



Commentary

Making Work Pay

By
Ron Saunders

Your editorial of November 18th is right – a “nod to the working poor” is long overdue. But before the *Globe* gets carried away in praise of Ralph Goodale’s effort to support low wage workers, it might be wise to ask whether his plans will achieve what is needed.

In his recent Economic and Fiscal Update, the Minister of Finance announced plans for a new Working Income Tax Benefit (WITB) to “improve incentives to work for low-income Canadians.” The details are to be worked out with the provinces, but the general idea is that the WITB would supplement the earnings of low-income workers. The benefit would decline once family income rises above a set level.

This is a welcome initiative. A large share of Canada’s workforce earns wages that are persistently very low. Statistics Canada, drawing on data from the 2000 Census, found that one in six full-time workers earns under \$10 per hour. While most low wage workers are able to draw upon the resources of other family members to avoid poverty, 30 percent of them live in households whose collective income is not enough to make ends meet. And low wage work is persistent – for many, it’s a trap. Almost half of workers who were low paid in 1996 were still low-paid in 2001.

That a full-time worker should be poverty stricken conflicts with Canadian values. In CPRN’s *Citizens’ Dialogue on Canada’s Future: A 21st Century Social Contract*, Canadians from all regions argued for a “working society” where everyone who can work gets a chance to earn a living wage. We have failed as a society to realize this objective.

The WITB would help get us there, but it is not enough. Its stated objective, “to reduce the effective marginal tax rate for the lowest-income Canadians” is too narrow. Designed to make

the move from welfare to work more attractive – a worthy aim – it does not reach far enough. Our real goal should be to eliminate poverty among full-time workers. To achieve this we need a maximum benefit at least twice as big as Minister Goodale’s, which provides, at most, \$1,000 per year.

The WITB is a good idea whose time has come, but it won’t work all by itself. It needs help on three fronts:

First, earnings supplements, on their own, can lead to a reduction in market wages. This could occur because the supplement increases the supply of people willing to work for low wages, so employers could take advantage of the supplement to cut wages. The provinces need to support the supplement with an increase in their minimum wages. This would ensure that both employers and governments share the responsibility for “making work pay.” Some people will argue reflexively that higher minimum wages kill jobs. The research evidence does not support this. Most studies find little or no effect on adult employment from minimum wage increases. This includes studies in the UK, where minimum wages are substantially higher than in Canada.

Second, low wage work is much more than a matter of income. It results from a complex of factors and requires a mix of responses. For example, we need to ensure that workers are not impoverished when they have family members with a chronic need for pharmaceuticals, or because they cannot find affordable housing or child care. Well-off Canadians don’t have any worries in this regard, and those on welfare get special help in these areas. But we leave our low-paid working people adrift. That is not only unfair, it is bad economics.

Finally, we don’t want simply to help low wage workers pay the bills. We need to make sure they have the opportunity to move up in the labour market. Today’s government-funded training programs for adults focus on the unemployed, but offer little for the employed worker who wants to upgrade his or her skills. And employers are more likely to invest in training for their already skilled employees. We need to find a way to improve learning opportunities for less-skilled workers. Such measures pay for themselves, since the acquisition of skills and knowledge make it less likely that workers will need to draw on other supports, while they raise productivity. Fortunately, Mr. Goodale’s plan, and the recent signing of a Labour Market Partnership Agreement with Ontario, signal a willingness to move in this area.

The WITB is a step in the right direction. But, if we are to really make work pay, it must be part of a bigger package, one in a mix of essential tools.

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