



Commentary

A Living Wage Policy for the Region of Waterloo

– Will it help the working poor?

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Background

The Region of Waterloo is considering the implementation of a living wage policy that would set a minimum wage of \$13.62 per hour for all Waterloo Region employees, including those working for Regional contractors. The proposed living wage was based on a budget deemed to provide a socially acceptable standard of living for a single person living in the Region. The policy is designed to address the concern that people who work full time should not live in poverty.

In this commentary I provide some background to the issue of poverty in the Region and discuss who might be affected by such a policy and how. The determination of the appropriate level of the Living Wage will not be settled here.

The Region of Waterloo's Low Income Workers

The Region of Waterloo has a relatively strong labour market with low unemployment rates. Kitchener (CMA) has a low incidence of low income, at 11.3% in 2001. This is one of the lowest rates in Ontario, compared to 16.7% in Toronto and 15.1% in London.¹ Many of these low income families have no earnings at all, while some are working full time.

The Statistics Canada Low Income Cut-Off (LICO) for a single individual in 2007 (before tax in an urban area with population 100,000-499,999) was \$18,659. Below this level, individuals typically devote a larger share of income to the necessities of food, shelter, and clothing, than the average family would. The comparable LICO for a family of three was \$28,556. To reach the LICO in 2007, a single individual working 40 hours per week would need to earn at least \$8.97 per hour. The head of a family of three would need to earn \$13.72 per hour. Note that the Ontario minimum wage is set at \$8.75 per hour and is set to increase to \$9.50 per hour in March 2009.

Who are the working poor in the Kitchener CMA that we are concerned about? In Kitchener, 4% of individuals that work full time for a large part of the year (45 weeks) live in low income families.² This would represent roughly 6000 individuals. Those in low income families tend to be slightly younger, however a large portion are 'prime-age' workers between the ages of 35 and 54. Those in low income families are also less likely to have completed high school, are more likely to be immigrants and are more likely to be visible minorities. They are also more likely working in the accommodation, food services, or waste management industries.

Table 1: Characteristics of Full Time workers in Kitchener CMA, 2001 Census

Economic Family's Income	Below LICO	Above LICO
Age (% in each group)		
19 or younger	2.9	1.0
20-24	9.8	6.5
25-34	23.3	26.0
35-54	50.3	56.0
55+	13.7	10.5
Highest level of schooling (% in each group)		
Less than HS graduation	27.2	19.9
HS graduation	16.6	15.8
Post-Secondary less than University graduate ³	44.3	44.7
University – BA or more	11.9	19.7
Immigrant (Permanent residents, %)	27.8	22.6
Visible Minority (%)	15.9	7.3
Industry (% in each NAICS)		
Agriculture, forestry, fishing and hunt	2.9	1.0
Mining and oil and gas extraction	0.0	0.0
Utilities	0.6	0.3
Construction	4.5	5.6
Manufacturing	32.0	32.4
Wholesale trade	3.4	6.0
Retail trade	9.7	7.6
Transportation and warehousing	5.7	4.2
Information and cultural industries	0.6	1.7
Finance and insurance	2.8	6.8
Real estate and rental and leasing	1.2	1.0
Professional, scientific and technical	6.3	6.7
Management of companies and enterprises	0.0	0.5
Administrative and support, waste management	5.2	2.6
Educational services	0.6	6.8
Health care and social assistance	4.0	6.6
Arts, entertainment and recreation	1.7	0.6
Accommodation and food services	10.9	2.7
Other services - except public administration	6.3	3.8
Public administration	1.7	3.2

Source: Author's tabulations from the 2001 Census public use microdata files. The sample includes individuals who report working mostly full time weeks for at least 45 weeks in 2000.

While the information in Table 1 characterizes the workers that policy makers are most concerned about, it would be illegal to define individuals' wages by their family status or their family's income. Policies designed to raise the wages received by low income families must affect all low-wage workers. Select characteristics of all employees in Ontario are presented in Table 2.⁴

Table 2: Characteristics of Employees in Ontario by Hourly Wages, March 2008

Hourly Earnings:	\$8-9.50	\$9.51-14.00	\$14.01 +
Age (%):			
15-19	36	7	<1
20-24	25	22	4
25-34	11	22	22
35+	28	49	74
Gender (%)			
Male	34	40	57
Female	66	60	43
Main Job (%)			
Full Time	37	71	89
Part Time	63	29	11
Usual total hours worked	24	34	39

Source: Author's tabulations from Labour Force Survey, March 2008. Sample includes individuals reporting hourly earnings, employed, in Ontario.

Unlike the individuals in low income families that we are concerned about, many low wage workers are under age 25 and working part-time. These younger individuals will belong to both low and higher income families. A large portion of the individuals earning relatively low wages are those that policy makers are interested in targeting. Many are older – 28% of individuals earning between \$8 and \$9.50 were over the age 35 and nearly half of the individuals earnings between \$9.50 and \$14 were over 35. Furthermore, many are working full time – 71% of individuals earnings \$9.51-\$14 work full time. Overall, we should expect any wage floor increases to have a large impact on the wages received by low income families with residual impacts on younger part time workers.

Minimum Wages as a Redistribution Policy

It is often argued that minimum wages will actually harm the working poor as raising minimum wages may lead to the lay-off of low-skilled workers. However, the empirical evidence suggests that minimum wages will have little, if any, negative impact on employment rates. In fact, more recent studies will suggest that increases in the minimum wage (though creating some increase in

unemployment) are desirable and optimal as a redistribution policy in a competitive labour market.⁵ In a competitive labour market the costs of this redistribution will ultimately be borne by high-skilled workers in the form of lower wages. Thus a general increase in the minimum wage in Ontario could be viewed as a reasonable part of redistribution policy. Determining an optimal minimum wage for Ontario would require further study.⁶

The Region of Waterloo does not have the legal jurisdiction to impose a minimum wage on the Region. The Region can only define its own employment practices.

The Living Wage Policy for the Region of Waterloo

A Living Wage Policy that only affects employees of the Region of Waterloo might not have the same desirable effects as an increase in the Ontario minimum wage would for many reasons. These reasons will generally fall into two categories.

First, it is not clear how many workers would actually be affected by a Living Wage Policy. According to the Region of Waterloo, no one directly employed by the Region is paid less than the proposed wage of \$13.62.⁷ The direct labour costs for the Region of Waterloo is thus \$0.

If extended to Region of Waterloo contractors, there are several workers under janitorial service contracts and food services contracts that would be affected. Cost increases for janitorial services would be in the range of 30 to 50 percent.⁸ To date, I have not been able to determine the number of employees that would actually see a wage increase. Without information regarding the number of employees affected it is not possible to determine the extent to which the incidence of low income in the region would be reduced.

The second, and perhaps more important, reason for questioning the desirable effects of a Living Wage policy relates the issues of who ultimately will pay the cost of increase in wages – that is, who bears the economic burden of this policy.

If all contractors are bidding competitively with the Region and all contractors are required to comply with the Living Wage policy, then it is simply a matter that the increased labour costs will be paid by the Region out of its operating revenues.⁹ It is not clear the extent to which the Region's budget would have to increase. The Region of Waterloo report suggests the "net levy impact for [the janitorial service] is anticipated to be in the range of 0.26 percent." Based on the 2009 budget estimates, this would imply an increase of roughly \$921,960.¹⁰

The main sources of funds that the Region has control over are property taxes. Who would bear the burden of a property tax increase? When an unanticipated property tax increase occurs, the land owners, building owners and those who rent the land and buildings will share the burden of that tax increase.¹¹ As property taxes are largely based on the value of the structures on the land, we can expect the burden of the tax will be large borne by those renting the structures – for example this would include tenants in apartment buildings, business owners renting office space, and homeowners.

It is not clear how the Living Wage policy would affect the local labour market in the short and long run. In the short run we should expect a small queue for Region jobs to form, resulting in greater unemployment among lower-skilled workers as they hold out for Region jobs rather than looking for jobs in the lower paying private sector. In the longer run, there may be some adverse effects on training and education decisions as individuals delay training while hoping to obtain a lower-skilled job at the higher Living Wage. The longer individuals delay training, the less likely they are to enter education programs. Given the small number of jobs actually affected by the Living Wage policy, it is unlikely that employers would pay higher wages to attract these workers back to the competitive labour market.

Concluding Remarks

Overall, a Living Wage policy for the Region of Waterloo will have little, if any, effect on poverty rates. The costs of the policy will ultimately be paid for by those who bear the burden of property taxes, which will include many lower income families in the Region. The policy can also have many distortionary effects, potentially reducing skill levels at the lower end of the income distribution and creating longer periods of unemployment among low skill workers.

If interested in reducing poverty rates, the Region of Waterloo may want to consider other policies that would fall under its jurisdiction. A Living Wage policy will only benefit a handful of individuals.

¹ Source: Statistics Canada 2001 Census, Incidence of low income among the population living in private households, by census metropolitan area <http://www40.statcan.ca/101/cst01/famil60g-eng.htm> . Note the only lower CMA rate was in Oshawa, at 9.4%.

² Based on author's tabulations from the 2001 Census public use microdata files. Sample includes individuals living in the Kitchener Census Metropolitan Area that reported working 45 weeks or more and these were mainly full-time weeks, in 2000. Low income status is based on the variable imputed by Statistics Canada from total economic family income and LICO.

³ Post-secondary includes all those with a trades certificate or diploma, those who attended college whether or not they received a certificate or diploma, and those who attended university but did not receive a certificate, diploma or degree.

⁴ The Census data does not provide good estimates of an hourly wage. The LFS provides better wage data, however public use files do not have an indicator for the Kitchener CMA.

⁵ See Lee and Saex (2008) which suggests a binding minimum wage combined with wage subsidies are second-best Pareto efficient as long as government values redistribution toward low wage workers and the unemployment induced by the minimum wage hits the lowest surplus (productivity) worker first.

⁶ Many have suggested an appropriate minimum wage is one that allows a full time employee to earn enough to reach the LICO. See for example Goldberg and Green (1999).

⁷ This is discussed in a Region of Waterloo report (SS-08-030), Social Services, August 19, 2008, Access online at [http://www.region.waterloo.on.ca/web/region.nsf/0/9E0A6362930409B4852574A60045D805/\\$file/SS-08-030.pdf?openelement](http://www.region.waterloo.on.ca/web/region.nsf/0/9E0A6362930409B4852574A60045D805/$file/SS-08-030.pdf?openelement) and in the report "A Living Wage Policy Impact Assessment for the Region of Waterloo: Preliminary Considerations" noted in the references.

⁸ Ibid.

⁹ This assumes that 'loopholes' will not be created, for example allowing exemptions for students or small businesses. Such loopholes will often lead to an inefficient restructuring of businesses in an effort to avoid the higher labour costs. This also assumes the Region is not a monopsonist employer. For something like janitorial services, where contractors may provide janitorial services to many companies and organizations, if the Region is unwilling to pay the amount that the business could earn on contracts not subject to the living wage, the business will simply go elsewhere.

¹⁰ Based on estimates from the 2009 Base Budget Book , <http://www.region.waterloo.on.ca/web/region.nsf/0/0F739B6A071347648525750F00664734?OpenDocument>

¹¹ To the extent that property taxes are also based on the land itself (regardless of the structure on it), and land is fixed in supply, landowners will also bear some burden of the tax. Structures on the land are typically viewed as investments. Since investment dollars are able to move to other cities, the supply is effectively perfectly elastic and all tax costs are passed on the renters of the buildings.

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