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# Action Economics? Working with Citizen Groups in Revelstoke, BC

## to Evaluate the Impact of a Living Wage.

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## **Abstract**

Participatory action research has enabled communities to develop knowledge informed solutions to local challenges, challenges often involving difficult trade offs in the face of resource constraints. The challenges are typically defined by the local context, limiting both availability of data and generalizability of insights. We undertook an *action economics* approach with a group of Revelstoke community members deepen the collective understanding of the business impacts that may result from adoption of a living wage policy. An EXCEL™ workbook with macros enabled community members to explore possible costs and benefits. This tool clearly demonstrated the heterogeneity of business impacts and the form and scale of living wage employer benefits necessary for businesses to be no worse off. There are many context sensitive policy challenges that can benefit from an economic perspective, and therefore significant scope to share effective approaches for doing so.

### **Keywords:**

Action research, living wage, community engaged research, poverty reduction, regional economic development

# Introduction

Within Canada, most matters pertaining to working conditions fall under the jurisdiction of provincial governments. All provinces in Canada have implemented minimum wage laws, mandating that with few exceptions, employers must pay at least the minimum hourly wage. The cost of living is typically not constant across a province, with the result that in some communities the minimum wage can allow a family to comfortably pay for most of the necessities of being active members of their community, while in other communities the same income may not be sufficient to meet the basic needs of the family. The living wage is an attempt to recognize this disparity by calculating for each community what it would cost for a representative family to cover the cost of those things needed to be active members of the local community. It is typically, sometimes substantially, larger than the minimum wage.

Revelstoke, a small town in the eastern part of British Columbia, has been undergoing a significant economic transformation from a railway and forestry town to a resort community. The mix of employment opportunities and the cost of housing have both substantially changed, triggering concern about the impact on low income members of the community. A coalition of community stakeholders saw living wage certification as a means to help low income community members. However, some employers expressed concern about the impact of living wage certification on their business incomes. This lead to engagement with researchers at UBC's Institute for Community Engaged Research as partners to help clarify the range of potential impacts and their distribution across the different business sectors.

The impact of living wage certification on Revelstoke businesses depends heavily on the local context within which these businesses operate. That context includes, for example, the unique cost structure of businesses in the community, the degree of transience of the pool of potential employees, the loyalty of local consumers and the additional value customers will pay to support a living wage certified business. None of these are known, and therefore making any credible predictions of the impact would be highly suspect. Rather than assert values and impacts, we developed a spreadsheet tool that enabled us to work with the community to explore how the

economic impact on different business sectors depends on assumptions about the impacts of the policy. This enabled the community members themselves to discuss what would be reasonable to assume and what this meant for the likelihood that businesses would voluntarily choose to become living wage certified or do business with those that had chosen to certify.

The remainder of the paper is organized as follows. In the next section we discuss minimum wage policies, the backstop policies mandating what employers must pay. We then turn to the living wage, an effort to address the shortcomings of minimum wage policies, addressing the actual cost for a family to functionally live within a specific community. Next we describe the town of Revelstoke and how it has evolved over the recent past as it has become a resort community. This sets the stage for describing the spreadsheet tool we developed to help facilitate a deeper conversation about the living wage. This tool was build around the local context, and therefore this section also describes in some detail the data that was available for Revelstoke and how it was used. Finally, we discuss lessons learned from this exercise and how efforts like this can help enhance the quality of local policy choices.

## **The Minimum Wage**

Minimum wage laws are well established in many developed economies. The basic theoretical assessment of this policy is simple and well known. Forcing employers to pay more than the market clearing wage will cause them to reduce the number of people they hire, thereby creating unemployment. A more nuanced analysis posits that legislated minimum wages may impact the entire wage structure, may impact worker behavior, and may be related to larger societal impacts. Public discourse around increases to minimum wage levels typically ignore much of the nuance, focussing primarily on the argument that unemployment will increase and low income households will be made worse off.

Whether or not minimum wage laws reduce employment and whether or not they leave low income households worse off are empirical questions. The work that has been done (see Green, 2014) suggests that the effects on

employment are limited and largely borne by teens. To the extend that these minimum wage employees are living at home with parents, the adverse impacts on low income households of minimum wage policies are likely minimal.

The level of the minimum wage is chosen by the government, largely based on balancing the lobbying of the business community and the social activist communities. As a provincial policy, it will also reflect the balancing of differing economic geographies across the province. The level of the minimum wage is therefore at best weakly related to the cost of living in any given community, particularly the cost of living and being active participants in the community. A ‘living wage’ is a wage that is sufficient for a household to be such a full participant, and calculating it depends on what the cost of living is in that community. The British Columbia office of the Canadian Center for Policy Alternatives has developed a methodology for calculating a living wage in the Canadian context (Richards et al. 2008). Living wages are generally higher than minimum wages, and as a consequence of variations in the cost of living between communities, context specific. In contrast to enforceable minimum wage laws, Canadian living wage campaigns are therefore typically efforts to have local governments implement employment and procurement policies that require a living wage be paid, and convincing employers to voluntarily agree to raise their effective wage paid to the living wage level, rather than the lowest legal wage at which they can hire the required number of employees.<sup>1</sup> Accounting exercises for the affected organizations can identify the cost impacts, while the context specificity means that there is almost always insufficient data to make any verifiable quantitative assessment of any benefits that may occur.

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<sup>1</sup> The Canadian living wage movement is much newer than the movement in the United States, where the first living wage campaign started in 1994 in Baltimore. The US movement has emphasized regulatory campaigns, which focus on implementing living wage laws or policies at the level of local governments. Because of differences in the authority of Canadian municipalities, the reach of municipal living wage policies in Canada is modest (limited to direct employees or third-party contracted employees rather than city-wide laws that have sometimes been implemented in the US). As a result, the Canadian living wage movement has emphasized voluntary certification rather than regulatory approaches, and its campaign tactics have focused on technocratic policy advocacy and lobbying rather than collective mobilization from the grassroots (see Evans, 2017; Evans & Fanelli, 2016). In British Columbia, as of April 2018, the Living Wage for Families campaign certified 110 businesses and organizations in the province, including 8 local governments: Huu-ay-aht First Nation, New Westminster, Parksville, Pitt Meadows, Port Coquitlam, Quesnel, Vancouver, and Yuułuʔiʔath̄ – Ucluelet First Nation ([http://www.livingwageforfamilies.ca/2018\\_living\\_wage](http://www.livingwageforfamilies.ca/2018_living_wage)).

Anecdotes and conjecture typically come to dominate this side of the conversation, and are seldom convincing to those who believe they have much at stake.

## The Living Wage

The “living wage” movement is an attempt to recognise individuals’ desires to function in and feel a part of community and society through productively supporting themselves and contributing to that community and society by earning a wage that supports decent living standards. Recognition of these individual desires is found in the writings on wages and distributional justice of such authors as Adam Smith, John Rawls, Amartya Sen and more recently Green (2014). The basic view is that people require a basic level of income which enables them to maintain the respect of others in society. Green and others (e.g. Carr et al. 2016; Nussbaum, 2011) have also pointed out that self respect is an important ‘capacity’ that an individual needs to function in society. A key feature of these views is found in Thurow’s (1971) idea that a contextually fair income distribution within a society constitutes a pure public good. All members of a society experience the benefits of this public good but there is a gap between the social and private return of supplying this public good providing the impetus for redistributive intervention.

Employment opportunities, incomes and costs of living vary among Canadian communities (Emery and Levitt 2002; Coe and Emery 2004). This creates spatial variations which induce migration and distributional tensions (Jolliffe 2006) to which localized responses in the form of minimum wages or living wages to mitigate detrimental skill migration drains. It is therefore not surprising that communities where the cost of living is rising rapidly relative to the earning capacity of the working poor are inclined to search for ways to help those in need. Revelstoke, British Columbia is such a community, and adopting a living wage strategy is being considered as a policy for addressing poverty issues.

Since a living wage is meant to reflect the local cost of living, the target wage rate will depend on the local cost of living. The British Columbia office of the Canadian Centre for Policy Alternatives developed a methodology for

calculating a living wage (Ivanova and Weiler 2015; Ivanova and Saugstad 2019), initially focussed on Vancouver and Victoria, BC (Richards et al. 2008). The required wage is calculated by determining the financial needs of a reference family with two full time working parents and two children, age 4 and 7. This financial need is net of government transfers. The calculation is based on a household consumption bundle which includes needs like adequate housing, transportation and telecommunication, but does not include amounts for savings, holidaying, etc. What is included and excluded from the bundle is somewhat subjective and therefore sometimes contentious (Brennan 2012). The resulting financial need is then translated into a minimum hourly wage necessary to meet these financial needs. For Revelstoke in 2015, the living wage was calculated as \$18.87 (Zacharias and Lenzi 2015).

Living wage campaigns seek to build the political will to convince local governments to adopt living wage policies in their hiring and procurement activities, and to encourage local businesses to voluntarily agree to become living wage certified. Becoming certified requires the employer to determine how much their employees are earning, both as wages and as non-wage benefits, and then increase that to meet the living wage calculated for their community (First Call: BC Child and Youth Advocacy Coalition 2013). There is no question that paying a living wage will increase hourly labour costs for firms with employees who would otherwise be paid less. Convincing employers and local government to becoming living wage certified then hinges on convincing decision makers that there are benefits which more than offset the additional wage costs. Suggested benefits include reduced turnover and thereby training costs, increased labour productivity, the ability to charge higher prices on account of being able to display a living wage certificate, and recycling the additional wages paid through increased economic activity in the local community (a ‘multiplier’ effect). What little research has been done is not always conclusive.

There have been a number of studies that have attempted to measure the effect of living wage policies on employment and poverty rates. Neumark (2002) provided one of the first comprehensive empirical analysis of these effects, finding that living wage policies increased the wages of those with work, while reducing some

employment. Overall, the net impact was positive for the poor. The statistical methodology of this work was challenged by Brenner et al (2005), finding that the results are not robust, with much of the result driven by conditions in Los Angeles. Adams and Neumark (2005) updated Neumark (2002), responding to the criticisms with a larger dataset and improved methodology. They are able to verify many of their earlier results. In an empirical survey of 31 of the 120 communities in the United States that had adopted living wage legislation as of 2002, Buss and Romeo (2006) observed that several cities experienced a positive labour market impact and a decline in unemployment following the introduction of a living wage ordinance, while just two cities experienced “unfavorable” increases in unemployment. They conclude there is little evidence that living wage policies create significant employment losses. Focussing on workers in London, England, Linneker and Wills (2016) find mixed results, particularly in poverty reduction. Employers seem to respond by reducing the number of hours of labour they use. Neumark et al (2012) analyze wage, employment and poverty rate impacts for a set of US cities that have implemented living wage policies. They find that wages for those employed rise, but unemployment is also increased, and the inflow of support funds from senior government is reduced. On balance, they find that living wage policies have reduced the poverty rate, but at the same time moved some people to a more serious poverty state. Lester (2011) compares cities in California with and without living wage policies, and finds no evidence of negative effects on employment or the number of establishments. Clain (2008) finds that living wage policies reduce poverty rates while minimum wage laws do not. She speculates that the difference occurs because living wages are often implemented through local government procurement policies, making the living wage a transfer from taxpayers to employees. In later work, Clain (2012) shows that a community’s decision to implement a living wage policy may be driven by local economic conditions, potentially endogenizing efforts to measure the economic effects of such policies. This is clearly the case for Revelstoke, where interest in a living wage is a consequence of the local economic conditions. Luce (2014) notes that while there are few negative effects and demonstrable positive effects from living wage laws, the scope of coverage touches only a small fraction of low-wage workers. She observes that for many living wage proponents, the benefit of living wage campaigns lies in the use of the living wage as a stepping stone for other poverty reduction initiatives, such as

building coalitions, influencing public debate on wages and strengthening union organizing and bargaining power. This too is relevant to the case in Revelstoke, where the living wage is considered as one possible tool in a broader poverty reduction strategy.

Until relatively recently, much of the research on employee turnover has started with the assumption that turnover is costly and should be reduced. Rare early work, such as Woods and Macaulay (1989), collected information from a small number of firms in high turnover industries and argued that this high turnover was costly to the firms. Recently, more attention has been paid to the costs to the organization of employee turnover. A review by Shaw (2011) concludes that overall, turnover is costly to firms. Some of the recent research is particularly relevant to Revelstoke. Hinkin and Tracey (2000) examine costs for four hotels, finding that turnover costs are as much as thirty percent of the annual wage for front line staff, and that around two thirds of this is hidden lower productivity as recent hires learn how to work in their new position (see also Davidson et al, 2010). Kacmar et al (2006) show that for a sample of 262 Burger King™ restaurants, increased worker and manager turnover both contribute to increased food waste and increased wait times, with longer wait times resulting in lower sales. Ton and Huckman (2008) find that in retail, stores that have highly structured procedures suffer little from high turnover rates, while more flexible organizations where employee knowledge is important suffer greater losses. Meier and Hicklin (2007) find that turnover negatively impacts on student performance in high school, but that for high performance students, there is an optimal level of turnover. Bright students are harmed by too much turnover, but also benefit from the stimulation of interacting with new teachers. Overall the turnover research suggests that firms which can highly structure the tasks workers perform are not seriously impacted by high turnover, while those where task complexity and/or social capital requirements are high find turnover costly. Benefits of living wage certification that relate to turnover will therefore be organization specific.

In tandem with turnover, reducing employee theft can also reduce employer cost. There is considerable research relating wages and employee behavior. Tucker (1989) finds that lower income and marginal employees

may see theft as a justifiable response to their working conditions and pay rate. Greenberg (1990) showed that pay reductions correlate with increased theft, but that clear communication about the reasons for the pay reduction reduced theft rates. Chen and Sandino (2012) find that convenience stores paying relatively higher wages experience lower theft, and that this effect contributes to strengthening norms of behavior within the organization. While the relationship between theft and a living wage has not been studied for firms implementing a living wage, Fernandez et al (2014) found that living wage communities have lower rates of property crime.

To what extent the ‘living wage certified’ brand has value has received little attention. However, certifications for environmental performance and social responsibility have existed for quite some time and received some attention. Examining the Energy Star rating for refrigerators, Houde (2014) finds that many consumers who are not fully informed about the appliance energy cost are willing to pay significantly more for appliances with an Energy Star rating. Similarly, for eco-certified buildings, Fuerst and McAllister (2011) measure a significant premium in both rental rates and property sales prices. As shown by Schnietz and Epstein (2005), a reputation for social and environmental responsibility can protect a firm’s share value from a perceived increase in the risk of regulations. These and similar results suggest that consumers use certification and reputation as an indicator of a firm’s performance around things that consumers care about. To the extent that consumers care about the wages earned by those employed by the businesses those consumers purchase from, living wage certified firms may see increased sales or a willingness of consumers to pay a higher price.

Beyond the question of impacts to firms and sectors are the questions about the broader economic impacts and benefits of a living wage program, such as changes to the rate of spending leakage to nearby communities, overall growth in the local economy, or changes to the community’s sense of resiliency or connectivity. Multipliers and spillovers, as ways of thinking about what a living wage initiative might generate in terms of net social benefit, are not easily measured or in some cases may be unmeasurable in economic cost-benefits terms. Although a direct quantification of multipliers and spillovers may not be possible, the ability to calculate the

expected costs for firms provides a means of benchmarking, and thus generating dialogue among stakeholders about possible offsetting benefits. At the very least such business cost analysis gives an indication of how large the economic multipliers and spillovers (such as improved labour retention and productivity, re-spending multipliers or increased community volunteerism) and the social multipliers and spillovers (such as poverty and crime reduction or increased tourism) that might result from living wages have to be at the broader social level to justify their implementation.

Overall, there is empirical evidence that suggests in some situations, some of the proposed benefits from paying a living wage may accrue to some of the affected firms.

## **Revelstoke**

Revelstoke is a small city in the south eastern interior of British Columbia with a population of 6,719 (Statistics Canada 2016), built on lands used by the Secwépemc and Sinixt peoples (Ignace and Ignace 2017). Revelstoke began as an important service hub for the Canadian Pacific railway (City of Revelstoke 2015). Local mining and forestry activities added to the local economy. In the 1970's, construction of dams that were part of the Columbia River Treaty supported the local economy. The city population reached a peak of more than 8,000 people in the 1980's. However, when the infrastructure projects were completed, and modern technology reduced the need for train crews, jobs and city population began to decline. Efforts to offset this decline brought the community together to find new economic drivers. The latest and most successful has been the Revelstoke Mountain Resort development. The resort, and designation of Revelstoke as a resort community, have contributed to a resurgence of economic growth and reversed the population decline. However, it has also brought rapidly increasing housing costs; housing prices increasing by 33% between 2006 and 2011, and average rental prices for a two-bedroom apartment increasing by 64% over the same period (Zacharias 2012). The cost increases are challenge for those with limited means.

Within Revelstoke, there have been a number of poverty reduction efforts over the last two decades. In

anticipation of some of the challenges of becoming a resort community, an affordable housing strategy was developed in 2006, building on previous housing affordability studies dating back to 1995 (Zacharias 2006). The Revelstoke Social Development Coordinator, with support from the Columbia Basin Trust, developed a poverty reduction strategy for the city in 2012. This lead to the creation of the Revelstoke Poverty Reduction Working Group, a multi-sector coalition of community stakeholders which drove the interest in a living wage policy for the community. Focussing on a living wage highlights the true cost of living in Revelstoke, the growing economic insecurity of some members of the community, and the resultant inability of these people to actively participate in the community (Zacharias 2006; Zacharias 2012).

The Revelstoke Credit Union (RCU) initiated a push towards formal living wage certification for Revelstoke businesses in 2014. In consultation with the VanCity Credit Union and Living Wage for Families BC (LWFBC), RCU cooperated with the Social Development Coordinator to calculate a living wage rate for the community. In January 2015, *A Living Wage for Revelstoke and Area* was published, documenting the calculated living wage rate of \$18.87 for Revelstoke (Zacharias and Lenzi 2015). When it became clear that LWFBC certification required that employees of contractors also receive living wages, the RCU backed off on supporting this initiative (Revelstoke Credit Union 2015). The poverty reduction working group was left to find an alternative approach to investigating the potential role of a living wage in Revelstoke, which lead to their engagement with the ICER research team.

## Action Economics

We approached our first meeting with the poverty reduction working group expecting to develop a simulation study, as has been done for other communities considering a living wage (e.g. Neumark, Thompson, Brindisi, Koyle, & Reck, 2013; Pollin & Brenner, 2000; Pollin & Wicks-Lim, 2006, 2009). Such simulations invariably require assumptions to be made about numerous important variables, and we expected a dialog with the working group to help us bracket those assumptions. What became clear during the meeting was that the

working group was interested in a wide range of impacts, impacts which were far outside the scope of any model that could be developed. As we had already ruled out approaches such as a regional computable general equilibrium (CGE) model (Partridge and Rickman, 2010), on account of data limitations, at this point we could have said that there was nothing we could contribute and moved on to other projects. However, as the decision to adopt a living wage policy has efficiency and distributional impacts, we felt that there was a role for the insights that economics could provide. Bringing these insights into the discussion required engagement with the working group more as partners than outside experts, something similar to the ‘action research’ approach.

Participatory action research (Whyte 1989) explicitly integrates researchers and those who are the subjects of the research together as partners in the research endeavour. The research questions are the product of this interaction, as are the methodologies chosen. In our case, the initial research question was *what is the impact of living wage certification on the Revelstoke economy?* Engagement with the poverty reduction working group lead to a new question, namely *how can the economics of living wage certification be represented within a conversation about broader impacts of the policy?* It became apparent that some members of the working group were looking for a clear answer that they could base their policy decision on. Given the paucity of data to underpin a detailed model, and the range of impacts that people felt should be considered, it was concluded that it would be more responsible to work with the community to think through the possible impacts of a living wage policy, rather than offer an answer in which we ourselves could have little confidence.

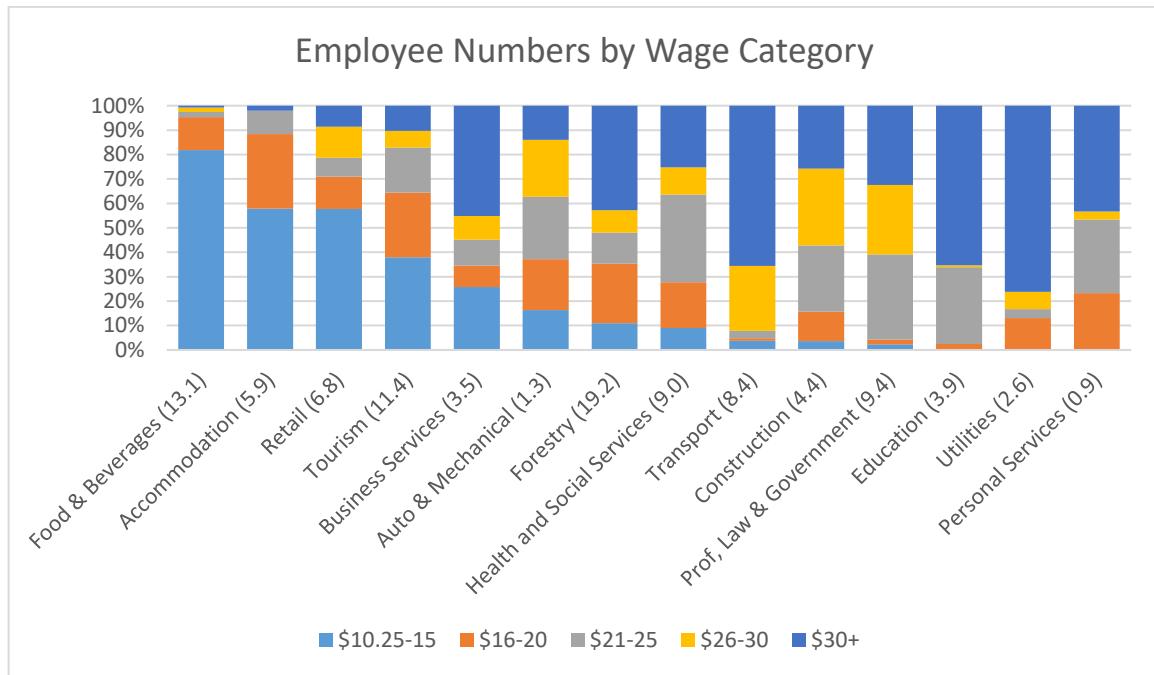
Differences between firms in different sectors was highlighted by the working group as important. We can use some simple equations to illustrate how one might think about these firm specific effects. Focussing on the firm, we can define output as  $y = f(al)$ , where  $l$  is labour and  $a$  measures the productivity of labour. One place where the benefits of a living wage are expected to occur is in the size of  $a$ . It is suggested that firms paying a higher wage will see more productive workers, or for the same level of  $l$ ,  $a$  will be larger and therefore output will be larger.

The return to entrepreneurship and owner equity,  $\pi$ , can be defined as

$$\pi = py - FC - VC^{-w}(y) - wl$$

where  $p$  is the price of output,  $FC$  are fixed costs, not including the opportunity cost of owner supplied equity and entrepreneurship,  $VC^{-w}$  are variable costs not including wages, and  $wl$  is the wage bill. Paying a living wage can affect all of these terms. Clearly it increases  $wl$ , if  $l$  is not changed. If better paid workers are more careful, and thereby waste less material used in production, then  $VC^{-w}$  would decrease. If paying workers more reduces turnover and training, then  $FC$  will be lower. Finally, if customers are willing to pay more for the products of living wage certified firms, then the price  $p$  will be higher, and if being certified attracts more business, then  $y$  would also increase. The impact of all of these effects taken together determines if  $\pi$  is higher or lower after choosing to become living wage certified.

While each firm is unique, we generally expect firms in the same sector to use comparable production methods and thereby have comparable revenues and costs. To help facilitate a conversation about these costs and how they differ between firms, we chose to develop an interactive model relying on locally collected labour market data and Statistics Canada industry data. Figure 1 shows the number of workers by wage category, divided into 14 of 15 self reported sectors for firms that participated in the labour market survey. Firms self reporting as in the agriculture sector, accounting for a total of five employees, were dropped as wages were not reported.



*Figure 1: Distribution of wages by labour market survey employment sector.*

The vulnerability of firm returns in the Food & Beverages, Accommodation, and Retail sectors to increases in labour costs is clear from the figure, and was clearly understood by members of the working group. To enable a conversation about a living wage policy, these differences needed to be reflected. To that end, we built a tool that enabled an interactive exploration of the impacts of a living wage, built on the simple model described above. To do so, we needed to calibrate the model for each sector. The labour market survey did not ask for firm revenues and costs, and the response rate to a follow up survey was too low to be useful. Therefore, we turned to Statistics Canada data (Statistics Canada 2013). The first step was mapping the sectors used in the Revelstoke survey onto Statistics Canada industry data. Table 1 reports the mapping.

*Table 1. Mappings from labour market survey employment sectors to Industry Canada NAICS sectors.*

Labour Market Survey Sector	NAICS Code	NAICS Sector Label
Forestry	113	Forestry and Logging
Food & Beverages	722	Food Services and Drinking Places
Tourism	71	Arts, Entertainment and Recreation
		Professional, Scientific and Technical
Prof, Law & Government	54	Services
Health and Social Services	62	Health Care and Social Assistance
Transport	48-49	Transportation and Warehousing
Retail	44-45	Retail Trade
Accommodation	721	Accommodation Services
Construction	23	Construction
Education	61	Educational Services
Business Services	561	Administrative and Support Services
Utilities	22	Utilities
Auto & Mechanical	811	Repair and Maintenance
Personal Services	812	Personal and Laundry Services

Figure 2 shows the revenue breakdown between labour related expenses, non-labour related expenses, and the residual after expenses, based on Statistics Canada data (Statistics Canada 2013). The original data provided total expenses as a share of revenue. However, it did not provide total wages and salaries. To arrive at these values, the revenue share for wages and benefits in the cost of goods sold category was added to the revenue share for labour and commissions in the operating expenses category. These numbers highlight the thin profit margin that creates particular vulnerability for the Food & Beverages and Retail sectors to higher wage costs

that are not offset by reductions in other costs or higher revenues.

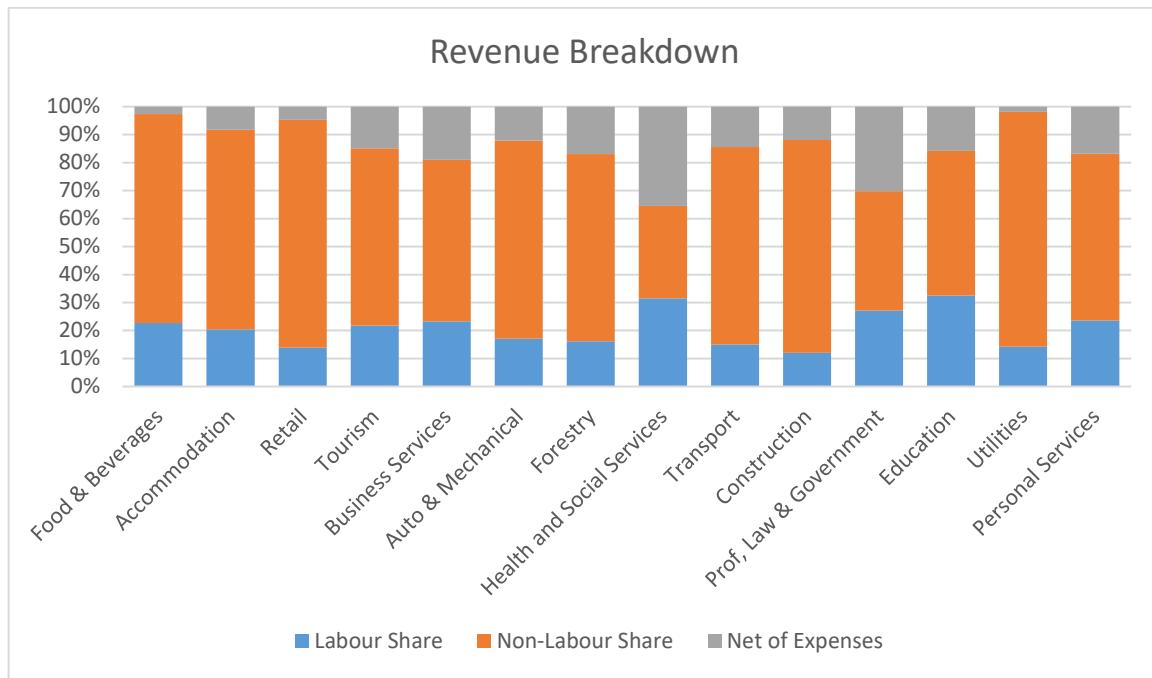


Figure 2. Revenue breakdown by labour market survey employment sectors using mapping from NAICS sectors.

To enable an exploration of how large the benefits needed to be to offset the increased labour costs, we began by calculating the increased labour cost for each sector. This was accomplished by assuming that all employees in the \$10.25 - \$15.00 wage category were raised to a wage of \$18.00 per hour. The first interactive variable in our model was the size of the wage increase necessary to bring the workers in this category up to \$18.00. For any of the included sectors, five options between \$2.69 (half of the midpoint of the lowest interval) and \$7.75 were offered. Selection of this offer determined how large the increase in the wage bill for a representative firm in the particular sector would be. The size of the wage increment, together with the other interactive variables, were adjusted within a dynamic spreadsheet built using Microsoft Excel™. A screen shot is shown in Figure 3.

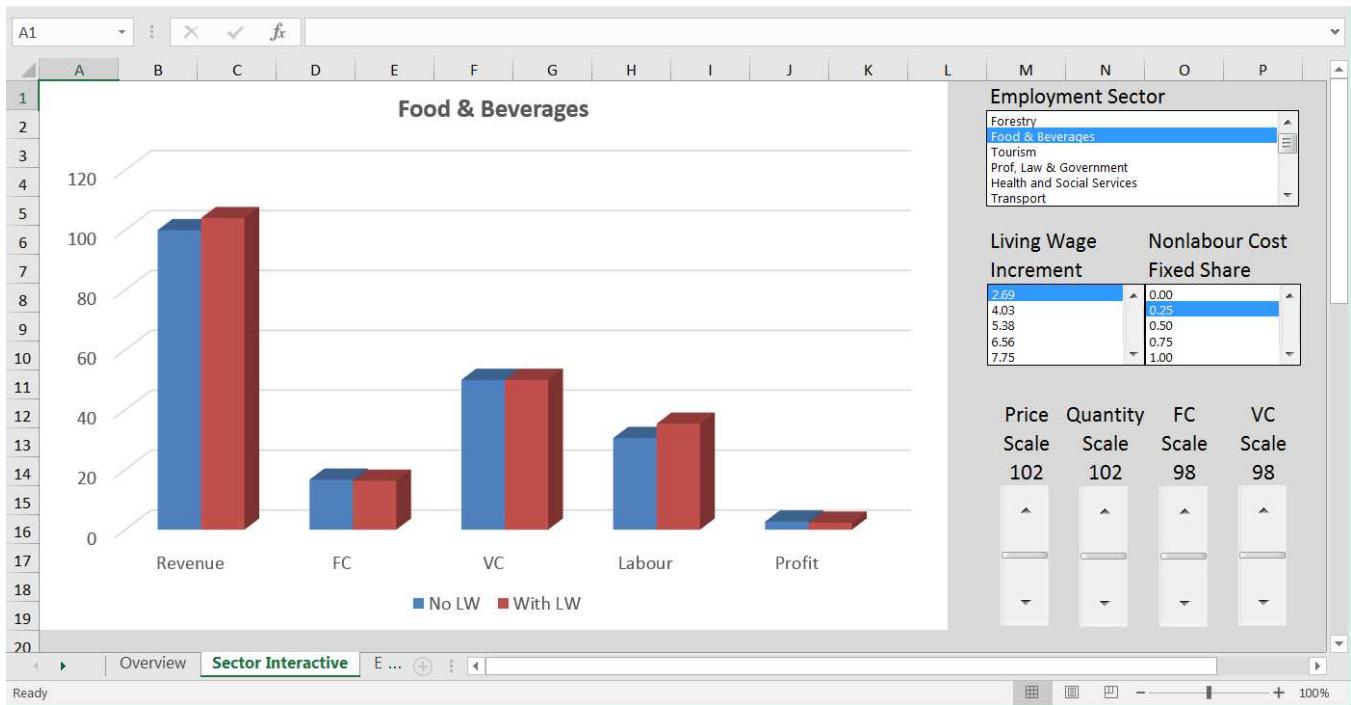


Figure 3. Screen shot of spreadsheet tool used to demonstrate effect of living wage on profits when various assumptions about living wage impacts are examined.

A second interactive variable is the division of the non-labour costs between fixed and variable costs. In the screen shot example, for the Food & Beverage sector, variable costs are selected to account for 75% of the non-labour costs. Having the size of the wage increment and the division of non-labour costs chosen, the potential benefits of paying a living wage can be explored.

Four interactive variables were used to represent the value of the suggested benefits from paying a living wage. Increased revenue may be realized through the ability to charge a higher price, or through an increase in sales, or a combination. Reduced costs are either reduced fixed costs or reduced variable costs, or a combination of both. Reduced fixed costs might be savings on training costs, on account of lower turnover. Reduced variable costs from lower absentee rates or greater attention by employees to reducing waste and/or less theft of goods from the business. The screen shot represents a case where the living wage is paid, with a required wage increment of \$2.69 and non-labour costs are 75% variable. In the example, if the average firm can charge a 2% higher price, achieve a 2% increase in sales, and 2% reductions in both variable and fixed costs, it will be able to almost exactly match profit without the living wage.

By developing this simple interactive model, we were able to participate in a discussion of the impacts of a living wage without that discussion being our defense of a model we had developed. Given the lack of sufficient data to inform a comprehensive model, the best approach seemed to be to engage with those who had a more intimate knowledge of conditions in Revelstoke, members of the poverty reduction working group. At the second workshop, we used the tool to help facilitate a discussion of the impacts of a living wage on different parts of the Revelstoke community. The results of that discussion did not generate a consensus about whether a living wage policy was appropriate for Revelstoke. However, it did help those who were not business owners to understand better the challenges that business owners face if they voluntarily attempt to increase the wages they pay, and help business owners by providing them with a somewhat more quantitative representation of how potential benefits from paying a living wage may play out in their sector.

## **Discussion**

Economists have long been concerned with equity issues. Many economic analyses end up finding a trade off between efficiency and equity, results which emphasize the fact that redistribution policies frequently come with a cost. However, the fact that redistribution likely has a cost does not mean that redistribution should not be undertaken. Principles of justice are not beholden to economic efficiency, and therefore the right choice may not be the efficient choice. Understanding what that cost is is important to deciding how much justice we can afford.

Analyzing redistribution policies at the scale of large jurisdictions can typically justify focussing on average impacts. Research such as Neumark et al. (2013) that examine overall impacts on poverty rates seem appropriate when considering a city like New York. However, when dealing with smaller communities, such as we have done with the city of Revelstoke, it must be recognized that averages are made up of a small number of people or businesses. Those people know their situation best, and have the best information to provide for analysing policies like a living wage. They are also the ones who would be bearing risks associated with adopting such a policy.

We have labelled our efforts to work with the town of Revelstoke as Action Economics. It is economics, as it seeks to illuminate the trade offs that Revelstoke faces in deciding whether or not to become a living wage certified community. Many policy decisions are made at the local level, policies which have real economic impacts. Those impacts are often highly context specific, rendering general results derived from theory or those estimated with large data samples of questionable relevance. When we use econometric models to identify influences that are common across a population of individuals or communities, we push the idiosyncratic differences between these entities into the error term, using a characterization of the error terms to define the confidence we have in our result. When we are dealing with one community, their specific situation is defined by their idiosyncratic difference from the population as a whole. Policy decisions still involve tradeoffs, but those tradeoffs need to be understood within the precise context of the community, rather than assuming away the variation that makes the community unique and supposing that the average result applies.

The action dimension of this research reflects the fact that the research question and approach were developed as a result of our interaction with the Revelstoke poverty reduction working group. We approached the project with some ideas about how to proceed. However, rather than pushing forward with our ideas, and depending on (demanding) that the community partners collect and provide what we needed to proceed as planned, we adapted our approach to better match with how the community understood the issues and challenges involved. Consequently, our result is an approach to helping small communities work through a discussion of a living wage policies, with Revelstoke as an example, rather than a necessarily simple model of the Revelstoke economy that provides an incomplete assessment of the impacts of the policy.

Small policies – such as policies adopted by small communities or projects undertaken by small local groups – are common. There will seldom be the resources or time to collect data and/or construct models that can provide an accurate answer that definitively addresses a policy question in such contexts. However, resources are being used in these policy choices. In the classroom we attempt to teach our students to ‘think like economists’, appreciating that there are trade offs when decisions are made, and that the best choices balance

costs and benefits. Outside the classroom we sometimes succumb to the temptation to rely on rules of thumb, such as markets are always the most efficient way to allocate resources. There may be value in engaging with communities in an active way, participating in a collaborative framing of the decision problem and an exploration of those costs and benefits. Our regression error terms by construction have a mean of zero. However, each data point represents a person/group/community that is unique for a reason. A participatory action economics research methodology would engage with this uniqueness, working with the people involved to understand and as appropriate change their situation.

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