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The economic and financial impacts of adopting the Living Wage

Dr Bill Rosenberg, Economist, New Zealand Council of Trade Unions Te Kauae Kaimahi

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Today I would like to give you a very brief tour of studies relating to the benefits and costs of implementing a Living Wage.

I will not attempt to estimate the cost to the City Council of moving to a Living Wage status, partly because I simply do not have the information required but also and perhaps more importantly it would be wrong to take a simplistic view of the costs without considering benefits both to the Council and to the City.

The standard Stage 1 economics claim about raising wages is that "wages will rise when productivity rises. Otherwise raising wages will just lead to inflation and no-one will be better off". Actually, workers have not been paid for their increases in productivity. The average wage in the private sector would have been $31.85 in March 2011 if it had kept up with labour productivity growth since 1989. Instead it was $23.43. This indicates that measures like the Minimum Wage, collective bargaining, and social advances like the Living Wage are needed to ensure fair wages are paid.

But a poorly performing wages system is only part of the picture. While the conventional view is that higher productivity leads to higher wages, there is also a variety of evidence for the converse: that raising wages can raise productivity.

I'd like to take you first to two specific studies of the Living Wage in the U.K. that illustrate that. The first studied cleaners at Queen Mary, a college of the University of London. The study was led by Professor Jane Wills, a professor of human geography at the University in late 2008. The institution had not only moved to pay its cleaners the London Living Wage, but brought cleaning in-house, ending an outsourced contracting arrangement. As well as cleaners showing higher levels of morale and job satisfaction, saying they worked more productively, and completing a broader range of tasks, the employer was also very satisfied. "While the real and estimated costs for the service had risen slightly above those involved in the past, these increases were marginal and the Chief Administrative Officer declared himself to be 'perfectly happy' with the cost rises so far." The authors concluded: "The research has revealed that the move to be a living wage employer and bring the cleaning service in-house has stimulated improvements in job quality, productivity and service delivery, with very little increase in costs."[1]

A second UK study, conducted by the consultancy firm London Economics for the Greater London Authority which promotes the Living Wage, showed "significantly lower rates of staff turnover" leading to "substantial cost savings on recruitment and induction training", lower rates of absenteeism and sick leave, enhanced quality of work, and widespread efficient work reorganisation. This was alongside significantly boosted worker morale and motivation and reputational benefits for the employers. It found "evidence of little or no impact on business performance of London Living Wage implementation. All LLW employers reported no change in sales/turnover. Half of employers also saw no change in their profits, with two seeing a slight decrease and one a slight increase. The majority also experienced no change in prices or output."[2]

These two studies reflect broader research findings. Benefits arise at three levels. Firstly, higher wages and fair treatment lead to better motivated employees who put more effort and thought into their work, raising

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[1] "The business case for the living wage: The story of the cleaning service at Queen Mary, University of London", by Jane Wills, January 2009, available at http://www.geog.qmul.ac.uk/docs/staff/8041.pdf.

[2] "An independent study of the business benefits of implementing a Living Wage policy in London: Final Report for GLA Economics", prepared by London Economics, February 2009, available at http://legacy.london.gov.uk/mayor/economic_unit/docs/living-wage-benefits-report.pdf.