Living Wage: One Tool to Tackle Inequality

Unravelling the inequality knot will take a change in public policy. But there is also a role for employers committed to paying a living wage.

A chorus of concern about inequality has emerged from unlikely sources.

It is not from the Occupy movement which garnered headlines with the "we are the 99%" catchphrase.

It is not from health researchers who discovered some time ago the harmful social impacts of deep inequality.

The latest warnings have come from bank economists and global economic institutions such as the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF).

False trade-off between inequality and economic growth

Not long ago these voices held that there was a trade-off between economic growth and reducing inequality. In short, that inequality was a necessary evil to attain the goal of economic growth.

It turns out that was a false trade-off. Inequality actually weakens economies. Lower inequality "*is robustly correlated with faster and more durable growth,*" report researchers at the IMF. And the OECD now recognizes that "policies that help to limit or reverse inequality may not only make societies less unfair, but also wealthier."

Unfortunately, the inequality vs. economic growth trade-off underlay policies to reduce income transfers for poor households, cut wages, restrict access to unemployment insurance benefits, and reduce taxes on the wealthy.

Canada's tax and transfer system has long played a role in reducing market-based inequality. But as economists from one of Canada's major banks, TD Canada Trust, observe, that role was significantly weakened in the 1990s. Federal and provincial governments in Canada focused on eliminating deficits by cutting back transfers. "Cuts in transfers from one level of government to the next ultimately fed through to less transfers to individuals."

But when federal and provincial surpluses re-merged, higher levels of inequality in Canada remained. "Part of the reason," the TD economists explain, "is that transfers only stabilized and many policies put in place when surpluses occurred were more beneficial to higher income earners."

A banker makes the case for leaning against income inequality

The TD economists recently made "the case for leaning against income inequality in Canada." OECD economists agree. "Not only cash transfers but also increasing access to public services, such as high-quality education, training and healthcare, constitute long-term social investment to create greater equality of opportunities in the long run."

Investment in public services and income transfers is good for people and the economy. The fact that bank economists and powerful international economic organizations recognize that and are advocating such investments is helpful.

Repair work needed in the labour market

It is also worth recalling that inequality is also affected by how much people earn at work. Research by the Canadian Centre for Policy Alternatives (CCPA) documented how most Canadian families with children were working longer hours but earning less than their parents' generation. And that was happening in robust economic times before the 2008 global recession. At the same time, earnings for the top ten percent of families increased – despite a reduction in work hours from a generation earlier.

So fixing inequality needs to happen in the labour market, as well as through public policy. And while the minimum wage, employment standards and labour legislation are important tools in repairing earnings for workers in the bottom half of the labour market, there are things employers can do themselves.

The growing movement of employers committed to paying a living wage to all of their employees is one of those things.

The living wage rate is based on the actual cost of living in specific communities. It is about more than reaching the poverty line. It reflects a decent, albeit modest, standard of living that allows workers and their families to participate in the life of their community. In Waterloo Region, the living wage rate is currently $16 an hour, much higher than the $11 an hour Provincial minimum wage.

In Canada, the living wage movement is gathering steam with dozens of employers in BC, Alberta and Ontario already involved. As the living wage movement grows – there are over 1,200 living wage employers in the UK for instance – it is improving the earnings and living standards of thousands of workers.

And it is also delivering benefits for employers. More on that to come.

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