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Are Wage Supplements the Answer to the Problems of the Working Poor?

By Andrew Jackson



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Are Wage Supplements the Answer to the Problems of the Working Poor?

A “New Idea” in Canadian Social Policy

The idea of addressing poverty through some kind of wage supplementation program has been around for some time, but has only recently moved to the centre stage of Canadian social policy. Unlike the more visionary concept of a Guaranteed Annual Income for all citizens, wage supplements are intended to promote and support employment in low-paid jobs. They have been seen as more “work-friendly” than traditional welfare programs (Myles and Pierson, 1997).

One widely cited model is the U.S. Earned Income Tax Credit, or EITC, which provides a (low) annual income supplement to working poor families: i.e., to families which have low incomes and also participate in the paid job market. A similar plan in the UK has been expanded under “New Labour,” and one is now planned for Canada at the national level. Saskatchewan and Quebec already offer modest wage supplement programs.

The idea of wage supplements for the working poor has been promoted as one element of welfare-to-work policies by several proponents of a “new social architecture” for Canada, notably the Canadian Policy Research Networks

(CPRN) (Jenson 2004) and the Caledon Institute for Social Policy. Wage supplements were recently highlighted in the May, 2006 report of the Toronto-based Task Force on Modernizing Income Security for Working Age Adults (MISWAA), and indeed MISWAA was likely the prime mover behind recent federal government interest in this area. The Task Force included a very wide range of community, business, and some labour participants, and reached a broad consensus that the problem of working poverty had to be seriously addressed.

Among other recommendations, the final MISWAA report called on the federal government to introduce a wage supplement of up to \$200 per month for persons working at least 50 hours per month, to be fully phased out at an annual household income of \$21,500. (The MISWAA report is available at www.torontoalliance.ca.) In combination with a refundable tax credit for all low-income working-age adults, the wage supplement would bring a single adult working 32 hours per week at the Ontario minimum wage to an income of about \$16,000 per year, from the current level of \$13,000 per year. It is important to note that the Task Force reached a broad con-

sensus in favour of a menu of measures, including reform of the Employment Insurance system, increases in the minimum wage, and improvements to social assistance programs in addition to these new tax credits.

The 2005 Economic and Fiscal Update presented by the Liberals just before their Parliamentary defeat in November 2005 called for a “Working Income Tax Benefit” (WITB) to be introduced in 2008–09. It was intended to “make work pay for low-income Canadians” and to ease transitions from welfare to work. The illustrative example envisaged a maximum benefit of \$1,000 for a single parent with one child, which would phase-in as family earnings reached a threshold of \$3,000, and would begin to phase-out as net family income rose above \$18,000 (roughly the poverty line for a single adult). The benefit would disappear entirely when family income reached \$28,000. It was expected that the new benefit would, like family income-tested child benefits, be delivered through the income tax system. The Conservative government promised in the 2006 Budget to “push this idea forward” in consultation with the provinces and territories.

Leading proponents of a WITB conceive of its role in different ways, and have different views on how other income support programs for working-age adults, like social assistance and Employment Insurance, should be changed. However, they start from similar correct premises: paid work in today’s job market is no guarantee of escape from poverty, and the “welfare wall” needs to be lowered.

The Working Poor

A significant group of Canadians participate on a regular basis in the paid workforce, but nonetheless live in poverty. Single-parent families and single adults are particularly vulnerable since they depend on only one wage. In round numbers, a single person must work full-time hours for a full-year for about \$10 per hour to reach

a poverty-line income (as defined by Statistics Canada’s pre-tax low income line), and those with children must earn even more so long as child benefits fall short of meeting the costs of raising children. Those who have an hourly wage below \$10 — about one in four of all workers — and about one in five adult women workers age 25–54, and one in ten adult male workers, will fall short (Jackson 2005: Chapter 2).

Recent studies show that the proportion of low-wage workers in Canada has not fallen over the past twenty-five years, and indeed that real wages have fallen for the bottom half of the workforce. Moreover, many people are trapped in low-wage jobs. Of adult low-wage earners over age 25, about two-thirds of women, and half of men, remain low paid (Morissette and Picot 2005; Morissette and Johnson 2005).

Many workers with interrupted earnings will also fall short of poverty lines, especially now that only a minority of unemployed workers qualify for Employment Insurance benefits. The risk of periods of low or no hours of work has increased in recent years with the growth of contract jobs and solo self-employment, while the risk of unemployment has always been, and remains, much higher among low-wage workers.

Low hourly earnings and insecure employment condemn many low-wage workers and their families to poverty. This is especially true of single-parent families headed by women and single adults, including persons with disabilities and those with limited formal education, who must rely on a single wage and are not cushioned by the earnings of other family members. Women are particularly vulnerable because of lower earnings and greater likelihood of precarious employment.

In 2003, 12.1% of all persons aged 18 to 64 (including 33.6% of single persons in this age group) and 11.5% of children lived in poverty (defined by the after-tax LICO line). Poverty levels are much higher among recent immigrants and workers of colour, the great majority of whom

belong to the working poor as opposed to the welfare poor.

The 2005 Campaign 2000 report on child poverty showed that almost half of children living in poverty belong to working poor families, defined as families in which at least one parent worked all year. Similarly, research by Social Development Canada shows that almost half (44%) of all poor households contain at least one working-poor adult (Fortin and Fleury 2004).

The “Welfare Wall”

Low and insecure earnings are a major part of the “welfare wall” which traps many people and families on social assistance. Transitions from welfare to work are enormously difficult if income from low-wage and insecure employment does not replace even punitively low levels of income support from social assistance. This is often the case if the available work is low-wage, part-time, or contract employment, and when work also means incurring major child care costs, as well as loss of health and, possibly, social housing benefits. The need for transitional supports as families leave welfare has been increasingly recognized, and some provinces now temporarily cover drug costs in the transition, and also supplement the earnings of persons leaving welfare.

Should Labour and Social Policy Reformers Support Wage Supplements?

Interest in helping the working poor is a welcome turn from the punitive orthodoxies which dominated Canadian social policy from the mid-1970s through the 1990s. Wage supplements are at least “carrots” to help people move from welfare to work, not the punitive “stick” of welfare cuts wielded by most provinces (especially in Ontario and Alberta under Harris and Klein). Advocates of a WITB are on the progressive side of the political spectrum to the extent that they think that work should pay, believe that people

who move from welfare to work should be better off as a result, and also believe working families should not live in poverty. It is notable that, as part of the MTSWAA process, these propositions have been broadly supported by some major business actors such as the TD Bank (TD Economics 2005).

The pros of a WITB are clear. Depending upon the level and precise design, supplements could provide a non-trivial income boost to working poor families and lower the “welfare wall.” They could also be an important part of the answer to providing a decent income to people who cannot be reasonably expected to work on other than a part-time or part-year basis, notably some persons with disabilities and single parents of young children who reasonably want to work part-time. Income supplements could — along with access to continued access to health benefits, child care, and affordable housing — be an important part of policies to ease the transition from a deeply stigmatizing and degrading social assistance system to full participation in the paid workforce.

All that said, some important caveats and reservations should be made about the concept of income supplements for the working poor.

What is the Mischief to be Remedied? Low Pay or Poverty?

A central underlying question is whether governments should recognize the reality of low-paid and precarious jobs, and top-up low family incomes, or intervene directly to ensure that there are better-paid and more secure jobs for workers. In many circles, including the MTSWAA exercise, higher minimum wages and wage supplements have been debated as alternatives, with business supporting wage supplements as a “market-friendly” way to fight poverty. (In fairness, other proponents, such as CPRN and Caledon, envisage some combination of higher

minimum wages and supplements for working-poor families.)

Some advocates of wage supplements see higher minimum wages as an “inefficient” poverty-fighting tool since many minimum-wage workers are young people and supposedly “secondary” (mainly women) earners who live in families which do not fall below the poverty line. As TD Economics posed the issue, “The question policy-makers need to ask themselves is whether they want to help workers with low earnings independent of their family economic situation, or help workers who live in poverty.” (TD Economics 2005: p. 27.)

A narrow focus on the income needs of working poor families is at odds with a broader focus on the needs of low-wage workers. Women with low wages and precarious jobs who are protected from poverty by the earnings of a spouse can be trapped in dependent family circumstances, and excluded from opportunities to develop their own capacities. Young working adults may escape poverty by living at home, but at the price of their autonomy. Paid work has many valued outcomes for the individual worker other than a reasonable family income.

Putting the Main Focus on Raising Low Pay

We need a clear sense of what the balance should be between wage supplements on the one hand, and policies to raise wages through higher minimum wages, stronger labour standards, and access to collective bargaining on the other. “Realists” argue that precarious work and underemployment are here to stay. But the key focus should remain on improving the quantity and quality of jobs. This perspective is shared by the labour movement (CLC, 1988) and many leading anti-poverty groups. Campaign 2000, the National Council of Welfare, and the National Anti-Poverty Organization have all stressed the need for better wages and employment standards.

Canada is, like the U.S. and the UK, a low-wage country. One in six men and one in three women working full-time earns less than two-thirds of the national median wage, roughly double the level of most continental European countries, and almost four times the level in the Scandinavian countries. Countries with relatively equal wages and low levels of low pay tend to have low levels of family income inequality and poverty. This is unsurprising at one level, because the task of topping up low wages from transfers to promote family income equality is easier if wages are relatively equal. More surprisingly, it is because countries with high levels of wage equality also tend to spend relatively more of their national incomes on social transfers and on public services (Jackson 2005: Chapter 11).

In the abstract, it seems plausible to say that the market should set wages and that governments should offset market inequality through income transfers. In the real world, however, very unequal societies have generally not considered income redistribution and poverty alleviation to be very important. It is telling that the current U.S. Republican majority has rejected further improvements to the Earned Income Tax Credit for the working poor on the grounds that “tax cuts should go to taxpayers.”

Comparatively few workers must put up with low pay in the Scandinavian countries because unions represent a large proportion of the workforce, even in private services, where most lower-pay jobs are to be found. Collective bargaining raises the relative pay of workers who would otherwise be low paid (women, youth, workers of colour, the relatively unskilled and less educated) by compressing wage differentials and also by raising productivity. Even the OECD and the World Bank concede that it is possible to have widespread collective bargaining coverage and also high levels of employment, labour market adaptability, and good macro-economic performance (OECD 1996; Aidt and Tzannatos 2003). The OECD has also conceded that a

“reasonable” wage floor set through a statutory minimum wage can counter low pay at no cost in terms of higher unemployment.

An adequate wage floor, whether set by high union coverage or a decent minimum wage, would accomplish many of the goals of wage supplements. It would “make work pay,” increase work incentives, and reduce the risk of income loss in transitions from welfare to work. But a wage floor also gives employers an incentive to boost productivity by investing in capital equipment and in training. Raising productivity in low-wage sectors, especially consumer services, need not come at the price of unemployment if other policies: macro-economic and industrial policies, plus expansion of public services, maintain close to full employment. In short, wage floors are an important economic tool with which to shift work to higher productivity/higher-pay jobs, and not just a tool of income redistribution.

A higher wage floor could be established over time by facilitating union representation of lower-paid workers. This probably requires new forms of representation and bargaining at a sectoral and geographical rather than workplace by workplace level, so as to take labour costs out of the competitive equation in economically relevant sectors. Successful organizing and bargaining to improve wages, job security, and access to training for low-wage workers have taken place, for example, among security guards, among child care workers in Quebec, in city-wide hotel and building cleaning services agreements, and in province-wide agreements for workers in the broader health care and social services sectors.

Given the very low level of current union representation in low-wage sectors, an effective wage floor also requires increasing minimum wages to adequate levels. Many social advocacy organizations have recently argued that the minimum wage should provide a living wage sufficient to keep a single person working full-time, full-year above the poverty line, imply-

ing a minimum wage of at least \$10 per hour, or about two-thirds of the median hourly wage. Such a level could be reached, as in the UK, by increasing the minimum wage at a somewhat faster rate than prices and average wages, giving the labour market time to adjust.

How Will Wage Supplements be Paid For?

Unlike wage floors, wage supplements have to be paid for through taxes, and come at the cost of alternative forms of social spending. The fundamental fact of the matter is that a reasonably generous supplement to working poor families would be quite an expensive proposition, especially if it is only gradually phased out as income rises, and applies to the working poor as well as those leaving welfare for work. A program narrowly targeted to the latter would be unfair, and could lead to the displacement of current low-wage workers by welfare leavers.

In the real world, it is hard to imagine that a major earned income supplementation program would not come at the expense of other areas of social spending. In the past, advocates of basic income guarantees (e.g., the Macdonald Royal Commission; then Minister Lloyd Axworthy in his “Green Paper” of 1995) have favoured cuts to Unemployment Insurance (now EI) to free up funds for a new program. Part of the argument has been that EI regular benefits are an “inefficient” tool for fighting poverty since unemployed workers can collect benefits, even if their annual income is above the poverty-line, and since many unemployed workers have employed partners.

However, the key purpose of EI is to temporarily replace the lost wage income of individuals, not to redistribute income to low-income families. It is important to safeguard individual eligibility rather than treat workers differently based upon their family circumstances. An unemployed woman needs a replacement income

to cover a period of temporary unemployment or a maternity/parental leave, even if she happens to live with an employed man. Moreover, the current EI program plays an important potential role in stabilizing the incomes of middle- and lower-income families. While seriously undercut by the cuts of recent governments, EI has the potential to smooth out earning interruptions among the working poor, and the program still disproportionately benefits lower-income households.

The labour movement has advanced detailed proposals for EI reform which would significantly improve access to regular benefits, and the level and duration of benefits. While not targeted to the needs of working poor families *per se*, these proposals would improve access to the system for (mainly women and young adult) part-time workers, about one-half of whom do not qualify for benefits when they become unemployed. They would also improve access for seasonal and temporary workers. The EI program should recognize that many workers experience great difficulty in finding enough hours and weeks of work even in areas of seemingly low unemployment. The MISWAA report stressed the need to effectively include the big city working poor within the EI system.

As Myles and Pierson (1997) note, earned income supplements often reflect joint advocacy by neo-liberals and persons with a very narrow concern over poverty alleviation, neither of whom greatly value broader social benefits. In fact, high levels of investment in public and social services would greatly reduce the need for wage supplements. Many working-poor families would not be poor, or would be a great deal less poor, if they had access to free or heavily subsidized prescription drugs, public transit, public recreation programs, good quality child care, public educational institutions which did not charge extra fees, and so on.

Public provision of fundamentally important services is valuable from the point of view, not

just of minimizing poverty, but also of creating a more inclusive and equal society. For example, we value public education because it includes all children and equalizes life-chances, not just because it serves the needs of the poor. The kind of child care system we want would be universal and provided at reasonable cost to all, as opposed to just a subsidized pillar for welfare-to-work policies. Social housing programs can create quality affordable housing within inclusive mixed-income communities, as opposed to rent supplements which are designed simply to fill gaps between low incomes and market rents.

A Family Income-Based Benefit?

The cost of any specific wage supplement program will depend on the size of the earnings supplement, the rate at which it is withdrawn as family income rises, and the family income level at which it is fully phased out. Inherent in such schemes is the fact that some recipients could face quite high tax rates at rather low levels of income, perhaps as they moved from part-time to full-time, or from part-year to full-year jobs.

Wage supplements as they exist in the U.S. and UK and have been proposed for Canada are based on family income. It is on the basis of family income that people would qualify for a particular level of benefit. However, if earnings supplements are withdrawn on the basis of rising household income, then some people will face very high taxes on individual earnings. For example, the earnings of a spouse or young adult child of a low-wage worker taking a part-time or temporary job could easily push family income to a level where the supplement was quickly lost. There are, at a minimum, major design problems from a gender and generational equality perspective to be considered.

Impacts on the Job Market

Wage supplements can be seen as a potential subsidy to low-wage employers. Some economists argue that earned income supplements could further encourage and entrench low-wage and precarious work, especially in a context of high unemployment (Iacobacci and Seccarecia 1989). Certainly, they would take some of the pressure off employers to improve wages and conditions, even in a tightening job market, as opposed to wage-floor policies which would work in the other direction. If wage supplements were quite generous in a context of high unemployment, they could allow employers to lower wages and effectively shift part of their labour costs on to governments.

Conclusion

High levels of employment in decent, rewarding, developmental jobs are central to social welfare. In any “new social architecture,” there must be a major emphasis on securing access to collective bargaining and raising minimum wages and employment standards. There must also be progressive reform of Employment Insurance, and continued emphasis on the importance of social and public services. If such policies were implemented, there would be a significantly reduced need for earned income supplements to address poverty among the working poor, and transitions from welfare to work would be facilitated.

That said, incomes from work will continue to be inadequate to the extent that many people may be able to find only short-term or part-time

jobs, or forms of self-employment which provide only low incomes. There is a case to be made for supplementing the wages of individual workers who are participating actively in the job market but are unlikely, for one reason or another, to find and hold jobs at a sufficient level of hours and earnings to provide an adequate income from wages and EI benefits combined. Even if access to EI benefits was significantly improved, some shortfalls would likely remain for persons working only limited hours.

These include some persons with disabilities, who could be assisted through a refundable disability tax credit designed to increase income and cover the often considerable costs of employment supports, and single parents of young children who may be able and want to work part-time, but cannot reasonably be expected to work full-time. There is also a case for transitional income supports for persons leaving welfare for work who cannot find full-time or permanent jobs, in addition to continuation of health, housing, and child care benefits. Finally, we should consider some kind of income supplementation program for the self-employed, given that many solo self-employed workers are working full-time hours for inadequate incomes, but are not generally covered by minimum wage and other employment standards, or by Employment Insurance.

In summary, wage supplements can play useful supporting roles in assisting the working poor, but should not be seen as the centerpiece of a new social architecture.

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