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Research Highlights

Making Work Pay: Findings and Recommendations

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from CPRN's
Vulnerable Workers
Series

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People who work full-time should be able to live decently. Most Canadians would agree with this simple principle. In fact, they told us so in the 2002 *Citizens' Dialogue on Canada's Future*. Yet, for more than two decades, we have condemned one in six full-time workers to poverty-level wages. This is unfair. It is also a waste of their potential to contribute to the economy, their communities and the future of their families.

Why has this happened? Employers are faced with global competition, so they have shifted risk to employees to reduce costs. As a result, more work is temporary, or part-time, or contracted out, than in the past, and the demands on many regular employees have intensified. At the same time, governments, have cut back on social supports and shifted risk to individuals to reduce their deficits.

Even though Canada has been creating millions of well-paid jobs over the

decades, and the overall standard of living rose by 43 percent from 1980 to 2000, too many low-paid jobs were created, many of them part-time, casual, contract and temporary jobs. Efforts to reduce payroll costs and the growth in the service sector have generated these low-paid jobs. And since these people face high risks of job loss or a cut in hours, even families with multiple earners can experience periods of low income.

These highlights are based on an extensive series of studies on 'vulnerable workers' by CPRN. They will give you a description of who is low paid, what makes them vulnerable, and what Canadians can do about it.

'Vulnerable workers,' are those whose participation in the labour market leaves their well-being at risk. What makes adult workers vulnerable? The key factor is low earnings over a long period of time. This is often accompanied by one or more of the following:

- **Lack of opportunity to upgrade skills.**
- **Not entitled to legal protections** set out in employment standards – minimum wage, extra pay for overtime, public holidays or job protection for parental leave.
- **Not in a position to complain** while violations of the law often go undetected (or not penalized).
- **Unable to qualify for** such programs as **Employment Insurance (EI)** or to fully benefit from public pension plans.
- **Lack of access to non-statutory benefits** such as medical, dental, disability and pension plans. See Chart 1 on page 4.
- **Difficulty accessing affordable housing or affordable child care services.**

Lack of access to collective representation is correlated with some of these indicators of vulnerability, such as low pay and lack of employment benefits. The most detailed information we have is based on income. It is difficult to quantify all of the other characteristics of vulnerability.

Box 1: What Makes Workers Vulnerable?

- Earnings are low – over long periods.
- No opportunity to upgrade skills.
- Not protected legally by employment standards, or unable to complain if covered.
- Cannot qualify for Employment Insurance.
- No benefits such as medical, dental, or disability.
- Cannot get quality childcare or affordable housing.
- No access to collective representation.

Who Works for Low Pay?

Almost 24 percent of jobs (full-time and part-time) held by people aged 17-64 in 2004 paid below \$10 per hour in 2001 dollars. Almost 13 percent of jobs paid under \$8.00 per hour.

If we focus on full-time workers, the picture is not much better. One in six Canadians working full-time (about 1.7 million people) earned less than \$10 per hour in the year 2000.¹

- Young people (15-24) are most likely to earn low wages (45 percent). But over 16 percent of those aged 25-34 were low paid, about 13 percent of those aged 35-44, 12 percent of those aged 45-54, and over 14 percent of the 55-64 age group.
- They are more likely to be women: about 22, compared to only 12 percent of men.
- Education matters, but it is not a cure-all. The incidence of low pay among those who did not complete high school was about 26 percent; for those with a high school diploma but no post-secondary certificate or degree, 21 percent; for those with a post-secondary certificate or diploma, 13.5 percent, and for people who graduated from university, 6.5 percent. While the less-educated are more likely to be low paid, over 37 percent of all workers earning low pay have some post-secondary education.
- Over a quarter of recent immigrants – those who arrived in Canada during the five preceding years – were low paid in 2000, compared to one-sixth of Canadian-born workers. Visible minorities are the most vulnerable among recent immigrants. Almost one-third were low paid, likely because of language difficulties and challenges to their educational credentials.

¹ The Census data reported in Morissette and Picot (2005), adapted from Chung (2004), are the most recent data that allow us to identify the concentration of low-paid workers in various demographic groups, and to link low pay to low family income.

- Lone mothers (but not lone fathers), people living with relatives but not part of the immediate family, and unattached individuals under 40 years of age are especially vulnerable.

Low pay is not a new phenomenon. Low-paid work has represented a large share of the Canadian labour market for a long time. Its persistence in the face of economic growth and a more educated workforce is disturbing.

How Many Low-paid Workers Improve Their Situation?

Almost half of the people who were low paid in 1996 had failed to move up by 2001 (Janz, 2004). Those who had the most success were men, young workers, people with university degrees, and those who belonged to a union. But women had only a 28 percent chance and those with a high school diploma or less, only 46 percent improved their job situation.

How Many Low-paid Workers Live in Low-income Families?

Family income depends not only on wage levels but also the number of people earning income. Still, about 30 percent of full-time workers who were low paid in 2000 lived in households with collective income below Statistics Canada's Low-Income Cutoff (LICO). Here is where women have an advantage since many are married to men with higher pay. Only 25 percent live in 'poor' families. The figure is higher for men (36 percent), recent immigrants (44 percent), visible minorities (39 percent), and lone mothers and lone fathers (more than 50 percent). Lone parents are clearly at a disadvantage with no second earner to compensate for low-paid work (though some receive support payments from a former spouse).

Among those working for low pay, almost 80 percent of unattached individuals (living with others, but not sharing income with them) and 70 percent of individuals living alone are living in low income. The high figures reflect that such persons, by definition, do not benefit from other earners in the household, and the wage threshold chosen to define low pay approximates the LICO threshold for single individuals living in a large urban area.

Who Has Difficulty Accessing Employment Protections?

All Canadian jurisdictions have laws that specify minimum standards of employment. These standards include minimum wages, rules regarding overtime pay, the provision of paid vacations and public holidays, and job protection for employees who take maternity or parental leave.

We all benefit from these standards. Workers' well-being is promoted, and employers find that workers who are treated fairly are more productive: absenteeism and turnover rates are lower. Employers also benefit because a minimum set of standards provides a level playing field, so that they cannot be undercut by those offering substandard terms of employment. Taxpayers benefit from savings in social programs, since workers with pay and benefits are less likely to turn to social assistance.

The problem is that fewer people meet the traditional definition of employment (see Box 2). With the growth of part-time, temporary and self-employed workers, a rising share of the workforce has become ineligible for the protections of employment standards laws. Self-employed workers are generally excluded. Also, some contract and temporary workers, as well as recently hired employees, may not qualify for certain protections (e.g., public holidays, maternity leave) because some jurisdictions have eligibility rules that require a minimum length of time with the employer.

Box 2: Non-standard Work

In 2002, full-time, permanent employees made up 63 percent of all workers. Of the remainder, the breakdown is as follows:

- Permanent part-time: 11 percent of total employment.
- Full-time temporary: 7 percent.
- Part-time temporary: 4 percent.
- Self-employed with no employees: 10 percent.
- Self-employed employers: 5 percent.

Source: Vosko et al. (2003).

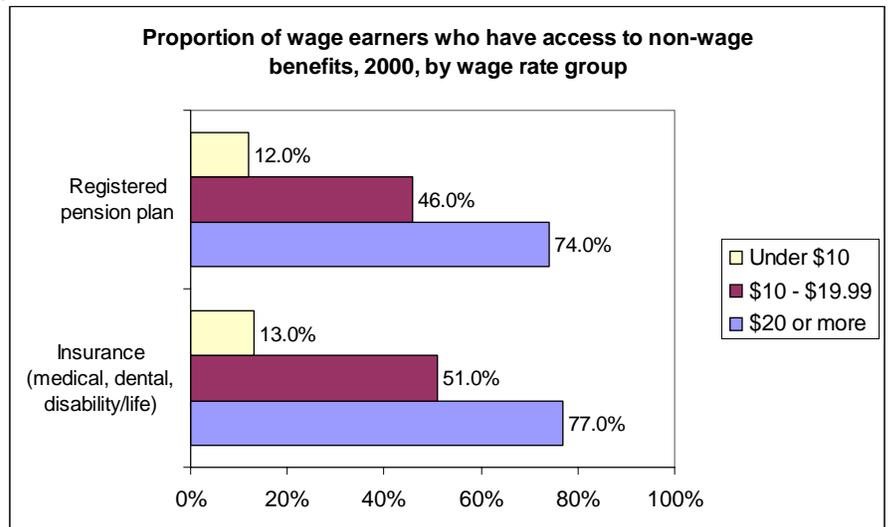
But even workers with regular, full-time jobs and traditional employment relationships may still lack meaningful access to employment rights if the employer does not comply with the law. Lack of compliance can arise for a variety of reasons.

- Employers may be unaware of their responsibilities and workers may be unaware of their rights – especially new entrants and recent immigrants.
- The employee is defined inappropriately as an independent contractor.
- There may be wilful non-compliance by employers to save costs, and this non-compliance may go undetected or not be fully addressed (e.g., monies owed to employees are never paid, or only partly paid).
- Workers may be reluctant to complain because of the real risk of losing their jobs or, in the case of people employed by a temporary help agency, the risk of losing future assignments.

Are Low-paid Workers Able to Obtain Employment Benefits and Social Supports?

Low-paid workers typically have poor access to key employment benefits. Marshall (2003) looks at three wage rate ranges: under \$10 per hour, \$10-\$19.99, and \$20 or more. As illustrated in Chart 1, only 13 percent of the low wage group is covered by an insurance package (medical, dental, disability/life) in 2000, compared to 51 percent and 77 percent for the mid-wage and high-wage groups, respectively.

Chart 1



Low-paid workers also have relatively poor access to employer-sponsored training. Data from the *2001 Workplace and Employee Survey* show that fewer than 20 percent of workers who were paid less than \$10 per hour benefited from employer-sponsored classroom training, compared to over 45 percent of those paid \$20 or more per hour. This creates a serious barrier to upgrading skills so people can qualify for a better job.

Nearly 16 percent of Canadians are unable to afford shelter that meets accepted norms for adequacy, suitability, and affordability. Another problem is the lack of affordable child care, though the development of maternity and parental leaves

helps some workers care for infant children for a limited time. Too much of our social policy framework is still built on the outdated, “male breadwinner” model.

In summary, vulnerable workers are locked into a Catch 22 experience. They cannot earn enough to make a decent life, they have limited access to training and education which would improve their chances of a good job, and they are excluded from basic social protections by outmoded eligibility rules or employers’ lack of compliance with employment standards. The result is that many of these working people are worse off than others on social assistance. Both employers and governments have shifted risk to people who cannot help themselves.

**Box 3:
Low Wage Workers Caught in
Catch 22**

- Cannot earn enough for a decent life.
- Limited access to training and education.
- Excluded from basic social protections.
- Worse off than those on social assistance.
- Employers and government have shifted risk to vulnerable workers.

How Can We Help Vulnerable Workers Realize Their Potential?

People who work should be able to live decently. To ensure that they do, we need to think not only about the adequacy of wages earned, but also access to benefits and supports to meet special needs, and opportunities to “move up.” Specifically, we can identify four policy objectives:

1. **Adequate income.** The combination of market wages, plus any government income supplements for the working poor, should be enough for someone working full-time to have income above the Low-Income Cutoff (LICO) for an individual living by themselves. This means that minimum wages must be increased.
2. **Basic protections regarding conditions of work.** All employees should have real access to basic protections such as minimum wages, overtime and vacation pay, public holidays, and job-protection for maternity or parental leave that are enforced.
3. **Basic social benefits.** All workers (and arguably, all individuals, whether working or not) should have access to benefits and supports – such as coverage for catastrophic pharmaceutical costs, access to affordable housing, access to good quality, affordable child care – that are important to well-being.

4. **Opportunities to move up.** Workers who are low paid or able to find only part-time work should have opportunities to improve their labour market prospects, such as through participation in activities to upgrade skills.

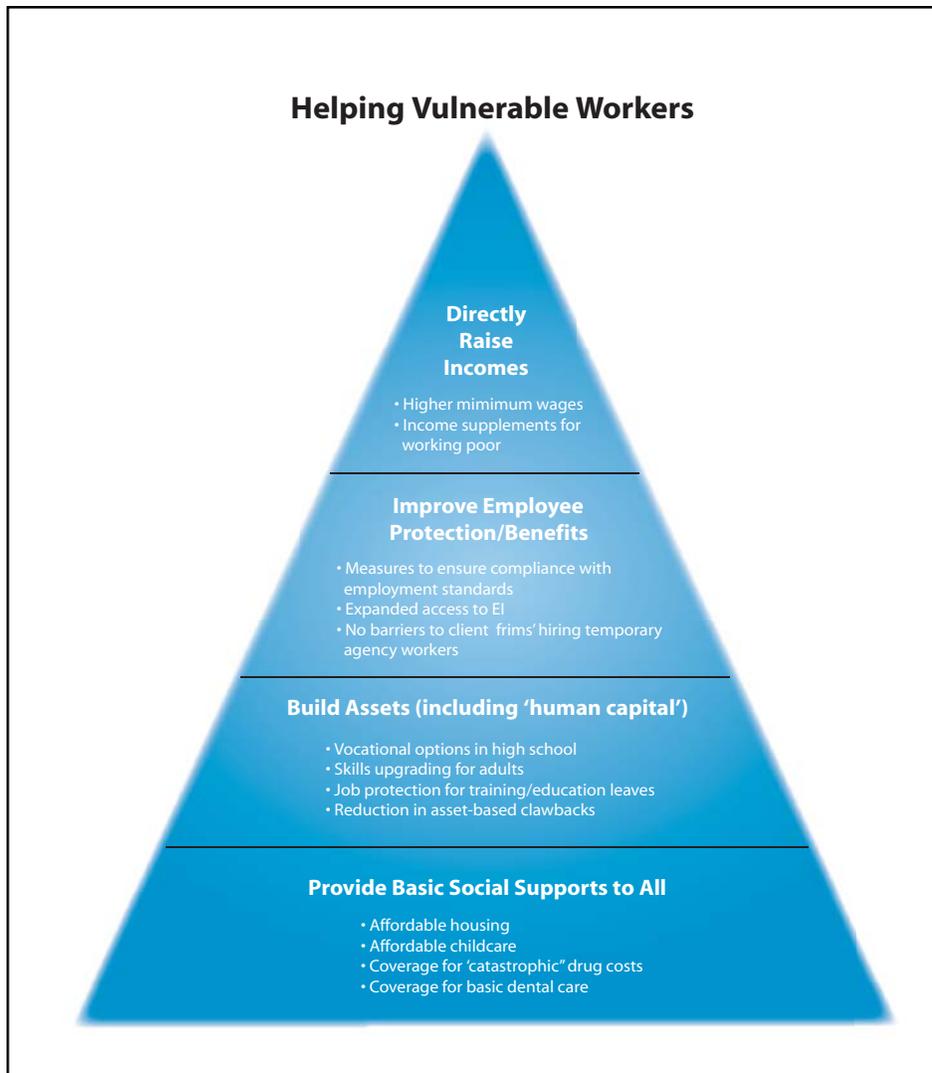
There is no quick and easy way to meet these four policy objectives. Vulnerable workers are a highly diverse population and their needs vary tremendously – some need training, some need better housing and care-giving services, others need recognition for credentials they have already earned or a reliable package of employment benefits. Meanwhile, employers face competitive constraints and governments face financial limits. It will take a comprehensive, multi-layered, response to make a difference, using a variety of policy instruments.

Our recommendations address the objectives set out above without unduly burdening governments or employers. Governments will need to do more, but in ways that address economic and social risk more efficiently than is the case today. Employers are asked to do more in some areas, but less in others. Individuals, meanwhile, have a responsibility to take advantage of opportunities provided to them and to actively seek to acquire skills and knowledge. We need a framework which balances the risk more fairly between workers, employers and governments.

Figure 1 (on page 6) shows how our recommendations range from universal measures (the broadest tier in the chart) to more targeted ones (in the top three tiers). Each tier corresponds to one of the four objectives outlined above. More detail on our key recommendations is shown in Annex A (see insert).

For the full set of our recommendations, see the research report *Risk and Opportunity: Creating Options for Vulnerable Workers*, available on our Web site.

Figure 1



Will Such Measures Increase Employers' Costs?

No, the recommendations, as a package, will help, not hurt employers. We recognize the danger in too much regulation, which is why we recommend only a few, quite focused, regulatory changes, such as banning contract provisions that prevent client firms from hiring workers employed by temporary help agencies, as this seems a violation of basic rights.

Modest but continuing increases in the minimum wage have had no effect on the employment of people over age 24, and little effect on those aged 20-24. There is evidence of a negative impact on the employment of teenagers, but this can be mitigated by having a lower minimum wage rate for teenagers than for other workers. Moreover, when people are paid fairly, turnover and absenteeism decline, so productivity improves.

Minimum wages in Canada are not very high by international standards. Countries with higher minimum wages than Canada include Australia, Belgium, Ireland, the Netherlands, New Zealand, and the United Kingdom. Although minimum wages in Canada have been increased from time to time, when adjusted for inflation they have fallen 21 percent below their peak levels of the mid-1970s (Battle, 2003, p.6). Battle notes (p.16) that “minimum wages fail to lift single workers, most single-parent families with one child, and all one-earner families with two children above the after-tax poverty line for the largest cities throughout Canada.” (Table 1 shows current minimum wage rates in Canada.)

Most importantly, we do not ask employers to bear all the costs of helping vulnerable workers. Our recommendations include a call for government-funded earnings supplements for the working poor. We also recommend that coverage for ‘catastrophic’ drug costs and basic dental care be provided by government on a ‘progressive universal’ basis (namely, a benefit for all, but with some tax-back of the costs at high levels of income). This would reduce labour costs for many businesses (as well as greatly reduce the penalties that some people face when they move from welfare to work). Our emphasis on improving the skills of vulnerable workers, and those of young people before they enter the labour market, will help employers by increasing the supply of skilled workers.

Consequently, the costs for governments, especially the provinces, will increase over the near term, as

they invest in affordable housing, childcare, vocational training and skills upgrading, enhanced coverage for drug and dental care, and income supplements for the working poor. These changes will improve the lot of low- and modest-income families. In the longer term, governments will benefit on the revenue side – higher personal and corporate tax collections – and on the expenditure side, as workers and their families become more financially secure, their health and their ability to cope with intermittent hardships will improve (for example, through higher savings).

In short, the whole goal here is to rebalance the risks so that they are shared more evenly among individuals, employers and governments.

Table 1: Minimum Hourly Wage Rates for Adult Workers in Canada (Current and Forthcoming)

| Jurisdiction | Effective Date | Wage Rate | Note | Announced Future Steps |
|-----------------------|----------------|-----------|---|--|
| Federal | 18-Dec-1996 | | The minimum wage rate applicable in regard to workers under federal jurisdiction is the general adult minimum rate of the province or territory where the work is performed | |
| Alberta | 01-Sep-2005 | \$7.00 | | |
| British Columbia | 01-Nov-2001 | \$8.00 | | |
| Manitoba | 01-Apr-2006 | \$7.60 | | 01-Apr-2007 - \$8.00 |
| New Brunswick | 01-Jan-2006 | \$6.50 | | |
| Newfoundland | 01-Jan-2006 | \$6.50 | | 01-Jun-2006 - \$6.75 01-Jan-2007 - \$7.00 |
| Northwest Territories | 28-Dec-2003 | \$8.25 | Applies to all employees in the Northwest Territories. | |
| Nova Scotia | 01-Apr-2006 | \$7.15 | | |
| Nunavut | 03-Mar-2003 | \$8.50 | Applies to all employees in Nunavut. | |
| Ontario | 01-Feb-2006 | \$7.75 | | 01-Feb-2007 - \$8.00 |
| Prince Edward Island | 01-Apr-2006 | \$7.15 | | |
| Quebec | 01-May-2006 | \$7.75 | | |
| Saskatchewan | 01-Mar-2006 | \$7.55 | | |
| Yukon | 01-May-2006 | \$8.25 | | |

Adapted from table on HRSDC website: http://www110.hrdc-drhc.gc.ca/psait_spila/lmnc_esc/eslc/salaire_minwage/report1/index.cfm/doc/english

Working people deserve the opportunity to live decently, to realize their potential for personal development, and to contribute to our economy and society. The policy mix suggested here is meant to help identify ways to meet this objective and foster an inclusive, prosperous society. Let's not continue to needlessly leave people behind. We are wasting much needed human potential.

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The Vulnerable Workers Project

- *Defining Vulnerability in the Labour Market* (Saunders, 2003): describes the general concept of labour market vulnerability, identifies features of the labour market that contribute to vulnerability, and sets out a research agenda;
- *Non-standard Work and Economic Vulnerability* (Chaykowski, 2005): analyzes the growth of non-standard work and its connections to vulnerability; documents the degree to which part-time and self-employed workers experience low annual earnings;
- *Towards Enhancing the Employment Conditions of Vulnerable Workers: A Public Policy Perspective* (Vallée, 2005): discusses alternative ‘platforms’ for improving access to basic employment protections (such as entitlement to minimum wages, overtime pay, public holidays, job-protected parental leave, the right to join a union) and benefits (e.g., extended medical insurance);
- *Does a Rising Tide Lift All Boats? Low-paid Workers in Canada* (Saunders, 2005a): drawing on recent research by Statistics Canada, profiles low pay by gender, age group, educational attainment, immigrant status, visible minority status, and family status, focusing on full-time workers; examines access of low-paid workers to benefits; and looks at the trends regarding low-paid work since 1980;
- *Lifting the Boats: Policies to Make Work Pay* (Saunders, 2005b): reviews experience in Canada and other countries with various policy instruments to make work pay, and recommends a mix of instruments suitable for the Canadian context;
- *New Approaches in Achieving Compliance with Statutory Employment Standards* (Dutil and Saunders, 2005): based on interviews with government officials (across Canada and in several other countries), representatives of business and labour groups, and people working on the front-lines to assist vulnerable workers; identifies the key elements needed to improve compliance with employment standards laws, and describes examples of innovative practices; and
- *Risk and Opportunity: Creating Options for Vulnerable Workers* (Saunders 2006): provides a synthesis of findings of the above studies as well as other recent research in the area and identifies policy options for helping vulnerable workers realize their potential.

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ANNEX A

Details of Recommendations

The matrix below summarizes the details of our key recommendations to decision-makers – employers and federal and provincial governments. Each step on its own will make a difference for many, but a comprehensive approach is needed to bring Canadian labour market policies back into balance with the new economy and new society of the 21st century.

Directly Improve the Incomes of the Low Paid

| Change Needed | Target Actors | Timeframe for Action |
|---|---|---|
| Higher minimum wages, on the order of \$9.00 per hour in most provinces, \$8.00 in those without large urban centres. | Federal and provincial governments. | Begin now to move, in stages, towards target (and continue to adjust target over time). |
| Modest income supplements for the working poor, with a maximum benefit of \$225 per month. | Federal government (but could, in principle, be initiated by provincial governments). | Medium term (approx. 2 years). (Requires detailed design work). |

Improve Workers' Access to Decent Working Conditions and Employment Benefits

| Change Needed | Target Actors | Timeframe for Action |
|--|--|--|
| Prohibit contract provisions that prevent temp agency employees from accepting regular employment with a client. | Federal and provincial governments. | Medium term. |
| More actively seek compliance with employment standards, through such measures as: promoting awareness of the key standards among new entrants to the labour market (youth in school, new immigrants, new employers); randomly auditing employers in high risk sectors; widening the investigation of substantiated claims to the workplace as a whole (at least in high risk sectors); ensuring that serious violations lead to real penalties. | Federal and provincial governments, employer associations, unions, school boards, community organizations. | Begin planning now. Implement within one year. |
| Change eligibility rules for EI to expand access to unemployment benefits, especially for non-standard workers and entrants and re-entrants to the labour market. | Federal government. | Medium term (requires more detailed policy development). |

Help Vulnerable Workers Build Assets

| Change Needed | Target Actors | Timeframe for Action |
|---|--|-----------------------|
| Enhance the availability of occupational qualifications in our high schools. | Provincial governments. | Medium- to long-term. |
| Provide low-paid workers with better access to opportunities to upgrade their skills (and recent immigrants with better access to language training that meets labour market needs, and bridging programs to help them acquire Canadian credentials). | Federal and provincial governments; employers. | Medium term. |
| Remove or reduce asset-based clawbacks in government programs as a prelude to providing incentives for poor families to save. | Federal and provincial governments. | Medium term. |

Ensure that Everyone has Access to Basic Social Supports

| Change Needed | Target Actors | Timeframe for Action |
|--|-------------------------------------|------------------------|
| Provide coverage for catastrophic drug costs and basic dental care on a “progressive universal” basis. | Federal and provincial governments. | Medium- to long-term. |
| Improve access to affordable child care and affordable housing. | Federal and provincial governments. | Short- to medium-term. |

Other recommendations are outlined in *Risk and Opportunity: Creating Options for Vulnerable Workers*.

No single instrument is adequate on its own, and some work better when accompanied by others.

For example:

- Income supplements on their own can lead to a reduction in market wages, high marginal tax rates in the phase-out range, and considerable expense for government. All of these are mitigated when income supplements are accompanied by a moderate increase in the minimum wage.

- Measures to expand the reach of employment standards will be easier for employers to absorb if, at the same time, some benefits now provided by employers are provided by government universally.
- Measures to facilitate the acquisition of skills and knowledge make it less likely that workers will need to draw on other supports.

Taken together, the measures we propose can help make work pay, and give working people the opportunity to realize their potential to contribute to our economy and society.