

# Reducing Labour Market Inequality, Three Steps At A Time

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## Reducing Labour Market Inequality, Three Steps At A Time

There is a complex range of causes of Canada's increased income inequality. They range from changes in how economic activity is organized and located internationally to domestic policy decisions. Some, like changes in patterns of international trade and production or technological change, can make the problem seem very large and intractable. That is why it is particularly important to identify those government policies that have contributed to increased inequality. These policies that concentrated wealth and power in the hands of the few to the detriment of the many were not inevitable. The politicians who implemented them made choices, and those choices can be reversed. Reversing these policy decisions is an important step to addressing inequality in Canada.

The labour market is an important contributor to increasing income inequality in Canada. Statistics Canada data shows that inflation-adjusted earnings of the bottom 20 percent of workers fell by 21 percent between 1980 and 2005, while the earnings of the top 20 percent increased by 16 percent.<sup>1</sup> Research on the Ontario labour market shows a shift to an hourglass shape, with an occupational distribution concentrated at the high and low ends, and a disappearing middle.<sup>2</sup> Recent academic research supports these results, showing a reduction in mid-level occupations and increased wage inequality across occupations. Wages at the top of the occupational distribution increased relative to those in the middle, wages in the middle grew relative to those at the bottom, and wages at the bottom declined in absolute and relative terms.<sup>3</sup> Increasing numbers of workers and an increasing share of the total labour force are at the bottom of that hourglass and endure low incomes and increased insecurity.

Much of the recent focus on increased inequality has been at the top of the income scale; these are important stories to tell but they are also easier to tell: rapacious financiers, powerful Bay Street lawyers, and physicians who hold our lives in their hands; or, the glamorous lives of the rich and famous. The stories of those of us who are left behind are more complex. But the fact that these stories are harder to tell does not mean that they should be ignored.

This note looks at three policy initiatives that would improve working conditions for lower-income Canadians. Reflecting on the complexity of these issues, this would require action at all three levels of government. Two out of the three initiatives require changes in legislation or regulations and would therefore not have any impact on government budgets. However, all require political will to take on both established orthodoxy and vested interests.

The first initiative is to reverse the changes to the federal Temporary Foreign Worker Program that have been implemented since 2006. These changes have a negative impact both on the workers who come to Canada through this program, and on the broader labour market.

The second is to update labour relations and employment standards legislation. As this legislation has not been updated to reflect changes in the labour market, it no longer provides protections to workers who need it.

Finally, the quality and quantity of public sector jobs is an important policy tool in mitigating income inequality, and in particular supporting women's employment and incomes. Public sector work is both

important to maintain social services that women require to participate in the paid labour force, and as a source of good jobs and incomes.

## **Temporary Foreign Workers Program**

Under the federal Temporary Foreign Workers Program, workers come to Canada for a short period, generally without future prospects for immigration or citizenship. These workers are unable to defend and protect their workplace rights. Because their presence in Canada is tied to an individual employer, attempts to enforce their rights will likely result in deportation. The rights violations and abuses of workers brought to Canada under this program have been well documented.<sup>4,5</sup>

The current federal government has increased the number of workers coming to Canada under this program. In 2011, more people entered Canada as temporary foreign workers than as permanent residents.<sup>6</sup> The number of temporary foreign workers in Canada has more than doubled since 2006.<sup>7</sup> A number of new administrative and regulatory changes have made it easier for employers to bring this vulnerable workforce to Canada. The changes to the program have increased the potential for abuse and exploitation. Two policy changes will have particularly negative impacts both on workers in Canada under this program, and for other workers in low-paid and precarious work.

The first policy change, implemented in 2011, is the requirement that many workers in Canada under this program must leave Canada for four years, if they have worked here for four years.<sup>8</sup> Universal experience with “guest worker” regimes shows us that they fail: a significant proportion of workers do not leave when their work permits expire. The predictable and inevitable result is the manufacture of an “illegal” immigrant population in Canada who will be enormously vulnerable to exploitation. In the spring of 2012, the government made further amendments to the program. While the previous rules required foreign workers to receive the “average wage” paid to Canadian workers in the same region, the new rules will allow employers to pay up to 15 percent less than that average wage.<sup>9</sup> This will put downward pressure on wages for all workers in Canada.

The recent amendments are harmful from a human rights perspective, as well as to longer-term economic and social development. Further, the harm from these amendments is not limited to workers in Canada under this program, but extends to other marginalized workers including many recent immigrants. As non-renewable work permits under the program expire, there will be a growing undocumented workforce in Canada who will be working without access to any legal protection, and therefore for less than legislated minimum standards. The introduction of these workers into the labour market will also push down wages and working conditions for workers with status, who will have to compete with undocumented workers for jobs. Similarly, workers with permanent status will be competing with workers in the Temporary Foreign Workers Program, whose rights cannot be enforced and whose employers will be legally sanctioned to pay them below the prevailing wage.

The objective of the Temporary Foreign Workers Program is to alleviate labour shortages.<sup>10</sup> The basics of supply and demand tell us that labour shortages can also be remedied by an increase in wages. Increasing

wages would reduce income inequality in two ways: first, by putting more money into low wage workers pockets; and, second, by increasing the share of national income going to labour rather than to profits.

Instead, the federal government has chosen a policy that increases inequality. Increasing the supply of labour through the temporary foreign worker program will mitigate any increase in wages. Allowing these additional workers to be paid less will reinforce this trend, and implementing a policy that will result in an undocumented workforce who do not have any rights will further push down wages.<sup>11</sup> Reversing these policy changes to the Temporary Foreign Workers Program will contribute to reducing income inequality in Canada.

## **Strengthening Employment Standards And Labour Relations Legislation**

The potential for labour market regulation to address income inequality does not end with the Temporary Foreign Workers Program, or the federal government.

Workers in low wage jobs are no longer able to unionize at the same rates as earlier generations, as evidenced by decreasing union density rates in the private sector. The history of Canadian manufacturing and mining sectors includes employees unionizing to improve poorly paid and dangerous jobs.<sup>12</sup> Over time, unionized employees in these industries were able to increase their wages and benefits, and achieve fairness at work, and safety on the job. The data shows that workers in unionized workplaces are able to negotiate higher wages than non-unionized workers.<sup>13</sup> Further, the gap between lower paid employees and higher paid employees is smaller for unionized workers. Higher levels of unionization also have an important spill over effect, increasing wages in non-union workplaces. Increased inequality and decreased levels of unionization have been correlated in many countries – including Canada.<sup>14</sup>

Employment standards establish a minimum floor so that workers with the least ability to negotiate fair wages and working conditions are protected from having to endure working conditions that we collectively determine are unacceptable. Because fewer private-sector employees have the protection of unions, employment standards legislation has an increasingly important role. There is evidence of widespread violations of current legislation.<sup>15,16</sup> These include workers being paid less than the minimum wage, unpaid wages, uncompensated overtime, and late payment of wages. Recent immigrants and racialized workers are more likely to be subjected to these violations. These widespread violations tell us that we need more effective enforcement.

However, the problems with employment standards legislation don't end with enforcement. The legislation should be modernized to protect workers more effectively.<sup>17</sup> Minimum standards laws are full of exceptions and qualifications which effectively permit many employers not to apply the law. And in many cases, authorize employers to make “agreements” with their employees for exemptions from the law. Most non union workers are not in an equal bargaining position with their employer. In these circumstances, an “agreement” between a worker and an employer is more likely to be a deal which favours the employer.

Legislation governing labour relations and employment standards in Canada was written in and for an era of large workplaces (like those of the mining and manufacturing industries) where most employees worked full time in the same location and commonly spent their entire working lives with the same employer. Workplaces have changed. Today, employees are more likely to work in the service sector, in smaller workplaces, and have shorter job tenure. Employees may be geographically disparate in a number

of different locations, they may not report to the traditional workplace on a regular basis like one would in an office or a factory. Often working two or three jobs, employees are less likely to know each other and may not be proficient in a common language. There has also been a change in structure of employment relationships. Production of services and goods that used to be integrated into one employer is now provided by contract services providers. This change in structure has a profound impact on the effectiveness of labour legislation in protecting workers.

Labour legislation has not kept up with these changes in the labour market either. In current labour relations legislation, the basic building block of a union is a single workplace with a single geographic location. That is a building block that better describes General Motors than it does Wal-Mart or McDonald's, making it much harder for this generation of employees to exercise their rights. Labour laws must be changed so that the structural and other changes in workplaces are not barriers to organizing. Labour laws acknowledge and protect the right of workers to form and join unions. The laws need to be updated so that in today's workplaces, workers can meaningfully exercise those rights. These changes in the labour market, along with changes in government policies and decisions that have shifted power from employees to employers, have contributed to falling union density in the private sector. However, decreasing union density cannot be solely laid at the feet of changing employment patterns, outdated legislation and government policies. Unions have had difficulty in adapting their structures and organizing activities to changed labour market conditions. Efforts to address these difficulties are ongoing; one of the most recent is the CAW CEP discussions and document.<sup>18</sup>

The share of unionized employees in the private sector has dropped, from 21 percent in 1997 to 17 percent in 2011.<sup>19</sup> In 2011, union density in the goods producing sector was almost twice as high as in private-sector services.<sup>20</sup> However, the service sector accounted for a much larger share of total employment – 78 percent of total employees in Canada as compared with the goods producing sector's 22 percent.<sup>21</sup>

This generation should have the same protections and opportunities to improve their working lives as previous generations. To make this a reality, labour laws need to be updated. These are complex issues, and complex pieces of legislation. But concrete steps can be taken.

Making progress on these issues does not require a wholesale rewriting of the legislation. There are smaller steps that could be taken to reduce inequality. For example, labour relations acts across Canada protect the collective bargaining rights of employees when a business is sold or transferred. If a unionized business is sold in the manufacturing sector, workers are able to keep their union and their contract. However, if the same business uses contract cleaners and the current contractor is replaced with new contractor; those cleaners are not able to keep their union and their contract.

Employees in contract services sector are some of the most marginalized workers and low paid workers. They are more likely to be racialized Canadians and new immigrants.<sup>22</sup> Employees in this sector who unionize have already overcome enormous hurdles. When they achieve a collective agreement that offers even modest improvements in wages and working conditions, it can make a profound difference. The loopholes that allow contract service workers to suddenly lose these modest improvements in wages and

working conditions, while they are doing the same work, in the same location, is a legislative gap that should be corrected.

In Saskatchewan this protection is extended to workers whose employers have contracts with in the public sector.<sup>23</sup> Adopting and extending this section of the Saskatchewan Act to the private sector across the country would provide unionized workers in the contract services – food services, cleaning and security with the same rights as workers in other sectors of the economy.

## **Austerity Agenda Will Increase Labour Market Inequality**

Governments at all levels in Canada have embarked on an austerity agenda that includes reducing public sector employment and efforts to privatize public services. This policy direction will slow economic growth, harm the quality of public services, and the loss of services will have a larger impact on low-income Canadians than higher income Canadians. Along with these other impacts, this austerity agenda will increase income inequality.

Workers in lower-paid occupations – such as cleaning, food preparation, and clerks – are generally better paid in the public sector than in the private sector. A cook working in the public sector was paid an average of \$26,216 a year in 2006, which is 24 percent more than the \$21,089 average received by private sector cooks. On the other hand, higher-paid occupations – such as managers, lawyers and accountants – tend to be paid considerably less in the public sector than in the private sector. For example, engineering managers in the public sector were paid an average of \$93,514 in 2006, which is 27 percent below the average of \$128,886 in the private sector.<sup>24</sup> As a result, higher-income public sector workers who lose their jobs have better prospects in the private sector than lower-income workers who lose theirs.

These policies also have a differential impact by gender. Women comprise just over 62 percent of Canadian public sector employees, and about 46 percent of private sector employees.<sup>25</sup> The impact of layoffs will be compounded by the differences in wages for women in the public and private sectors. On average, women employed in public sector jobs are paid 4.5 percent more than women in comparable occupations in the private sector, \$45,821 compared to \$43,841. Women who are laid off from the public sector will likely have difficulty finding employment with similar remuneration, Men in the public sector are paid an average of 5.3 percent less than in the private sector: \$57,318 compared to \$60,531.<sup>26</sup> As a result, a decrease in public sector employment will tend to widen the gap between men and women's wages.

The impact on women's remuneration is not limited only to direct job losses. Shifts in the method of public service delivery will also have a disproportionate impact. Private delivery of services will move women to more precarious employment situations, where they are less likely to be unionized and typically have lower compensation.

Caregiving makes up a substantial portion of public services. When these services are reduced, the responsibility falls on disproportionately on women to pick up the slack. In 2005, Canadian women spent two hours more per day than men on unpaid work.<sup>27</sup> In 2010, Canadian women spent an average total 50 hours per week caring for household children, double that spent by men.<sup>28</sup> The loss of public services will increase unpaid work for women while reducing their remuneration and opportunities for paid work.

The burden of reductions in public services, loss of public sector employment, and privatization of public sector employment falls more heavily on women than on men. Reduced employment in the public sector

and privatization that shifts employment from better paid unionized jobs with pensions and benefits to more precarious work will increase inequality in Canada.

## **Conclusions**

Governments have a powerful array of policies that they can use to reduce income inequality in Canada; one of these is labour market policies. Increasing bargaining power of workers at the bottom of income distribution reduces income inequality in a number of ways. It will reduce inequality along gender and racial lines. It will increase incomes at the bottom of the labour market and reduce poverty. Finally, redistributing national income from profits to wages, will reduce incomes at the top, further reducing income inequality. Three ways that governments can act are: modernizing labour legislation to enhance equality and protect workers, reducing employers' access to an exploitable migrant workforce, and maintaining the quality of public sector employment.



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