Why paying a living wage makes good business sense

By Andrew Jackson

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When it comes to setting minimum wages, Canadians can pretty much count on there being an acrimonious debate between private sector employers on the one hand, and unions and anti-poverty activists on the other. But some businesses, especially in the United Kingdom, are starting to recognize the social and economic case for higher wages for the working poor.

Recent years have seen the rise of a living wage movement in the U.K., the United States and Canada. All three countries have a low-wage problem in the sense that a significant proportion of even full-time workers earn significantly less than a middle-class wage, and struggle to make ends meet.

Economists who support higher minimum wages have long argued that increases can be positive not just for workers but also for employers in terms of reducing turnover and raising productivity. Two-thirds of U.K. living wage employers report significant positive impacts on recruitment, retention and absenteeism.

According to the OECD, one in five full-time workers in Canada (21.1 per cent) earn less than two thirds of the median hourly wage, which translates into earning less than $17 an hour. This is significantly above the industrial country average of 16.3 per cent and about the same as in the U.K. (20.6 per cent), though less than in the U.S. (25.3 per cent.)

While not all low-wage workers live in poor families, low earnings are the main reason why more than one in ten working-age Canadians live in poverty. While lines vary, the most commonly-used Statistics Canada LICO after tax line for a family of four in a large city is $36,504.

The basic idea of a living wage is that persons and families working full time should earn enough to secure a decent standard of living, one that goes beyond a bare bones poverty line to include modest spending on items like recreation. Usually calculated to be significantly higher than minimum wages – which range from just $9.50 to $10.25 an hour across Canada – living wages are adopted voluntarily by employers rather than applied by law.

The first week of November was Living Wage Week in the United Kingdom, where a very broad coalition has come together in support of a decent wage.

Originally championed by community anti-poverty activists, the idea was adopted by the Greater London Authority under former mayor Ken Livingstone of the Labour Party, who applied the living wage to municipal employees and to providers of contract cleaning, security and maintenance services that generally pay low wages. Other British cities have since ratified similar ordinances for employees and outside contracts.

As in the U.S., London and other U.K. cities with progressive councils have ratified living-wage ordinances which apply the standard to their employees and, most significantly in terms of impact, to their outside contractors.

What is more surprising is that the living wage in the U.K. continues to be championed by Boris Johnson, the Conservative Mayor of London, and was applied to contractors at the 2012 Olympic Games. In all, more than 100 employers have agreed to meet the living wage standard for their workers and service providers, including KPMG, Barclays, HSBC and Lloyds of London.

Guardian columnist Polly Toynbee reports that they will soon be joined by the InterContinental Hotels Group, owners of the Holiday Inn chain, and perhaps by the large supermarket chain John Lewis. This would likely have a significant impact on direct employees and not just outside contractors.

Here in Canada, there is growing momentum for a living wage -- especially in B.C., where the first municipality, New Westminster, voted in favour in 2010. They were joined this July by Canada's largest credit union, Vancity, which agreed to match or exceed Vancouver's living wage of $19.14 an hour.

The experience of the U.K. suggests that some socially aware employers see a strong social and business case for higher wages for low-paid workers. Hopefully, corporate Canada is paying attention.

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