

WITH David Pankratz, *Director of the Institute for Community Peacebuilding*



David Pankratz is an accountant from Winnipeg with a significant interest in global issues of quality of life for all. He currently is the Director of the Institute for Community Peacebuilding at Canadian Mennonite University, and in that role, is interested in the impact on entire communities of better public policy. He has worked briefly in over 30 countries, including three years in Zambia promoting small scale economic development. His study *“Which Best Helps the Poor - Minimum Wages, Tax Credits or Tax Exemptions?”* which was released in January for the Frontier Centre’s Anti-Poverty Project garnered national attention. He was recently appointed to the National Council on Welfare. This federal advisory board advises the Minister of Human Resources and Social Development on the needs and problems of low-income Canadians, and on social and related

programs and policies that affect their welfare. David Pankratz was interviewed after his Meeting for Policy Experts seminar on January 31, 2008.

Frontier Centre: David, just summarize briefly the point of your paper which contrasted minimum wage increases versus higher tax exemptions.

David Pankratz: The objective we all share is to put more money in the pockets of the working poor. If we eliminate the tax that a full-time working poor pays in Manitoba currently that would have the same impact as if minimum wage were increased to \$9.28 and it wouldn’t have the market distortions that minimum wage increases entail.

FC: When you talk about market distortions, or problems with a higher minimum wage, what are they?

DP: There are two that I identify in the paper. One is that a certain amount of minimum wage jobs are lost when minimum wages are increased and how much that is depends on which study you look at. The second problem is that when people do get an increase in wages, a third of it is deducted out in any case so they don’t actually get the full benefit of that increase.

FC: So what you’re saying is that we shouldn’t tax people at the bottom?

DP: Right. There is a universally accepted principle that there is a floor beyond which income should not be taxed and currently in Manitoba that is about \$9,600 and the suggestion of the paper is that we increase that at least to the levels of minimum wages and perhaps even higher to something like \$20,000 annually.

FC: The local social policy planning community brings out every year a study advocating higher minimum wages while broadly excluding other ideas to help low-income people. Why is there such a reluctance to look at simpler, more effective policy?

DP: I can only speak to that in the context of responses I’ve received to the paper and the two responses I got back the most were, one, is the simplicity aspect of raising minimum wages. People understand much more the gross pay that they’ve been told they’re getting so they’re much happier to be going to a job that is paying them \$8.50 an hour versus one that is paying them \$8.00 an hour. It’s harder for them to understand that the \$8.00 an hour job they went to yesterday is actually going to put effectively \$9.28 in their pocket because the tax has been taken off of it. So that’s

one reason is that it’s more difficult to understand. The second reason I’ve been given is that in fact, the value of their labour significantly exceeds \$8.00 an hour and the businesses who are employing them are making enormous profits off of their labour and so therefore we shouldn’t let the businesses off the hook and that the worker needs to get a larger share of the productivity they’re putting in.

FC: How can they say that the wage levels are lower than market rates?

DP: The implication of your question is that the market contains a fully informed free-agent on both sides of the equation. And that the argument made by those advocating for higher minimum wages is that the person earning a minimum wage is not a full free-agent in the market and is being taken advantage of because of that.

FC: But they’re assuming that business functions as some sort of organized cartel and that they have a conspiracy to rig rates which doesn’t seem realistic.

DP: There might be some who are making the argument that this is a conspiracy theory, that it ends up looking like a conspiracy theory. I think though, that’s a small minority. I think the vast majority of them see it as the accidental collusion of a bunch of people paying low wages so there’s a societal expectation that the minimum wage is the highest wage you should pay rather than the lowest. So if people offer a bunch of jobs at \$8 bucks an hour then there are those who need at least some money badly enough that they will work for that.

FC: Isn’t the minimum wage kind of irrelevant especially in places like Alberta where you can’t find labour unless you’re paying substantially higher than minimum wage?

DP: Yes. In Alberta this is an irrelevant argument. One of the interesting things is that all of my radio interviews were from Alberta. I was a little confused by why a province in which this is a non-issue was so excited about this paper but nevertheless. In Manitoba, my understanding is that while our economy is strengthening we are still in a place where if you drop the floor out of minimum wages some employers particularly for instance day labour might well

find people who would work for even less so I think the minimum wage does provide a floor in Manitoba.

FC: If we look at the more complicated programs for assisting low income people like the Working Income Tax Benefit, we could say they certainly mean well but you criticize them for being too complicated. Can you explain?

DP: Well the Working Income Tax Benefit, it's a two-page schedule – Schedule 6 in the 2007 Tax Return – there's an income test that's part of it, there's different rules about the Working Income Tax Benefit in terms of whether you're going to school or not, whether you have dependants or not, and etc. So it's a very complicated form to fill out and then you actually get the money back, the government sends you a cheque back in the same way they do with GST. So there's a complicated bureaucracy and you have to apply for it. So some people are just going to miss. And it doesn't make sense to have that kind of complexity for what is a relatively small return for a relatively narrow segment of the population – those earning less than \$9,600. When the alternative, that we're suggesting, is that you simply make a simple change in the Tax Act and it's totally transparent, you have not complicated anything.

FC: You mentioned complicated bureaucracy, ultimately if we recall the theory of the negative income tax and guaranteed annual income and so on, those models would essentially do away with much of that bureaucracy. Any thoughts on that?

DP: The paper and the presentation did not attempt to deal with directed annual income in any way. One could argue that the intended impact of the programs for people on low income is to create some kind of income floor for people. And as your question suggests the current methods, because they're not articulated as a guaranteed annual income end up being complex and layered. And it would seem without me having studied it at length that a guaranteed annual income policy would be simpler and thus more of the money spent on the program would go to those who need it.

FC: So there would be less of a middle man and program management element and so on?

DP: Right. And the other thing about guaranteed annual income is that it takes away all these tests of disability etc.

FC: In Manitoba you estimate that maybe 15,000 people receive the minimum wage. What would the cost be to Manitoba of basically moving the tax exemption level to the Alberta level?

DP: We would have to increase the tax-free income by \$6,000 for 15,000 people and Manitoba's tax is let's say 10% for simplicity's sake. So 15,000 people are taking home an extra \$600 which is about \$9 million to the Manitoba government.

FC: Someone at your lecture today made a point which relates to the Alberta situation of creating higher wages by having a stronger economy. Do you have any thoughts on that?

DP: That's the holy grail...

FC: So the goal of policy should be to get experienced and move up and out of the minimum wage zone?

DP: That forms the larger discussion between pre-market capitalists and social economists. A full answer to that is relatively complicated. It is my observation around the world and I've visited countries ten years apart that according to the World Bank had improved dramatically in terms of their economy and I've found that in fact the improvement in the economy is distributed unequally and tends to be distributed unequally in favour of those who have more power in the economy, so the wealthy. That's my observation. My informal observation of how that would play itself out in Manitoba which is a much more modern economy than the economies I am referring to, I don't know. But I'm not willing to assume automatically that an increased economy benefits everyone equally. It makes sense that that possibility exists and I would never argue against strengthening an economy I just wouldn't assume without checking that that has benefited the vulnerable.

FC: Just to sum up here, you're essentially saying that less regulation in the labour market and simpler tax policy would benefit those more than what we have.

DP: Yes. That general principle applied in this way is definitely that was favoured.