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# The impact of a low-wage economy on government revenue and expenses

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**T**O UNDERSTAND THE impact of a low-wage economy on government revenues and expenses, it is critical to outline what we mean by low-wage, and the affect that low-wage jobs has on workers. We know that a lower wage economy can lead to rising income inequality, slower growth and productivity.<sup>1</sup> How and why this happens are critical questions to consider.

The low-wage economy is partly fuelled by a low minimum wage. However, low-wage work can be defined in different ways. The OECD defines it as those jobs that pay two-thirds or less of the median hourly wage for full-time, full-year male workers.<sup>2</sup> In Nova Scotia that would equate to about \$17 per hour. This however does not consider the impact of part-time work and therefore tends to underestimate the size of the low-wage economy. For the temporary foreign worker program, low-wage is classified as any job paying less than the median for all workers, which they peg currently at \$22 for Nova Scotia<sup>3</sup>; by co-incidence, this amount is what we determined to be the highest living wage in NS—\$22.05<sup>4</sup>—the wage calculated for Halifax in 2021 (based on 2020 expenses, taxes and transfers). The lowest living wage was for Cape



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Breton at \$18.45. The living wage is calculated to show exactly how much earned income is needed to cover all necessities *and* allow people to live in dignity and enjoy a decent quality of life.<sup>5</sup>

No matter how it is classified, low-wage work represents a significant portion of the labour market in Nova Scotia and includes many more than those earning minimum wage (8.1% or 31,400 workers)<sup>6</sup>, or even those earning less than the poverty lines.<sup>7</sup>

Another way to think about low-wage jobs is the quality of those jobs. The lower the wage, the more likely a job is to be insecure and does not come with benefits. As our report on the need for paid sick leave underlines: 54% of Nova Scotia workers have no access to paid sick leave. Paid sick leave tends to be correlated with permanent, full-time, and unionized jobs. Only 20% of workers in accommodation and food services had access to paid sick leave and 31% of workers who earn less than \$25,000.<sup>8</sup>

Earning a low-wage means being under tremendous stress to cover all basic needs. It means working very long hours, often at multiple jobs, leaving little time for parents to play with their children, for additional education or training, and no time for community activities which impacts our collective vitality. Without job security, enough income and access to benefits, it is almost impossible to invest in education and training, or to afford a place to live close to accessible transit or to afford a car, which might all help get a better job.

What needs to be underlined however is that we not simply blame individuals, suggesting that low-wage equates to low skilled or not having formal education. The theory that everyone is paid their worth is a simplistic and reductionist view that in effect ignores the social context<sup>9</sup> that shapes the value placed on certain types of work and skills, and certain workers, and why. Consider that the median income of a Black woman with a Bachelor degree or higher is only slightly higher than a white male's with only a high school diploma.<sup>10</sup> Compared to the white male median wage, Black women face a pay gap that amounts to 42%, and Black men face a gap of 33%, whereas the gap for white women is 30%, which indicates a compounding impact of racism and sexism.<sup>11</sup> This pay gap is likely worse for persons with disabilities as well, which is a significant consideration in a province with the highest rate of disabilities of 30% (which is highest for women).<sup>12</sup>

To understand the low-wage labour market, it is also important to examine the gender and racial make-up of the lowest paid occupations: 32.7% of racialized workers are in sales and service occupations (based on 2015 Census).<sup>13</sup> While racialized workers make up 5.5% of all workers, they are over represented in all of the five lowest paid occupations (12% on average), and other than taxi drivers (26.9% of whom are racialized and 6% of whom are women), women are over-represented in the other four lowest paid occupations (making up 98% of home child care providers, 80% of cashiers, 82% of food and beverage, and 70% of food counter/kitchen helpers).<sup>14</sup>

We should also consider who is unemployed and underemployed. For example, the low employment rate of persons with disabilities (55.4% compared to 78.8% for nondisabled) indicates barriers to entering the labour force and being appropriately accommodated, but there is a lack of data to understand their pay rate or occupational profile.<sup>15</sup>

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## **Impacts of low wages on workers**

A low-wage economy exacerbates inequities and takes a health toll on low-wage workers. Nova Scotia has the highest provincial rate of food insecurity.<sup>16</sup> Food insecurity is first and foremost about not having income to pay for needed food. In Nova Scotia, 12.7% of food bank users are those whose main income source is from employment.<sup>17</sup> Food insecurity directly impacts people's health and creates costs for the health care system.<sup>18</sup>

There is significant evidence of a strong relationship between low wages and increased chronic disease. Low-wage work is associated with increased stress, low self-esteem, and a greater tendency to engage in unhealthy behaviors like smoking. Low income is also linked to other health problems including diabetes, heart disease, arthritis, and premature mortality.<sup>19</sup> The impact on health in turn makes it difficult to get a better job. A poor working environment is often associated with health risks, more sickness absence, leads to higher rates of quitting, and complete labour market withdrawal.<sup>20</sup> Children who live in low-income households also face challenges that can impact their health and development, their ability to perform as best as they can in education which impacts their future social mobility.<sup>21</sup>

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## **Impact of low wages on Government Expenses and Revenue**

A low-wage economy thus has an impact on government expenses, with an increased use of health services and social benefits, and because living in low income also results in missed opportunities for people to reach their full potential. To understand the impact on government revenue and expenses, we can draw on our work to calculate the cost of poverty,<sup>22</sup> which concludes that the impact of poverty costs Nova Scotia just over \$2 billion a year (4.7% of GDP). Those costs include \$230 million in lost revenue, and \$279 million in additional expenses (see *Table 1* for a breakdown of the costs).

The largest component of the costs of poverty is because of the toll poverty takes to limit a person's productivity, and hence their earned income (not counting tax revenue loss). Consider that this loss of \$1.4 billion would be a gain if we address some of the root causes, including low wages themselves, but also unemployment, underemployment, discrimination, health inequities, and barriers to education and training.

**TABLE 1** Cost of Poverty, 2017, Nova Scotia

Component	Cost Amount (thousands)
Health Cost	\$204,500
Crime Cost	\$74,178
Opportunity Cost	\$1,388,924
Foregone Revenue	\$230,786
Intergenerational Cost	\$367,218
Total Cost	\$2,034,821

The second largest component of the costs of poverty is the impact on children based on research that finds that no less than 30% of children who grow up in poverty can be expected to remain in poverty in adulthood.<sup>23</sup> Children who grow up in poverty tend to be less productive and contribute less in taxes, and more likely to contribute to cumulative and enduring remedial costs and government expenses. The more we support parents to reach their full potential, the more we can help their children to do the same.

This costing exercise does not consider the costs of compounded barriers of racism, sexism, ableism and other forms of discrimination that some people face trying to reach their potential.

This costing also under-estimates the impacts because the data excludes on-reserve First Nations populations.

We know that addressing poverty would likely cost at least half as much in terms of government expenditures, as does the cost of inaction. Poverty isn't just about low wages. Additional income supports from government provide an income base for additional expenditures for low-income families, and investments such as in child care or post-secondary education, have spin-off effects in terms of sales taxes, and of income taxes from the newly employed.

Personal income taxes account for about 30% of the government's budgetary revenue plus another 20% comes from sales tax.<sup>24</sup> Low wages and low wage growth therefore have a direct impact on public finances. In addition, low household income growth is a limiting factor on corporate revenues and thus on government revenue. Negative impacts on revenue of a low-wage economy obviously impact a government's ability to afford public infrastructure for education, public health care, and other services, as well as bridges, and roads, that businesses also rely upon. It is all interconnected.

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## Intentional, Inclusive, Green Growth Needed

We should never focus on economic growth for growth's sake. We need to consider who shares in that growth, and whether the growth is beneficial or harmful to human health, to our planet, to our well-being as society. Similarly, we cannot just be focused on job creation without considering the quality of the jobs created. Better job quality is also an incentive to enter the labour market and might help retain workers, thus also decreasing turnover costs.<sup>25</sup> It is also important to consider regional, rural and urban differences when supporting job creation; Unemployment in Cape Breton is almost three times higher than Halifax.<sup>26</sup> As we transition to a greener economy, we need to help workers adapt to changing skill needs and address the quality of jobs that are essential but have been undervalued, as in the caring economy. "If COVID-19 has taught us anything, it's that a lot of the people we pay the least are the ones we need the most."<sup>27</sup> Those hurt the most from income loss during the pandemic were low-wage workers and more likely members of demographic groups who face discrimination in the labour market—namely, women and racialized workers. We need to strengthen worker protections and improve job quality, focusing on issues such as pay, and stable and predictable hours for all jobs, as well as pay and employment equity.

Part of the solution is to increase the minimum wage. Despite those claiming that substantive increases will result in job losses, there is ample experiential (real-world) evidence that this is not the case.<sup>28</sup> A recent study examining the impact of substantial increases to the minimum wage in Ontario (from \$11.60 to \$14 per hour) concluded that not only did wages grow, total employment increased, and the increases reduced the racialized wage gap, especially for women.<sup>29</sup> These pay increases do result in providing more money to a large number of low-paid workers, which should be underlined. The people who spend virtually every penny they make are people at the bottom of the wage spectrum stimulating the economy, which is critical when more than half (66%) of the NS economy is powered by consumer spending.<sup>30</sup> Strong minimum wage policies reduce the need to use the tax system for redistribution, and help stimulate overall purchasing power and aggregate demand.

In addition to raising the minimum, there are other ways of addressing low wages. For example, there is a correlation between high union coverage and fewer low-wage earners. Facilitating unionization is also a way to tackle income inequality, which is a significant threat to societal stability.<sup>31</sup>

In contrast to a low-wage economy, we need a higher waged economy, that values diversity, and builds an inclusive labour market that then spurs productivity and sustainable, green, growth.

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## Notes

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- 6 Covering April 2020 to March 2021. Notably, 60% of minimum wage earners are female, 74% are non-students, 34% are over the age of 35, 43% are employed full time, and 53% have post-secondary education. Department of Labour, Skills and Immigration. (2021). *The Nova Scotia Minimum Wage Review Committee Report*. <https://novascotia.ca/lae/pubs/docs/Minimum-Wage-Review-Committee-Report-December-2021.pdf>
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- 11 Black women's median wage is \$22,934, black men's is \$26,458. White woman's median is \$27,973 and white man's is \$39,680. Statistics Canada. (2016). *Census, Catalogue Number 98-400-X2016356*.
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