

Defying the wage gap

Tech workers choosing between Canada and the U.S. know the pay is better in greenbacks. But as contentious as the difference in salaries can be, it's not the bottom line for those who choose to live in Ottawa

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John Muir was living the American dream, complete with a big American house and big American trucks. And a big American salary. Then he moved back to Ottawa.

Muir returned recently after living for six years in Atlanta, where he was a technical help-desk manager for outsourcing firm STI Knowledge. He was making about \$60,000 U.S. (around \$80,000) a year, had a nice four-bedroom house outside Atlanta and two sport-utility vehicles.

But he wanted to be closer to his parents and his young nephew in Ottawa, so he started looking for comparable help-desk jobs here. He found salaries to be in the \$50,000 range. He took one of the positions, but he says there's no way he would have moved back if his family wasn't here.

"Life was good in Atlanta. We were living the American dream," he said. "But I could hear my dad growing old on the phone."

Granted, he's not quite comparing apples to apples, since his position here isn't exactly the same. But salary numbers from recruiting firm Robert Half Technology back up his impression that the money's considerably better south of the border.

According to Robert Half's forecast in its 2004 salary guide, a top-flight help-desk employee in Ottawa should expect to make \$53,692, while the same position in Atlanta would pay \$64,869 in Canadian dollars, a difference of 21 per cent.

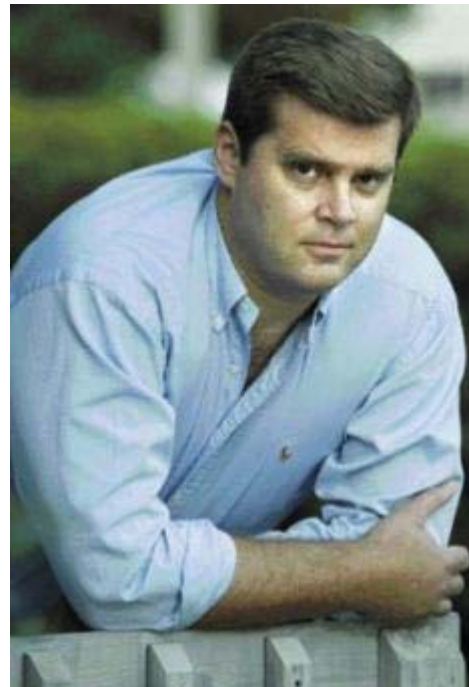
Further up the ladder, the numbers don't look much better for Ottawa workers.

If you're a software engineer and you managed to keep your job the last five years, one thing remains constant: compared with your American counterparts, your paycheque was a lot lighter.

In 2003, the median salary of an Ottawa software engineer was \$80,084, according to Robert Half's annual salary guide. The average U.S. software engineer, by contrast, earned \$112,819 in Canadian dollars, or 34.2 per cent more.

That's actually the smallest the gap has been since 1999, when the difference was 47.4 per cent. If Robert Half's forecasts are on target, the gap will swell to 58.2 per cent this year as the median software-engineer salary in Ottawa falls to \$66,597.

These figures, it should be noted, don't take into account cost-of-living differences between Canada and the United States. A software engineer in San Jose may have a higher salary, but he will also likely pay



CREDIT: Bruno Schlumberger, For Techweekly

John Muir above.

more for housing, for example.

Even when you consider a study that's sensitive to living costs, however, the results aren't flattering.

In a working paper released last month, the Institute for Competitiveness and Prosperity found that IT wages in Ottawa-Gatineau trailed those in the U.S. by 35 per cent. The institute, which is the research of an Ontario government task force on competitiveness, productivity and economic progress, took purchasing-power differences into account.

While some dispute the exact size of the gap, most recruiters and industry observers agree that high-tech salaries are lower in Ottawa than the U.S., even when basic living expenses are considered.

"Thirty-five per cent sounds a little high, but it's probably not that far off," said Les Banks, lab director Ottawa IT placement firm TalentLab.

But the gap varies widely between positions and can have vastly different effects on employees' bottom lines depending on factors such as tax rates and health insurance.

While marginal personal income taxes are generally higher in Canada, the overall burden depends on state and provincial rates. Living in Seattle or Austin, for example, would likely mean a lighter tax bill, since Washington and Texas don't levy personal income taxes. And while public health insurance is more generous here, many big technology firms in the U.S. offer substantial coverage to staff.

One's chosen field is also a factor. "There's definitely a gap, but whether it's 35 per cent or 15 per cent depends on your skill set," said Michel Plouffe, vice-president of IT services at the Ottawa office of staff and consulting firm Ajilon Consulting. The disparity is smaller in hot fields like network security or voice over-Internet protocol (VoIP).

Explanations for the gap also vary. While recruiters tend to explain it in terms of supply and demand -- tech crash flooded the market with workers, which drove down wages, they say -- economists point to more fundamental shortcoming in productivity that will continue to depress Canadian wages across the board until it is reversed.

Ask Andrew McNeil about the wage gap, however, and he'll tell you it's overblown.

McNeil's niche is programming software embedded in microchips. He gave the U.S. a shot a few years ago, taking a six-month contract in Chicago at a considerable raise. But when he took into account living expenses and health insurance, which he bought on his own, he didn't find himself that much better off.

"There wasn't anything that really made me want to stay. I didn't find a major financial advantage in Chicago," he said.

McNeil admits he's biased: He's from Ottawa and loves the city. After all, when you consider Ottawa's ample greenery, affordable living costs and easygoing pace, it's not such a bad place to live, right?

Chuck Ross also believes the gap isn't that big. He moved to Ottawa in 1999 from North Carolina, where he was a systems administrator for Nortel Networks in Research Triangle Park.

It was a good career opportunity for Ross, because more exciting stuff was going on at the Ottawa campus. However, he had to take a roughly 30 per cent pay cut. Some of his buddies thought he was nuts. But he hasn't felt too much financial pain since the move. He now plays a range of roles, including customer support and solutions development, for data-transfer specialist Signiant Inc., which was spun from Nortel in 2000.

When it comes to wages, of course, a lot depends on what numbers you use.

The Robert Half salary guide is based on actual placements made at its offices throughout North America. Bonuses, benefits, stock options and other perks aren't included.

The Institute for Competitiveness and Prosperity, meanwhile, used wage data from the 2001 census,

which tracked gross pre-tax income for 2000. So its working paper doesn't cover the tech bust and the massive layoffs that followed.

The institute's work was based on research by Michael Porter, an expert in industry clusters at the Harvard Business School's Institute for Strategy and Competitiveness.

Porter analyzed employment patterns in 879 industries and figured out which ones tend to cluster in some regions and not others. He then observed which industries tend to locate near each other and grouped them into "traded clusters."

As opposed to "local" industries such as health services and consumer retail, which appear nearly everywhere, traded clusters only appear in some regions and sell goods and services internationally. Examples are Hamilton's steel industry and Toronto's financial services sector.

The Institute for Competitiveness and Prosperity applied similar methods to Ontario, grouping its industries into the 41 traded clusters that Porter identified. The institute compared wages in Ontario to wages in the 14 most populous U.S. states and Quebec. Wages were classified by industry, not job type so figures include the salaries of non-technical staff as well as engineers and computer scientists.

To account for differences in cost of living, the institute converted Canadian to U.S. dollars using the Organization for Economic Development's purchasing-power parity index.

But the focused nature of the institute's work makes it difficult to compare to other wage studies. Since Porter labeled the clusters himself, they don't always match up with standard industry groupings.

According to the study, for example, Ottawa's largest employer is "business services," a hodgepodge including management consulting, computer programming, photocopying and laundry services.

And Ottawa fared surprisingly well in "communications equipment," where wages here actually surpass U.S. levels by two per cent. By Porter's definition, the cluster would include telecommunications equipment makers like Nortel, Alcatel and Mitel Networks.

But his cluster definitions are quite different from the industry categories used by Statistics Canada when reporting "high-tech" employment, for example.

When told that wages in communications equipment are higher here, Mike Darch of the Ottawa Centre for Research and Innovation said: "I'm sure engineers at Nortel and JDS (Uniphase) and Alcatel would question that."

Nortel and Alcatel wouldn't comment on whether there is a wage gap, citing competitive reasons. But Nortel spokeswoman Brenda Valois said the company does regular wage surveys in the markets in which it employs staff.

"Based on that market data, we're aware that we're paying competitively in the geographic locations where Nortel does business," she said.

Methodology can have a big effect on wage comparisons.

Human resources firm Personnel Systems, for example, does regular salary surveys on both sides of the border in sectors such as IT and biotechnology. But to take into account differences in taxation levels and living expenses, the company tracks disposable rather than gross income.

By Personnel Systems' numbers, the gap in IT salaries between Ottawa and U.S. cities is nowhere near 10 per cent, said senior partner Janice Schellenberger. "There has always been a five to 10 per cent differential in IT or high-tech jobs, but that's about it," she said.

Since 2001, the gap has widened to 10 per cent in some fields as Canadian companies implemented hiring and salary freezes that their U.S. counterparts did not. But Canadian salary levels have actually risen more quickly than U.S. wages since the start of this year. And when it comes to highly skilled positions where shortages exist, there has never been a noticeable gap in salaries between Canada and the U.S., said

Schellenberger.

"For senior jobs where (employers) have to compete for talent, you're not going to see that differential. They have no choice but to pay whatever the world market rate is."

It's also tough to compare IT wages in Ottawa to other markets. While Canadian salaries have generally improved this year as the economy strengthens, wages in Ottawa have been slower to pick up, because they have yet to absorb the glut of tech workers that hit the job market a few years ago, said Schellenberger.

In the last few years, Nortel and optical gear maker JDS Uniphase alone have cut loose thousands of workers, many of whom are still looking for work in the area. Last week, Nortel announced it would cut 3,500 jobs across the company, though the exact number of Ottawa jobs in jeopardy remains unclear.

People often forget the massive layoffs that accompanied the bust when comparing IT wages in Ottawa, said Sandra Lavoy, metro market manager at Robert Half's Ottawa office.

"Our market has been flooded with IT people. Flooded. People have been without work, in some cases, two years," she said. "A position that three years ago was worth \$85,000, today could be worth \$60,000 because people are taking lower salaries just to make sure they work. That's what's happening."

That contrasts with the heady days of the boom, when many software developers and engineers were getting regular calls from headhunters and showered with lucrative offers, often including hefty signing bonuses and stock options. Many techies saw their salaries climb 30 to 35 per cent from 1999 to 2001, said TalentLab's Les Banks.

But when the bubble burst, big companies chopped staff and small to midsize firms asked employees to take salary cuts, or in some cases, work for nothing more than "sweat equity," said Banks.

Some big firms hired back staff on contract at lower rates, while a number of employees fled to lower-paying government jobs. Stock options are less likely now to be dangled as a recruiting carrot or offered as a substitute for base salary, with most employees preferring to receive cash incentives, says Schellenberger.

The bust hit wages harder in Ottawa, with its heavy dependence on the telecom and optical fibre industries, than more diversified cities like Toronto, said Banks. Toronto's many corporate headquarters, for example, kept demand healthy for peripheral IT staff.

Wage shifts can take a year or two to work their way through the market, which is why Robert Half's numbers for Ottawa drop sharply in 2004, said Lavoy.

Luckily, the job market has turned around this year, though the number of tech workers is still far below its May 2000 peak of 70,300. Tech employment has grown 13.9 per cent this year to 47,500 jobs, according to Statistics Canada estimates.

Banks says placements at TalentLab have picked up. "In the last quarter and a half, it's just been ridiculous. We did more business in the last quarter than all of last year," he said.

Thus, Ottawa recruiters point to the recent oversupply of qualified workers when explaining the wage gap. But the job market in U.S. high-tech centres such as San Jose and Seattle also went through the same boom-and-bust cycle.

"In the late 90s and early 2000, salaries were really out of control across the board for all skill sets. It was really nuts," said Ryan Gilmore, branch manager at Robert Half's San Jose office. As in Ottawa, salaries took a big dip after 2001, said Gilmore.

"Through 2002 and 2003, it was pretty rough in (Silicon) Valley."

Economists, for their part, find the supply-and-demand argument unsatisfying. Short-term imbalances in the job market will eventually work themselves out and wages will stabilize, they say.

"If there's a bunch of people in Ottawa who are out of work, those people will eventually leave Ottawa look for work in another field," said Jim Milway, executive director at the Institute of Competitiveness and Prosperity, which is based in Toronto.

Most economists agree the only way to grow wages over the long haul is to enhance productivity, said Doug Hyatt, an economics professor at the University of Toronto.

Productivity is usually defined as the amount of goods or services a worker can produce. The more each worker churns out, the more firms earn and can redistribute to employees.

In the short run, productivity and wages can diverge, but over time they will move in synch, said John McHale, who teaches at the Queen's University School of Business. If an employer skimps on wages, for example, staff will leave, which hurts productivity.

There are a number of ways to improve productivity, such as training workers, bringing in better management or equipping staff with technology, said Hyatt. The goal is to increase market share for existing products or bring new products to market, both of which increase output per worker in dollar terms.

For the institute, productivity is the key to understanding why Ontario isn't as prosperous as the biggest U.S. states. According to the institute, Ontario trails the median GDP per person of those states by \$4,000. The difference in wages with the U.S., which the institute found to be 23 per cent across Ontario, reinforces the point.

To close that "prosperity gap," Ontario firms need more "specialized support," including research collaboration with universities, venture-capital funding, easy access to loans and reliable supplier networks. They would also benefit from more competitive pressure, the institute argues.

While Ottawa experts may not agree with the institute on the extent of the wage gap, they agree with the prescription.

"If we want another 20 \$1 billion companies, we have to educate and train our people," said Software Human Resource Council president Paul Swinwood, who was stunned by the size of the wage gap.

"I'm in 100-per-cent agreement that Canada is good at the basics but not so good at specialized support. Collaboration between research institutions and industry is not great here."

The Ottawa Centre for Research Innovation, for its part, has been working for two decades to build the networks of businesses, academic institutions and investors described by the institute.

Mike Darch, executive director of the centre's Ottawa Global Marketing program, said OCRI has made significant strides in realizing its mandate.

"If you look back to the mid to early 90s, the interaction between our research institutes and our industries is far superior now," he said. "In 1995, we had no venture capitalists here. Now we have a bunch."

The institute's working paper doesn't provide detailed intelligence on the Ottawa job market, but it does give OCRI a "broad-brushstroke" perspective on wages that will help with planning, said Cheryl Gorman, executive director of the centre's TalentWorks program.

Big-picture thinking is what Milway wants to provoke.

"We're leaving prosperity on the table, which is frustrating," he said. "But it's more the slow erosion that we're worried about. If we continue to trail the U.S., will we fall so far behind that we do notice? By the time it'll be too late."

Profile of John Muir.

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