of avoiding poverty for full-time workers in Canada

Low-paid workers need more than decent pay or income supplements. They need access to benefits and supports to allow them to meet special needs without impoverishing their families. This involves better access to:

- Coverage for drug and dental costs;
- Affordable childcare services;
- Affordable housing; and
- Employment insurance.

We also need to address the special needs of Aboriginal workers and recent immigrants.

Low-paid workers will be more resilient to change and more able to improve their prospects in the labour market if they can improve their skills and save for the future. In order to help the working poor build such assets we need to:

- Help our young people obtain at least a high-school diploma, and pursue paths that lead to recognized occupational qualifications;
- Expand access to adult basic skills (literacy, numeracy) and skill upgrading programs;

- Create incentives for employers to support measures to improve the skills of their less-skilled employees; and
- Reduce or remove means tests in government programs that strip the savings of low-income people.

## **Conclusion**

The analysis of the various types of instruments that may be used to make work pay suggests the need for a mix:

- Higher minimum wages on the order of \$9.00 per hour;
- Modest income supplements for the working poor (beyond an enriched National Child Benefit), with a maximum benefit of \$200-250 per month;
- Encouraging firms to voluntarily adopt a strategy of decent pay and working conditions;
- Providing coverage for pharmaceuticals (at least for “catastrophic” drug costs) and for basic dental care on a universal or “progressive universal” basis;
- Moving ahead to improve access to affordable childcare;
- Renewing investment in affordable housing;
- Improving access to EI benefits;
- Providing low-paid workers with better access to learning opportunities; and
- Removing or reducing asset-based clawbacks in government programs as a prelude to providing incentives for poor families to save.

The concept of a mix is important. None of these instruments is adequate on their own, and some work better when accompanied by others. For example, income supplements are most effective (and can be kept at a modest level) when accompanied by a moderate increase in the minimum wage and by social benefits such as affordable housing, affordable childcare, and insurance for drugs and dental care.

This mix of instruments would involve a redistribution of risk away from the most vulnerable workers. Employers would be asked to bear a greater responsibility for the well-being of their employees, through increases in the minimum wage, better compliance with minimum employment standards, and helping to provide better access to learning opportunities for less-skilled workers. Governments, through a variety of instruments, would play a much stronger role in helping working people to avoid poverty.

This report does not deal with all aspects of vulnerability in the labour market. Issues related to the growth of non-standard work (part-time, temporary, and/or self-employed work) and the receding coverage of Canada’s employment standards laws, are explored in much more depth in Chaykowski (2005) and Vallée (2005) and will be further examined in the synthesis report that

CPRN will be developing at the conclusion of the Vulnerable Workers series. In addition, ways of improving compliance with the laws that set out minimum conditions of employment are being examined in a separate report that will be published soon by CPRN and the Institute of Public Administration of Canada.

People who work full-time ought not to be poor, and ought to have prospects for advancement. The mix of tools suggested in this report is intended help us move toward attaining that modest objective.