



Canada's low wage economy

It is obvious that Canada is becoming more unequal, the middle class is shrinking and we are not tackling our continued high levels of poverty. This has huge implications for our country's continued prosperity and well-being.



Job creation and skills training is an important part of the solution, but just concentrating on this ignores the large role that low-wage jobs play in our economy and their influence on poverty rates. It also ignores the fact that the creation of well-paying jobs brings with it an increase in low-paid service-sector jobs: every time a new hospital, university, mining or computer company opens its doors and creates well-paid jobs, it also leads to the creation of low-paying jobs, usually contracted out, to service these firms' auxiliary needs such as security, cleaning and general administration.

Policy makers need to respond to this new reality with more sophisticated solutions. They need to look at social policy solutions that address the increased costs for low-wage families while also ensuring that all new and existing employment is measured against the template of a living wage.

"There's clearly a movement from high-paying professionals, public sector and construction jobs to low-paying service and retail. Even within manufacturing, there's a movement from high-paying manufacturing jobs to lower-paying."

CIBC economist Benjamin Tal.

The low wage economy in Canada

Canada's economy has an unsustainable dependence on the low-wage sector. Canada has the largest low wage sector in the western world. A significant amount of these low wage workers are living in poverty. High rates of poverty among working-age populations indicate wasted human resources, opportunities, and public spending. As the OECD has concluded, 'failure to tackle the poverty and exclusion facing millions of families and their children is not only socially reprehensible, but it will also weigh heavily on countries' capacity to sustain economic growth in years to come.'

Since the recession most new jobs are in the low-wage sector. Workers who lost their job in the recession of 2008/09 are finding out that new jobs being created since then are quite different from those that were lost. More and more of these newly created jobs are low wage jobs. Some workers have found jobs that pay more, but the number workers with wage losses outnumber those with wage gains by more than three to two. For those who made less, the average wage loss was more than 20%. More than 20% of laid-off workers who found new work no longer had a pension plan.

Large companies are employing an increasing number of low-wage workers. There has been a significant increase in the percentage of low wage jobs in large firms. Currently nearly half of all minimum wage jobs are in large firms. In 1998, big business hired 29.6% of all minimum wage employees in Canada; by 2012 they employed 45.3%.

The low wage economy: the new reality

Low-wage workers now have comparable levels of education and work at comparable level of employment as the rest of the economy. A recent study of the working poor in Toronto found that among the working poor, 48% have high school or less and 52% have some higher education. Comparable level of employment: The working poor tend to work a similar number of weeks per year and a similar number of hours per week as the average member of the working-age population. The working poor have, on average, more sources of income than those who are better off.

Low-wage jobs are no longer a route to a better paying job. A generation ago many people working a low wage job were able to use their work experience to move up the earning scale, or save for education or to set up their own business. This is no longer the case. Evidence suggests that low-wage work is a 'sticky' state. Not only are low-wage workers likely to stay in low-wage jobs from one year to the next, they are also more likely than workers in higher-wage jobs to fall into unemployment or to leave the labor force altogether. Low-wage jobs may not help, and may even hurt, the future labor-market prospects of the workers who hold them. Low-wage jobs, like spells of unemployment, may, for example, be associated with the erosion of a worker's accumulated skills. If so, a worker's long-term earnings potential would be enhanced more by a period of education and training than by working in a low-wage job. However there is little support for those in the low wage sector who wish to up skill themselves. There simply is no capacity for those working in the low wage sector to save money to pay for future training needs.

"Canada has one of the highest proportions of low-paid workers among similarly industrialized countries (25%) ... higher than in European countries and similar to the American rate." Statistics Canada.

More and more families are not earning enough to lift them out of poverty. It has been often remarked that the best route out of poverty is a job. While this is true for a significant amount of people, it is not true for too many families. Many people don't realize that British Columbia's high child poverty rate is first and foremost about low pay. Having a well-paying job can make a huge difference in family income, but well paying jobs are not always available. In 2010, 43% of the poor children in BC - 41,300 children - lived in families with at least one adult working full-time, full-year, and many others lived in families with at least some income from part-time or part-year employment.

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