

Make Work Pay

Labour Day is a tribute to the millions of Canadians who spend the better part of their day in various forms of paid work. But for far too many, their work does not pay.

Thousands of women and men toil full time for wages so low that they end up below the poverty line. Others work in casual or contractual employment, cobbling together two or even more jobs to earn a meagre income.

This stark reality is not a small problem when figures show that one in four workers make just \$10 an hour or less and close to half (44 percent) of low-income households include at least one working adult. These are the ‘working poor.’

It is a wonder that so many low-income Canadians work when some of them actually might fare better on welfare, which provides income benefits for spouses and vital services such as supplementary health care, dental care and disability supports. To make matters worse, the working poor must pay income and payroll taxes, and cover the cost of work-related expenses such as clothing, child care and transportation.

A major challenge for both employers and governments is to find ways to make work pay for the working poor and to break down the welfare wall.

One worthwhile though limited solution is for the federal and provincial governments to increase their minimum wages and index them each year to inflation. Only Yukon and Alberta index their minimum wages to inflation and wages, respectively. The former Government of Saskatchewan had announced plans to link its minimum wage to Statistics Canada’s low income cut-off and index it to inflation in 2010.

Many local governments and communities are also exploring the concept of a ‘living wage,’ which is intended to encourage employers to pay higher wages than the legislated bare minimum. Employers benefit from paying living wages through reduced employee turnover and improved morale.

Another way for governments to help the working poor is to top up their low earnings. Quebec, New Brunswick and Saskatchewan currently offer earnings supplements. In its 2007 Budget, Ottawa announced an

important advance – the Working Income Tax Benefit (WITB).

The WITB has two key objectives. The first is to reduce disincentives to work for social assistance recipients stuck behind the welfare wall by improving their earnings. The second is to enhance incentives to employment among the working poor, some of whom eventually will be able to climb the wage ladder and escape poverty.

While promising in theory, the Working Income Tax Benefit in its initial form is geared mainly to the goal of helping recipients get over the welfare wall. It provides only limited assistance to the working poor who are not on welfare.

In 2008, the Working Income Tax Benefit for single recipients pays an annual maximum \$510 – barely enough to help offset the rising cost of transportation and home heating fuel. Eligibility for the WITB ends at \$13,081 in net income, and the maximum payment of \$510 goes only to those between \$5,550 and \$9,681 – low earnings indeed.

Single workers employed full time at the minimum wage do not qualify for any assistance. The \$8.75 minimum wage in Ontario, for example, amounts to about \$18,000 for full-time all-year work. Yet for single workers, the WITB ends at \$4,919 below full-time minimum wage income.

The WITB is somewhat less stingy for families. Single parents and couples earning between \$8,095 and \$14,776 receive the maximum \$1,019. Payments drop until eligibility ends at net family income of \$21,569.

One of the strong features of the Working Income Tax Benefit is that it allows provinces and territories to alter its design so as to harmonize it with their own income security systems and policy priorities. Quebec, BC and Nunavut have taken up the federal offer and reconfigured the benefit for their low-wage workers.

With a federal election in the offing, politicians and officials might use this national holiday to think about the plight of the working poor. They might consider how to strengthen the Working Income Tax Benefit so that it fulfills its stated purpose of helping to make work pay. As a target, the maximum payment for single workers could double over time from \$510 to \$1,020, and from \$1,019 to \$2,038 for single parents and couples.

Of course, the Working Income Tax Benefit is only one in a string of measures needed to assist the working poor. Education and employment services, increases to the Canada Child Tax Benefit and investments in decent affordable housing and high-quality child care are also high on the list.

Labour Day should be a time of celebration for all workers – including those who work but remain in poverty.

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