

# Depressing Wages

**Why welfare cuts hurt both  
the welfare and working poor**

by Seth Klein and Barbara Montgomery

March 2001

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CANADIAN CENTRE FOR POLICY ALTERNATIVES

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The contents, opinions and any errors in this paper, however, are the responsibility of the authors, and do not necessarily reflect the views of the CCPA.

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# Summary

THE FOCUS OF THIS STUDY IS THE IMPACT OF CUTS TO WELFARE IN THE MID-1990S ON the earnings of low-wage workers. Such reforms, often in the form of “workfare” programs, attempt to move people from the welfare rolls into the paid workforce. This study finds that if welfare reforms are doing what governments claim – moving people from welfare to work – then they are hurting the working poor. Low-wage workers find themselves competing with former welfare recipients for jobs. If all those that leave welfare were to become employed, in the absence of other changes to the larger economy and labour market, the result would be to depress wages for low-wage workers. In this way, welfare cuts harm not only those on social assistance, but also the working poor.

Using an economic model based on the relationship between the wage rate and the number of employed workers in the economy, we estimate the wage impacts of cuts to welfare in Quebec, Ontario, Alberta and British Columbia. We conclude that, had all other relevant factors remained unchanged, the labour market could only have absorbed these new entrants by lowering the wages of the low-wage workforce (in our study the bottom 40% of hourly paid workers) by over 12.5%, resulting in total lost wages for existing low-wage workers of over \$8 billion.

This paper begins with a discussion of welfare policy changes and labour market conditions in the 1990s. We then present the methodology, assumptions and findings of our economic model. This is followed by a brief analysis of actual trends in average hourly wages over the period before and after welfare policy changes occurred for each province under consideration.

Contrary to our model’s prediction, actual wages did not fall during the latter half of the 1990s. However, hourly wages in Canada have been virtually flat since welfare policy changes in mid-1990s, despite relatively strong economic growth. This trend in real wages provides some support to our hypothesis. In the real world, job creation resulting from economic growth and protective employment standards legislation have mitigated the predicted effects of welfare cuts. Thus far, we have been spared the full implications of the erosion of income support programs in Canada, due to the fact that the economy has been in an expansionary period.

The results of this study offer a warning, however, in the face of what may be a looming recession. Now that a much-diminished social safety net exists, when more may be forced to turn to it, the wage depressing effects of cuts to welfare are sure to become more evident and pronounced.

# Introduction

THE PAST DECADE WITNESSED DRAMATIC CHANGES TO WELFARE POLICY IN CANADA. Most provinces made social assistance more difficult to qualify for and cut benefit levels. Generally, these policy changes have been promoted as a means of “encouraging people to move from welfare to work.” Welfare caseloads have decreased in recent years, in part due to these policy changes, and in part due to job creation resulting from economic growth. But, have welfare changes improved the lot of low-income people? And what impact do welfare cuts have on the earnings of those already working in the low-wage workforce?

The objective of this study is to model the impact of changes to welfare in Canada’s four largest provinces on the earnings of low-income Canadians. This research is motivated by concern for the economic well-being of both people on social assistance and low-wage workers, and its results are intended to better inform the development of progressive labour market and income support policies.

The 1990s are rightly described as a dismal decade for the incomes of most Canadians. In the context of falling incomes and a more competitive and insecure job market, people on social assistance are often made scapegoats for rising economic insecurity. Throughout the 1990s, right-wing politicians played up anecdotal cases of welfare fraud. Some sought electoral advantage on platforms of welfare cuts, promising to “get tough on welfare” and to make “employable” welfare recipients work for their welfare cheques (commonly known as “workfare”). Even left-leaning governments cut welfare benefit levels, arguing that overly “generous” rates act as a disincentive to work and are unfair to those who “work for a living.” The logic is that cuts to welfare will get more people working and that fewer claims on scarce public resources will improve the economy and impose less of a “tax burden” on working people. Such policies have pitted the so-called “welfare poor” and “working poor” against one another.

Missing from the debate, however, are some important questions: What happens to the wages of low-income workers if all those leaving income assistance find work (as welfare reformers imply they do)? Do low-wage workers benefit when the “welfare poor” are pushed off social assistance?

Our argument: If the economy and welfare reforms operated in the way that right-wing politicians and their supporters say they should, the consequences for the low-wage workforce would be disastrous. As welfare reforms push people from the welfare rolls into the paid workforce, low-wage workers find themselves in competition with former welfare recipients. This exacts a price from the very people welfare reformers purport to honour – the working poor.

Anti-poverty groups have long argued that changes to welfare that make people more desperate, either through reductions in benefit levels or by cutting people off welfare entirely, are part of a broader “low-wage strategy.” This argument asserts that cuts to welfare assist corporations/employers by driving down wages and providing a pool of cheap labour.<sup>1</sup> This view is reinforced in various IMF and OECD publications – most notably the 1994 *OECD Jobs Study* – that have called on governments to cut welfare and UI programs in order to promote greater “labour market flexibility.”<sup>2</sup>

In popular usage (i.e. policy papers and the political arena), “labour market flexibility” is a euphemism for workers more willing to take jobs at lower pay and/or relocate.<sup>3</sup>

**If the economy and welfare reforms operated in the way that right-wing politicians and their supporters say they should, the consequences for the low-wage workforce would be disastrous. As welfare reforms push people from the welfare rolls into the paid workforce, low-wage workers find themselves in competition with former welfare recipients. This exacts a price from the very people welfare reformers purport to honour – the working poor.**

**We estimate that, had all other relevant factors remained unchanged, the labour market could only have absorbed these new entrants by lowering the wages of the low-wage workforce (in our study the bottom 40% of hourly paid workers) by over 12.5%, resulting in total lost wages for existing low-wage workers of over \$8 billion.**

**The model presented here indicates that welfare reforms depress wages and incomes, not only for those on welfare, but for low-income people in the paid workforce as well.**

Our study was inspired by a 1995 report from the U.S.-based Economic Policy Institute (EPI) entitled “Cutting Wages by Cutting Welfare.”<sup>4</sup> The report’s authors, Lawrence Mishel and John Schmitt, undertook an economic analysis to estimate the impact of proposed welfare changes in the United States on the wages of the bottom 30% of hourly-paid workers. Forecasting that welfare reforms would move almost one million people from the welfare rolls into the low-wage workforce, and assuming that all of these individuals would find work without displacing existing workers, the EPI study concluded that the U.S. labour market would only be able to absorb these new workers by lowering wages for the low-wage workforce by 11.9%, amounting to \$36 billion in total lost wages for this set of workers.

Between the time major welfare reforms were implemented in Quebec, Ontario, Alberta and British Columbia, and the end of 1998, approximately 326,600 “employable” people left social assistance. We estimate that, had all other relevant factors remained unchanged, the labour market could only have absorbed these new entrants by lowering the wages of the low-wage workforce (in our study the bottom 40% of hourly paid workers) by over 12.5%, resulting in total lost wages for existing low-wage workers of over \$8 billion.

Fortunately, the real economy does not operate exactly like our theoretical model. Welfare

policy changes cannot claim sole responsibility for declining welfare rolls. A number of factors, including protective employment standards legislation (such as minimum wages) and economic growth, mitigated the full impact of neo-liberal inspired welfare reforms on low-wage workers. Moreover, many of those who left or were forced off social assistance did not find employment (in many cases, we simply do not know where these people are or how they are surviving). Consequently, wages have not fallen as predicted by the economic model we utilize.

Nevertheless, the model presented here indicates that welfare reforms depress wages and incomes, not only for those on welfare, but for low-income people in the paid workforce as well.<sup>5</sup>

Despite robust economic growth and falling unemployment in recent years, the incomes of low-income Canadians have yet to recoup their 1989 value,<sup>6</sup> poverty remains persistently above pre-recession levels, and extreme poverty is increasing. These are all signs that welfare reforms and declining welfare rolls are not actually improving the lot of low-income people. Further, the fact that wages and earnings have been virtually flat during this same period suggests that welfare cuts (combined with cuts to unemployment insurance (UI) and an increasingly polarized and insecure labour market) have depressed wages below what they would otherwise have been.

# Welfare Policy Changes

## Recent Welfare Policy Changes

Cuts to Canada's social programs in the 1990s have been well documented. The Canadian Council on Social Development (CCSD) has produced an extensive inventory of welfare-to-work programs in Canada.<sup>7</sup> The National Council of Welfare (NCW) and the National Anti-Poverty Organization (NAPO) have also produced several documents that detail recent changes to provincial welfare policy.<sup>8</sup> These sources conclude that welfare cuts, welfare-to-work programs and other policy changes are indeed reducing welfare rolls, but are not resulting in an improvement in the economic well-being of low-income Canadians.<sup>9</sup>

A turning point for welfare policy in Canada came in the 1995 federal budget. Prior to 1995, federal funding for social assistance occurred through a designated transfer called the Canada Assistance Plan (CAP). The CAP Act specified five clearly defined rights: the right to an adequate income; the right to income assistance when in need; the right to appeal welfare decisions; the right to claim welfare whatever one's province of origin; and the right to welfare without forced participation in work or training programs. The 1995 federal budget cut transfers to the provinces, eliminated the CAP, and rolled federal funding for social assistance, post-secondary education and health into the new Canada Health and Social Transfer. In so doing, the federal government understood that it was releasing provinces from the requirement to provide adequate assistance on the basis of need alone. Since then, almost all provinces have introduced significant changes to the nature and delivery of social assistance programs.

Policy changes were explicitly designed to en-

courage people to leave welfare and to deter new cases. Changes consisted of lowered benefits, tighter eligibility criteria (in particular, reductions in allowable assets), and welfare-to-work requirements. Welfare-to-work requirements compel welfare recipients to participate in skills upgrading or employment counseling programs; to "actively" look for paid work; or to work in the voluntary or private sectors. These reforms were supplemented with a change in the administrative culture of social assistance delivery, including increased pressure on financial aide workers to reduce cases. (See Appendix 1 for a summary of the major welfare policy changes in the four provinces under study.)

Changes to welfare in each province reflect a distinctly punitive approach. The workfare component of these policies is based on false assumptions about both the availability of jobs and the character of welfare recipients. These programs assume that being on social assistance is due to a deficiency on the part of the individual, either resulting from insufficient experience or job search skills, or simply a refusal to adequately look for work. Welfare-to-work reforms do not address external causes of poverty and unemployment; namely, they do not take into account the reality of a shortage of adequate and secure jobs, or the unique challenges faced by single mothers on social assistance.

## Declining Welfare Rolls

While changes to welfare policy were in part motivated by caseload increases during the economic recession of the early 1990s,<sup>10</sup> their implementation frequently occurred as economic recovery was underway and caseloads were already beginning

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to decline. In general, welfare rolls across the country began to decrease in 1995, commensurate with the unemployment rate finally starting to decline.<sup>11</sup> Figure 1 demonstrates, however, that in each province the policy change was coincident with pronounced and continuous declines in welfare caseloads. This occurred through the direct effects of reduced benefit levels and tighter eligibility criteria, as well as indirectly through the deterrent effect of how welfare reforms were publicized in advance of their implementation.

Politicians make much ado about the desirability of cuts to benefits. However, benefit levels are only one of a number of factors influencing social assistance caseloads. While policy changes may have made caseload declines more pronounced, the extent to which policy reforms alone caused that decrease is uncertain. Empirical evidence demonstrates that labour market conditions (in particular, unemployment) are more reliable predictors of the incidence of welfare usage.<sup>12</sup> Welfare-to-work programs are therefore inappropriately conceived solely in terms of incentives and disincentives to work, instead of acknowledging a broader set of factors that contribute to social assistance usage.

Unable to count on an adequate income from either UI or welfare, many workers have been less able to leave poor workplaces, or to push for better wages and working conditions. The much-diminished social safety net has effectively “disciplined” the Canadian workforce.

## **Are People Moving from Welfare to Work?**

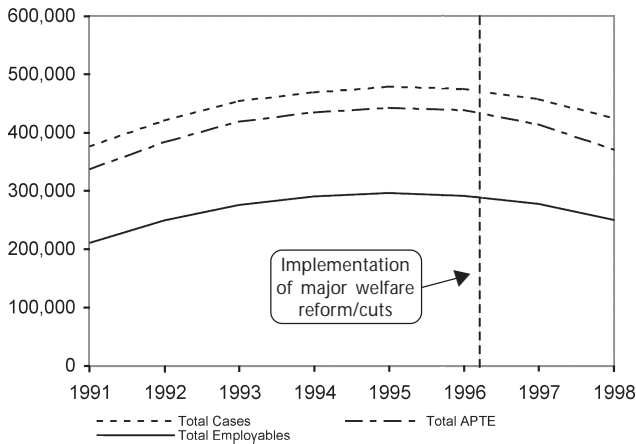
In order to estimate the potential number of entrants to the labour market resulting from welfare policy changes, data was obtained from the ministries responsible for social assistance in each of the four provinces included in this study. The graphs in Figure 1 indicate total welfare caseloads (based on actual data) and caseloads for recipients considered employable (based on our estimates) from 1991 to 1998.<sup>13</sup> The vertical dashed line on each graph indicates when significant welfare policy changes/cutbacks occurred. Appendix 2 details our methodology for estimating the number of individuals considered employable who left the welfare rolls. In general, the category of “employable” refers to adult persons without children or whose youngest child is over a certain age (ranging from 6 months old in Alberta, to seven years old in BC).

Interestingly, none of the four provinces keeps detailed statistics on the number of “employable” individuals who have left the welfare rolls since policy changes were implemented, and little is known of what has become of them. The lack of data – and the complete dearth of exit surveys – collected by provincial ministries regarding individuals who left the welfare rolls is puzzling, given the stated intent of these programs (namely, to move people from welfare to work). In fact, it raises questions about whether the actual motivation behind these policies relates more to cost cutting and political agendas than to assisting people out of poverty. Ultimately, we do not know what happens to people who leave social assistance, and neither do the ministries responsible for social assistance – a fact that complicates the process of estimating the number of people who moved from welfare to work.<sup>14</sup>



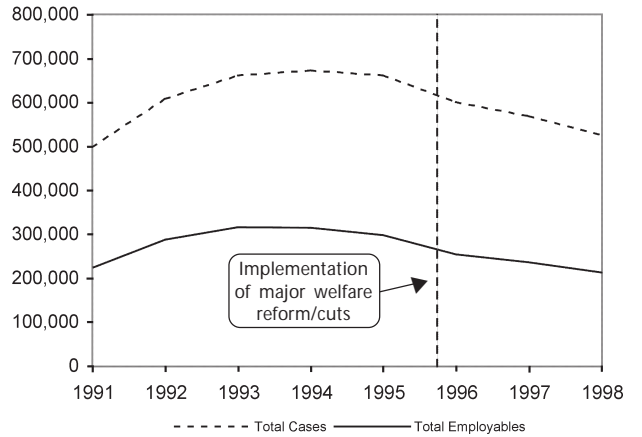
**Figure 1: Welfare Caseload Declines by Province and Category**

**Quebec**



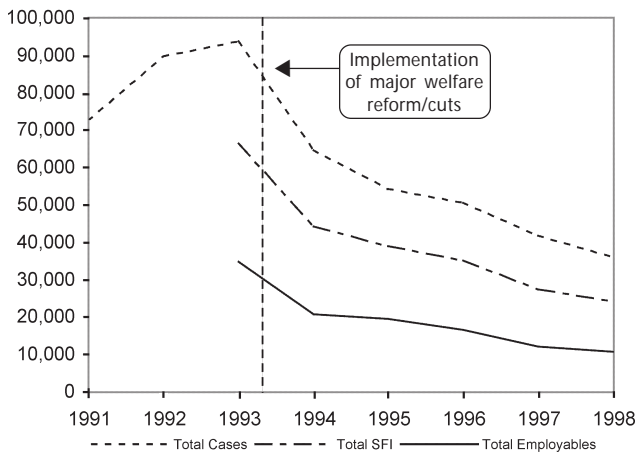
Source: Province of Quebec, Ministry of Employment and Solidarity.  
 Note: APTE is a French acronym standing for Positive Action for Work and Employment.

**Ontario**



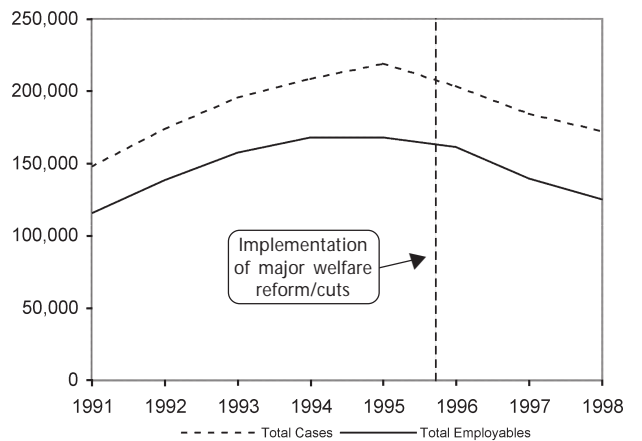
Source: Province of Ontario, Ministry of Community and Social Services.

**Alberta**



Source: Province of Alberta, Ministry of Human Resources and Employment. Note: SFI stands for "support for independence," the name Alberta gave its social assistance program in 1993.

**British Columbia**



Source: Province of British Columbia, Ministry of Human Resources.

## 3

# Modeling Wage Impacts: How do Welfare Cuts Affect the Low-Wage Workforce?

## Assessing Wage Flexibility in Canada's Labour Market

STANDARD ECONOMIC THEORY PORTRAYS the demand for labour as inversely related to the wage rate. This means that as wages increase, the number of workers that firms will employ decreases – in other words, a wage increase will have an adverse effect on employment.<sup>15</sup> The economic term for the strength of this relationship is the *elasticity of demand for labour*.<sup>16</sup> The present study makes use of this established economic relationship between quantity and price to predict the wage effects of an influx of workers into the labour market in the instance that they all become employed.

Economist Robert Solow recently undertook a theoretical look at the consequences of the movement of welfare recipients into the workforce as a result of large-scale welfare reform in the U.S.<sup>17</sup> He concluded that while wages can certainly be expected to decline in response to the movement of welfare recipients into the low-wage labour market, there is no reason to think that there is a huge demand for unskilled workers that will materialize as soon as wages fall low enough. Some increase in unemployment is also to be expected.

Whether or not wages in Canada are flexible or rigid is the subject of much debate in the academic literature. Economist Peter Kuhn finds evidence of downward real wage flexibility in Canada, despite the higher degree of unionization and other forms of wage regulation relative to the U.S.<sup>18</sup> We agree with this conclusion. General downward real wage inflexibility does not accurately characterize

the Canadian labour market. Wage reductions can be restrained by factors such as collective agreements and minimum wage laws. However, few low-wage workers are unionized and, therefore, are not generally protected by collective agreements. While minimum wage laws serve as a barrier to wages dropping below a certain floor, most low-wage workers make just enough above minimum wage that their wages do have room to fall when facing new pressures and competition.<sup>19</sup>

## The EPI Study Applied to Canada: Modeling Wage Impacts of Cuts to Welfare

As mentioned above, this report follows the methodology of a 1995 study by the US-based Economic Policy Institute.<sup>20</sup> It is a model that makes several improbable assumptions (which are acknowledged in the following discussion), but we engage in this theoretical exercise to take welfare-cutting governments and right-wing critics at their word. We assume that welfare reform is reducing welfare rolls and that those who leave the welfare rolls move into paid employment without displacing other workers (i.e. without creating unemployment for others). We hypothesize that if declining welfare rolls translated into equivalent employment gains, and other factors remained unchanged, wages would drop, having a harmful effect on low-income workers.

This study set out to apply the EPI model in Canada's four most populous provinces: Quebec, Ontario, Alberta and British Columbia. While

the EPI study bases calculations on projected changes in welfare caseloads, we base our calculations on actual caseload changes and restrict our count of caseload decline to individuals considered employable (using the methodology described in Appendices 2 and 3). In this way, our study offers a more conservative estimate of the impact of welfare changes on the supply of labour. Further, we supplement this modeling exercise with an analysis of actual trends in average wages over the period before and after welfare policy changes occurred for each province under consideration.

As the EPI's Mishel and Schmitt explain, "Since elasticities for different kinds of labour can vary, it is necessary to use an elasticity estimate for workers with characteristics similar to current welfare recipients. We therefore take our estimate from the extensive literature on workers at or near the minimum wage."<sup>21</sup> We have done the same but use for our model an elasticity of demand for labour of -0.3, an estimate that falls at the conservative end of a widely accepted range within the labour market economics literature.<sup>22</sup> By choosing to use an elasticity of -0.3 for our model, we ensure our results err on the conservative side. An elasticity of -0.3 holds that, all other things un-

changed, a 10% increase in the wage rate will result in a 3% fall in employment or, more relevant for our purposes, a 3% increase in employment will induce a 10% fall in wages.

Table 1 summarizes the results of this exercise, applied to Canada's four largest provinces, calculating the wage impacts of people moving from welfare to work. The column labeled "persons moved from welfare to work" represents the estimated decline in the number of 'employable' people on social assistance between the time of each province's major welfare policy reforms (March 1996 in Quebec, October 1995 in Ontario, April 1993 in Alberta, and December 1995 in BC) and December 1998. We expect that the burden of adjustment costs will be concentrated at the bottom end of the wage distribution (i.e. wage reductions due to increases in the effective supply of workers are likely to be felt primarily by low-wage workers). For this reason we focus on wage impacts for the bottom 40% of wage-earners. The columns to the right of the table are of most interest, as they contain the calculated impacts on the wages of low-wage workers.

As shown, a total of 326,638 "employable" people left the welfare rolls in the four provinces studied. It is again important to note that for the

**Table 1: Wage Effects of People Moving from Welfare to Work**

	Average Wage of Bottom 40% before policy change	Employment	Persons Moved from Welfare to Work	% Change in Employment		Induced Change in Low-Income Hourly Wage (elasticity = -0.3)		Total Hours Worked (bottom 40%)	Total Lost Wages
				%	\$				
Quebec	9.01	2,763,203	63,422	2.30	-7.65	-0.69	2,117,939,835	-\$1,459,971,226	
Ontario	9.57	3,302,762	172,941	5.24	-17.45	-1.67	2,561,384,408	-\$4,278,446,752	
Alberta	9.05	1,073,131	35,263	3.29	-10.95	-0.99	878,190,315	-\$870,527,478	
B.C.	9.95	1,506,109	55,012	3.65	-12.18	-1.21	1,184,572,802	-\$1,435,042,005	
<b>TOTALS</b>			<b>326,638</b>					<b>-\$8,043,987,462</b>	
<b>Weighted Averages</b>	<b>9.39</b>				<b>-12.59</b>	<b>-1.19</b>			

Note: For a full explanation of how the number of employable people who moved from welfare to work was calculated, please see Appendix 2. For a detailed explanation of the sources and authors' calculations used in this table, please see Appendix 3.

**A total of 326,638 “employable” people left the welfare rolls in the four provinces studied. The average (weighted) wage decline for the four provinces is 12.59%, or \$1.19 – lowering the average wage of the bottom 40% of workers from \$9.39 per hour to \$8.20 per hour – resulting in over \$8 billion in overall annual lost wages.**

purposes of this modeling exercise, it is assumed that the welfare policy changes have accomplished what provincial governments claim; namely that welfare policy reforms deserve credit for lower welfare rolls, and the model takes these governments at their word. Also assumed is that all the “employables” who left the welfare rolls become part of the paid labour force (an overly-optimistic assumption, to say the least, as many may simply be surviving without paid employment or social assistance), and that no existing workers were displaced.

Our calculations show the largest proportional movement of people from welfare to work in Ontario and the smallest movement occurring in Quebec. As a result, the average hourly wage of the bottom 40% of workers is estimated to decline by between 7.65% (or \$0.69) in Quebec and 17.45% (or \$1.67) in Ontario. The average (weighted) wage decline for the four provinces is 12.59%, or \$1.19 – lowering the average wage of the bottom 40% of workers from \$9.39 per hour to \$8.20 per hour – resulting in over \$8 billion in overall annual lost wages.<sup>23</sup>

We hasten to note that this model rests on the condition that all other relevant economic factors remain unchanged (*ceteris paribus* in the language of economists). Thus, our model assumes no economic growth or other shifts in the demand for labour, no changes to the minimum wage, and no other changes in social or economic policy that may influence the availability of jobs or the size of the labour force. The model assumes that people

who left the welfare rolls left *because* of the welfare policy changes – they were pushed, rather than drawn away by the greater availability of jobs.

In the real world, of course, nothing like the condition of *ceteris paribus* exists. In the real world, all sorts of other changes *are* continually taking place, many of which may serve to offset the estimates of the above model (most importantly job creation accompanying economic growth), and others that serve to exacerbate the predicted downward pressure on wages (such as cuts to UI).<sup>24</sup> For these reasons, the wages of low-wage workers did not decline as drastically as Table 1 would predict (this is more fully discussed in section 4).

These caveats notwithstanding, however, the preceding exercise offers valuable information. It tells us that had economic growth not been as strong as it was in the late 1990s, the average wage of the bottom 40% of workers would likely have declined by approximately 12%. This conclusion suggests that, had welfare cuts not occurred, the remaining smaller labour force could have secured higher wage gains than the meager increases actually realized in recent years. Finally, the model cautions that when the economy turns down, recent welfare reforms will leave the low-wage workforce much more vulnerable to wage declines. In essence, as Mishel and Schmitt argue, the model indicates that, “the working poor, praised by welfare reformers as an example to be followed by current welfare recipients,...foot the bill for ‘fixing’ the system.”<sup>25</sup>

# What Has Actually Happened to the Wages of Canadians?

THE FINAL THREE YEARS OF THE 1990S registered relatively strong economic growth, offsetting much of the downward pressure on wages predicted above (although, BC's growth rate was an exception, barely registering as positive in 1998, as the full force of the Asian crisis hit the province, but slowly picking up in 1999). Aided by a booming U.S. economy and lower interest rates (in contrast to the first half of the decade), the Canadian economy experienced real GDP growth of 4.1% in 1997, 2.9% in 1998, and 4.2% in 1999.<sup>26</sup>

A few other factors have helped to raise average wages in recent years. Collective bargaining gains (and in a few cases labour strikes) helped to increase wages in a number of sectors, particularly in the final few years of the decade. Also, minimum wage increases (although minor in real terms over the decade, and negative in Alberta) likely had a small upward ripple effect on wages throughout the low-wage workforce, helping to mitigate downward pressure on wages stemming from other factors.<sup>27</sup>

How then have all the above social policy changes and labour market trends combined to affect wages?

Two factors must be acknowledged at the outset of this discussion. First, it must be noted that falling real wages for many categories of workers are not just a recent phenomenon, but are part of a trend that extends back to the 1970s. Economists Beaudry and Green document that from 1971 to 1993 average earnings for younger men have deteriorated<sup>28</sup>, a conclusion that likely holds for low-wage workers in general. Similarly, Jackson and Robinson report that there has been no increase for more than 20 years in the real annual

earnings of Canadian men working on a full-year, full-time basis.<sup>29</sup>

Second, constraints on available data limit the extent to which the wage impacts predicted by the EPI model above can be empirically confirmed. Various characteristics of the Survey of Consumer Finances (from which we estimate wage figures used in Table 1) make it difficult to derive a reliable picture of wages broken down by quintile and province. Thus, unfortunately, we do not have wage data for low-income workers specifically. The hourly wage trends for workers as a whole, however, offer some support for the impacts predicted by the EPI welfare/wages model.

## Wages: Wither the Boom?

As the hourly wage trends in Figure 2 show (next page), the average wage (after inflation) for Canada as a whole has been virtually flat since the recessionary trough of the early 1990s (going from \$14.24 in 1992, to \$14.39 in 1996, and then falling to \$14.32 in 1999). This is in stark contrast to productivity increases. Standard economic analysis holds that growth in real wages is primarily determined by the rate of productivity growth.<sup>30</sup> However, between 1989 and 1998, output per worker rose by 9.4%, suggesting that much of the income growth in the 1990s has gone to profits rather than workers,<sup>31</sup> and lending support to our thesis that welfare and UI cuts have helped keep a lid on wages despite robust growth in productivity and GDP.

The average wage (after inflation) for Canada as a whole has been virtually flat since the recessionary trough of the early 1990s. This is in stark contrast to productivity increases. Between 1989 and 1998, output per worker rose by 9.4%, suggesting that much of the income growth in the 1990s has gone to profits rather than workers, and lending support to our thesis that welfare and UI cuts have helped keep a lid on wages despite robust growth in productivity and GDP.

Clearly, we cannot rely on economic growth alone to lift people out of poverty. The low-wage economy remains a very precarious place, bestowing wages and earnings that do not provide for an adequate standard of living. Making this low-wage economy yet more competitive and wages more "flexible" through welfare and UI cuts will mean the promise of prosperity remains a promise denied for too many low-income people.

The real wage trends for the four provinces under study reflect interesting patterns. As Figure 2 indicates, Quebec's real average hourly wage peaked in 1994, and falls noticeably in 1998 and 1999 to \$13.68, well below its 1992 value of \$14.03. Ontario's average wage trend, like that of Canada, has been fairly flat, although yearly fluctuations are more acute. Ontario saw a slight drop in 1995 (the year welfare benefit rates were cut by 21%), a rise in 1996, another fall in 1997, and a subsequent recovery. Given Ontario's record of strong economic growth during those years, one would expect to see stronger growth in the wage rate.

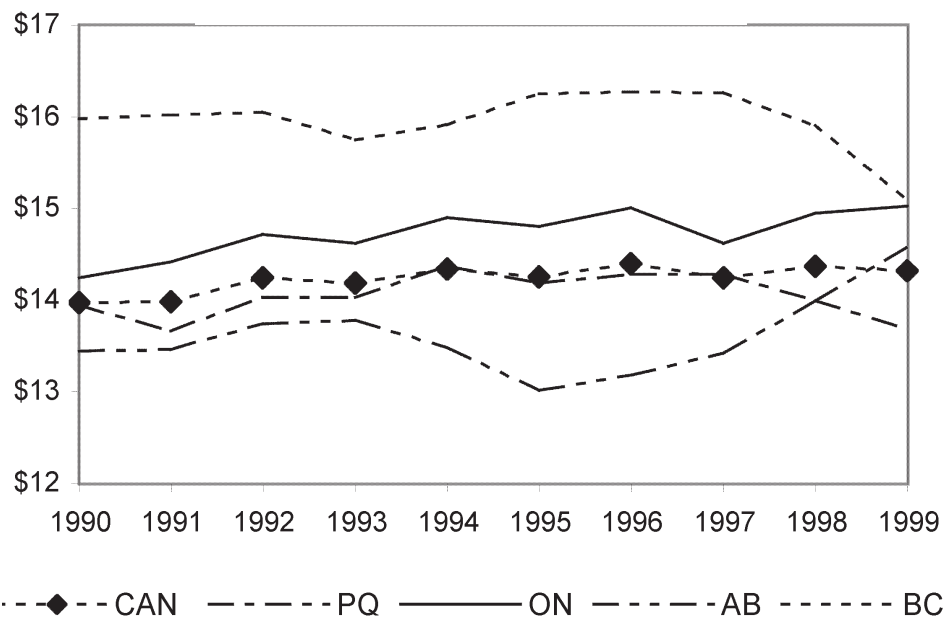
BC and Alberta's real wage trends parallel what the EPI model would predict. Alberta's average wage saw a sharp decline in 1994 and 1995 (the big welfare cuts came in 1993 in Alberta), and only recouped and surpassed its 1993 value in 1998, despite years of strong economic growth. BC's average wage was flat during the first two post-welfare cut years of 1996 and 1997, and subsequently fell sharply, hitting a low of \$15.09 in

1999. It is still the highest average wage in the country, but is substantially lower than its 1996 peak value of \$16.27.

It is important to stress that low wages and earnings do not affect all groups equally. Women and people of colour are much more likely to find themselves competing for low-paying jobs. In 1997, for example, 20.1% of men had earnings under \$10,000 per year, compared with 31.6% of women. Indeed, just over half of women had earnings under \$20,000, compared with 35% of men.<sup>32</sup> Similarly, women and single mothers are more likely to be employed part-time or in other forms of precarious employment.<sup>33</sup>

Clearly, we cannot rely on economic growth alone to lift people out of poverty. The low-wage economy remains a very precarious place, bestowing wages and earnings that do not provide for an adequate standard of living. Making this low-wage economy yet more competitive and wages more "flexible" through welfare and UI cuts will mean the promise of prosperity remains a promise denied for too many low-income people.

Figure 2: Real Average Hourly Wages (in constant 1996 dollars)



Source: Statistics Canada, Cansim Matrices 4298, 4366, 4382, 4424, 4438, 9940, 9950, 9949, 9945, 9946, 9962, 9963, 9966, 9967. Note: These hourly wages are for employees paid by the hour (not salaried employees), and exclude overtime pay.



# 5. Conclusion

THE MODEL PRESENTED IN THIS PAPER suggests that cuts to welfare have a depressing effect on wages. While the actual pattern of hourly wages in the 1990's does not show decline to the extent that the EPI welfare/wage model would predict, this exercise does allow us to draw a number of conclusions.

Welfare cuts that force people from social assistance into the paid workforce will depress wages within the low-wage workforce. In short, welfare cuts harm not only those on social assistance, but also the working poor. Under the assumptions articulated above, the welfare reforms we have seen in Quebec, Ontario, Alberta and BC, would have had the effect of depressing the wages of low-wage workers by an average of 12.59%, or \$1.19 per hour.

This study helps to explain why in the late 1990s, despite being in a period of economic growth and job creation, many people are finding it harder and harder to keep up. It offers a theory for why wages and incomes did not keep pace with the boom. Although a broader set of factors is also at play, welfare and UI cuts have made it particularly hard for those people struggling in the low-wage workforce, as they now face increased competition for employment, keeping a lid on wages and earnings despite the promise of good times. This observation offers a partial explanation for why increasing numbers of people who are working full-time nevertheless have incomes that are below the poverty line. For many individuals, leaving welfare to compete in the low-wage workforce amounts to moving from one kind of poverty to another. It is also important to stress that women experience the harmful effects of welfare cuts to a greater degree than men, as they are disproportionately represented among welfare recipients and within the ranks of the low-wage workforce.

Provincial governments point to declining welfare rolls as a point of pride. They should think again. As the Canadian Council on Social Development states, “the end goal of every welfare program should be to decrease poverty, not simply to reduce the length of time that people are in receipt of social assistance.”<sup>34</sup> The CCSD rightly argues that welfare programs should promote a broader set of social objectives than is reflected in current approaches that focus solely on maximizing budgetary objectives and encouraging people to attain “productive” employment as fast as possible.

Implicit in our analysis is a dire warning. Traditionally, welfare and UI represented important automatic stabilizers in the Canadian economy – when the economy slowed down or fell into recession, these programs directed increased income support to individuals, families and communities in need, helping to smooth out the inevitable economic booms and busts that characterize capitalist economies. Thus far, we have been spared the full implications of the erosion of these automatic stabilizers, due to the fact that the economy has been in an expansionary period. However, when economic growth (GDP) slows, the effects of welfare cuts are sure to become more evident and pronounced – less of a social safety net will exist when more are forced to turn to it, and those in the low-wage workforce will face depressed wages, just when the economy will be in need of an economic stimulus. The results of this study are particularly relevant in light of what might be a looming recession.<sup>35</sup> For these reasons, progressive anti-poverty strategies must address the links between both the social assistance and UI systems of income support.

Another fundamental conclusion of our research is that low-income people in the paid

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workforce and those on social assistance share a common cause. Despite efforts by some to pit the welfare and working poor against one another, our findings make clear that low-wage workers do not benefit from welfare cuts. Rather, low-income people, regardless of their primary source of income, have a shared interest in a decent and accessible social safety net. Public policy debates in Canada have been ill-served by the tendency to view welfare usage as the source of economic problems, rather than a consequence. What this study demonstrates is that when cause and effect are confused, and governments respond to increased welfare usage with cutbacks and tightened eligibility, the poor – both the “welfare” and “working” poor – suffer.

Welfare cuts, regardless of their motivation, are having a harmful effect. If welfare reforms are doing what governments claim – moving people from welfare to work – then they are hurting the working poor by lowering their wages. If, on the other hand, welfare reforms have not been responsible for moving people from welfare to work (meaning people were going to move from welfare to work in any event, as a result of an upturn in the business cycle), then welfare cuts must be viewed as unnecessarily causing harm and suffering to the poorest of the poor – those on social assistance. The truth is likely somewhere in between. Welfare cuts are largely unnecessary and ultimately harmful to both the working and welfare poor.

**A fundamental conclusion of our research is that low-income people in the paid workforce and those on social assistance share a common cause. Despite efforts by some to pit the welfare and working poor against one another, our findings make clear that low-wage workers do not benefit from welfare cuts. Rather, low-income people, regardless of their primary source of income, have a shared interest in a decent and accessible social safety net.**

# Summary of Recent Welfare Policy Changes

THE MOST SIGNIFICANT WELFARE POLICY CHANGES OF THE PAST DECADE ARE summarized below for each of the four provinces under study.

## Quebec

- Welfare policy changes in Quebec began early (1988) relative to other provinces, with recipients being classified according to their ‘employability’ and compelled to participate in welfare-to-work programs. ‘Positive Action for Work and Employment’ is the workfare component of Quebec’s social assistance system. Under this program recipients are classified into three main categories: unavailable, participating and non-participating. Benefit rates are structured to reward those who participate in these work and employability programs, and to penalize those that do not. Interestingly, many social aid recipients refused to participate in government programs, preferring instead to accept a \$100 cut in benefits per month. Of those who wanted to participate, the government was only able to place some of them in programs.<sup>36</sup>
- The 1988 welfare policy reforms in Quebec were a response to a sharp increase in caseloads during the 1980s, in particular in the number of single individuals on welfare.<sup>37</sup> The number of cases peaked in 1987, but began to decline as the provincial economy entered a period of economic recovery, and prior to the welfare policy changes. (In contrast, the welfare caseload in Ontario began to significantly increase in 1987.) The 1988 reforms can be characterized as ‘incentive’ based, in that participation in employment and training programs was rewarded.
- Reductions in benefit rates applied to most categories of welfare recipients between 1993 and 1996. In addition to rate cuts, extra administrative staff were assigned to undertake surprise visits to the homes of recipients, with the intent of uncovering “fraud” in the system.<sup>38</sup>
- The most significant policy change occurred in 1996, when further reforms were introduced to “tighten up” welfare. These included additional cuts in benefit levels, increased penalties for non-participation, and a reduction in the maximum amount of assets allowable to qualify.<sup>39</sup> These reforms reflected a distinctly more punitive approach, as incentives for participation were accompanied by more stringent penalties for non-participation.

- Quebec's welfare caseload has the lowest percentage of single parents among the four provinces examined in this study.<sup>40</sup> This is likely related to the existence of another program of financial support to low-income parents, the Parental Wage Assistance Program.

## Ontario

- The number of welfare cases in Ontario peaked in 1994. Again, declining welfare caseloads preceded welfare policy changes in 1995. This decline in cases was in part a result of the onset of recovery from the recession of the early 1990s, which resulted in a somewhat improved employment picture.
- In 1995 changes to welfare policy consisted of drastic cuts to welfare rates – 21.6% for everyone except seniors and people classified as disabled – and tightened eligibility requirements.
- In addition, a welfare fraud line was established to catch and discourage suspected abuse of the system. In 1997, the Ontario Works Act introduced a workfare program applicable to employable recipients. Individuals on welfare were required to participate in employability training programs or were required to work in the voluntary sector. Single parents whose youngest child was under the age of 5 were exempt. Overall, the welfare caseload shrank by 40% between 1995 and 1999.
- The stated intent of the Ontario Works Act is to provide temporary assistance to individuals in need, so long as recipients 'satisfy obligations to become and stay employed.' It also states accountability to taxpayers as a key priority.<sup>41</sup> Single mothers are required to work, but there is no corresponding requirement for the Ontario government to provide access to child care.<sup>42</sup>

- The real aim of Ontario Works is to promote the shortest route to paid employment, not long-term self-sufficiency. Hence, post-secondary training opportunities requiring more time are de-emphasized in favour of quick-fix job search programs (a common trend in most provinces). Emphasis is on individual responsibility, and the government's role appears to be one of policing, not support.

## Alberta

- The big policy change in Alberta occurred in 1993. It consisted of dramatic cuts to benefit rates (17% for single employables, 13% for single parents with one child, 12% for couples with two children). There was also a tightening of eligibility criteria that made it both harder to qualify and easier to get thrown off. New and existing welfare cases were subject to increased scrutiny. From 1993 to 1997 there was a sharp decline in the number of new cases, which, combined with persons leaving welfare, resulted in a 60% decline in the total caseload.
- As in other provinces, the policy change included a workfare component. Alberta introduced mandatory employability and training programs for welfare recipients deemed employable. Exemptions from participation were allowed in some cases (for example, for single parents with a child under 6 months old).
- From 1994 to 1997 there were a series of smaller measures introduced to further reduce caseloads and cut costs. These were mostly administrative changes with a focus on enforcement, along with reductions in certain special allowances.
- Policy changes reflect an 'income assistance as last resort' ideology. To receive assistance an individual must have less than \$250 in assets and must demonstrate that they have

exhausted all other avenues to economic survival. Alberta's approach is punitive in that individuals are ineligible for assistance if they have voluntarily quit or refused a job without reason.<sup>43</sup>

- The welfare-to-work programs reflect a perception of 'weakness' on the part of welfare recipients. These programs assume a lack of job skills and experience, and reflect the perception that recipients are just too lazy to get off welfare.<sup>44</sup>

## British Columbia

- British Columbia began to tighten up its welfare program in 1994. Trimming the welfare rolls was achieved by changing administrative procedures and by introducing targets for caseload reductions. Ninety positions were created to protect the system from "fraud and abuse."<sup>45</sup> Beginning that year, all single employable persons on social assistance were required to line up for their monthly cheque.
- In October 1995, the amount of assets allowable to qualify was reduced from \$2,500 to \$500 for single individuals. A more extensive policy change, however, occurred in December 1995, with the introduction of BC Benefits. This program change consisted of cuts to benefits (of 8-10%) for welfare recipients considered employable who did not have dependents,<sup>46</sup> and the introduction of Welfare to Work and YouthWorks.

The flat rate earnings exemption (which allowed welfare recipients to earn and keep up to \$200) was also eliminated, but was restored in November 1999.

- Welfare recipients categorized as employable must participate in welfare-to-work programs (YouthWorks and Welfare-to-Work). Refusal to participate in YouthWorks is grounds for being cut off assistance. The age of children above which single parents are considered employable was reduced from 12 to 7 years.
- Although BC still has the highest age after which a single parent is classified as employable, parents on welfare are still at a disadvantage. The government's Family Bonus, which provides support to low-income families with children, is clawed back from families on social assistance.<sup>47</sup>
- The underlying premise behind these changes is to make welfare as punitive as possible, while making low-wage work slightly more attractive (through the Family Bonus and modest minimum wage increases). This carrot and stick approach of welfare-to-work is based on the assumption that unemployment and welfare use is largely a choice made by individuals, rather than a product of weak job market conditions. The change in the administrative management culture and targets for caseload reductions appear to be geared toward minimizing costs, not assisting people in situations of poverty.

# 2

## Methodology for Deriving ‘Employables’

PUBLISHED STATISTICS OF WELFARE CASELOADS ARE USUALLY APPROXIMATIONS AND ARE not often broken down by program classification. The number of welfare cases provides a reasonable proxy for the number of adult recipients since a large proportion of persons on welfare – 85% – are single (either with or without children). For example, in March 1997, 34% of welfare cases nationally were unattached men, 21% were unattached women, 27% were single mothers and 3% were single fathers.<sup>48</sup>

The specific criteria by which welfare recipients are classified as “employable” varies from one province to the next. Estimating the number of “employable” adults who left the welfare rolls after welfare reforms is based on province-specific criteria. In general, the category of “employables” refers to an adult social assistance recipient, who is not a senior, not categorized as “disabled” and does not have a young child (the age below which a child is considered young varies by province).

Due to the nature of available data, the caseload estimates prior to the policy change are from the month before the policy change for British Columbia and Quebec, but are derived from the month of the change for Alberta and Ontario.

It is important to note that caseload declines would likely have begun prior to the specific date the policy change was implemented due to administrative tightening up of the system leading up to policy changes and the deterring effect of welfare reforms being well-publicized in the months before their implementation. This provides support to the fact that these estimates are conservative.

One caveat to our estimates is the fact that welfare usage has distinct seasonal patterns. This may slightly reduce the accuracy of measured impacts since the months used to calculate ‘employables’ (both before and after the reform) differ between the provinces under consideration.

### Quebec

Social assistance in Quebec is administered under a program called APTE (a French acronym standing for Positive Action for Work and Employment) and consists of three main categories of recipients: unavailable, participating and non-participating.

“Unavailable” refers to recipients temporarily unable to work (pregnant women, parents of young children, and persons who face physical or mental barriers to participating in paid employment). “Participating” refers to recipients who are considered to be employable and are participating in an employment or training program. These programs usually last about 6 months and recipients get higher benefits during those months. After these six months, recipients either leave the welfare rolls for work, remain on welfare and return to the non-participating category, or in some cases remain in the participant program (according to the discretion of their caseworker). “Non-participating” refers to recipients who are considered employable, but do not participate in a training or employment placement program.

A fourth category, “available” (consisting of recipients considered employable awaiting placement in an employment or training program), was eliminated in April of 1996. All of the recipients in this category were moved to the “non-participating” category. This change did not affect our calculations since we are deriving the “employable” figure from total APTE adult recipients less those in the “unavailable” category.

$$\begin{aligned} \text{Employable} &= \text{APTE total (adult recipients) minus 'unavailable'} \\ \text{Employable 1996 (March)} &= 447,554 - 149,337 = 298,217 \\ \text{Employable 1998 (December)} &= 347,437 - 112,642 = 234,795 \\ \text{Decline 1996 to 1998} &= (\text{Employables 1996}) - (\text{Employables 1998}) = \mathbf{63,422} \end{aligned}$$

## Ontario

Prior to October 1995, there were two categories of social assistance in Ontario: General Welfare Assistance (GWA) and Family Benefits (FBA). This division was an implicit categorization according to the employability of adult recipients, with the FBA caseload being made up of persons disabled or otherwise unable to participate in the labour market (i.e. about 50% of the FBA caseload was sole support parents). GWA was primarily made up of “employables”, although approximately 10% of that caseload was considered “unemployable”. With the introduction of Ontario Works (OW) in 1997, the sole support parents were transferred from FBA to OW, however, for individuals with a child under 5 the work requirement is deferred.

The manager of the Ontario Ministry for Community and Social Services’ statistical branch suggested the following method for estimating the number of “employables”:

$$\begin{aligned} \text{Employable 1995 (October)} &= \text{Total Caseload adjusted down by 43\%} = 361,012 \\ \text{Employable 1998 (December)} &= (\text{OW adjusted down 12\%}) - (50\% \text{ representing sole support parents}) \\ &= 256,638 - 68,567 = 188,071 \\ \text{Decline 1995 to 1998} &= (\text{Employables 1995}) - (\text{Employables 1998}) = \mathbf{172,941} \end{aligned}$$

## Alberta

Supports for Independence (SFI), introduced in 1993, consists of three main categories: supplement to earnings, employment and training support, and transitional. The “employment and training” category is the welfare to work program (“supplement to earnings” indicates income assistance recipient also has paid employment, and ‘transitional’ is for persons who are temporarily unable to work or otherwise excused). Considerations relating to the inclusion of sole support parents are not an issue here, as they are assigned to the transitional category, provided their youngest child is under 6 months old.

$$\begin{aligned} \text{Employable 1993 (April)} &= \text{Employment and Training Support (adult recipients)} \\ \text{Employable 1998 (December)} &= \text{Employment and Training Support (adult recipients)} \\ \text{Decline 1993 to 1998} &= (\text{Employables 1993}) - (\text{Employables 1998}) = 46,512 - 11,249 = \mathbf{35,263} \end{aligned}$$

## British Columbia

After 1995, Social Assistance in BC is made up of two required work programs: YouthWorks and Welfare to Work.

$$\begin{aligned} \text{Employable 1995} &= \text{Basic Income Assistance "Employable" category} \\ \text{Employable 1998} &= (\text{YouthWorks less single parents with young children}) + \\ &(\text{Welfare to Work less single parents with young children}) \\ \text{Decline 1995 to 1998} &= (\text{Employables in Dec. 1995}) - (\text{Employables in Dec. 1998}) \\ &= 153,878 - (15,002 + 83,864 = 98,866) = \mathbf{55,012} \end{aligned}$$

## 3

## Methodology for EPI Calculation of “Wage Effects of People Moving from Welfare to Work”

DESCRIBED BELOW ARE THE RELEVANT details associated with each heading in Table 1.

### Average wage of bottom 40% before policy change

Calculated by averaging the mean hourly wage of the bottom 40% of workers, using microdata from Statistics Canada’s Survey of Consumer Finances (SCF). The SCF reports wages and salaries as a yearly figure. Hourly wages were derived by dividing annual wages by weeks worked per year by usual hours worked per week.

The fact that hourly wages are not directly reported in the SCF, along with other characteristics of this data set (i.e. survey variables and reporting errors) presents several challenges to deriving reliable wage figures from this source. Therefore, the sample used to derive hourly wages was restricted to individuals who were: between the ages of 19 and 65, employed during the survey’s reference week, not self-employed, not students, with positive wages and hours worked, who had worked more than 26 weeks of the year, and who made over \$2/hour.

These last two restrictions were imposed for the following reasons

1) Usual weekly hours in the SCF refers to the three week period prior to the survey reference week. Annual estimates of hourly wages derived for individuals who did not work much through-

out the year, but who worked quite a bit in the three weeks prior to the reference week would therefore appear artificially low, and for this reason the sample was restricted to persons with at least 26 weeks worked. Persons working less than 26 weeks of the year are usually students or part-time, seasonal and contract workers – disproportionately women – and it is unfortunate that data limitations required that they not be included in the sample to derive ‘proxy’ wages.

2) A wage floor of \$2 further restricted who was included in the sample used to calculate average wages. This is because the SCF is a survey and thus results can be subject to bias due to reporting errors. Also, while each province under consideration has a legislated minimum wage, there remain some types of workers that are essentially excluded from such protection (such as domestic workers who work unpaid over-time, or other types of workers with overnight responsibilities). For these reasons, a wage floor was used to exclude improbable or otherwise difficult to explain cases.

Wages are based on data from the year preceding the welfare policy changes for BC (1995), Alberta (1992) and Quebec (1995), since in these provinces the policy change occurred in the first quarter of the year in these provinces. In Ontario the policy change occurred in October 1995 and, therefore, the wage data used is from that same year. All wage rates are expressed in constant 1996 dollars.



## Employment

Number of employed workers in the labour force, who are between the ages of 19 and 65, who are not self-employed and have positive wages. As with the hourly wages, data comes from the SCF from the year preceding the welfare policy changes, except for Ontario where the employment figure used is from 1995.

The EPI study uses the number of employed persons in the low-wage labour force, calculated as the bottom 30% of the labour force. However, the convention among most economists is to use the entire employed labour force for elasticity calculations, not just a subsection of it, as does the EPI. Therefore, we have used the entire number of persons employed (a choice that further enhances the conservative nature of our overall calculations).

## Persons moved from welfare to work

See Appendix 2 for calculations.

## Percent change in employment

Persons moved from welfare to work as a percentage of the employed labour force.

## Induced change in low-income hourly wage – percent

The percent change in wages, given the percent increase in employment, based on the elasticity of demand for labour. The elasticity used is -0.3 (an estimate at the conservative end of a widely accepted range of estimates among labour economists). An elasticity of -0.3 means that a 10% increase in the wage rate will result in a 3% fall in employment or, more relevant for our purposes,

that a 3% increase in employment will result in a 10% decrease in wages. Thus, the induced change in wage is calculated as  $(\% \text{ change in employment})/(-0.3)$ .

## Induced change in low-income hourly wage – dollars

Induced percent change in wage multiplied by the average wage calculated in the first column.

## Total hours worked (bottom 40%)

We multiply the mean usual weekly hours worked by the total weeks worked that year (using the same sample of individuals used to derive wages). This figure represents the average hours worked per year by the bottom two quintiles of the workforce, and was multiplied by 40% of employment (figure in column three of the table) to approximate the total yearly hours worked by the bottom 40% of workers.

## Total lost wages

The EPI study did this by calculating the average annual hours worked by the low-wage workforce, multiplied by the number of workers and by the induced dollar decline in the hourly wage rate. We used the figure of total hours worked multiplied by the projected decline in hourly wages to get total lost wages.

## Weighted Averages

Average mean wage for bottom 40%, and average wage change – both in dollars and percent – for all provinces under consideration were calculated. Total employment (column two) for each province was used as weights.

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# Notes

- <sup>1</sup> See Swanson, 1994 and 1999, and various End Legislated Poverty publications.
- <sup>2</sup> Organization for Economic Cooperation and Development, 1994. See also Prasad, 1994.
- <sup>3</sup> Among economists the term is more technically defined in terms of a bundle of labour market attributes, such as wages that adjust in response to market forces and workers that are willing to change occupations or employers, or relocate. “Wage flexibility” refers to the ease with which wages adjust downwards or upwards, although the latter is rarely the focus of attention.
- <sup>4</sup> Mishel and Schmitt, 1995.
- <sup>5</sup> The impacts of right-wing inspired economic and social policies are also evident in the nature of jobs at the low-end of the wage spectrum. In addition to the increasing prevalence of insufficient earnings, low-wage workers in Canada face eroding quality and security of employment. See Burke and Shields, 1999.
- <sup>6</sup> Statistics Canada 2000a.
- <sup>7</sup> Gorlick and Brethour, 1998.
- <sup>8</sup> NCW, 1997, 1997-98, 1998b, and 1999-2000; and NAPO, 1996, 1997 and 1998.
- <sup>9</sup> It should also be noted that welfare benefit levels across the country are substantially below Statistics Canada’s low income cut-offs (LICOs) and are falling further and further below that line over time. Several anti-poverty groups consider the LICOs to provide a reasonable proxy of the “poverty line” – as they denote income levels below which households are considered to experience serious economic hardship – although they are not specifically labeled as such by Statistics Canada.
- <sup>10</sup> It should be noted that changes to UI preceded most of the provincial cuts to welfare. During the early 1990s, the new restrictions in UI eligibility contributed to increasing welfare caseloads.
- <sup>11</sup> NCW, 1998b, p. 2.
- <sup>12</sup> See Fortin and Crémieux 1998, p. 6.
- <sup>13</sup> Due to the nature of the data received from each province’s ministry responsible for social assistance, in some cases the slopes of the decline do not indicate the actual rate of the fall in caseloads. For example, the Ontario figure for “employable” is constructed as a percentage of total cases. Therefore, it shows the same rate of change after the policy change year as does the total caseload. Despite this, it is more than likely that the rate of decline for ‘employables’ exceeded the rate of total caseload decline in each province. Single individuals make up the largest proportion of the decline in welfare caseloads. This group was the main target of reforms, and of all categories of welfare recipients are the ones who could most easily get by on a low-wage job.
- <sup>14</sup> The BC Ministry of Economic Security and Social Development recently released a “BC Benefits Longitudinal Panel Survey” (presented at SFU Harbour Centre, Feb. 2, 2000), which offered interesting insights regarding the usefulness of various training programs. The study was based on a survey of former and current income assistance recipients, conducted by Malatest and Associates Ltd. in 1998. The study’s value as a comprehensive exit survey, however, is severely limited. Large numbers of the sample of former income assistance recipients could not be located. The gross response rate was just 37%. We simply do not know what has happened to the others. Of those who did respond, approximately 40% had found some form of employment. Of these only 61% were employed full-time, and only 1 in 5 respondents were surviving on income from employment alone (most continued to rely on income support sources as well). Similarly, The Canada West Foundation conducted a survey of former welfare recipients in Alberta in 1997 (Canada West Foundation, 1997). This study found that 60% of former welfare recipients had household income of less than \$15,000 (before taxes),

- and that 53% of former welfare recipients left welfare because they found work. The Canada West Foundation study, however, was criticized as “deeply flawed” on a number of counts by a subsequent report published by the Alberta-based Parkland Institute. The Parkland critique notes that the CWF survey completed interviews with only 12% of the former welfare recipients it attempted to contact (meaning, again, that we just don’t know what happened to the remaining 88%) (Boychuk, 1998). Finally, a 1996 survey by welfare authorities in Toronto and Ottawa of persons who left welfare found that only 30% had found paid work (NCW, 1997).
- <sup>15</sup> Benjamin et al., 1998.
- <sup>16</sup> The technical definition of the elasticity of demand for labour is the percent change in employed workers divided by the percent change in the wage rate. (Bruce, 1995).
- <sup>17</sup> Solow, 1998.
- <sup>18</sup> Kuhn, 1997.
- <sup>19</sup> Also, some workers, such as farm workers, those who work on commission, or those doing piece-work, may make less than minimum wage.
- <sup>20</sup> Mishel and Schmitt, 1995.
- <sup>21</sup> Mishel and Schmitt 1995, p. 4. The EPI model used an elasticity of -0.25.
- <sup>22</sup> Fuchs, Krueger and Poterba, 1997. Goldberg and Green, in their recent study of minimum wages in Canada, found the elasticity of demand for labour near the minimum wage to be 0 to -0.2, making our use of -0.3 particularly conservative.
- <sup>23</sup> This figure represents only the lost wages of those already in the paid workforce, and does not include the wages gained by newly employed workers.
- <sup>24</sup> The Canadian Labour Congress reports that from 1989 to 1997 there was a dramatic decline in the percentage of unemployed people receiving UI benefits (from 74% to 36%). In 1997, only 31% of women who were unemployed qualified for UI, and this situation was worse for younger women, only 15% of whom were covered (CLC, 1999).
- <sup>25</sup> Mishel and Schmitt, p. 2.
- <sup>26</sup> Statistics Canada, 2000b.
- <sup>27</sup> While real minimum wages did increase slightly in BC, Ontario and Quebec during the 1990s, these increases were concentrated in the first half of the decade. For all provinces, the current real minimum wage remains well below peak values in the mid-1970s. For a more detailed study of the economic gains of minimum wages, see Goldberg and Green, 1999.
- <sup>28</sup> Beaudry and Green, 1997.
- <sup>29</sup> Jackson and Robinson, 2000, p. 19.
- <sup>30</sup> Benjamin et al., 1998.
- <sup>31</sup> Jackson and Robinson 2000, p. 84.
- <sup>32</sup> Jackson and Robinson 2000, p. 81.
- <sup>33</sup> Burke and Shields 1999, p. 9.
- <sup>34</sup> Canadian Council on Social Development, 1999.
- <sup>35</sup> While the employment rate is currently the highest it has been in the past decade, a downward trend may take hold due to the economic slowdown in U.S. economy, which is expected to spill across the border and affect the Canadian economy and labour market. This is especially significant given that job creation in the late 1990s occurred for the most part in the manufacturing sector and since some U.S. industries have already announced production cut-backs.
- <sup>36</sup> Shragge and Deniger, 1997.
- <sup>37</sup> Ibid.
- <sup>38</sup> Ibid.
- <sup>39</sup> Gorlick and Brethour, 1999.
- <sup>40</sup> Canadian Council on Social Development, 1998.
- <sup>41</sup> Eagle, 1998.
- <sup>42</sup> Mayson, 1998.
- <sup>43</sup> NCW, 1998.
- <sup>44</sup> Shragge, 1997.
- <sup>45</sup> NCW, 1997.
- <sup>46</sup> The 2000 BC Provincial Budget included a very modest 2% increase in the living allowance component of welfare benefit rates.
- <sup>47</sup> Swanson, 1997.
- <sup>48</sup> NCW 1998a, p. 8.

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