

Concept and practice of a living wage

Introduction

A living wage has been defined as ‘a measure of income that allows an employee a basic but socially acceptable standard of living’ (United Kingdom Living Wage Commission). Living wage campaigns have been launched since the 1990s in an effort to achieve pay increases for the low-paid. These initiatives calculate the income required to achieve a basic standard of living, taking into account existing levels of state transfers. They do so generally on the basis of representative citizen input via focus groups, using the methods of minimum income standard research. These exercises are intended to reflect a social consensus on the standard ‘basket of goods and services’ that every household purchases. When this is calculated, living wages are invariably higher than the relevant statutory minimum wage.

To date, the main living wage campaigns have been conducted in a small number of English-speaking countries with liberal market economies. The most developed initiative in Europe is in the United Kingdom, where over 4,000 employers have received living wage accreditation from the Living Wage Foundation. These employers pledge to pay all of their employees – as well as contracted workers regularly working on their premises – the living wage rate, which is 26% higher than the legal minimum for workers in London.

Policy context

Living wage campaigns aim to draw attention to the inadequacy of income for those earning the legal minimum. Most EU Member States (22) have introduced a statutory minimum wage and this is recognised as being a useful measure by policymakers and the public at large. There is increasing acceptance that, managed prudently, it carries few, if any, of the negative employment effects predicted by traditional economic theory. For example, unemployment levels in Germany have continued to fall from already low levels following the introduction of a statutory minimum wage in 2015. However, as the statutory minimum wage is

fixed in a cautious way, it often falls short of providing recipients with a basic and decent standard of living. This has led to calls for a strengthening of wage and income supports for the low-paid, evident in the ‘fair wage’ provisions of the European Pillar of Social Rights announced in 2017. It has also resulted in growing policy interest in a coordination of national EU minimum wage-setting from unions, notwithstanding the lack of EU legal competencies in relation to wages. For living wage proponents, more needs to be done to bridge the gap between minimum wage rates and living wage needs.

Key findings

- Living wage campaigns were identified in five countries, including two current Member States: the UK, Ireland, Canada, New Zealand and the United States. The report also reviews current pay campaigns and policy discussions on ‘decent’ or living wages in a number of other countries, in particular in the central and eastern European Member States.
- Modern living wage campaigns often have their origins in large cities with relatively high costs of living – in particular, high housing costs – and where pay rates for the majority of workers have failed to keep pace with the real cost of living. In the UK, the Living Wage Commission sets two living wage rates: one for the UK as a whole and a higher one for London.
- Where set, living wage rates are invariably higher than relevant statutory minimum wage rates, in a range of 15–80% higher in the examples cited.
- The living wage can take various forms. In the US, it has tended to take the form of a legal ordinance obliging firms in a specific city or county engaged in public procurement or receiving public funds to pay their employees a set living wage rate. In other countries, the living wage has been implemented as a voluntary scheme by an organising foundation – with multipartite membership – accrediting willing employers, carrying out related research and updating the living wage rate on a regular basis.

- In both forms, living wage coverage is limited to a small proportion of employers, unlike the statutory minimum wage which imposes a legal obligation on all employers. It is estimated that the successful UK living wage campaign has resulted in direct pay increases for 120,000–150,000 workers, fewer than 3% of workers earning less than the living wage. Indirectly, other workers have benefited from the living wage ‘norm’, as it is used as a reference in pay bargaining or is offered to workers by unaccredited employers.
- Only in a handful of countries is the minimum wage sufficient to raise a worker above the ‘at risk of poverty’ threshold without the assistance of supporting state benefits. These benefits have become increasingly important in supporting low-paid household incomes over the last generation in living wage countries such as the UK. Plans to reduce such benefits will put greater pressure on wages to cover the income needs of low-paid households.
- A campaigning focus of all living wage campaigns is the living wage rate, generally an hourly rate; but no single living wage rate can cover the income needs of workers with different working hours in different household types in different regions. Living wage campaigns can, however, map the large variations in income and pay required for a basic but acceptable standard of living, providing a valuable alternative source of data for official estimates of income adequacy, broken down by different household types.
- Living wage campaigns, though small in number, have had an impact on statutory minimum wage systems, most notably in the commitment of the UK government to rebrand the statutory minimum wage for those aged 25+ a ‘national living wage’. This is foreseen to reach 60% of median pay by 2020.
- Wage floors are simple policy measures and, alone, should not be expected to solve problems of in-work poverty; they complement collective bargaining which may secure higher wage rates in specific sectors. Low-paid households also benefit from lower levels of income tax, state transfers in the form of in-work benefits, housing and children’s allowances and other forms of subsidised public provision in health and education. Living wage calculations include these different contributions to household income and highlight the importance of joined-up housing, labour market and social welfare policies to secure a basic, decent living standard for all working households.

Policy pointers

- Living wage initiatives have broadened the public debate surrounding low pay in countries where low pay incidence and in-work poverty is high.
- The primary concern of living wages is the cost of living rather than the cost of labour. Living wage campaigns have tended to originate where living standards have been threatened by escalating costs, often in a context of declining social provision for core goods and services, such as housing and childcare.
- Living wage initiatives have highlighted the large regional variation in living costs, with affordability a particular challenge in larger, metropolitan areas. Possible policy responses could include a premium on national wage minima for areas with high living costs, similar to the London weighting premium that raises wage levels in London for many employees, mainly in the public sector.

Further information

The report *Concept and practice of a living wage* is available at <https://eurofound.link/ef18064>

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