

The Business Case for Paying a Living Wage

“Living wage” refers to an hourly wage that allows employees and their families to meet their basic needs. Living Wage policies have been in place since the mid 1990s and are now working in some 140 municipalities and counties in the United States, including Boston, Detroit, Chicago, Los Angeles and New York City, as well as in many cities in the UK. In 2010, the City of New Westminster, B.C., became the first Canadian municipality to enact a comprehensive Living Wage policy, while many private employers are signing up to become Living Wage Employers throughout Canada.

There is now a large body of research which documents the positive economic and social effects of paying a Living Wage. There are many obvious benefits to workers who receive a living wage, especially when it boosts working poor people and their families out of poverty. But what does living wage mean for employers?

1. Decreased employee turnover; cost savings for staff hiring and training

- A study of employers in Los Angeles found lower rates of labour turnover, absenteeism and overtime rates and higher rates of training amongst 75 living wage contractors when compared to 210 similar non-living wage firms. Staff turnover rates at firms covered by living wage policies averaged 17% lower than at firms that were not (Fairris and Reich 2005).
- A leading [study](#) of the San Francisco airport by researchers at the University of California found that after the airport boosted wages, turnover among contracted security screeners plummeted from 95% to 19% as their hourly wage rose from \$6.45 to \$10.00 an hour. The airport saved thousands of dollars per worker in new employee recruitment and training costs (Reich, Hall and Jacobs 2005).
- In 2004, Barclays Bank in London specified that its cleaning contractees in Canary Wharf provide a better pay and benefits package that included pension contributions, sick pay, bonuses, an increased holiday entitlement and training to an industry recognized standard. Barclays deemed the increased costs to be completely commercially viable by attracting higher quality employees and improving cleaning standards. Indeed, the new policy resulted in a dramatic drop in absenteeism and turnover, from 30% to 4%, along with rising performance and customer satisfaction levels. In 2007, Barclays expanded the living wage rate for cleaners to all its City offices (cited in SERTUC, n.d.: 6).
- KPMG London halved its turnover rate after it introduced a living wage policy for all its in-house and contract staff. Other benefits were seen as well: “No one abused the new sick pay scheme and absenteeism is very low. We get the benefit of reduced training costs and increased staff continuity. It is a much more motivated workforce” Head of Corporate Services, Guy Stallard (cited in SERTUC, n.d.: 6).
- A Harvard Business Review [article](#) found that wholesale retailer Costco’s higher wage rate than other retailers resulted in less turnover. Turnover is unusually low, at 17% overall, compared to 44% a year at Wal-Mart which is close to the industry average. The study also found greater productivity and lower levels of employee theft at Costco (Cascio 2006).

2. Improved job quality, productivity and service delivery; lower absenteeism

- More than 80% of employers involved in the London Living Wage Program (LLW) believed that the LLW had enhanced the quality of the work of their staff. Employees (almost 75%) also reported increases in work quality as a result of receiving the LLW. (London Economics, 2009)
- In the aforementioned San Francisco Airport [Study](#), after the airport implemented a Living Wage Policy, quality improved dramatically, as did morale: 35% of employers reported improvements in work performance, 47% reported better employee morale, 44% reported fewer disciplinary issues, and 45% reported that customer service had improved (Reich, Hall and Jacobs 2005).
- An investigation of the decision by Queen Mary University of London to bring its cleaning service in-house and become a living wage employer found that it stimulated improvements in job quality, productivity and service delivery, with very little increase in costs (Wills, Kakpo and Begum 2009).
- The state of Maryland found that encouraging living wages boosted competition for state contracts by expanding the pool of "good" firms that could compete on a level playing field (cited in Los Angeles Times editorial, July 6, 2010).

3. Benefits the broader economy by stimulating consumer spending

- A 2009 Goldman Sachs report confirms that increasing the income of people with lower wages has a proportionately larger stimulating effect on the economy than increasing the income of those on high incomes. Low earners tend to spend more of their increased income than those on much higher incomes, because those on low-incomes have more essential spending needs to be met by any income increases. Higher income populations deliver only 3-5 cents increased spending per additional dollar of wealth (Goldman Sachs 2009).
- A 2008 study by economists at the Federal Reserve Bank of Chicago, which examined 23 years of household spending data, found that an increase in the minimum wage leads households with a minimum wage worker to significantly increase their spending over the next year: for every dollar increase in the minimum wage, families with minimum-wage workers tend to increase spending by more than \$800 per quarter (Aaronson et al. 2008).
- Vancity emphasized the positive role that living wages play in the local economy when they agreed to become a Living Wage Employer in 2011 - *"We want to be part of a community that invests in the long-term prosperity of individuals and the economy. Paying a living wage to our employees and service providers will help make families stronger and communities healthier."* Tamara Vrooman, President and Chief Executive Officer, Vancity

4. Greater corporate social responsibility and firm reputation

- Private firms are becoming increasingly aware that commitment to corporate responsibility is essential to their public image. Private companies and public institutions are conscious of their "brand" image, but lofty mission statements mean little if the public becomes aware that they hide the exploitation of low paid staff.

- 70% of employers involved in the London Living Wage Program (LLW) felt that being publicly recognized as paying a Living Wage had 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 states: "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. Our last annual People Survey showed that almost all of our people believe KPMG is socially responsible and makes a positive contribution to the communities in which we operate."
- Being a service contractor who pays a living wage helps gain recognition from large firms and public bodies who have developed ethical purchasing policies as part of their contracting process.
- Eclipse Awards, a Living Wage Employer based in Strathcona, Vancouver has been nominated as a Top 10 Finalist for Best Employer in BC in 2011 partly because of their pioneering commitment to being a Living Wage Employer.
- Being able to advertise that you pay a living wage satisfies the growing consumer demand for ethical consumption (Turcotte 2010)

Sources

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