THE LIVING WAGE AS A MEANS TO ADDRESS SOCIAL INEQUALITY

Kent Walker Dr.
*Odette School of Business*

Curtis Labutte
*University of Windsor*

Follow this and additional works at: [https://scholar.uwindsor.ca/odettepub](https://scholar.uwindsor.ca/odettepub)

Part of the [Business Administration, Management, and Operations Commons](https://scholar.uwindsor.ca/odettepub), [Business Law, Public Responsibility, and Ethics Commons](https://scholar.uwindsor.ca/odettepub), and the [Strategic Management Policy Commons](https://scholar.uwindsor.ca/odettepub)

Recommended Citation

This Article is brought to you for free and open access by the Odette School of Business at Scholarship at UWindsor. It has been accepted for inclusion in Odette School of Business Publications by an authorized administrator of Scholarship at UWindsor. For more information, please contact [scholarship@uwindsor.ca](mailto:scholarship@uwindsor.ca).
In 2016, Sandra Meloche, the community engagement manager of a local Ontario financial institution, was watching the evening news and increasingly she noticed stories about rising social inequality. From excessive executive compensation compared to relatively stagnant wages for average employees, to the massive executive bonuses following the disaster of the Great Recession where many average families were left without homes, and the hollowing out of the middle class analogous to the hourglass with a fattening on the bottom and top of the social hierarchy but no to little middle area. While Sandra herself did not consider herself rich, the company she worked for had been doing well for almost 70 years. Although the company generated over 80 million dollars in revenue, their expenses totalled just shy of 75 million dollars. Meloche was aware of her company’s success but also recognized that the 650 employee’s salaries and benefits made up over 60% of the companies expenses. 

Sandra felt that most employees were paid well, but she was aware that there were employees that were paid just over minimum wage. She wondered if her company, in a small way, was contributing to the rising social inequality and similarly, if she, in her own small way, could contribute to reducing inequality. She knew, however, that if the company were to increase the pay of the lowest level employees the other more highly paid employees would also likely expect a pay increase. Therefore, to bring all employees to what was considered a “living wage” the company might have to adjust the company’s pay scale. According the non-profit organization Pathway to Potential, the living wage “reflects the notion that every individual has the right to enjoy good health, recreation, culture and entertainment, to raise children, and to full partake in social and civic activities, as opposed to minimally “surviving” in basic physiological terms.” The more she thought about it the more Sandra felt passionate about providing this for her community.

As Sandra began reviewing her company’s salaries and wages, she thought back to the time in her life when she worked countless hours just to survive and how difficult and unsatisfying it had been. Then, as someone with the power and position to make a difference she wondered if she could pay employees more giving them and their families a better quality of life. How would the Board of Directors feel about this sudden change in expenses? Would this increase in expenses be offset by a corresponding increase in revenues because potential customers care about working with a living wage employer and would be willing to pay more for their services? Sandra had to weigh this along with the fact that if revenue did not increase she could be placing the company in serious jeopardy. Sandra felt that the easiest thing to do would be to continue things as they were currently. However, she realized that whereas before she was ignorant to rising social inequality and the potential role she was playing in creating this trend, she could no longer claim ignorance. As the community engagement manager, she would have to make a conscious decision to either be a part of the problem, or the solution, but she had to carefully consider the business implications as the wrong decision could hinder the success of her company.
SOCIAL INEQUALITY

“All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.” This was the first article of The Universal Declaration of Human Rights that was adopted by the United Nations in 1948 and was a benchmark of core democratic principles. Article one set the economic, social, and cultural rights which make possible a life of dignity for everyone. An equal, fair, and just society did not mean equal outcomes for all but did allow all individuals the opportunity to live in dignity, to participate in the community, to be free of discrimination, and to develop themselves.

Global Inequality

Social inequality was on the rise all over the world. Using domestic income distribution and adjusting using purchasing power parity and exchange rates, global inequality increased from 68.4% in 1998, to 70.4% in 2005. At the same time, income for the top 10% of the world population increased from 51.5% to 55%. Behind the numbers, this rising global inequality harmed poverty reduction, social mobility, social unity, political stability, and overall social development. 2

Although global inequality was rising, there are countries where inequality had declined. There were two key factors that had contributed to these declines: the expansion of education and public transfers to the poor. For example, increases in public expenditures in Latin American countries, such as Brazil and Mexico, had led to rising secondary education enrolment and completion rates, a leading cause in the fall of wage inequality.3

In countries where inequality had risen, income was increasingly concentrated at the extreme top of the distribution ladder. In the United States for example, the average income of the top 1% increased at an annual rate of 4% between 1980 and 2011, while the average income of the bottom 99% increased by only 0.6% annually.4

Social Inequality and Societal Well-Being

In his book on equality, Wilkinson (2010) found no direct correlation between gross national income per capita and societal well-being. However, when examining developed countries, he found that levels of social inequality were directly related to overall societal well-being. Perhaps most importantly, the data demonstrates that overall societal well-being was no longer dependant on national income or economic growth, but on the level of social inequality.5 For example, there was a direct correlation between social inequality and (1) life expectancy; and, (2) the UNICEF index of child well-being, which included 40 different components.

A common measure of social inequality was to compare the richest 20% of a country to the poorest 20%. Countries with relatively low social inequality include Japan, Finland, Norway and Sweden, which all had less than four times the difference between the top and bottom. In comparison, countries with high social inequality include Portugal, USA, and Singapore, with over eight times the difference.

Using this measure, countries with higher levels of social inequality had greater and more prevalent social problems. These included: life expectancy, math and literacy, infant mortality, homicides, imprisonment,
teenage births, trust, obesity, mental illness, and social mobility. In the 23 countries studied, without exception, the higher the social inequality, the worse these social problems are.\(^6\)

These differences in social inequality and societal well-being appeared to exist at multiple levels of analysis as well. That is, not only did they occur at the country level, but within individual states (in the USA) and provinces (in Canada) as well.\(^7\)

**Inequality in Canada**

Social inequality had become extremely prevalent in Canada over the past three decades. Starting in the 1980’s, income was increasingly concentrated in the top portion of the income ladder. In 1982, the median income of the top 1% was $191,600 CAD. At that time, this was about 7 times higher than the median income of $28,000 for the other 99%. By 2010, the median income for the top 1% was $283,400 while the median for the other 99% had only risen to $28,400.\(^8\) \(^9\) Thus, for a dollar increase in national earnings more than 30 cents went to the top 1%, while less than 70 cents were shared amongst the bottom 99%. Globally, between the mid-1990s and the late 2000’s, Canada had the fourth largest increase in income inequality, behind only Denmark, Finland, and Sweden respectively.\(^10\)

According to Statistics Canada, inequality was closely linked to life expectancy. They found that “compared with people of higher socio-economic status, death rates were elevated among those of lower socio-economic status, regardless of whether status was determined by education, occupation or income.”\(^11\) For example, a 25 year old Canadian in the top fifth of the income distribution could expect to live 5.6 years longer than a similarly aged Canadian in the bottom fifth of the income distribution, and 1.7 years longer compared to those in the middle one fifth. This difference also varied by gender and was more pronounced for males where life expectancy between the top and bottom one fifth was 6.8 years for men, and 4.3 years for women.\(^12\)

**Inequality in Windsor, Ontario**

Windsor was the southern-most city in Canada. Given its proximity to Detroit in the United States (separated only by the Detroit River), Windsor became the automotive hub of Canada. While Windsor prospered from this title for decades, with little diversification in its economy and following the Great Recession, the city was hit particularly hard. Between peak employment in 2006 and the trough in 2010, Windsor lost more than 20,000 jobs, a decrease of about 14% in relation to Ontario’s 4% and Canada’s 2.5% decrease.\(^13\) As of July 2015, Windsor had held the highest unemployment rate in the country for 66 months since 2001, longer than any other city in Canada.\(^14\)

Interestingly, the severity of the effects of the Great Recession had created a hub for social innovation within Windsor. One area in particular had been the focus on poverty and the rise in social inequality that was exasperated following the Great Recession where the gap between the rich and poor increased significantly. “People want wins, they want to feel like they’ve accomplished something,” according to Pathway to Potential’s Adam Vasey. In 2010, the top 1% of Windsorites (1,425 people) earned an average income of $289,455, experiencing 21% growth. In comparison, the bottom 90% (127,930 people) earned an average income of $28,519, experiencing negative 3% growth.\(^15\)\(^16\)

**THE LIVING WAGE IN CANADA**

The living wage was a call to private and public sector employers to pay wages to both direct and contract employees sufficient to provide the basics to individuals. This wage reflected the belief that every
individual has the right to enjoy good health, recreation, culture and entertainment, to raise children, and to fully partake in social and civic activities, as opposed to minimally surviving. This movement is growing across Canada and the world.

The National Living Wage Framework includes a consistent living wage definition, calculation methodology, and strategy for recognizing corporate and community leadership that commits to pass a living wage policy. The framework calculates a living wage that would allow two income earners to support a family of four in the following scenario: a healthy family of 4 with 2 children, 1 child in full-time day-care, full time hours of employment between two partners, one parent taking evening courses at a local college, cost of living including transportation, food, rental housing, clothing and medical expenses, including tax credits and tax benefits. Experience with this framework has shown that the rate is not significantly different for individuals without dependants or a spouse. This method is sensitive to changes in the market and in government policy that affect people’s incomes. It recognizes that not all of the burden should be on employers but that governments and communities also play a role. This method standardizes the calculation while allowing for variation so that estimates are more meaningful between different communities. Accordingly, each geographical location may have a different living based on idiosyncratic differences among communities.17

The Living Wage Employer Certification Process certifies employers that commit to pay all staff a living wage based on the locally calculated rate. Minimum wage (after October 1, 2015) is set at $11.25 per hour, amounting to a gross income of $21,938 per year. The living wage for Windsor-Essex (valid through July 2015) is $13.10 per hour with benefits (i.e., healthcare/medical), and $14.15 per hour without benefits, amounting to a gross income of $25,545 per year.18

Demographics of Those That Would Benefit From a Living Wage

Roughly one in five children and youth in Windsor-Essex live in poverty. Surprisingly, almost 40% of these children live in a family where at least one parent is working the equivalent of a full time job. At the other end of the age spectrum, six percent of seniors living in Windsor-Essex are currently living in poverty with one in ten of them still working. Lastly, one in four individuals living in Windsor-Essex are immigrants with over 20% having post-secondary education, yet still 33% live in poverty.19

According to Statistics Canada, the low-income measure is a fixed percentage (50%) of median adjusted household income, where “adjusted” indicates that household needs are taken into account.20 For an individual making minimum wage they are making just over $165 more per month than the low-income measure of $1,660 per month. If this individual has another dependent their low-income measure now becomes $2,348.75 per month and they are no longer above the poverty line. With a living wage, a single individual would be making $465 over the low-income measure. If this individual has another dependent, they still drop below the poverty line but only by $220 per month compared to $560 below with a minimum wage.21

In Ontario, almost 25% of workers earn wages below the poverty line and almost half feel they are 1 to 2 paycheques away from being poor. Adam says “we can’t ignore these challenging discussions in our city.”

A Living Wage: Costs versus Benefits
Seth Klein, the BC Director for The Canadian Centre for Policy Alternatives said “when an employer first hears what the living wage figure is, there is a bit of a sharp breath in when they hear what the number is, because it’s quite a lot higher than the minimum wage. But then when you walk them through the calculations, something amazing always happens. Because, instead of looking at the question of compensation through that market lens, when you instead walk them through the calculation of seeing what it actually costs to live and raise children here in the community where we are, it’s this revelatory moment.”

Such initial thoughts are not unusual, but there are benefits that may come from paying employees a living wage. First, paying a living wage can reduce employee turnover. Employees paid less than the living wage, and the minimum wage especially, are more willing to leave for another job with higher wages. This results in companies having to pay significant amounts in terms of administration, training, and turnover. Consider for example the case of the San Francisco airport, which increased wages by 55%. Turnover among contracted security screeners subsequently decreased from 95% to 19%, saving the airport $6.6 million per year.

Second, paying a living wage can reduce health costs for the employer, most significantly, costs related to stress. According to the Canadian Centre for Policy Alternatives paying a living wage reduces employee stress, which is the highest health concern for 56% of employees. Stressed employees are more likely to spend more on prescriptions, increase absence costs up to 19%, disability cost up to 30%, and turnover costs up to 40%.

Third, as knowledge about living wage continues to spread so too do the reputational benefits for individual companies. Being able to market the fact that a company is a living wage supporter portrays a positive, ethical business to those in the community. Indeed, 70% of employers involved in the London, England Living Wage Program felt that being publicly recognized as paying a living wage had increased consumer awareness of their organization’s commitment to being an ethical employer. Research has found that most consumers want to be associated with a company whose values are consistent with their own.

Along with the benefits described above there may also be negative consequences. Data has found that implementation of the living wage reduces employment among low-wage workers by between 12% and 17%. Similarly, Mark Brenner’s analysis of Boston’s living wage ordinance found that firms that raised wages showed an average of 11% in employment growth while those that did not raise wages showed an average of 17%.

Along with these studies showing an inverse relationship between the living wage and employment growth, some have shown that the negative effects extend beyond job losses and employment growth. Research has found that some employers that pay a living wage favour more highly skilled workers at the expense of those who are less skilled. The living wage is intended to help the least skilled individuals, yet this study shows that it harms them more than any other category of employees. It may be that the living wage helps put some families over the poverty line but only reflects large gains for a small number of families, while those dramatically below the poverty line are negatively impacted.

Although the implications of the implementation of a living wage in Windsor-Essex are uncertain, other communities who have increased income for the bottom earners have data available. At the beginning of 2014, 13 states increased their minimum wage. Four of these passed legislation and the other nine increased due to inflation. Of these 13 states, all but New Jersey saw employment gains in the first six months. Goldman Sachs conducted an evaluation of these states and it found that the states with an
increased minimum wage saw faster employment growth than those who did not in relation to the previous year.\textsuperscript{32}

In Canada, between 1974 and 1979 poverty was completely eliminated in Dauphin, Manitoba due to a program called “Mincome” which ensured basic annual incomes for everyone, very similar to a living wage. This was one of the first programs of its kind in North America because it didn’t shut out seniors and the disabled (see Exhibit 1). The program’s initial purpose was to test if giving cheques to the working poor would kill their motivation to work. While it seemed clear that this did not occur the new incoming government was not interested in continuing the program.\textsuperscript{33}

In the five years that it did run, the program helped over 1,000 families earn a liveable income and improved the health of those affected as overall hospitalization rates dropped by 8.5\%. Vasey says “if you’re wealthy, it doesn’t mean you’re guaranteed to have good health, if you’re poor its a life sentence to bad health”. The Mincome program did however have a slight impact on the labour market, with working hours dropping 1\% for men, 3\% for married women, and 5\% for unmarried women. The Conservative government who took provincial power in 1977 and federal power in 1979 had no interest in keeping the $17 million program going.\textsuperscript{34}

Although the program was abruptly terminated, mostly due to a change in government, Mincome proved that poverty can be eliminated, at least on a small scale. “But perhaps the most significant results of the Canadian mincome test are that is has never been repeated and that Mincome has never been implemented in Canada or anywhere else in the world.” (Longley, 2015)\textsuperscript{35}

Discouraged by growing income inequality and the increasing amount of research to suggest it harms both high and low income earners\textsuperscript{36}, in the United States in January of 2014, over 600 economists signed a letter that supported an increase to the minimum wage by 2016. The letter stated that “The vast majority of employees who would benefit are adults in working families, disproportionately women, who work at least 20 hours a week and depend on these earnings to make ends meet.”\textsuperscript{37}

In Windsor, Adam Vasey, director of Pathway to Potential (PTP), and his team have developed a successful organization since 2009 that is well known within the community. Pathway to Potential is currently advocating for the living wage as a piece of the puzzle towards ending poverty in Windsor-Essex. According to Vasey, “we can’t talk about the living wage without talking about poverty.” Currently PTP’s living wage movement in Windsor includes over 20 organizations that pay a living wage. Recently, Hotel Dieu Hospital has signed on as a living wage employer which affects around 1,100 employees in Windsor, bringing the total number of affected employees in Windsor to over 4,000.\textsuperscript{38}

\textbf{THE DECISION}

Since her preliminary investigation, Sandra had looked deeper into the implications of the implementation of a Living Wage at her financial institution. While approximately 650 people were employed by the institution only about 5\% of the staff would see an immediate pay increase. Of those 5\%, only 0.76\% were more than a dollar per hour below the living wage (see Exhibit 3 for wage scale). Meloche calculated that the maximum increase in wage expenses for the financial institution (based on full time hours for a year) would be approximately $28,500.00 per year.

Sandra believed she had three options. First, she could leave the wages as they were currently. Second, she could increase the pay of the 5\% of employees that were paid less than a Living Wage, with the
potential for a phased increase of pay for the other employees should that appear necessary. Third, she could increase the pay for the bottom 5%, and implement a corresponding and immediate pay increase for others.

The financial institution prided itself as being an important and contributing member to its community, and their current pay structure with employees being paid less than the Living Wage was not consistent with this image. Becoming a living wage employer would align well with their corporate values. However, Sandra could not risk the financial health of the company. She knew she had to make a decision that considered both corporate and personal values, along with the financial reality of operating in a highly competitive industry.
EXHIBIT 1 – MINCOME CHEQUE CALCULATION

How Mincome cheques were calculated:

1. Everyone was given the same base amount: 60 per cent of Statistics Canada’s low-income cut-off. The cut-off varied, depending on family size and where they lived. But in 1975, a single Canadian who was considered low-income earned $3,386 on average.

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>2014 dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>$3,386</td>
<td>$16,094</td>
</tr>
<tr>
<td>Family of Two</td>
<td>$4,907</td>
<td>$20,443</td>
</tr>
</tbody>
</table>

2. Base amount was modified: 50 cents was subtracted from every dollar earned from other income sources


EXHIBIT 2 – WAGE SCALE BELOW LIVING WAGE

Wage scale of percentage of employees below designated living wage for Sandra’s Financial institution.

<table>
<thead>
<tr>
<th>Amount per hour below Living Wage ($)</th>
<th>Staff (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.09</td>
<td>1.67</td>
</tr>
<tr>
<td>0.30</td>
<td>0.15</td>
</tr>
<tr>
<td>0.50</td>
<td>1.21</td>
</tr>
<tr>
<td>0.60</td>
<td>0.76</td>
</tr>
<tr>
<td>0.71</td>
<td>0.15</td>
</tr>
<tr>
<td>1.11</td>
<td>0.15</td>
</tr>
<tr>
<td>1.12</td>
<td>0.61</td>
</tr>
</tbody>
</table>

Source: Confidential case interview, August 3, 2016.
23. Trish Hennessy, “What if the minimum wage was a living wage?, Canadian Centre for Policy Alternatives, November 26, 2015, www.policyalternatives.ca/publications/commentary/what-if-minimum-wage-was-living-wage.