



# Living Wage: Why It Matters to Perth-Huron

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## Abstract

This report reviews the value of employers paying a Living Wage and the implications to consumers, the economy and the employee through the new realities of a minimum wage earner. The report also examines the benefits of reducing inequalities within a community by increasing consumer spending, productivity and employer success. Ultimately, paying a Living Wage is an investment in qualified, productive and committed employees often leading to an improved bottom line.

## Introduction

A new report<sup>1</sup> from the Canadian Centre for Policy Alternatives (CCPA) reviewed Statistics Canada data on wages and rental information from Canada Mortgage and Housing Corporation (CMHC). The Ottawa-based think tank looked at almost 800 neighbourhoods across Canada to see how easy it is to find a place to live on minimum wage and discovered that for a minimum wage employee working full-time, affording a one-bedroom apartment in almost every Canadian city, including Perth-Huron, is next to impossible. In fact, a minimum wage earner could afford a one-bedroom apartment in just 24 of the places the CCPA examined.

### *The New Reality: Who is a Minimum Wage Earner?*<sup>2</sup>

- Between 1998 and 2018, the proportion of employees earning minimum wage<sup>3</sup> grew from 5.2 to 10.4 per cent with the most growth occurring between 2017 and 2018.
- A little less than one in four minimum wage employees had a post-secondary diploma or above in 1998, growing to a little more than one in three by 2018.
- As minimum wages increased in 2017 and early 2018, the composition of the minimum wage workforce shifted from individuals under 25 to older workers.
  - The proportion of minimum wage workers under 25 fell from 52 per cent in the first

quarter of 2017 to 43 per cent in the first quarter of 2018.

- During the same time, minimum wage workers aged 35 to 64 increased from 25 to 31 per cent.
- Between 1998 and 2018, the proportion of employees earning minimum wage increased more quickly among larger employers than among medium and small employers.
- In the first quarter of 2018, 38 per cent of minimum wage workers were employees aged 15 to 64 who were single, lone parents or spouses/partners in single-earner couples (17 per cent) and employees aged 15 to 64 who were spouses/partners in dual-earner couples (21 per cent).

## Living Wage Reduces Income Inequalities

The evidence clearly shows that income inequality is growing<sup>4</sup> in Canada and it is harmful to our economy,<sup>5</sup> society<sup>6</sup> and health.<sup>7</sup> Statistics Canada data documents rising income inequality in Ontario, showing that while the real incomes of the top 10 per cent of Ontarians increased by 35 per cent between 1982 and 2010, the real incomes of the bottom 90 per cent increased by only 4.7 per cent over that same period.<sup>8</sup> Analysis by the Conference Board of Canada<sup>9</sup> and the Organization for Economic Co-operation and Development (OECD)<sup>10</sup> confirmed this trend, while the CCPA documented the concentration of income among those with the very highest incomes.<sup>11</sup> Therefore, it is more important than ever to advocate paying a Living Wage:

### *Paying a Living Wage will boost consumer spending*

The Ontario government is relying on consumers to drive over 51 per cent of economic growth in the coming years. Earning a Living Wage will increase the purchasing power of over half a million Ontarians who are more likely to spend money in their local communities.

### *Paying a Living Wage boosts productivity*

- Higher wages increase worker well-being and decrease stress, leading to lower absenteeism and increased job focus.
- Higher wages also provide an incentive for employers to innovate. Studies<sup>12</sup> show retailers raise productivity and profitability by investing in employees.

### *Paying a Living Wage is good for the bottom line*

Studies<sup>13</sup> show retailers with well-paid and well-trained employees, such as Costco, have higher sales, rates of customer satisfaction and profits than businesses that view their employees as a drain on profit. Higher wages help avoid a vicious cycle of higher recruitment and training costs, more frequent mistakes, injuries, irregular service and low sales.

### *Greater corporate social responsibility and positive public reputation*

Commitment to corporate social responsibility is becoming essential to a business' public image:

- Seventy per cent of employers involved in the London Living Wage program (LLW) felt that being publicly recognized as paying a Living Wage increased consumer awareness of their organization's commitment to be an ethical employer. A statement from KPMG London on why they became a Living Wage Employer says, "Research suggests that most people want to work for a company whose values are consistent with their own and that a majority of young people believe in the power of responsible business practice to improve profitability." Thus, corporate responsibility is increasingly a key factor in attracting and retaining a talented and diverse workforce.
- Being able to advertise that you pay a Living Wage satisfies a growing consumer demand for ethical consumption.<sup>14</sup>

### *Investments in our unemployed and underemployed*

A commitment to investing in keeping young people living locally helps an economy and region thrive. Perth-Huron has a high rate of out migration of individuals aged 18–24 and 25–44, significantly higher than the provincial average.<sup>15</sup> Ontario's monthly youth employment rate — a measure determining how many young people actually have jobs — fluctuated between 50 to 52 per cent,<sup>16</sup> meaning half of all Ontario youth don't have jobs, among the worst rates in Canada.

### **Why a Living Wage?**

A Living Wage benefits families, communities and employers now and into the future.

A growing body of evidence tells us that growing up in an engaged, supportive environment is a powerful determinant of a person's health and well-being throughout life. Children from low-income families are less likely to do well at school, have lower literacy levels and are more likely to suffer from job insecurity, underemployment and poor health as adults.

According to the National Longitudinal Survey of Children and Youth,<sup>17</sup> parents in households with low incomes are more than twice as likely to be chronically stressed. Not having enough money to buy household essentials and feeling unrealistic expectations are placed on their time are two of the primary sources of stress parents identified in the research. These parents are more likely to suffer from poor health and be higher users of health-care services. Adolescents living with chronically stressed parents are more likely to have a tough time socially and academically.

In a series of recent national studies about work–life conflict, researchers Linda Duxbury and Chris Higgins estimated the direct and indirect costs of absenteeism to employers at \$6 billion a year. They estimated a further \$6 billion in costs to the health-care system. Research has also shown that paying a Living Wage has other concrete benefits for employers including reduced absenteeism and staff turnover; increased skill, morale and productivity levels; reduced recruitment and training costs; and improved customer satisfaction. It is also good for a company's reputation.

A Living Wage reflects what earners in a family need to make based on the actual costs of living in a specific community. The Living Wage is a call to private and public sector employers to pay sufficient wages to both

direct and contract employees that provide the basics to families:

- Enables working families to cover reasonable costs
- Promotes social inclusion
- Supports healthy child development principles
- Ensures families are not under severe financial stress
- Engenders significant and wide-ranging community support
- Is a vehicle for promoting the benefits of social programs such as child care

### *Positive Impacts on Businesses When Paying a Living Wage*

Conservative economists and pundits have long argued that paying a Living Wage causes businesses to reduce employment, especially of low-wage workers, damaging the Canadian economy. However, recent data provides powerful evidence that paying a Living Wage boosts the conditions of workers, especially the least skilled and lowest paid, without doing broad economic harm.

Recent analysis from the Washington-based National Employment Law Project (NELP) states that more often than not paying a Living Wage creates far more jobs than it kills within less than 9 months.

The negative impact on jobs is unlikely to be negative overall<sup>18</sup> and industries that have a large number of low-wage workers, such as retail and hospitality, tend to show employment gains after a wage hike. In fact, those two sectors tend to see even greater job gains, 72 per cent in retail and 82 per cent in leisure and hospitality.

Additionally, Economist Arindrajit Dube of the University of Massachusetts at Amherst, a leading expert on the economic impact of the minimum wage, and his co-authors Doruk Cengiz (also at UMass), Attila Lindner of University College London and Ben Zipperer of the Economic Policy Institute conducted a study.<sup>19</sup> The researchers used detailed data and advanced statistical methods to parse the effects of minimum-wage increases on low-skilled workers — including those making at or around the minimum wage as well as on high-skilled workers and the economy as a whole — and found economic advantages in paying a Living Wage.

Paying a Living Wage will stimulate consumer spending, help businesses' bottom lines and grow the economy. A modest wage increase would improve worker productivity and reduce employee turnover and

absenteeism as well as boosting the overall economy by generating additional consumer demand.

### **Raising the Minimum Wage Increases Worker Productivity**

- Studies by leading economists, including Nobel laureate George Akerlof of Georgetown University, found that employee morale and work ethic increase when employees believe they are paid a fair wage. Economists have also linked higher wages to better physical and mental health and reduced “decision fatigue,” leading to higher productivity.
- Paying a Living Wage was found to reduce turnover, resulting in reduced recruiting and training costs. An analysis by the Center for American Progress estimates the cost of replacing low-wage workers is equal to about 16 per cent of the employee’s annual salary.
- Paying a Living Wage reduces absenteeism. When workers earn higher wages, they are absent from work less and become more productive. A 2010 paper from economists Laura Bucilia and Curtis Simon concluded that higher minimum wages are associated with lower rates of absenteeism for reasons other than illness.

### **Paying a Living Wage Boosts the Economy**

- Paying a Living Wage does not kill jobs. Leading economists have found that increases in the minimum wage have no discernible effect on employment, including in high-impact sectors like restaurants and retail.
- Recent experience in cities paying a Living Wage provides further support. In the San Francisco leisure and hospitality industry, staff was paid a Living Wage, before tips, and the sector experienced positive job growth the following year.
- A study by Doug Hall and David Cooper estimated that a \$2.55 per hour increase in the minimum wage would increase the earnings of low-wage workers by \$40 billion and result in significant increases in GDP and employment.
- Paying a Living Wage predominantly benefits low-wage workers, precisely those most likely to put additional income directly back into the economy; kick-starting a virtuous cycle of greater demand for goods and services, job growth and increased productivity.

- A study by economists at the Federal Reserve Bank of Chicago examining 23 years of household spending data found an increase in the minimum wage leads households with a minimum wage worker to increase their spending significantly over the following year. For every dollar increase in the minimum wage, families with minimum wage workers tend to increase spending by more than \$800 per quarter.<sup>20</sup>

### **Paying a Living Wage Does Not Increase Consumer Costs**

- Costs rise all the time without workers receiving a pay increase because wages are just one of many factors contributing to the cost on an item.
  - When Seattle committed to raising their minimum wage, researchers began studying prices of consumer goods. They concluded

the minimum wage increase had no impact on prices because goods increased by the same amount in surrounding communities that did not raise their minimum wage.<sup>21 22</sup>

We are all responsible for the cost of poverty. We pay for increased use of emergency health services when individuals aren't able to afford prescriptions and our education system is stretched when parents aren't able to support their children's education because they are working multiple jobs.

When low-wage workers see an increase in their wages, they spend money locally and families can participate in the social, civic and cultural lives of their communities. Ultimately, investing in a Living Wage is investing in the health of our communities, so we all benefit from reducing poverty.



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