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# Summary of: Low-paid Work and Economically Vulnerable Families over the Last Two Decades

by René Morissette and Garnett Picot

Business and Labour Market Analysis Division  
24-F, R.H. Coats Building, Ottawa, K1A 0T6

Telephone: 1 800 263-1136



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How to obtain more information :  
National inquiries line: 1 800 263-1136  
E-Mail inquiries: [infostats@statcan.ca](mailto:infostats@statcan.ca)

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## **Note of appreciation:**

Canada owes the success of its statistical system to a long-standing partnership between Statistics Canada, the citizens of Canada, its businesses, governments and other institutions. Accurate and timely statistical information could not be produced without their continued cooperation and goodwill.

## I. Introduction

This article summarizes findings from recent research papers<sup>1</sup> prepared by the staff of the Business and Labour Market Analysis Division of Statistics Canada, regarding low-paid work and economically vulnerable families. It begins by focusing on the evolution of wages in Canada between 1981 and 2004, and then turns to a close-hand look at low-paid work over these two decades. Next, it asks to what extent low-paid workers live in low-income families, before documenting the deteriorating position in the labour market of low-educated couples and recent immigrants.

## II. The context: Wages 1981-2004

The last two decades have witnessed changes likely to affect wage levels and job stability in Canada: growth of international trade and outsourcing, computer-based technological changes, shifts of employment away from manufacturing, decline in union density and in large firms' share of total employment. Moreover, workers' human capital has grown substantially, especially among women. Yet between 1981 and 2004, hourly wages remained remarkably stable: among employees aged 17 to 64, median hourly wages (in 2001 dollars) remained at approximately \$15.

Wages in full-time versus part-time jobs have not evolved in a similar way, however. Median hourly wages in full-time jobs rose about 5%; those in part-time jobs fell 15%. Moreover, median wages among newly hired employees have fallen. Median hourly wages of male workers aged 25 to 64 with two years of seniority or less fell 13% between 1981 and 2004; among women, they fell 2%, but among workers with more than two years of tenure, wages rose 4% for men and 14% for women (Morissette and Johnson 2005: 13).

Wages of newly hired men and women (except women aged 25 to 34) fell behind those of other workers *within* all age groups. Median wages of newly hired men and women aged 45 to 64 either fell or stagnated between 1981 and 2004, while those with greater seniority rose between 14% and 22%. The decline of wages of new hires was not industry-specific: median wages of newly hired men in manufacturing fell 19%, compared to a drop of 11% outside manufacturing. Further, roughly 80% of the drop observed for newly hired men and roughly half of the drop observed for newly hired women persists, after controlling for changes in age, education, union status, part-time status, industry, and occupation (Morissette and Johnson, 2005).

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1. Morissette (2004), Chung (2004), Morissette and Johnson (2004, 2005), Morissette and Zhang (2005).

### III. Low-paid work and precarious employment

**III.1 Incidence of low-paid work:** Overall, the proportion of low-paid jobs has been stable over the last two decades. In 1981, 17% of the jobs held by workers aged 25 to 64 paid below \$10 per hour (in 2001 dollars), 16% in 2004. Thus, in spite of improved economic conditions, little progress has been made regarding the prevalence of low-paid jobs. Meanwhile, the proportion of well-paid jobs (\$30 or more per hour) increased from 8.5% in 1981 to 11.4% in 2004.

The workforce has become more experienced and better educated over the last two decades, and so one would expect the incidence of low-paid work to fall over time. This decline was not observed because the proportion of low-paid workers rose *within* demographic groups, specifically among less educated young workers (age 25-34) and recent immigrants. Changes in worker characteristics (age, education, gender, immigration status, visible minority status), while reducing the incidence of low-paid work by between 4 and 6 percentage points, have been offset by the growing incidence of low pay within cells.

**III.2 Characteristics of low-paid jobs:** While the incidence of low-paid work has changed little over the last two decades, characteristics of low-paid jobs, such as wages, pension and union coverage, may have changed markedly. Depending on the sample considered, average hourly wages in low-paid jobs grew little from 1981 to 2004, increasing 2% to 7%. Yet Chung (2004) finds that average weekly earnings of low-paid full-time employees dropped 8% between 1980 and 2000. Taken together, these findings indicate that pay rates of low-paid workers have not improved markedly. Pension coverage of low-paid female workers remained virtually unchanged between 1984 and 1998, while that of male workers rose slightly. Overall, pension coverage of low-paid workers remained at least three times lower than that of other workers. Finally, union coverage has fallen, though to a lesser extent for female versus male workers.

**III.3 Risk of job loss among low-paid workers:** The likelihood of being permanently laid-off changed little between the mid 80s and mid 90s (Picot and Lin, 1997). But declines in the hiring rate during the mid 90s, indicate that although the risk of permanent layoff did not increase, workers' chances of finding a new job fell (Picot, Heisz and Nakamura, 2001). As a result, workers were reluctant to leave their jobs, and quit rates were much lower. Hence, average job tenure increased, rather than declining as was popularly believed at the time (Heisz and Walsh, 2002). This trend remained constant in the latter part of the 90s. In 1989, the proportion of workers permanently laid-off was 5.9%; in 1999, it was 5.7% (Morissette, 2004). At the same time, hiring rates declined, quit rates fell from 9.2% in 1989 to 7.3% in 1999. Thus, average job tenure rose.

To determine whether the risk of job loss has increased among low-paid workers, we look at the permanent layoff rates of workers whose annual earnings were less than \$20,000 (in 1999 dollars) in the year prior to the layoff. Between 1983 and 1999, permanent layoff rates for this group varied between 7.6% and 10.8%, rising in recessions and falling during expansionary periods (Morissette, 2004). Permanent layoff rates were not higher in 1999 (7.6%) than in 1989 (7.9%), and so the evidence does not show increased risk of job loss among low-paid workers.<sup>2</sup>

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2. Note that, compared with their counterparts earning \$50,000 or more (in 1999 dollars) in the year prior to the layoff, workers earning less than \$20,000 are generally three times more likely to be permanently laid-off.

**III.4 Temporary employment:** Despite the finding that risk of job loss changed little for low-paid workers, among private sector workers aged 25 to 64, the proportion of temporary jobs rose from 5% in 1989 to 9% in 2004. This includes all jobs, even those held for several years by key employees. In 1989, 11% of newly hired employees (those with two years of seniority or less) held temporary jobs (Morissette and Johnson, 2005), and by 2004, 21% of all jobs held by recently hired employees were temporary. Hence, when measured among the subset of newly hired employees, temporary employment in the private sector rose by 10 percentage points—more than twice the increase observed for all private sector employees. Among employees with one year of seniority or less, the incidence of temporary work rose from 14% in 1989 to 25% in 2004.

**III.5 Workers escaping low earnings:** Even if the share of low-paid jobs has not fallen, perhaps more workers are using these jobs as a stepping stone towards higher paying positions. If so, the average duration of spells of low earnings should fall. We can expect this to be the case because the educational attainment of low-wage workers has been rising (along with the educational attainment of virtually all other labour market groups), and higher educational attainment is positively correlated with the likelihood of exiting a low-wage job (Janz, 2004).

Tracking workers over four years during the latter part of the expansionary phase of the business cycle in both the 1980s and 1990s (1985 to 1989, and 1996 to 2000), Morissette and Zhang (2005) ask what proportion of low earners (those earning less than \$23,551 in 2001 dollars) escape low earnings after four years. For men aged 30 or more, chances of moving out of low earnings were not markedly higher in the 1996-2000 period than in the 1985-1989 period, two periods where the unemployment rate of men aged 25-54 averaged 7.3%. Among men aged 25-29, chances of escaping low earnings improved slightly.<sup>3</sup> Of all women with low earnings, only those aged 25-29 enjoyed a substantial increase in upward mobility; their chances of moving out of low earnings rose by about 6 percentage points between 1985-1989 and 1996-2000. Older women showed marginal changes in upward mobility.

Hence, despite their growing educational attainment, low-paid men were no more likely to escape low earnings in the mid-1990s than their counterparts were in the mid-1980s. Thus, upward mobility of low-paid males with a given level of educational attainment must have fallen, quite possibly for those with lower levels of education.

#### **IV. Low-paid workers living in low income**

Part of the economic resources available to an individual can come from other family members, and so a person holding a job that does not generate sufficient earnings to remain above the low-income cutoff (as defined by Statistics Canada's low-income cutoff before tax and after transfers) does not necessarily live in low income. According to Chung (2004), only 30% of low-paid workers lived in low-income families in 2000. This has remained unchanged since 1980. Hence, most low-paid workers do *not* live in low-income now, nor did they 20 years ago.

Results from decomposition analysis suggest that changes in family structure (the growing proportion of lone-parent families and unattached individuals) have tended to increase the

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3. Morissette and Zhang (2005) find that moving out of low earnings is not necessarily permanent: one-quarter of workers who escape low earnings after four years fall back into low earnings within the next four years.

incidence of low income among low-paid workers by 2 to 3 percentage points. Yet such factors as the growth in the number of dual-earner families and the increase in the level of experience of low-paid workers have offset these influences, leaving the overall incidence of low income among low-paid workers unchanged.

Although between one-third to one-half of low-income spells end after the first year (Morissette and Zhang, 2001; Finnie and Sweetman, 2003), and fewer than 30% of low-paid workers are in families who experience *persistent* low income, an economic welfare perspective is concerned with those workers who are both low-paid and live in low-income families. In both 1980 and 2000, about 5% of full-time employees were such workers.

Some groups have a greater propensity to be low-paid workers in low-income families. Women are slightly more likely than men to be in this position (4.4% for men, 5.5% for women). Rates are higher among unattached individuals (16% of unattached male workers were both low paid and in low income, 22% of unattached women), and among single mothers (13%). Individuals with a high school diploma or less, recent immigrants, and persons living alone also have a higher propensity to be both low paid and in low income.

Certain groups present a large share of the total population of low-wage workers in low-income families. In 2000, individuals with less than a high school diploma, recent immigrants, unattached individuals, lone mothers, and persons living alone accounted for 71% of all full-time workers in low-paid jobs *and* in low income, but represented only 37% of all full-time workers. The corresponding proportions for 1980 are 79% and 49%, respectively.

Some groups have experienced a growing risk of being low-paid workers in low-income families. For recent and mid-term male immigrants aged 35 to 54, the chances of being both low-paid and in low income doubled between 1980 and 2000; for less educated males 25-34, the rate jumped from 4% in 1980 to 7% in 2000; young men and women under 25 and unattached males under 40 are also increasingly more likely to face the two conditions. In contrast, unattached men and women aged 40 or more were much less likely to be both low paid and in low income in 2000 than in 1980.

## **V. Two increasingly vulnerable groups: recent immigrants and the less educated**

***Recent immigrants:*** The proportion of recent immigrant employees (those arriving during the five years prior to the census reference year) who are low-paid workers in low-income families increased from 9% in 1980 to 12% in 2000. Earnings of recent immigrants declined continuously between 1980 and 1995 and improved marginally between 1995 and 2000 (Frenette and Morissette, 2003; Green and Worswick, 2002). As a result, low-income rates among recent immigrant families rose between 1980 and 2000, while those of Canadian-born families fell: in 1980 the low-income rates of recent immigrants were 1.4 times that of the Canadian born; by 2000 this had risen to 2.5 (Picot and Hou, 2003). This occurred even though the educational attainment of recent immigrants increased tremendously (Picot and Hou, 2003).<sup>4</sup> Recent research suggests that the deterioration of their economic position is related to changes in their

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4. In 1980, of all recent immigrant male workers employed on a full-year full-time basis, 22% had a university degree. By 2000, this proportion had doubled to 44% (Frenette and Morissette, 2003).

characteristics (country of origin, language skills), a decline in the returns to their foreign work experience, and a general decline in the labour market outcomes of new labour force entrants overall (Aydemir and Skuterud, 2004; Green and Worswick, 2002; Picot, 2004).

***Less educated families:*** Between 1980 and 2000, median weekly earnings of young male high school graduates employed in the private sector fell 20% (Morissette, Ostrovsky, and Picot, 2004). Among young Canadian-born couples (those with males aged 25 to 34) where both partners had a high school education or less, male earnings fell between 15% and 28% during the 1980-2000 period (Morissette and Johnson, 2004). Even though women increased both their work hours and wages, thereby increasingly contributing to family earnings, their earnings growth has not fully offset the decline in earnings of low-educated young males. Among young Canadian-born couples with high school education or less, employment income declined between 6% and 15%, even after adding women's contribution.

Among more highly educated couples, males experienced little change in earnings, while women's earnings rose significantly (due to increased hours of work and rising wages). Earnings rose 14% among young couples where both partners had university degrees. Thus, the earnings gap between the less and more highly educated families increased.

Similar patterns are observed among older families, those with males aged 35 to 44 and 45 to 54. In these families, the decline in earnings of the less educated males is less pronounced, and the rise in women's income offsets the earnings declines of males. Nevertheless, family earnings remained stagnant or fell among less educated couples, while rising among the more highly educated.

## **VI. Conclusions**

Despite substantial growth in workers' human capital, median wages have displayed little growth over the last two decades in Canada. Given economic and human capital growth, one might expect the proportion of workers in low-paid jobs to fall, but the incidence of low-paid work has been fairly stable.

The educational attainment of low-paid workers has risen, and higher levels of education are associated with a greater probability of moving out of low-paid work. However, low earners have not increased their chances of escaping low earnings; indeed, for workers with a low level of education, the probability of exiting low-wage work may have fallen.

While median wages, the proportion of workers in low-paid jobs and workers' chances of escaping low earnings have remained stable overall, several important changes have occurred. First, hourly wages of young workers have dropped, especially among young men. Second, real annual earnings of low-educated males of all ages have fallen (Morissette and Johnson, 2004). Third, real annual earnings of recent immigrant men have fallen. Fourth, hourly wages of newly hired employees have fallen relative to those of other workers, even *within* wage groups. Fifth, newly hired employees have been increasingly offered temporary jobs. Sixth, pension coverage has decreased among male workers (Morissette and Johnson, 2005). These trends deserve monitoring. Is the drop in the relative wages of new employees simply a new twist in the worker-job matching process? And once these links are firmly established, will wages of new hires revert

to the traditional age-earnings profile? Or does it signal a future downward shift in wages, potentially related to the growing competitive pressures faced by firms? Such a downward shift would be first observed among new hires, and would subsequently affect other workers as well, with important consequences for workers' standard of living.

If full-time, full-year workers cannot receive a "living wage," then recourse to government programs might be necessary. In this context, it might be desirable to ensure that the income full-year full-time workers receive in the labour market is adequate to keep them out of low income.

Economic deprivation, as measured by being in a low-income family, has not been rising among low-paid workers. Such stability is surprising in the face of economic growth and higher levels of educational attainment, and in the face of the changing family structure. The proportion of dual-earner families has risen, which should have reduced economic deprivation among low-paid workers. However, the share of families with only one earner has also risen. The two trends appear to have offset one another, resulting in little change in the low-income status of low-paid workers.

The remarkable increase in women's educational attainment, combined with the growing tendency of men and women with similar education levels to establish a household, has led to the emergence of a group unlikely to be vulnerable to negative income shocks: couples with two university graduates represented 10% of all Canadian-born couples in 2000, up from 4% in 1980 (Morissette and Johnson, 2004). Compared to their less educated counterparts, they are: more likely to receive high labour market income, thereby being able to build substantial savings (buffering income losses resulting from layoffs); less likely to be permanently laid-off; and in the event of a layoff, more likely to rely on a significant second earner.

In 2000, persons in families with no potential second adult wage earner (single mothers, persons living alone, unattached individuals), recent immigrants, and the less educated accounted for about three-quarters of all low-paid workers in low-income families. The labour market status of the last two groups has declined significantly.

Despite their growing earnings, wives of low-educated young males have not fully offset their partners' earnings declines, and the employment income of low-educated young couples has dropped. Moreover, most of those who live with low-educated males are themselves low-educated.<sup>5</sup> Finally, between 1980 and 2000, women's earnings grew *less* among couples with low-educated males than among those with high-educated males, a reminder that low-educated women's ability to buffer unfavourable changes in male earnings is limited.

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5. Of all women living in Canadian-born couples with men aged 25 to 54 who had high school or less, 64% had high school or less in 2001.



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