Federal Fair Wages:
How Ottawa's so-called "fair wage" penalizes job-seekers and taxpayers

Rarely a day goes by in Canadian politics that we don't hear a federal or provincial leader repeating the politician's mantra of "jobs, jobs, jobs" and tax fairness. It seems that their brave rhetoric never quite measures up to the reality. Unemployment is still at unacceptably high levels, especially for our nation's youth, and Canadians feel "taxed to the max."

That's why it's remarkable that the Government of Canada is imposing a policy that actually makes these two problems worse instead of better.

Before last year's federal election, former Labour Minister Alphonse Gagliano announced in Hamilton with fellow cabinet minister Sheila Copps that Ottawa would re-institute a schedule of wages to be paid on federal public construction projects.

Until Ottawa got into the act this year, the Government of British Columbia was the only jurisdiction in North America to have adopted a so-called "fair wage" schedule since 1972. The trend in North America over the past few decades has been to abandon or abolish these laws and allow the market to guide wage rates.

The law governing the federal policy, the Fair Wages and Hours of Labour Act, actually dates back to the Depression era—1935, to be exact. Controls were needed to prop up local labour markets to prevent an influx of cheap labour. Needless to say, the conditions that originally spawned the legislation have long since disappeared and the Act has basically been dormant for over 30 years. The production of government wage schedules ceased in 1983. Today, construction contracts contain a general provision to pay workers a fair wage, a system that is by all accounts working well, judging by an almost total lack of complaints.

Despite this, the government is considering a call for wages on construction projects to be paid according to "prevailing" local wage rates. But, as it is becoming clear, the wage schedule being considered isn't based on prevailing local market rates at all, but rather the wages of the building trade unions. Since the building trades perform considerably less than 50% of the work in the marketplace, the federal government seems to be defying its own law. Moreover, the government and by extension Canadian taxpayers, will be getting less bang for their construction buck.

In British Columbia, for example, Labour Canada's regional office, plans to fix wage rates on federal construction projects based on the provincial government's fair wage schedule. BC's fair wage schedule is approximately 90% of building trade union contract rates. But those rates bear no relation to the prevailing wage rates. In fact, the prevailing rate varies dramatically from one city to another and one region to another, for every trade throughout the province. While the province's fair wage schedule pays an electrician $23.74 per hour, the local prevailing wage rate is $19.17 in Vancouver, $15.35 per hour in Victoria and between $17 and $22 per hour in Nanaimo.

The department of Labour's move also flies in the face of a 1990 evaluation if performed on the federal fair wage law. Of the 4,622 federal construction contracts let in a three-year period, only 50 generated complaints, and of these, only six dealt

with fair wages.

Moreover, the government's own evaluation advised against re-instituting a fixed wage schedule. "The re-introduction of wage schedules would likely increase fair wage compliance only marginally. However, the cost (of its re-introduction) is estimated at $270,000 annually. It is difficult to justify such a cost."

Indeed, the bureaucracy required would be enormous. A Labour Canada review of the advantages and disadvantages of various options notes that the reinstatement of wage schedules would considerably strain government resources in a time of restraint. Over 20 officials would be required to monitor and enforce the legislation for 68 zones and about 70 occupations across the country. New methodology and systems would be required to bring the schedules up-to-date.

Moreover, it is difficult to estimate how easily any new system would be able to keep pace with fluctuations in local and regional economies. On Prince Edward Island, for instance, the construction of the new fixed link bridge caused labour rates to rise, but they have since gone back to more traditional levels.

The controversy has caused many organizations, such as the Canadian Construction Association, Merit Contractors Association and other open shop associations across Canada, to speak out against the re-introduction of wage schedules. A key argument being made is the sheer impracticality of using an outdated piece of legislation to interfere in a market economy that is by all accounts working well.

The Independent Contractors and Business Association of British Columbia is going one step further in opposing the changes. The 500-member organization, which represents open shop contractors in that province, is taking the federal government to court over its use of provincial fair wage rates on federal construction projects. The association's case contends that the Regional Director of the Department of Labour Canada ignored his own department's statistical data on wage rates paid to various construction trades in areas throughout British Columbia.

Whether or not the legal challenge is successful, one thing is certain—whether federal, provincial or municipal, fair wage laws cost taxpayers millions of dollars to get the job done. It's a fact confirmed by a number of independent studies that have compared construction costs on so-called fair wage projects with public projects performed using prevailing local labour rates.

In 1993, the Quantity Surveyors Association of BC released a study that found that the province's fair wage law was adding 10% to the cost of building new schools, roads and hospitals.

These findings were consistent with a report prepared by the Engineering Department of the City of Surrey, BC. It found that project costs were increased by 6% to 13% by the City's fair wage policy. City councilors have since dropped the policy, no doubt to the relief of local taxpayers.

According to a study by three noted university professors, taxpayers are the "unambiguous losers" under BC's fair wage law. A team of researches led by Professor William Stanbury of the University of British Columbia determined that the added costs of BC's law was a staggering $166 million annually.

The very title "fair wage" plays on the public's connotation of the word fair, the study said. Who could be against something that was called fair? But as the Stanbury study concluded: "It is hard to believe that the average taxpayer in BC—if fully aware of the effects of the fair wage policy—would find it attractive."

The Stanbury study noted that fair wage laws provide higher than market wages to construction workers who are already making more than the average industrial wage. It also found that the prevalence of fair wage laws in North America had less to do with improving the condition of workers than it did with the impacts of well-financed building trade union lobbying efforts. This was certainly the case in British Columbia, where the Premier (then Finance Minister) Glen Clark has strong ties to a building trade affiliate union.

The Stanbury study exploded many of the myths commonly put forward by the union movement in defence of fair wage laws. For instance, labour leaders state that the fair wage law "takes wages out of competition." They contend that contractors should only compete on factors such as their management skills and material inputs.

"But why should wages—which account for 25% to 40% of the total cost of government construction—be exempt from the forces of competition?" Stanbury asks. "This is only an invitation to inefficiency."

But fair wage laws are unfair not only to taxpayers but also to the employed. If the government of BC were to invest that additional $166 million a year into new construction instead, the effect would be extremely positive for job creation and local communities.

The job-killing nature of fair wage laws was also raised in a new study by a research team led by economist Roslyn Kunin of the Laurier Institute. That report found that higher than market wage rates caused contractors to reduce the size of their crews substituting capital for labour.

Using the Stanbury study's cost increase estimate of $166 million as a benchmark, it is possible to gain a better understanding of the job loss impact of BC's fair wage law. At least 1,600 new classrooms could be built for that $166 million, which translates into 5,500 new jobs. One can reasonably expect that job losses as a result of a federal fair wage law will be of the same magnitude.

Indeed, about the only jobs that BC's fair wage law has "created" are in the government itself. Over $1 million and 20 full-time employees are being used to enforce compliance with the various rules and red tape the law has inspired.

At the end of the day, the biggest question to ask about so-called fair wage laws is this: "Fair for who?" Why then are politicians making this costly intrusion into the marketplace on behalf of a group of relatively higher-paid workers instead of lower-income earners?

It also begs the question of "who's next?" If the government interferes with labour rates in the construction market today, what other industries would it go after next? Would it require all suppliers of the federal government to fix wages?

Ottawa should take a lesson from British Columbia's costly and job-killing "fair wage

fumble.” It’s time the federal government abandons this law before it goes a step further. Taxpayers and job seekers alike would applaud them.