

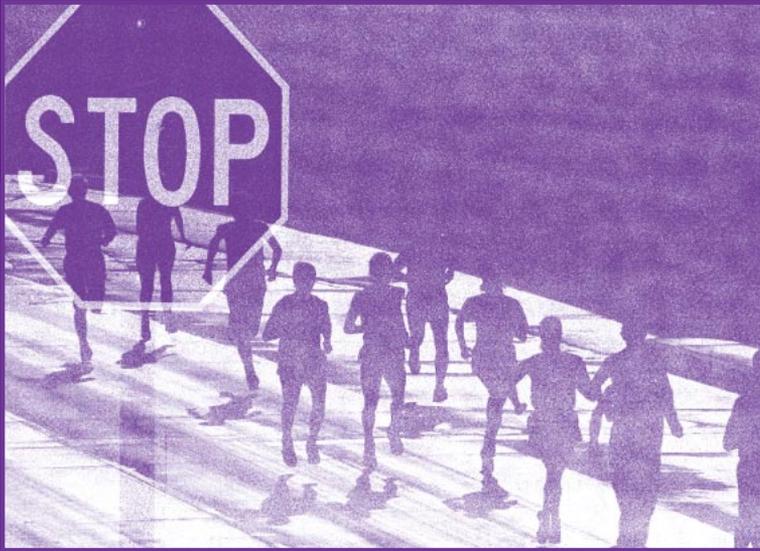
# Running to stand still



How Alberta government policy has led to wage stagnation during a time of prosperity.



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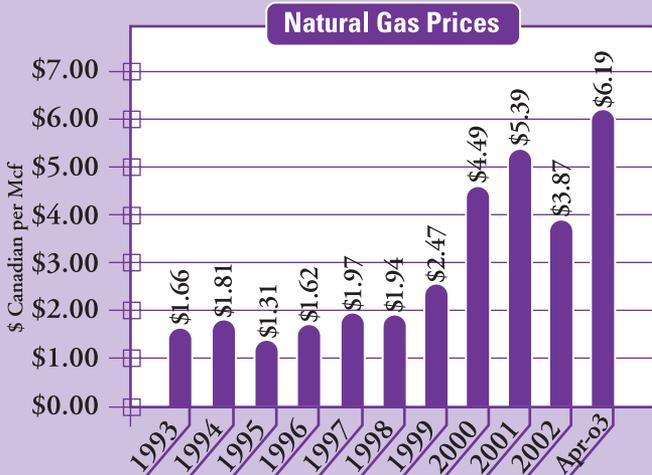
"Alberta has outperformed the rest of the country in job creation."

## Introduction: Alberta's Economy – Riding the Energy Express

Over the last decade, Alberta has enjoyed some of the strongest and most sustained economic growth in its history – second only to the energy boom of the early 1980s. Like that earlier boom, the province's recent expansion relies heavily on energy revenues, which have strengthened steadily over the last few years.

Petroleum prices are generally measured by the market price of benchmark grades such as West Texas Intermediate (WTI) crude oil. For Alberta, an annual average price for WTI crude of less than \$16 US per barrel is bad news. But since 1992, that has happened just once – in 1998, and for the last three-and-a-half years the price has been over \$30 US per barrel.

Even more important for the Alberta economy has been the emergence of natural gas as the fuel of choice in North American energy markets. The price of natural gas has been rising since 1995, and this trend has solidified since the Alliance Pipeline came on stream in December of 2001, allowing gas to be shipped directly to American markets. Since then, Alberta natural gas has sold for two or three times its historic average price.

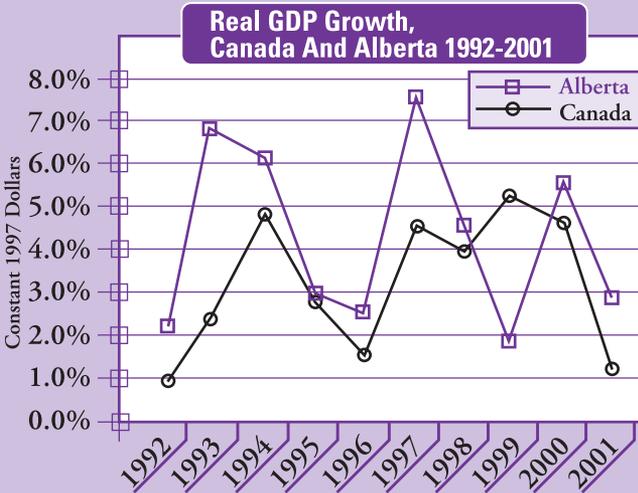


Given the increasing reliance on natural gas in the generation of electrical power, there is a very good chance that demand for Alberta's energy resources will remain high

for the foreseeable future. Gas prices are unlikely to drop much below \$3.00 Canadian per 1000 cubic feet, and will probably stay much higher.

Over the last few years, the Canadian economy has been one of the strongest in the Western world, and forecasts from the Organization for Economic Cooperation and Development (OECD) predict that we will lead OECD countries in growth in the near future.

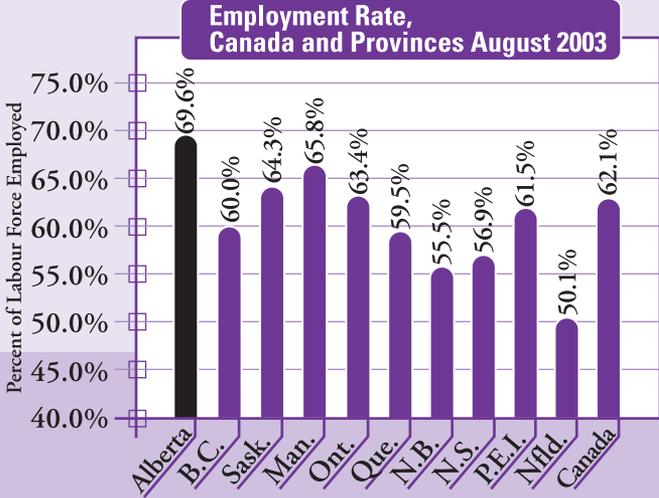
Alberta's economy is the strongest in Canada. Over the last decade, this province has led the rest of the country in real growth (as measured by Gross Domestic Product, or "GDP") in nine out of ten years.



As a result of this strong growth record, Alberta has outperformed the rest of the country in job creation by a wide margin. The availability of work has attracted jobseekers from other parts of Canada and from overseas, so Alberta has had the highest rate of population growth among provinces. Since these people come here looking for work, we have by far the highest "participation rate" (the percentage of adults in the labour force actually working or looking for work) in Canada.

Even with the supply of labour growing because of in-migration and the high participation rate, the Alberta

economy is creating jobs fast enough to give the province an employment rate much higher than the rest of the country.



Rapid expansion of the economy and jobs can bring its own problems, such as inflation, and in Alberta inflation has been well above the national average for several years. Recently it has been especially high, about 5.8% for the twelve months leading up to July, 2003, as a result of soaring costs for utilities and insurance.

Another potential problem associated with rapid growth is that it can create room for inefficiencies to creep into the system, causing a drop in productivity. The good news is that, in Alberta, this doesn't appear to have happened. According to Alberta Economic Development:

*“Alberta’s total economic productivity increased at an average annual rate of 1.3% between 1991 and 2001, which was the highest rate in Canada.*

*In 2001, Alberta’s economic productivity was higher than any other province. Total value added per hour in Alberta was 108.9% of the Canadian average.”*

**“In 2001, Alberta’s economic productivity was higher than any other province.”**

Healthy economies are good for government finances, and the Government of Alberta has run budgetary surpluses for the last nine years in a row. Over the last decade, the average

annual budget surplus in the province has been just under \$2 billion.

On the face of it, this sounds like an economist's idea of heaven: rapid growth in GDP and employment, a rapidly growing population with a very high labour force participation rate, but with low unemployment. All this while maintaining high productivity and a series of government surpluses.

### ***What's Wrong With This Picture?***

On closer examination, however, the Alberta economy does have one economic indicator that performs poorly over the last decade – wages and incomes.

Despite the booming economy of the last decade, wages in Alberta have grown very slowly, and inflation has eaten up these modest increases. In fact, when inflation is factored out, real wages in the province actually fell very slightly over the last ten years. Between 1992 and 2002, average real weekly earnings, expressed in constant dollars, dropped by 0.1%.

**Real wages have stagnated during a decade of growth and prosperity.**

But it isn't the minor decline in real wages that is significant here – it's the stagnation of real wages during a decade of growth and prosperity.

That, after all, is how capitalism is supposed to work. When the economy is in a downturn, real wages are stagnant or declining. In boom times, however, workers are expected to make gains. To quote the old cliché: "A rising tide raises all boats." That's the theory, anyway.

In particular, improvements in real wages are supposed to depend upon improvements in productivity. That's what the business lobby argues when they push for lower corporate taxes. But as noted above, Alberta workers have both the highest **and** the fastest growing productivity in Canada.

Albertans are entitled to ask: "What's going on? How can the most productive workers in the country experience stagnant or falling wages in the middle of an economic boom? If we can't improve our real wages during a boom, when can we?"

“Why aren’t working people realizing the economic benefits of the boom?”

To put the question in perspective, consider the other side of the equation. What will happen to our wages the next time the economy slows down? Does this mean that, in the long run, we face a slow but steady decline in earnings?

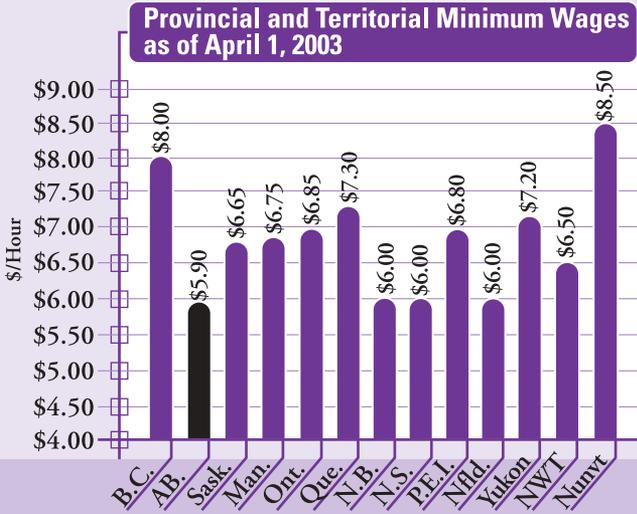
There are a number of factors affecting average wage growth in an economy, including changes in occupational patterns and the rate of capital investment, but government actions also have a very significant effect on wages. Government policy in areas such as trade, monetary policy, and immigration clearly have an impact on the economy as a whole. But the labour market is also heavily regulated through labour law and employment standards legislation. In Canada, those regulatory powers fall under provincial jurisdiction.

This year marks the tenth anniversary of the “Klein Revolution.” Ralph Klein was elected leader of the Progressive Conservative Party in December of 1992, and received his first electoral mandate in June of 1993. Those ten years have seen the Alberta economy emerge from the recession of 1991-92 and surge forward to become the wealthiest province in Canada.

But what kind of economic development has this boom created? Why aren’t working people in the province realizing the economic benefits of the boom? This booklet will look at the labour market policies of the Government of Alberta, and analyse the impact they have had on the economy and the role they’ve played in wage stagnation over the last decade. It will look at how these policies affect various groups, including low income earners and the labour force as a whole.

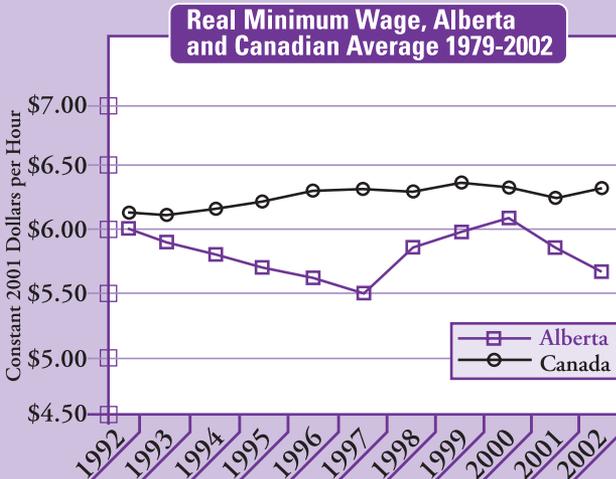
### **Lower Income Albertans I: Minimum Wage – Breaking Youth to the Harness**

At \$5.90/hour, Alberta has the lowest minimum wage in Canada, about 90 cents an hour less than the national average. On the face of it, it seems odd to find the wealthiest province in the country adopting a minimum wage lower than New Brunswick, Nova Scotia and Newfoundland. These provinces, after all, have serious and chronic high rates of unemployment, and are among the poorest regions in the country.



In the late 1980s and early 1990s, New Brunswick, for example, adopted a low wage strategy to combat unemployment. Under the direction of then-Premier Frank McKenna, that province became the call centre capital of Canada. In that context, a low minimum wage makes a certain amount of sense. It makes little sense for Alberta to follow a similar strategy.

On the other hand Alberta's low minimum wage appears to be the result of deliberate government policy. It's not as though the Klein government was so busy counting their energy royalties that they forgot to raise the minimum wage. Since 1991, Alberta has never once had a minimum wage above the national average.



Lower Income Albertans I: Minimum Wage – Breaking Youth to the Harness

Far from being embarrassed by Alberta's low minimum wage, the Klein government brags about it.

Given Alberta's relatively high rate of inflation, it's hardly surprising that the real (after-inflation) minimum wage has been falling steadily for much of the last 20 years. Every so often unions, and community activists and groups like the Parkland Institute mount a campaign to have the minimum wage raised. The government stalls for a couple of years, then puts a raise in place, knowing full well that inflation will nullify the increase in a short period of time.

### **Marketing Misery – Alberta Seeks New Investment**

Far from being embarrassed about the province's low minimum wage, the Klein government stresses it when soliciting out-of-province investors. The Alberta Economic Development web site, under the heading "Locating Your Business in Alberta," includes a table listing all provincial minimum wages. The table shows Alberta's minimum wage ranking seventh among provinces, but it appears to be based on 2001 data. Since then, New Brunswick, Nova Scotia and Newfoundland have all raised their minimum wages. Alberta has not.

### **The Minimum Wage and Employment**

Those opposed to raising the minimum wage frequently argue such an increase will cause a loss of jobs. This has been the conventional wisdom of policy makers and economists for many years. While there has never been a lot of hard evidence to support this claim, intuitively it seemed to make sense. All other things being equal, if the price of a commodity (in this case labour power) rises, there will be less demand for that commodity.

### **The Evidence**

In 1995, however, two Princeton economists, David Card and Alan B. Krueger, published *Myth and Measurement: The New Economics of the Minimum Wage*, a ground-breaking study of what actually happens when the minimum wage rises.

Card and Krueger looked at three different examples of minimum wage increases in the United States. In one, they looked at fast food restaurants in New Jersey, where the minimum wage was increased in 1992. They compared these restaurants with similar restaurants in the neighbouring state of Pennsylvania, and examined hiring and employment levels before and after the wage increase in New Jersey.

In a second case, they studied the effect of a 1991 increase in the federal minimum wage on restaurants in Texas. They compared a sample of restaurants that paid their employees the minimum wage with another sample of higher-paying restaurants, which were not affected by the minimum wage increase.

In the end, these two case studies failed to find any evidence of the job losses forecast by traditional theory:

*“With respect to the critical question of whether an increase in the minimum wage causes a reduction in employment, the results of the two studies are remarkably similar. In the New Jersey – Pennsylvania evaluation, comparisons between restaurants in the two states show that employment actually expanded in New Jersey relative to Pennsylvania, where the minimum wage was constant.”*

*“...The same pattern emerges in the Texas study: relative to higher-wage restaurants that were unaffected by the law, restaurants that were forced to increase pay to meet the new federal minimum wage increased employment.”(Card and Krueger, p.66)*

**“A minimum wage set too low may actually fail to entice people into the workforce.”**

The third study looked at the 1988 increase in California’s minimum wage. Unlike the first two studies, which focussed on groups of individual employers, this one looked at overall labour market trends. The researchers wanted to find out, among other things, if an increase in the minimum wage would reduce the employment rate of teenagers or other low-wage workers.

The results? *“On balance, we believe that the evidence from California shows that the increase in the state minimum wage had a significant impact on wages, but no large or systematic effect on employment.”(Card and Krueger, p. 110)*

It turns out that a minimum wage set too low may actually fail to entice people into the work force, and employers who pay that wage may be unable to recruit a steady supply of workers. So much for the argument that increasing Alberta’s pitifully low minimum wage would cause a loss of jobs.

**THE COST OF BEING YOUNG**

Another argument advanced in defence of a low minimum wage is that most of those earning it are youth or students, whose living expenses are lower and are often subsidized by their families. This argument is wrong on at least two counts.

First, youth and students in fact face high and rapidly increasing costs, in the form of tuition fees for post-secondary education. According to a study performed by the Canadian Centre for Policy Alternatives, in the ten years between 1991/92 and 2001/02, Alberta had the highest increase in university tuition fees among all provinces, and the second highest increase in college tuition fees.

**Changes in Alberta Education Costs to Students, 1991/92 – 2001/02**

	Percent Change	Rank Among Provinces (10 = Greatest Increase)	Information Source
<b>Change in University tuition fees, 1992 – 2002</b>	<b>160.8%</b>	<b>10</b>	<b>Statistics Canada</b>
<b>Change in College tuition fees, 1992 - 2002</b>	<b>292.9%</b>	<b>9</b>	<b>Dept. of Advanced Education, MB.</b>

By last year, Alberta was fifth highest among provinces in average university tuition fees and second highest in college fees.

This puts young people working at minimum wage jobs in an untenable position: caught between low and declining real wages on the one hand, and rapidly increasing education costs on the other. They face a very unpleasant choice: either get an education, and saddle themselves with a crippling debt load, or forego an education, and condemn themselves to a life of low-wage jobs.

In this situation, it's hardly surprising that Alberta's post-secondary education participation rate (the percentage of Albertans between the ages of 18 and 24 who attend a post-secondary institution) began to fall in the late 1990s. In 1998/99 Alberta ranked seventh among provinces in this crucial social development indicator.

**Alberta ranks seventh among provinces when it comes to the percentage of young people pursuing post-secondary education.**

By contrast, Alberta ranks first among provinces in the percentage of its workforce over the age of 25 having a post-secondary education. The government can brag about our highly educated workforce because our booming economy is

attracting well-educated jobseekers from the rest of Canada. A growing number of our own youth, however, will miss out on the opportunities that an advanced education provides.

Oh well, no doubt their experience working for our minimum wage will have lowered their expectations and prepared them for their future in low-income employment.

### **THE DIVERSITY OF POVERTY**

In the second place, the notion that the vast majority of minimum wage earners are middle-class teenagers is, at best, a half-truth. In Card and Krueger's US studies, they found that:

*"In fact, more than 70 percent of workers affected by recent increases in the minimum wage are adults – predominantly women and minorities. Thirty percent of those affected by a minimum wage increase are the sole wage-earner in their family, and, on average, minimum-wage earners account for one-half of their family's total earnings."(Card and Krueger, p. 277)*

While the exact numbers may differ slightly in Alberta, it's clear that minimum-wage earners are made up of poverty's "usual suspects" – women, minorities and youth.

### **WHO WILL BE AFFECTED?**

Yet another argument has been advanced for the failure to raise (or even index to inflation) Alberta's very low minimum wage. In our buoyant economy, so this argument goes, there are so few people being paid the minimum wage that changes are insignificant from a policy perspective.

This is an odd position to take. If the minimum wage is too low, then it hardly matters how many people are actually receiving it. Is an unjust government policy tolerable because it only affects a few people?

It's also unclear what this argument is based on – no statistics have been cited by the government or others showing to support this assertion.

In their book, Card and Krueger cite data suggesting that in the US, about 7.4% of all wage earners were affected by

“It is a disgrace that a province as wealthy as Alberta has the lowest minimum wage in the country.”

the 1990 increase in the federal minimum wage. Data from Statistics Canada shows that in 2002, seventeen thousand Albertans worked for an hourly wage equal to **or less than** the provincial minimum wage. Another fifty-four thousand worked for an hourly wage between \$6.00 and \$7.00 per hour. That’s 71,000 people, the population of a small city, working for wages near or below the minimum wage!

### **HOW MANY DEPENDS ON HOW HIGH!**

Two further points should be made regarding the effects of an increase in the minimum wage. The first is that how many people are affected depends on how much the minimum wage is raised. Obviously if it is increased from \$5.90/hr to \$8.00/hr, it will have a much greater impact than if it is raised to just \$7.00. In other words, the point isn’t how many people are working for the current minimum, but how many would benefit from a healthy increase in the current standard. The Statistics Canada data cited above shows that about 8.3% of working Albertans earned less than \$8.00 per hour in 2002.

The second point is that Card and Krueger found that increases in the minimum wage tend to have a limited “spillover effect,” causing wage increases even for some workers earning more than the new minimum wage. (Card and Krueger, Chapter 5)

### **CONCLUSION: COMMON SENSE AND COMMON DECENCY**

It is a disgrace that a province as wealthy as Alberta has the lowest minimum wage in the country. It’s also illogical. Alberta isn’t confronted with chronic and serious unemployment, and we aren’t desperate to create jobs – even low-wage jobs.

The arguments advanced in defence of the current policy make no sense and are supported by no evidence. Raising the minimum wage won’t automatically cause job losses. Minimum wage workers aren’t just middle class teenagers working for money to buy new CDs. (And what if they were?) A significant number of Albertans are low-income earners, and would benefit from an increase in the minimum wage.

The minimum wage in Alberta has to be raised substantially **and** indexed to inflation, to prevent the poorest-paid

Albertans from falling farther and farther behind in our high-inflation economy.

We will demonstrate later in this booklet that the Klein government’s policy on the minimum wage makes sense only in the context of an overall low-wage strategy for the province. It certainly makes no sense on its own.

**Lower Income Albertans II:  
Punishing the Poor – Welfare in Alberta**

Welfare is the income source of last resort for Albertans, the final strand in the so-called “social safety net.” In theory, at least, welfare is supposed to protect each of us from becoming completely destitute in the event we lose all other sources of income.

In a society where many of us live from paycheque to paycheque, any job loss carries with it the potential, however slight, to become a financial catastrophe. But if you lose your job and can’t get Employment Insurance, or if you can’t find a new job before your EI benefits run out, welfare is supposed to be there to prevent your family from losing everything and ending up homeless.

Of course welfare benefits in Canada are set at a level that means many recipients will, in fact, end up living on the streets. Certainly most Canadians wouldn’t be able to keep up their mortgage payments or pay rent if they had to rely on income from welfare.

*Welfare Incomes 2002*, published by the National Council of Welfare, estimates the basic welfare income of four “household types” in each province in Canada. In three of the four categories, Alberta’s welfare benefits are among the lowest in the country.

**Welfare Benefits**

Type of Household	Single Employable	Person with Disability	Single Parent, One Child	Couple, Two Children
Alberta’s rank among provinces (10 = Lowest benefit among provinces)	8th	9th	10th	5th

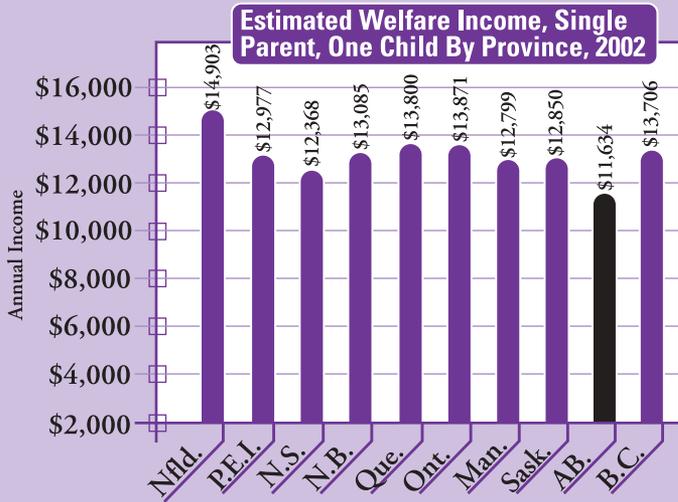
Lower Income Albertans II: Punishing the Poor – Welfare in Alberta

“What kind of future can single mothers provide for their children on \$11,600 a year?”

As we saw in the case of the minimum wage, Alberta treats its poorest citizens more harshly than do other provinces in Canada, despite the fact that it is the wealthiest province. While persons with disabilities, for example, may have their welfare income supplemented by other services, does anybody seriously believe that these Albertans can enjoy a reasonable quality of life on a cash income of \$7,600 a year?

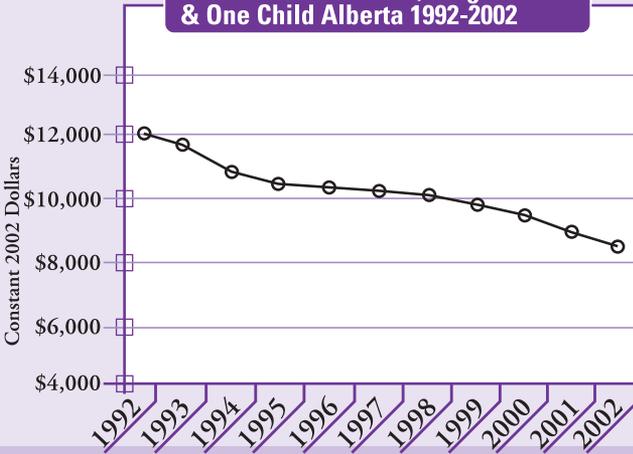
For the welfare households consisting of a single parent with a child, the picture is equally bleak. In this instance, Alberta ranks dead last among provinces. The typical single parent family is headed by a woman, who has been deprived of spousal income and support by either marital breakdown or the death of a spouse. What kind of upbringing, what kind of future, can these single mothers provide for their children on \$11,600 dollars a year?

Lower Income Albertans II: Punishing the Poor – Welfare in Alberta



That welfare income figure of \$11,600 for a single parent and one child includes just over \$3,000 in Tax benefits from the Federal government. The actual cash benefit paid by the provincial government has fallen steadily in real, after – inflation dollars every year for the last 10 years, and stood at just \$8,565 in 2002. Clearly this is no accident. Rather it is a policy decision of the Klein government.

**Real Welfare Income, Single Parent & One Child Alberta 1992-2002**



**Welfare: Who's Paying What?**

Welfare income in Alberta comes from two sources: the federal and provincial governments. From 1992 to 1997, the federal portion of welfare benefits to these single-parent families also fell in real terms, as inflation ate away at this already limited income. After, 1998, however, the Government of Canada sharply increased its contribution, and has done so every year since then.

If Alberta matched the rising contributions from the federal government, our provincial welfare benefits would not be at their current disgraceful level. Instead the province has allowed its contributions to continue falling in real terms. In 1992 86.4% of the welfare income of a single parent, single child welfare household in Alberta came from the provincial government. By 2002 that figure had fallen to just 73.6%. In the same ten year period the actual after-inflation benefits fell sharply.

**Reduction in Constant Dollar Welfare Benefits, Alberta, 1992 – 2002**

Type of Household	Single Employable	Person with Disability	Single Parent, One Child	Couple, Two Children
10 year benefit reduction	28.1%	6.9%	28.8%	30.0%

As the above table shows, for many welfare clients, the actual purchasing power of welfare benefits in Alberta has fallen by almost a third in the last decade. This disastrous income drop can only be made worse by the high levels of inflation the province continues to experience.

Lower Income Albertans II: Punishing the Poor – Welfare in Alberta

“The Alberta government diverts federal funds from welfare to other provincial programs.”

### Good News (Sort Of...)

On July 18, 2003, Alberta Human Resources and Employment (AHRE) issued a press release announcing a two-fold increase (the first in a decade) in the Supports for Independence (SFI) family welfare benefit. On June 1, the province raised this benefit by \$20 per month. Then, in July, a \$14 dollar a month increase in the National Child Benefit (NCB) program funded by the federal government came into effect. This announcement raises three important points.

First, the announced increases will boost annual benefits by a mere \$408 per year. **This means that Alberta will still have the lowest welfare benefit in Canada for a single parent/single child household,** even if other provinces don't raise their benefits.

### How Alberta Gets a Free Ride

Second, the press release clearly explains how the Alberta Government diverts federal funds from welfare to other provincial programs:

*“Under the NCB, provinces and territories may reduce social assistance benefits by the amount of the federal NCB Supplement increase and reinvest the savings into programs that reduce the depth of child poverty and help parents support their families through employment. Alberta has taken this approach in previous years. Through programs such as the Alberta Child Health Benefit, Alberta's NCB reinvestments will continue to help low-income families.”*

The Alberta Child Health Benefit (ACHB) provides modest health care benefits, such as dental, optical and drug coverage for children of low income families (but not welfare recipients, who are covered under a separate benefit). It is a worthy program, but it's difficult to see why money intended for welfare families should be diverted to a program designed for other low-income families.

### The Reason Why

The answer lies in the third point raised by AHRE release. The release quotes the Minister, Clint Dunford, saying:

*“Alberta is striking the right balance between helping families meet basic needs and providing supports to help parents find and keep jobs.... Albertans will continue to be better off working. As a direct result of our previous NCB reinvestments,*

*we have good programs in place that encourage parents to work rather than rely on social assistance...*"

The whole thrust of Alberta Government policy on welfare is to hold benefits as low as possible to “encourage” (read coerce) recipients to seek jobs, no matter how low the wages are for those jobs. While such a policy may appeal to some conservative voters, the labour market effects of this policy should be borne in mind.

By continually tightening the screws on welfare recipients, the government is trying to ensure that there will always be takers for low-wage jobs. In other words, Alberta’s brutal welfare policy supports Alberta’s equally brutal minimum wage.

***Inflation: Squeezing the Poor***

With benefits so low, welfare recipients are especially vulnerable to Alberta’s high rate of inflation. Since the money they receive will hardly cover food, shelter, and the basic necessities of life, when prices rise, they don’t have discretionary spending they can cut back on.

The Alberta Housing Coalition has examined the plight of lower-income Albertans, including welfare recipients, and concluded:

*“As rental rates increase and benefit and minimum wage remain stagnant, a lot of people are one cheque away from being homeless.”*

“Welfare recipients are especially vulnerable to Alberta’s high rate of inflation.”

The Coalition notes that the average rent for a two bedroom apartment in Alberta is about \$9,100 per year. For a single parent/single child welfare family trying to survive on a total annual income of just \$11,634, that kind of rent is far out of reach. Even if the family squeezes into a small one bedroom apartment, the basic cost of shelter will eat up most of their income, leaving a pittance to cover food, clothing, and utilities.

The latter expenses are taking a bigger bite out of welfare incomes because of the Alberta government’s disastrous experiment with utilities deregulation. Here again, welfare recipients are hit even harder than other Albertans. Heat

and power for the home aren't optional items – they're fundamental necessities. If middle income Albertans find it hard to cope with rising utilities bills, how can those dependent on welfare benefits expect to do so?

When the National Council of Welfare compared welfare income rates to poverty lines ( Statistics Canada's Low Income Cut-Offs) in each province, Alberta's already low ranking fell even further.

### **Welfare Benefits as a Percentage of the Poverty Line**

*(StatsCan Low Income Cut-Off)*

Type of Household	Single Employable	Person with Disability	Single Parent, One Child	Couple, Two Children
Alberta's Rank Among Provinces	8th	10th	10th	6th

If the real value of the benefit paid welfare recipients has fallen over the last decade, so has their non-monetary income. When the government cut back on services like social housing, a major part of the cost was borne by welfare recipients – those least able to afford it.

### **Conclusion**

It's clear that the poorest Albertans, those living on welfare, have taken a terrible economic beating over the last decade. The 12,000 families trying to survive on SFI benefits have been used as an economic "whipping boy." What is surprising is that the Klein government has been able to administer this beating without offering any compelling argument in defence of its actions. There is no rational economic argument for this kind of treatment; not, at least, from a government that regularly runs two-billion-dollar surpluses and spends hundreds of millions of taxpayer dollars to support agriculture. Of course, the government's not anxious to advertise that its welfare policy is designed to support an ultra-low minimum wage. Bashing welfare recipients may play well to part of the electorate, but attacking the working poor doesn't draw rave reviews anywhere.

Certainly the government has never had to pay a political price for this shabby treatment of the poor. That doesn't mean Albertans are especially callous or indifferent to the fate of others – most of us have no idea what the level of welfare payments is in this province. The provincial media hasn't shown much interest in the incomes and living standards of the poor.

It's time the media and the public became interested. Only then can the government be called to account for this shameful policy.

Over the last decade, the government of Alberta has reduced or eliminated many seniors programs.

### Lower Income Albertans III: Seniors

In 2001, the average income of seniors in Alberta was about \$25,000, roughly 24% below the average for all adult Albertans. Average figures can be misleading, however, and we get a better picture of seniors' income by noting that in the year 2000, over half (57%) of them earned less than \$20,000 a year.

While an increasing number of seniors work at full or part time jobs, the majority retire at some point and leave the labour force. Once they have retired, most live on a fixed income, which comes from three sources:

- Public pension plans such as the Canada Pension Plan (CPP), Old Age Security (OAS) and the Guaranteed Income Supplement (GIS);
- Employment pension plans, RRSPs, or personal savings;
- Provincial government programs targeting seniors.

Over the last decade, the latter income stream has declined as the Government of Alberta reduced or eliminated many seniors' programs. According to the Alberta Council on Aging, benefits worth about \$563 million in 2002 dollars have been eliminated by the Klein government since 1992.

#### Seniors Programs Eliminated Over Last Ten Years

	Cost in 1992 Budget	Annual Value of Benefit if Continued Through 2002
Alberta Property Tax Rebate	\$72 million	\$108 million
Alberta Assured Income Plan	\$48 million	\$72 million
Health Care Premium	\$92 million	\$158 million
Senior Independent Living Program	\$66 million	\$99 million
Home Heating Allowance	\$1 million	\$1.5 million
Senior Citizens Renter Assistance	\$10 million	\$15 million
Extended Health Care Benefits (2002)	\$25 million	\$25 million
<b>Total</b>	<b>\$364 million</b>	<b>\$563.5 million</b>

Since 1994 the government has added new programs such as the Seniors Benefit Program. The total value of these reinvestments is, according to the Council, about \$252

Lower Income Albertans III: Seniors

million. Clearly this part of seniors' income has suffered as a result of government policy.

The cornerstone of retirement income policy in Canada is the federally-run policy triad of the Canada Pension Plan, Old Age Security and Guaranteed Income Supplement. While these programs have come under criticism from the Canadian Alliance Party, the National Citizens Coalition and other conservative groups, the plans have some very important features. The CPP is a fully portable pension plan, and it and the OAS are both fully indexed to inflation. The real problem with these programs is the relatively low level of the basic benefit – a retiree will need a significant level of income from personal savings or an employment pension plan to augment their CPP/OAS payments.

#### ***The Political Threat to the Canada Pension Plan***

While CPP, OAS and GIS are locked in for seniors currently receiving benefits, a political threat to the future of these programs has emerged in recent years. Some political allies of the government, such as Canadian Alliance leader Stephen Harper, have begun calling for Alberta to withdraw from the CPP and establish its own "Alberta Pension Plan." The government has not definitely ruled out this option. Such a course of action would be utter folly.

The economics of a pension plan are powerfully influenced by the size of the plan. Larger pension funds can invest more efficiently, paying proportionally less for investment services than smaller plans. What is more, the larger a plan is in terms of participants, the more economies of scale it can generate on administration costs. A new Alberta Pension Plan would be roughly one tenth the size of the current Canada Pension Plan. The higher investment and administration costs it would pay would reduce the benefits it could pay retirees.

There is a second problem with the idea of a separate Alberta Pension Plan. Many of the advocates of such a plan are politically opposed to the whole idea of defined benefit (DB) pension plans. A DB plan, such as the Canada Pension Plan, guarantees a specific benefit to be paid in retirement. In the case of the CPP, this benefit is fully indexed to inflation. These features make planning for retirement easier and protect the integrity of retirement income.

If the proponents of the so-called Alberta Pension Plan have their way, they may well try to steer the new plan towards a defined contribution (DC) model. A DC plan acts much like an RRSP: individual accounts are set up for each contributor, and benefits are paid based on the amount in this account at retirement. DC plans force individual participants to bear all the financial risk of the plan – a stock market crash or high inflation can leave retirees in dire financial straits.

Even with the CPP in its present form, many retirees don't have fully indexed benefits from their employment pension plans, and see that part of their incomes being eroded by Alberta's high rate of inflation. Like welfare recipients, retirees are paying a disproportionate price for Alberta's failed experiment in utilities deregulation, and the high cost of heating their homes can be met only by reducing expenditures in other areas.

**“More and more retirees are returning to the labour force, looking for an extra source of income.”**

That's why, as noted above, more and more retirees are returning to the labour force, looking for an extra source of income. Caught between eroding incomes and rising costs, they have little choice and little bargaining power. All too frequently they are forced to settle for low wage part-time or casual employment, thus putting further downward pressure on wages in Alberta.

### **Wages in Alberta: Where's the Boom?**

Economic growth is a fine thing, at least, so the politicians and economists tell us. In the final analysis, however, most people don't really care about GDP numbers, or OECD rankings. Albertans want to know how much money they're getting in their pay packets, what kind of living standard they can provide for their families, and how much money they can put aside for their retirement. So how much benefit has the average Alberta wage earner derived from the province's latest boom?

We have seen that poorest Albertans: minimum wage earners, welfare recipients, and seniors, have watched their real incomes fall drastically during this period of supposed prosperity. In each case, this decline has largely been a result of provincial government policies.

“After ten years of the ‘Alberta Advantage,’ the real wages of average Albertans have not increased at all.”

The Klein government has defended these policies – cuts to welfare, cuts to services for seniors, and a low minimum wage – by arguing that they were necessary to put government finances in order and establish “The Alberta Advantage.” This array of pro-business tax and regulatory policies sums up the government’s economic strategy, and is supposed to underpin wealth creation in Alberta.

One question that has to be asked is: does this cruel and distasteful strategy work? Have the sacrifices imposed on seniors and the poor somehow resulted in a better of standard living for the rest of us? Are we profiting from the hardships imposed on these groups?

The short answer is no! The real wages of average Albertans haven’t increased at all during this period.

**Wages in Alberta, 1992 – 2002**

*(Real Wages Expressed in 2001 Constant Dollars)*

	1992	2002	10yr Change
Average Real Hourly Wages, Hourly Paid Employees	\$16.92	\$16.89	-0.2%
Average Real Weekly Earnings, All Employees	\$676.79	\$676.14	-0.1%
Fixed-Weight Average Hourly Earnings Index	93.1	116.3	Hourly Earnings Index increase = 24.9%.
Alberta Consumer Price Index	100	124.2	Consumer Price Index increase = 24.2%
			Net real change = 24.9% – 24.2% = 0.7%

Statistics Canada uses several different measures to track wages over time. The above table shows data from three of those methods, corrected to factor out inflation.

The results are striking: After ten years of the “Alberta Advantage,” the real wages of average Albertans have not increased at all. In fact, two of the three measures show real wages actually declining slightly over this period (although the decline is too small to be significant).

**What’s Going on Here?**

There’s something seriously wrong with this picture. After ten years of strong economic growth, high and growing productivity, and a buoyant job market, workers in Alberta are still stuck at real wage levels from the early 1990s

Wages in Alberta Where’s the Boom?

(a time when the economy was just coming out of a recession).

There are probably a number of factors that contribute to real wage stagnation in the province, but government policies have a major impact. Policy decisions in areas such as trade, education, and economic development will, for example, have an effect on wages and the labour market. There are, moreover, two ways a provincial government can affect the labour market directly: by the labour legislation it enacts, and by its own conduct as an employer.

**“A number of factors contribute to real wage stagnation ... but government policies have a major impact.”**

Labour legislation has two aspects. Employment standards laws and regulations set basic minimum work and pay conditions, while laws like the Labour Relations Code establish the basic rules for unions and employers. As we have already seen in our discussion of the minimum wage, Alberta’s employment standards legislation is heavily biased against the interests of workers.

### ***No Unions, Please – We’re from Alberta***

Alberta has the lowest rate of unionization in Canada – about 25%. This has a clear and important impact on wages in the province, because a stronger union presence tends to raise wages for union and non-union workers alike. Union wage settlements are the “tractor” that pulls up the wages of other workers in the labour market.

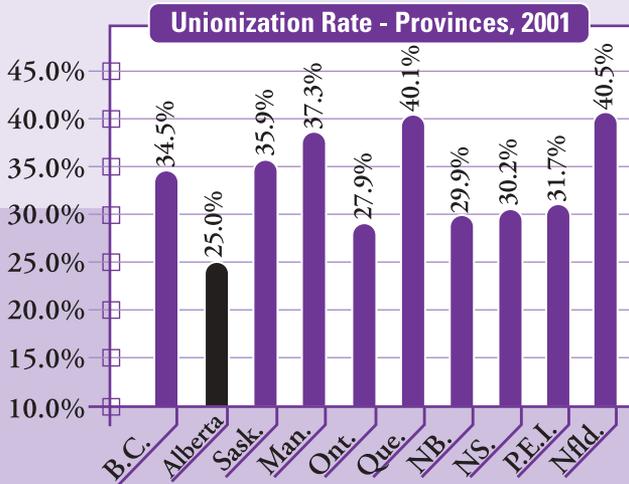
Economists and statisticians call the gap between union and non-union wages the “union wage premium.” Statistics Canada has calculated that, in Alberta, the union wage premium amounts to about 8% of wages.

Alberta’s low rate of unionization has been noted by various commentators, who have explained it as part of our “Western culture.” According to these observers, out here in Alberta we’re all rugged individualists, roughnecks and cowboys who don’t believe in collective action.

Anyone who has practiced labour relations in the province knows this is nonsense. There are tens of thousands of non-union workers in Alberta who would very much like the protection offered by a collective agreement, but who

are not represented by any union. Some of them are even roughnecks or cowboys.

Why can't these Albertans gain union representation? Essentially, its because provincial labour laws are carefully drafted to hamstring unions and limit their ability to organize and effectively represent workers.



**The Code of the West**

The *Alberta Labour Relations Code* is the law that governs the relationship between unions and employers in the province. It establishes the rules that apply when workers try to organize a union, when they try to bargain a collective agreement, and when they vote to go on strike to achieve a satisfactory agreement. At each step in this process, the *Code* stacks the deck heavily in favour of employers and against workers.

Freedom of Association is a fundamental democratic right, affirmed in the UN *Universal Declaration of Human Rights* (Article 23) and supposedly safeguarded by the Canadian *Charter of Rights and Freedoms* (Article 2 (d)). Such basic rights should not be taken lightly, but Alberta's laws allow bad employers to get away with a variety of tactics designed to prevent workers from freely choosing union representation. These tactics are technically illegal, but the *Code* provides no meaningful punishment for employers who adopt them, thus encouraging bad employers to flout the law.

Other jurisdictions in Canada do a much better job of protecting workers' right to Freedom of Association. For example, in five other provinces and the federal jurisdiction, unions can be automatically certified to represent a group of workers if the union can show that more than 50% of the workers in the bargaining unit have signed union cards. In Alberta, on the other hand, unions have to show proof of support, then go through a certification vote conducted by the Labour Relations Board.

Alberta's method sounds very democratic, but what it actually does is provide for a "campaign period" during which employers can, and sometimes do, attempt to intimidate union supporters through discipline, dismissal, and other illegal tactics.

When employers use these illegal tactics, the penalties they receive usually amount to little more than a slap on the wrist. Five other jurisdictions in Canada provide for automatic certification of the union when the employer is found guilty of an unfair labour practice during an organizing drive. Two others provide for other significant penalties for employers guilty of such misconduct, but here in Alberta there are no meaningful sanctions.

In Alberta, Freedom of Association isn't a guaranteed democratic right, it's an endangered species.

***Just Because You Have a Union,  
That Doesn't Mean You Have a Contract***

If an employer in Alberta is determined to resist unionization, winning a certification vote isn't the end of the fight; it just marks the start of the next battle. If the employer can stall the negotiations for the first contract long enough, they may be able to demoralize the new union members, and apply for a decertification.

While the *Labour Relations Code* forbids bargaining in bad faith, it's not really that difficult for a determined employer to drag out negotiations for many months. After ten months, workers who are pro-employer (or just intimidated) can ask for a decertification vote. The union may lose that vote, since the employer's ability to flout the law may convince workers in the bargaining unit that

"In Alberta,  
freedom of  
association ... is  
an endangered  
species."

neither the union, nor the Labour Relations Board, nor the *Alberta Labour Relations Code* can protect their interests.

Recognizing this reality of industrial relations, eight other jurisdictions in Canada allow the Labour Relations Board to impose a first agreement through binding arbitration when one of the parties is failing to bargain in good faith. Only Alberta, Nova Scotia and New Brunswick do not have such protection for workers' rights.

In effect, then, the *Alberta Labour Relations Code* exerts downward pressure on wages. It does so by making it difficult for workers in the province to form or join unions and exercise their right to freedom of association.

### **Bargaining Without Bargaining Power**

Even where unions are well-established the province's labour laws work to diminish their ability to bargain the best possible deal for their members. These laws specifically target two groups of workers, and deny them the right to strike. The first group is covered by Section 96 (1) of the *Labour Relations Code*, and consists of people like firefighters and hospital workers – workers the public generally thinks of as providing essential services.

Unfortunately the tag “essential” is not a legal term, and doesn't appear in the *Code*, which merely states that employees of “approved hospitals” cannot go on legal strike. This means that nurses and cafeteria workers, therapists and housekeeping staff, technicians and file clerks are all forbidden to strike. The public and the media believe this policy is designed to affect only services that are somehow “essential,” but the legislation masks a genuine hypocrisy. Housekeepers, for example, are essential until the Regional Health Authority decides to contract out their jobs – then they're expendable.

“In effect ...  
the Alberta Labour  
Relations Code exerts  
downward pressure  
on wages.”

A second group that is singled out for special treatment is provincial government employees. These workers aren't even covered by the *Labour Relations Code*, which applies to most other workers in Alberta. Instead the government years ago drafted a labour law tailor-made to its own desires – the *Public Service Employee Relations Act*.

**“Alberta’s low rate of unionization helps keep down the wages of even non-union workers.”**

Like Section 96 (1) of the *Code*, *PSERA* states that the workers covered cannot legally take strike action, offering instead a process of binding arbitration to resolve contract disputes.

*PSERA* then goes even further than the *Code*, by legally preventing an arbitrator from making an award on certain matters. Section 30 of *PSERA* specifically forbids an arbitrator from ruling on such fundamental issues as classifications, job postings, and pensions.

In other words, if provincial government employees want to improve these basic parts of their contract, they can ask the government for changes, but the government can just say no. The employees can’t legally go on strike, and they can’t go to arbitration to gain improvements in these areas.

#### ***Labour Law and the Wages of Workers***

Alberta’s labour laws are shackles that limit the labour movement’s ability to organize workers and improve their wages. Furthermore, their effects aren’t limited to the public sector or to unionized workers - to a greater or lesser extent they affect most of the labour force. Alberta’s low rate of unionization helps keep down the wages of even non-union workers, and if the strike bans contained in the *Code* and the *PSERA* apply only to certain groups of public sector workers, their economic effects ripple across the entire provincial labour market.

The government is, of course, perfectly aware of all this. The Alberta Economic Development web page contains, under a link labelled “Skilled Work Force,” the following:

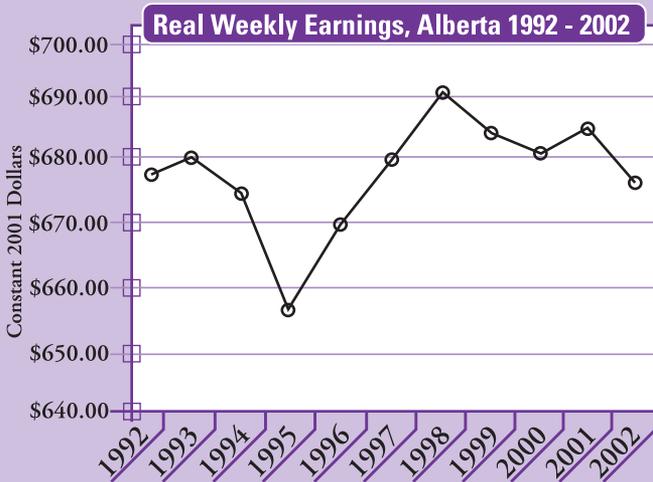
*“The unionization rate in the private sector is 12.6%. Alberta’s overall unionization is estimated at 24.5%, among the lowest in Canada. However, it is the public sector (public administration, education and health) which makes up the bulk of this rate.”*

As far as the government is concerned, anti-union legislation is just part of “The Alberta Advantage.”

## The Alberta Government as Employer: “What’s the Use of Having a (Legal) Hammer, If You Don’t Use It to Hammer Someone?”

In 1993 the Klein government swept to power on an electoral platform of deficit reduction. Overblown rhetoric about the cause and danger of provincial deficits created widespread support for cutbacks in the government and the wider public sector. Armed with this mandate, the government eliminated thousands of public sector jobs over the next three years.

In 1994, the government went further, imposing a 5% pay rollback across the public sector. Facing a public mood that was hostile to government sector workers, and crippled by the inability to take legal strike action, public sector unions were forced to accept the pay cuts - even, in some cases, where their contracts weren't open for negotiation.



It wasn't just public sector workers, however, that paid the price. In 1994 and 1995 the average hourly wage for all Albertans actually fell – by 1% in 1994 and 1.5% in 1995. When the effects of inflation are factored in, real hourly wages fell by 2.3% in 1994 and 3.8% in 1995.

This sudden decline in wages was not the result of hard economic times – during the same two years Alberta's economy grew faster than the rest of Canada (see chart in the Introduction), yet average wages in the rest of Canada actually rose! On the contrary, it was a clear demonstration of the ripple effect of government action in the labour market. As one prominent management labour lawyer noted:

**“Albertans haven’t seen any meaningful gains on either the wage or tax fronts.”**

“Government cutbacks tend to reduce wages and benefits generally in both the private and public sector, increase the incidence of layoffs and create a whole new climate of (sic) what is fair and reasonable in the work place.”

### **The Social Wage**

If the Klein government’s cutbacks of the mid-nineties had the effect of reducing both public and private sector money wages, its most obvious impact was on the “social wage.” The social wage is the benefit each citizen gains from services that are provided by the public sector, as opposed to being sold in the marketplace. Roads, the education system, health care, the protection provided by police and the justice system – all these form part of the social wage, as do numerous other public services.

In the four years after the Klein government introduced its spending cuts, the amount of money the government spent on services for each Albertan (measured in constant dollars) fell by almost 30%. Right-wing politicians and lobbyists like to characterize these cuts as “eliminating waste,” but in fact the cuts meant less police protection, less education, less health care, less infrastructure maintenance and a lower level of municipal services.

### **Tax Fraud**

The payback for all the suffering caused by government cutbacks was supposed to be prosperity. We Albertans would enjoy better jobs, higher wages and lower taxes as a result of the “belt-tightening” of the mid-nineties. The higher wages clearly aren’t there, but apologists for the government argue that because of lower taxes we Albertans enjoy higher take-home pay.

Unfortunately the much-ballyhooed tax breaks turn out to have minimal effect on our actual disposable income. According to the Canadian Taxpayers Federation, the provincial taxes paid annually by the average Albertan have fallen by just \$150 (measured in 2001 constant dollars) since 1992. While the government has cut income taxes, they have drastically raised health care premiums and other, lower profile sources of tax revenue, almost wiping out any of the supposed benefits of tax cuts.

Albertans have felt the pain, but they haven’t seen any meaningful gains on either the wage or the tax fronts.

The Alberta Government as Employer:

At the time of writing, real wages in Alberta are actually falling. In the twelve months leading up to May, 2003, average weekly earnings in Alberta increased by 0.01%. During the same period, the Consumer Price Index for Alberta rose by 4.8%. That means real wages fell during the last year by 4.7%. If this is a boom, what's in store for working Albertans when the inevitable downturn comes?

### Connecting the Dots: Wages, Welfare and the Minimum Wage

Is there a link between government policy on minimum wage, seniors and welfare, on the one hand, and wages and the labour market, on the other? The minimum wage obviously is factored into provincial average wages, but at first glance, it's hard to see how retirees and welfare recipients fit into the equation. Neither group, after all, receives wages or participates in the labour market. There are, however, a couple of ways in which welfare and seniors benefit policies affect the labour market.

First, as noted earlier, retirees and welfare recipients frequently do re-enter the workforce. Indeed one of the professed aims of the Alberta government's welfare policy is to coerce recipients back into the job market. When members of these groups do find employment, it is usually at the low end of the wage scale. Thus government policy in these areas ensures that there will be people willing to take these jobs, which might otherwise go unfilled in Alberta's hot economy. If those jobs did remain vacant, employers would have to increase wages in order to attract applicants.

**"If this is a boom, what's in store for working Albertans when the inevitable downturn comes?"**

There is a second connection, which is indirect but very real. Economic markets work partly, at least, on the basis of expectations. Bond market prices depend on what traders think is going to happen to interest rates. Stock markets rise and fall depending on what investors expect will happen to the economy or to individual companies.

The labour market, too, depends on expectations. Working people make decisions every day: whether to stay in a job or quit, whether to apply for or accept a new job, whether to ask for a raise, whether to go into business for oneself. Choices are made based on what people reasonably expect about the future.

Part of the background to these calculations is an awareness of the consequences of failure. If you start your own business but it goes broke, will you be able to get another job? If you're unemployed and your EI benefits are about to run out, can you afford not to take a job at half your old salary? If you tell your boss you want a raise, or you're leaving, will he call your bluff?

It's in this context that the wretched level of welfare benefits and the minimum wage fill their economic function of helping "discipline" the labour market. Just as society punishes criminals in part, at least, to deter others from crime, so the spectacle of welfare or the grinding poverty of a minimum wage job helps to discourage workers from making "irresponsible" demands.

If, for example, you are approached by a colleague at work and asked to join in organizing a union, you have to consider what will happen if the organizing drive fails. Even though the *Labour Relations Code* expressly forbids terminating an employee for union activity, without a contract in place your employer may well try to fire you. Are you prepared to take that chance?

Alberta's labour laws, minimum wage, and welfare policies are designed to, among other things, maintain a level of anxiety in the workforce. Risk-taking is something that is praised in "entrepreneurs," but this society prefers its workers to be docile and just a bit intimidated.

## Conclusion

### **Part I: Getting All the Ducks in a Row**

The government doesn't control wages. It does, however make laws and implement policies that regulate the labour market and have a significant impact on labour market outcomes, including wages.

When we look at the labour market policies of the Alberta government over the last decade, we see that all these laws and policies point in a common direction: towards lower wages and incomes:

- Welfare policies and seniors benefit policy ensure that a supply of cheap labour is always available to fill positions at the bottom end of the wage spectrum.

"All (this government's) laws and policies point ... towards lower wages and incomes."

- Employment Standards legislation sets the minimum wage at the lowest level among Canadian provinces.
- Labour laws are carefully crafted to hamstring unions, to make it difficult for workers in Alberta to gain union representation, and to limit the ability of unions to bargain contract improvements.

If only one or two of these controls pointed downward, we could call it coincidence. When all of them point in one direction, however, it's a policy. As the old saying goes: "If it walks like a duck, and quacks like a duck – it's a duck." In the case of government policy in Alberta, we've got a low-wage policy that the government refuses to talk about. That's the "Alberta Advantage."

### **Part II: What Was It All For?**

The promise held out by the Alberta government over the last decade turns out to have been an empty one.

In Alberta, we've got a low-wage policy that the government refuses to talk about. That's the "Alberta Advantage".

Albertans were told that, if we tightened our belts and made sacrifices, prosperity was just around the corner. Well, the prosperity has arrived, and it turns out to be not quite what we expected. Unemployment is low, and the economy is generating wealth at a tremendous rate, but that wealth is not improving the quality of life of ordinary Albertans.

We made the sacrifices, so we have overcrowded classrooms, waiting lists for surgery, and deteriorating infrastructure, but we still have stagnant wages.

Implicit in the government's call for those sacrifices was the notion that many of them would be made by other people, not us. Public sector workers were scapegoated; their wages were rolled back, and tens of thousands of them lost their jobs, in order, we were told, that the economy could recover and the rest of us could prosper. Government program spending, we were told, caused deficits, so thousands of poor Albertans were purged from the welfare rolls and driven out of the province, while those remaining were condemned to grinding poverty.

Non-union workers were pitted against unions, private sector workers were told the problem was the public sector, middle class Albertans were told we couldn't afford to take care of the elderly and the poor. Alberta society seemed to

**We don't benefit from the misfortune of others. In a wealthy society we can and should do better.**

become a “zero sum game,” where gains made by one group somehow hurt the rest of us. If a union fought for and won a decent raise for its members, right-wing commentators screamed that it was an economic disaster.

That's the seamy core of the Alberta Advantage: a society where each group is at war with every other group. If nurses win a big wage settlement, it must somehow hurt the rest of us. If the part-time low wage employees of the Shaw Convention Centre unionize and strike for better working conditions, they'll spoil our Grey Cup party.

None of it was true. Our wages didn't rise when the government whacked public sector workers – they went down instead. We aren't better off because of a minimum wage that is an embarrassment, and our families aren't better off because welfare families are forced to skip meals to pay for heat in the house. We don't benefit from the misfortune of others, and, in a wealthy society, none of this is necessary.

**We can and should do better.**

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