RESEARCH REPORT

Eurofound

Labour market change

Concept and practice of a living wage

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Frequently used acronyms

EPSR	European Pillar of Social Rights
HICP	Harmonised Index of Consumer Prices
LW	Living wage
MESL	Minimum essential standard of living
MIS	Minimum income standard
NLW	National Living Wage Note: *UK statutory minimum wage for those aged 25+, introduced April 2016*
MW	Minimum wage (statutory)
UBI	Universal basic income

Executive summary

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.

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.
- 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.

Introduction

Paid employment is the main source of income for the majority of working-age individuals and their dependants in all developed economies and consequently is the most important determinant of their standard of living. Not all workers become rich by virtue of their work, but it is a commonplace that those who work hard or work full time should at least earn enough not to be poor. Notions of a 'fair day's pay for a fair day's work' give expression to the idea of decent, just or fair pay: a level of pay that both reflects the worker's effort and gives them the means to afford a basic, adequate standard of living.

For many European workers, however, even income from full-time work is no longer sufficient to raise them above the standard poverty threshold. Eight per cent of full-time EU workers in 2015 were at risk of poverty, and the share of part-time workers in a similar situation was nearly twice as high (15%; Eurostat, 2017). The incidence of in-work poverty has been increasing since 2009 (Eurofound, 2017a). In some countries such as the United Kingdom, more than half of those in poverty live in working households (Tinson et al, 2016); that is, households where at least one adult is in work.

While, traditionally, paid employment has been the most effective way out of poverty, it may increasingly be less able to fulfil this role. There are many contributing factors: the rising incidence of low pay, precarious employment related to the increasing fragmentation and flexibilisation of work (Eurofound, 2015a), declining levels of worker representation and weakening of union bargaining power, falling productivity growth, decreasing levels of state support to those on low pay and rising living costs.

At a policy level, the main instrument supporting wage levels among low-paid earners is the minimum wage. Statutory minimum wage floors are now in place in 22 of the 28 Member States and legally enforceable; collectively bargained sectoral minimum wages are in place in each of the others. For many of those Member States with a statutory floor, social partner agreements specify additional, higher sectoral minima. A statutory minimum wage has been introduced in recent years in Germany (2015), the UK (1999) and Ireland (2000). In each case, prior fears related to negative employment effects, or reduced competitiveness, have proven to be largely unjustified.

In the majority of Member States included in recent reviews of statutory wage floors in the EU (European Commission, 2016; Eurofound, 2018), the minimum wage level is below that at which an individual earner living alone can ensure an income above the poverty threshold, based on their wage earnings (60% of national median disposable income). In turn, it is lower than the 'low pay' threshold as defined by Eurostat (two-thirds or less of national gross hourly median earnings) and, in many countries, below the 'very low pay' threshold (less than 50% of median pay).

It is in this context – the coexistence of widespread application of legal wage floors, the persistence of in-work poverty and the rise in the incidence of low pay – that calls for a 'living wage' have re-emerged, if to date largely in English-speaking countries.

The revival of living wage campaigns since the 1990s is noteworthy for several reasons. It has largely occurred in certain English-speaking developed countries with liberal market economies and residual welfare states. In these countries, its origins can be traced back to community and labour activism over a century ago. The success of these campaigns can be seen in endorsements of the living wage idea from politicians, including some not generally associated with the struggle for workers' rights. Winston Churchill considered it 'a serious national evil that any class of His Majesty's subjects should receive less than a living wage in return for their utmost exertions' (Churchill, 1909). Later, in the US, President Franklin D. Roosevelt held that 'No business which depends for existence on paying less than living wages to its workers has any right to continue in this country' (Hirsch and Valadez-Martinez, 2017, p. 12). The emphasis was on fairness and on the obligation of employers not to exploit workers. An important underlying assumption is that the balance of power in the employer–worker relationship is on the employer side, and that this can lead to exploitative wages and competitive 'races to the bottom' at the expense of workers' wages but with negative externalities for the economy as a whole. This is also part of what motivates current living wage campaigns. The decline in union membership and wage bargaining power has occurred in most developed countries but has been especially noteworthy in both the US and the UK.

In its re-emergence, another important contextual factor prompting living wage advocacy has been growing inequality, including wage inequality, and the declining wage share of overall income. Their combined impact has ensured that the gains from increased productivity over the last 30 years have been strongly skewed to owners, employers and those at the top of the income and wage distributions and, at best, marginal for those with median earnings or below (Atkinson, 2015). These long-term trends have again been especially prominent in developed, English-speaking countries.

A ‘living wage’ has been defined in various ways but refers to an income from work adequate to achieve a modest but acceptable standard of living. Many definitions emphasise that the income derived from a living wage should be enough to ensure active social participation; for example, it should provide ‘the means and the leisure to participate in the civic life of the nation’ (Glickman, cited in Anker and Anker, 2017) as well as providing adequate material means in terms of food and shelter. The emphasis is on needs and not wants: a standard of living that involves no enforced deprivation of things and services considered essential for an acceptable standard of living based on a social consensus. It is distinct from the minimum wage in that it only rarely has the force of law. In most of the examples that follow, the US being the exception, living wage schemes are based on voluntary accreditation of employers coordinated by an overseeing commission or foundation.

In the US, living wages have been enacted in citywide ordinances in various cities since the late 1990s. In Europe, they first became operational in London in the early 2000s, following a grass-roots campaign, and have spread throughout the UK since 2011. There are national or regional applications of the living wage in Canada and New Zealand while proponents have developed a living wage proposal for Ireland and update and publish the relevant calculations yearly. With the exception of New Zealand, each of the other four living wage initiatives featured in this report are in countries with a comparatively high incidence of low pay, in a range of 20–25% of the working population compared to an Organisation for Economic Co-operation and Development (OECD) average of 16.7% (OECD, 2017a). And this is not apparently related to low labour demand: in the UK, for example, ‘despite record employment figures there are high levels of working poverty and real pay is falling. More than one in five employees gets paid less than the real Living Wage’ (D’Arcy and Finch, 2017).

Operationally, the living wage is based on the income (after taxes and benefits) needed to obtain a ‘basket of goods and services’ considered essential to achieve a minimum acceptable standard of living. There are many sources of variation in the estimation and costing of the ‘adequate but decent’ living standard. The contents of the basket itself will vary based on geographical variations and cultural norms, by household type and size and according to the method used to select items. Market price levels for individual items or entire cost categories (for example, housing) vary extensively by region and country. They also vary across countries as a result of different levels of public provision of specific goods and services (for example, childcare, health, education and housing), but in all cases the living wage level is predicated on the requirement of a wage level adequate to achieve a living standard defined in material terms after payment of taxes and receipt of benefits. It is in this respect more concrete than the minimum wage, which has no target anchor in terms of the cost of living and which, to the extent that it is linked to an objective threshold, tends to be compared to an arbitrary share (50–60%) of some other statistical benchmark, normally median or average earnings. The level of the living wage is, therefore, contingent on the level of state transfers that constitute a significant and, in many cases, increasing share of income for low-wage working households.

According to its proponents, one of the advantages of the living wage is that it is grounded in a calculation of real living costs and associated income requirements rather than the broader policy goals of a legal minimum wage. There are different ways of identifying what should go into the living wage ‘basket’ – household budget survey data, expert opinions – but in practice the method that now prevails in its European iterations is that of identifying a social consensus of the goods/services required, based on citizen focus groups with some expert guidance. In the UK, the Living Wage Commission has endorsed the Minimum income standard (MIS) as the best available method of calculating the living wage (Living Wage Commission, 2016). An important lesson in relation to the UK and London living wages is that the methodical rigour, predictability and transparency of these calculations has been an important pre-condition of its credibility and acceptability and hence of its voluntary take-up by employers.

The living wage target is generally set in terms of hourly gross wage, similar to the minimum wage in most countries. Where implemented, it is invariably higher than the national statutory minimum wage. There would, of course, be no need for it were this not the case. Pressure for it arises in significant part as a reaction to the perceived inadequacy of statutory minimum wages in specific locations or circumstances. This can occur notably where the legal minima fail to keep pace with the cost of living, with inflation, with average or median earnings or other related benchmarks. An important factor in the development of the US and UK living wage campaigns has been greater than average increases in housing and childcare costs in specific high-cost, large urban areas, coupled with declining levels of public provision of housing and childcare and other goods/services. In these areas, the living wage has become a surrogate higher minimum wage and – though without statutory force and reliant on voluntary adherence – has become an influential reference for broader wage-setting. It has even prompted official emulation in the UK, where a relaunched and more ambitious statutory minimum wage regime for over-25-year-olds has been operational since 2016 under the banner of the ‘national living wage’ (NLW). The spillover influence of successful living wage campaigns on statutory minimum wage policy is evident also in the US, where some states and cities now enforce wage minima at over twice the federal hourly rate.

To date, the living wage concept has had limited traction in other EU Member States, though this report will provide evidence that ideas related to the living wage have begun to surface in recent years both in EU- and national-level policy debates. The recent invocation by policymakers of the need for 'decent living wages' (European Parliament, 2016) or of 'adequate minimum wages' and 'fair wages' in the 2017 European Pillar of Social Rights (EPSR) implicitly acknowledges that widespread existing legal wage minima need further buttressing either through pay (employer responsibility with social partner involvement) or through entitlements and the tax system (state responsibility) in order to afford workers a 'modest but acceptable' standard of living (European Commission, n.d.).

This report deals exclusively with the living wage as an actual or potential policy intervention in developed economies, primarily in the EU Member States but with reference to other developed countries where relevant. There is a related but distinct practice of multinational firms engaging in living wage commitments for their workforces and supply chains in developing world countries. These are often based on ethical trading initiatives or broader corporate social responsibility programmes. These are outside the scope of the current report, whose main objective is to describe the contours of living wage policy with potential or direct relevance for an EU policy audience.

Chapter 1 sets out a brief background to the historical and institutional reflections on minimum wages and wage adequacy – up to and including the EPSR, which includes some living wage-like policy provisions.

Chapter 2 examines some of the basic concepts underlying the living wage. There are many basic definitional issues around which there is a range of reasonable and, in many cases, contending views; for example: What constitutes a 'decent standard of living'? What level or quality of 'participation in society' should a living wage enable? Whose needs should a living wage cover? The aim here is to clarify the range of potential viewpoints. Chapter 3 looks at how living wage initiatives/movements have developed at national and city level in five English-speaking countries and also provides an overview of recent living wage-related developments at Member State level based on contributions from the Network of Eurofound Correspondents. Although a successful living wage campaign is in place in only one current Member State, the UK, there is some evidence that the policy is gaining currency, notably among unions and activist groups combating poverty. Chapter 4 describes how living wages have been designed, calculated and implemented in practice. Chapter 5 summarises the extensive minimum wage literature, as many of its findings have a strong relevance for living wages. It also assesses the impacts of living wages in terms of employment outcomes and broader quality of work outcomes and presents a brief accounting exercise indicating some top-line impacts of a hypothetical EU living wage set at 60% of median pay in each Member State. Chapter 6 addresses the political economy dimensions of the living wage. The chapter identifies the main considerations for the social partners and other stakeholders in supporting or criticising the concepts of a living wage – on the assumption that only when the social partners agree can living wages become operational. Chapter 7 offers some summary conclusions and policy pointers.

1 Background: Development of the living wage concept

The explicit use of the term 'living wage' emerged originally as a response to the poor employment conditions suffered by a significant part of the working classes in developed, industrialising economies during the 19th century. The term is currently enjoying a significant renaissance which started in the 1990s following its adoption by grass-roots movements pushing for higher wages across local communities in English-speaking countries. Nevertheless, the idea of fair, decent and adequate pay and income has been discussed by many authors and institutions from before the Christian era to the present, even if the term 'living wage' has not always been explicitly used. This chapter focuses on how policy institutions, particularly European institutions, have addressed the topic of adequate living wages.

International institutions and living wages

Fair, decent and equitable pay – and in some cases, explicitly, living wages – have been advocated by international institutions such as the International Labour Organization (ILO), the United Nations (UN) and the Council of Europe. This norm-making activity has informed policy developments and contributed to the widespread development of legal minimum wage regimes. It has not led to the introduction of enforceable living wages in the same way but can be seen as providing a normative framework for their existence.

International Labour Organization

The living wage concept has been referred to implicitly or explicitly by the ILO at different junctures in its history. The ILO Constitution, framed immediately after WWI, considered that in order to achieve universal and lasting peace, social justice was to be promoted, including by means of improvements in labour conditions and the provision of an 'adequate living wage'. Some years later, the ILO's mission was restated against the background of WWII, and the ILO's Declaration of Philadelphia encouraged Member States to secure wages that reflected a 'just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection'. This statement was repeated again in its Declaration on social justice for a fair globalisation, which included a reference to a 'minimum living wage'.

The reality is that the achievements of the ILO in terms of operationalising the concept of living wages fall short of the intentions expressed in the above-mentioned statements, reflecting in part the difficult task of translating broad declarations of principle into more concrete actions (Reynaud, 2017). The concept of living wages has not been operationalised in detail by the ILO.[1] It has nonetheless been a leitmotif of ILO norm-making in the area of minimum wages, notably in the international conventions on minimum wage-fixing machinery (Conventions 26 (1928) and 131 (1970)). For example, the most recent (1970) ILO convention states that:

> *The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include – (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.*

United Nations

The Universal Declaration of Human Rights establishes in Article 23 that everyone:

> *who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.*

The UN International Covenant on Economic, Social and Cultural Rights restated the right to remuneration 'which provides all workers, as a minimum, with … a decent living for themselves and their family'.

1 However, former ILO staff member Richard Anker is among the most prominent exponents and scholars of the living wage.

Council of Europe

The Council of Europe's 1961 European Social Charter (ESC) established the human right of all workers 'to a fair remuneration sufficient for a decent standard of living for themselves and their families'. Later, the Council's European Committee of Social Rights – which monitors compliance with ESC provisions by the states party to the charter – went into more detail regarding what levels of pay 'fair remuneration' should represent. In the 1970s, the Committee proposed that wages should be at least 68% of national average gross earnings, while in the second half of the 1990s the threshold of 60% of national average net earnings was proposed. The change from a gross to a net definition of decent wages was criticised because it meant bringing the tax and benefit systems into the calculations, implying that the responsibility to provide adequate levels of income could lie as much with the state as with employers. In practice, most of the living wage initiatives described in this report are explicit in including eligible income from state transfers and entitlements when calculating the living wage rate.

EU policy and living wages

The EU has no legislative competencies regarding pay or wage bargaining; these are areas in which Member States alone have the right of legislative initiative, as clarified in Article 153 of the Lisbon Treaty dealing with work and employment. This clarification in the main EU treaties from Maastricht (1992) through Lisbon (2007) is attributed in part to the negative reaction of several Member States to earlier EU and Council of Europe Charter references to adequate wages (Eurofound, 2014).

These concerned, for example, the ESC provisions and the important affirmation of the right to adequate pay in the Community Charter of the Fundamental Social Rights of Workers (1989), which states that 'workers shall be assured of an equitable wage, that is a wage sufficient to enable them to have a decent standard of living'. References to wage adequacy were subsequently absent from the EU Charter of Fundamental Rights, where the only reference to pay or wages is to the principle of pay equality between men and women.

Nonetheless, references to the adequacy of wage levels, including minimum wage levels, and benchmarking of wage level and wage-setting systems across European countries have become more common in recent years, especially since the onset of the Great Recession.

The Economic and Monetary Union, implemented in 1999, required a new emphasis on the role of wage policy in the Member States, given its importance in helping to coordinate economic and employment policy objectives. For instance, the annual 'Broad Economic Policy Guidelines' (BEPGs) adopted by the European Commission and the European Council from 1994 onwards include recommendations on 'appropriate wage developments' within the euro zone, and some of the European Commission's recommendations have referred to the need for nominal wage increases consistent with price stability or real wage increases – for example, those arising from collective bargaining agreements – aligned to labour productivity growth.

The European Commission adopted in 2010 a new 10-year strategy for 'smart, sustainable and inclusive growth': the Europe 2020 strategy (European Commission, 2010). Europe 2020 did not contain any explicit reference to wage policies, although tackling in-work poverty can be considered part of the overall goal to reduce poverty in the EU. One of the core targets of the Europe 2020 strategy was to reduce by 20 million the number of people at risk of poverty or exclusion by 2020.

Renewed policy interest in the wake of the Great Recession

During the initial stages of the Great Recession, one motivation for greater policy consideration of wages was the perception that the crisis in the euro zone periphery was largely a problem of competitiveness that could be addressed through wage moderation or reductions (internal devaluation) and structural reforms (Eurofound, 2014). Countries receiving EU bailouts signed memoranda that often included cuts in minimum wage levels, cuts in public pay levels and reforms aimed at decentralising the collective bargaining system (Busch et al, 2013). Subsequently, in 2011, the intergovernmental Euro Plus Pact and the revised Stability and Growth Pact ('six-pack') led to higher levels of national economic policy scrutiny and coordination from the EU level.

Both pacts had a bearing on wage-setting mechanisms, for example through the inclusion of a labour cost indicator in the new macroeconomic imbalances regulation included in the six-pack. According to Schulten and Müller (2013), this new European governance system represented 'a new European interventionism' with a 'one-sided focus on fiscal austerity and cost competitiveness' which considers wage moderation as the main adjustment tool to correct macroeconomic imbalances. According to this assessment, EU policy recommendations for Member States ('country-specific recommendations', CSRs) became more prescriptive and the EU gained influence in this way on national wage policies.

Shift in emphasis during the period of economic recovery

The significant differences in minimum wage floors (both in absolute levels and relative to median earnings in each country) across European countries and the dissatisfaction with the emergence of significant low-paid segments in several countries in part explains the recent attention that European institutions and actors have paid to securing adequate wage floors. Even before the crisis there was a debate on minimum wage coordination against a background of EU expansion towards the east and concerns about the large regional disparities in wage levels and their potential to encourage social dumping and, in some cases, destabilising migrant labour flows.

Initially, the idea of European minimum wage coordination was advocated mainly by researchers (Schulten et al, 2005). Their calls received political support when the European Parliament stated in 2007 that 'the minimum wage is set very low or at below subsistence level' in many European countries (European Parliament, 2007) and later asked the Council 'to agree an EU target for minimum wages ... to provide for remuneration of at least 60 percent of the relevant ... average wage' (European Parliament, 2008). Moreover, the European Parliament asked the European Commission to study the impact that the introduction of a minimum income at EU level would have in each country and its relation to existing minimum wage thresholds (European Parliament, 2010).

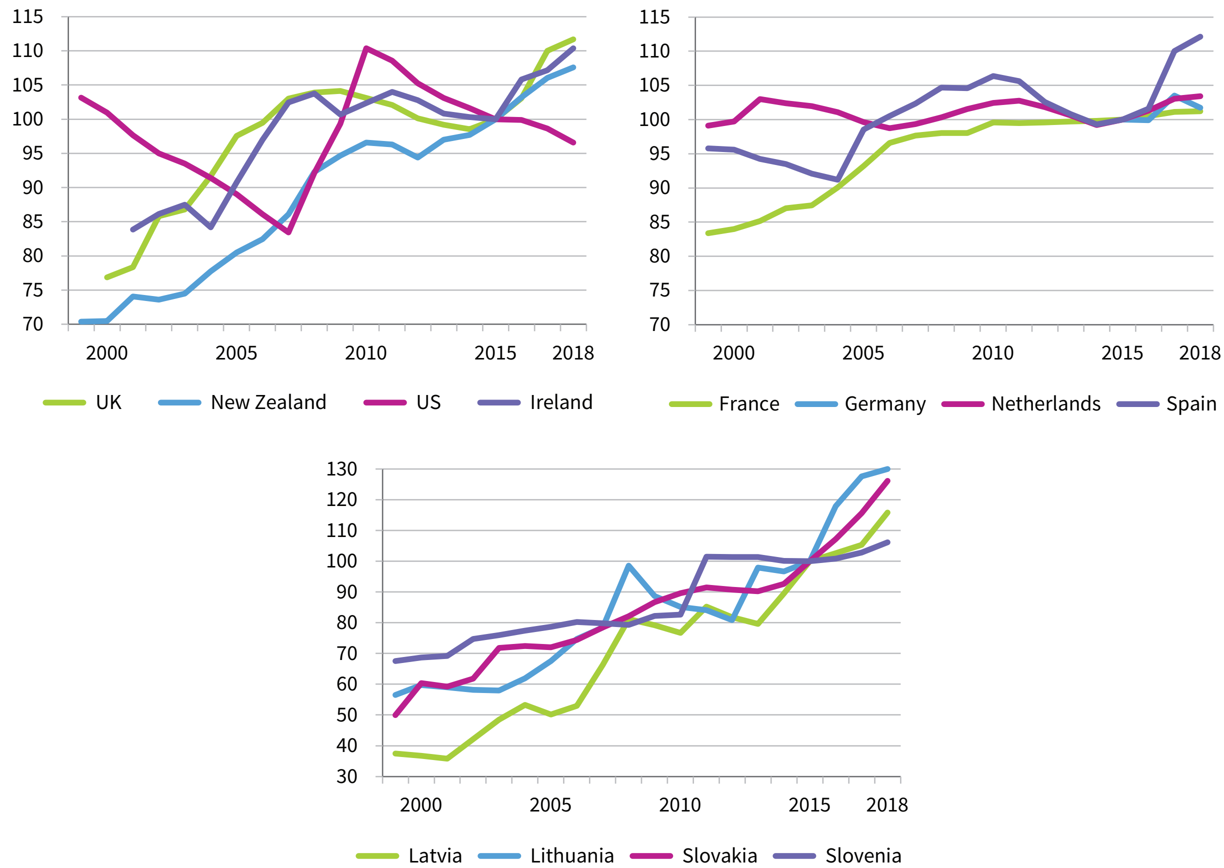
The arguments for adequate wage levels have strengthened in recent years, especially given the improvements in economic circumstances since 2013. A growing number of voices have called for the need for stronger wage growth, using different justifications. Trade unions have demanded stronger wage growth (ETUC, 2017) on the basis that wages have grown below productivity levels for many years, as a result of pre-crisis wage moderation (notably in Germany) and post-crisis limitations on pay increases arising for cyclical reasons and because of official policy levers (including public sector pay freezes). Calls for wage growth are especially relevant in the central and eastern European Member States against a background of persistent east–west wage disparities and the concern, for example, that eastern European manufacturing workers are not getting fair compensation in comparison to their colleagues working for the same company based in Germany (Lopatka, 2017).

More recently, calls for stronger wage growth have come from EU institutional actors based on a more macroeconomic logic. Inflation has been below the European Central Bank (ECB) target of 2% for many years, offering room for stronger wage growth. Wage increases are likely to be more macroeconomically effective if targeted at low earners (who tend to consume a higher share of any increase in income). President of the ECB, Mario Draghi, has underlined the need for stronger wage growth to push inflation towards its target level and to contribute to the economic recovery (Jones, 2017).

At present, a majority of EU countries have statutory national minimum wage thresholds in place, with the exception of Austria, Cyprus, Denmark, Finland, Italy and Sweden. Nevertheless, calls for reinforcing wage protection for low earners are growing stronger rather than weaker against a background of growing in-work poverty (Eurofound, 2017a) and the limited impact to date of higher wage floors in reducing poverty levels (Crettaz, 2011; Matsaganis et al, 2015). These concerns have been reflected in greater minimum wage activism. Five Member States saw minima rise by at least 10% nominally and by at least 8% in real terms between 2017 and 2018 (Romania, Bulgaria, Latvia, Czech Republic and Slovakia) (Eurofound, 2018), while uprated minimum wages in higher-income Member States in recent years have all involved increases higher than inflation. As Figure 1 illustrates, this is the continuation of a longer-term trend interrupted only in the aftermath of the Great Recession.

References to minimum wage coordination have also been made at the institutional and policy level from a social cohesion perspective. Jean-Claude Juncker considered it 'indispensable to agree on a European legal minimum wage' at EU level when he was leading the euro zone's finance ministers (Bloomberg, 2013) and continues to support, as President of the European Commission, the position that all Member States should have a minimum salary and a minimum income for unemployed jobseekers in order to combat inequality and poverty (Euractiv, 2017).

Figure 1: Evolution of minimum wage rates in real terms, 2000–2018, selected Member States and third countries (2015 = 100)



Note: *Statutory minimum wage in Germany operational only since 2015.*
Source: *Authors' elaboration, based on WSI minimum wage database (https://www.boeckler.de/wsi-tarifarchiv_44064.htm)*

European Pillar of Social Rights: Living wage-like provisions

These positions are evident in the 'fair wage' provisions in the 2017 European Pillar of Social Rights (EPSR). Recently adopted by the European institutions, this represents a fresh engagement with the issue of pay adequacy. It refers to the need for fair wage levels and provides implicit support to the concept of living wages, especially in the first two items in the list below.

- Workers have the right to fair wages that provide for a decent standard of living.
- Adequate minimum wages shall be ensured, in a way that provides for the satisfaction of the needs of the worker and their family in the light of national economic and social conditions while safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented.
- All wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners.

The EPSR is declaratory in character. It was not conceived as a legally binding policy and represents instead something of a hybrid, mixing 'soft governance' with legislation, since some social policies are EU shared competencies while others such as wages remain strictly national prerogatives (Sabato and Vanhercke, 2017). The shift in terminology from 'principles' to 'rights', which occurred between the preliminary outline of the EPSR and the final proclamation, was considered a symbolic achievement for trade unions and social NGOs. However, the notion of a European social right remains legally and politically vague. Rights at the national level are embedded in constitutions rather than in secondary legislation. In the case of the EPSR, according to Reianu and Nistor (2017), rights do not have a clear legal nature if they are not enshrined in EU primary legislation, since they are not justiciable and cannot be enforced in court.

For this reason, it is likely that the implementation of the EPSR commitments will primarily lie in the hands of national authorities and social partners (European Commission, 2017a). At EU level, the European

Semester has been identified as the main policy instrument at the Commission's disposal. However, despite the fact that the increase of national minimum wages has been advanced as a privileged measure to tackle social exclusion and in-work poverty in the 2018 joint employment report (European Commission, 2018a), there is no specific reference to wages or minimum wage systems in the 'social scoreboard' indicators that accompany the EPSR.

The EPSR's freshly drafted engagements were reflected with a certain degree of ambiguity in the 2017 round of country-specific recommendations (CSRs). While Germany and the Netherlands received recommendations to enhance their conditions for 'higher real wage growth' (European Commission, 2017b, 2017c), it was suggested that countries which already had relatively generous minimum wages (at or near 60% of the national median wage) should ensure that 'minimum wage developments are consistent with job creation and competitiveness' (such as Portugal or France) (European Commission, 2017d, 2017e). These recommendations issued from a process that had started well before the EPSR proclamation in November 2017.

In the 2018 European Semester spring package, the European Commission signals its commitment to a more balanced agenda of social and economic policies. Nonetheless, the 2018 CSRs remain modest when it comes to highlighting the positive role of minimum wage regimes in supporting household income adequacy. Only the CSR for France makes recommendations regarding minimum wage-setting, and the wording is identical to that of the previous year (see previous paragraph), striking a note of caution on the potential negative effects of too high minimum wages. If the post-EPSR CSRs make greater appeal to ideas of social progress (European Commission, 2018b), the narrative on minimum wages appears largely unchanged.

In summary, the political commitment to strengthening wage floors and ensuring adequate income for those on low pay has grown at national level as the recovery has strengthened after 2013. At EU level, engagements remain conditional on the limited competence of the EU in wage matters.

2 Defining the living wage: Basic features and requirements

What is a living wage? In the first instance, it is a wage, related to the income paid for labour. This is different from a living 'income', where the source of the income could be the state through social benefits, the labour market or the flow of income from private capital or other sources. And it is different from a minimum income standard which tries to set adequate social protection floors for those in both working and non-working households.

It shares common ground with the increasingly debated concept of a guaranteed or universal basic income (UBI) in its objective of providing an income upon which all beneficiaries can survive and function socially. The backers of the 2016 Swiss referendum proposal to introduce a national UBI framed the policy in terms very similar to most living wage rationales: to secure an income level that 'would enable recipients to have a dignified life and to participate in public life'. The two policies, living wage and UBI, are also alike in being, as yet, of limited application and operation. There are some fledgling UBI experiments in 2017–2018 in Finland and the Netherlands (Utrecht) while only one EU Member State, the UK, has an operational living wage with significant numbers of accredited employers.

The two types of initiative are different in a number of important respects. For example, they are motivated by quite different perspectives on labour market developments in advanced economies. An important motivation for the UBI is the perceived inevitability of widespread unemployment as a result of technological change and the necessity for the state to anticipate the social consequences. On the other hand, living wages are based on the premise of an increasing share of low-paid work and cost of living challenges for those on low pay.

The most important difference between the two types of initiative is who is liable to pay. The state pays the UBI (to all adult citizens, regardless of employment status), while employers pay the living wage (to their employees only). Crucial points of argument about the UBI concern the state's ability to pay for an enhanced and universal system of guaranteed, unconditional transfers to individual citizens. Crucial points of argument about the living wage concern employers' ability to pay an enhanced minimum wage.

A more common reference for comparison is the minimum wage. Statutory minimum wages are one form of wage floor, a category which also includes wage minima set by unions and employers in collective bargaining and which are often given legal force through extension mechanisms. Minimum wages and the living wage are alike in their concern for cushioning income for the low-paid, but minimum wages are legal and compulsory while the living wage is, in most cases, voluntary. There are statutory minimum wage regimes in most developed economies, including over three-quarters of the EU Member States. The living wage policies that this report examines in most detail, however, do not have the force of law. Where they have become operational, they rely on the voluntary cooperation of social partners, authorities and civil society groups. They often emerge in a context where existing wage protections for the low-paid, including the minimum wage, are considered inadequate.

Living wages tend to be significantly higher than minimum wages. The fact that living wage rates are higher relates to how and why they are set. They are set at a level to allow a worker to attain a socially acceptable living standard. If existing minimum wages were perceived to be effective in this regard, the rationale for living wage campaigns would disappear.

There are many different variations on what such a socially acceptable living standard involves and this varies across many different parameters – country, region, working hours, number of workers in a household, household type, etc. – and across time with changing living standard norms. For the moment, it is enough to highlight that the living wage method mostly discussed in this report is based on an identification of the basket of goods and services required for a 'minimally decent' living standard in a given context and, in a second step, of the wage required to generate sufficient income to secure this basket.

Contemporary minimum wage thresholds are set with multiple objectives. The UK Low Pay Commission (LPC), tasked with monitoring and revising the UK national minimum wage annually, was required to set a minimum wage that would 'support a competitive economy, be set at a prudent level, be simple and straightforward, and make a difference to the low-paid' (LPC, 2002).

Minimum wage levels are not based on any estimation of minimal individual worker needs and are thus generally arbitrary from that perspective. The concept of workers' needs was more explicit in the early history of minimum wage laws and many of the justifications of the fledgling minimum wage regimes resemble those of contemporary living wage definitions. The first national minimum wage law (Australia, 1894) defined the minimum wage as a 'wage that meets the normal needs

Table 1: Differences between minimum wage, living wage and universal basic income

	Who pays?	Target group	Legal status	Operational in EU
Minimum wage	Employer	Employees	Mandatory	Widespread (22 of 28 EU Member States)
Living wage	Employer	Employees	Voluntary (except in US)	UK only
Universal basic income	State	Citizens	Mandatory	Very limited. Some pilot studies, 2017–2018

Source: *Authors' elaboration*

of the average employee regarded as a human being living in a civilized society'. One of the earlier US state minimum wage laws (Wisconsin, 1913) referred to 'Compensation sufficient [for a worker] to maintain himself or herself under conditions consistent with his or her welfare … [in] reasonable comfort, reasonable physical well-being, decency and moral well-being' (Anker, 2011a, p. 84). They are often benchmarked to some proportion of the average wage level. Sixty per cent of median or average hourly pay is increasingly targeted as an appropriate level for a progressive minimum wage regime and is, for example, the level set as a 2020 target for the UK statutory minimum wage (60% of median) or by the Council of Europe in its monitoring of the wage provisions of the ESC (60% of average).

Selected definitions

It is worth citing some existing definitions of a living wage in order to clarify essential parts of the concept – as indicated in common by all or nearly all living wage proponents, for example – and what may be more contingent. It will also help in identifying important considerations for any operational living wage which may not be addressed explicitly in the definitions.

Definition 1
A wage level that offers workers the ability to support families, to maintain self-respect, and to have both the means and the leisure to participate in the civic life of the nation.
(Glickman, cited in Anker and Anker, 2017)

Definition 2
Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing and other essential needs, including provision for unexpected events.
(Anker and Anker, 2017)

Definition 3
A wage that has been accepted in a particular place and context, as a consistent means of maintaining an agreed standard related to living costs for the lowest-paid workers.
(Hirsch and Valadez-Martinez, 2017, p. 106)

Definition 4
The income necessary to provide workers and their families with the basic necessities of life. A living wage will enable workers to live with dignity and to participate as active citizens in society.
(Living Wage Aotearoa New Zealand web page)

Definition 5
A wage which makes possible a minimum acceptable standard of living.
(Living Wage Ireland, 2017)

Definition 6
A measure of income that allows an employee a basic but socially acceptable standard of living.
(UK Living Wage Commission)

Core requirements

All of the definitions agree that a living wage should generate a 'decent' or 'socially acceptable' minimum standard of living. This is operationalised largely in material terms: that is, as a wage that generates income sufficient to afford the 'basic necessities' of life in terms of food, shelter and other essential needs. This is the baseline of all living wage definitions.

It does raise the important question of how to define a 'decent' or 'socially acceptable' standard of living and how this standard is 'agreed' in practice. What is considered 'decent' is largely subjective, though there may be more objective grounds for assessing adequacy of standard of living or social participation (Goedemé et al, 2015, pp. 30–34).

In practice, the common emerging approach in many countries is to use a social consensus approach based on citizen focus groups (generally steered or helped by experts, for example on diet and consumer costs) who are asked to identify a basket of goods and services which it would be 'indecent' to be without, according to existing social norms. The consensual budget model is a variant of the reference budget approach, where greater emphasis is put on citizen input via focus groups with somewhat lower reliance on other inputs such as household budget or survey data, expert or scientific knowledge and official guidelines (on consumption standards).

This has been the main approach in European and Canadian living wage campaigns. In the US, different approaches have been adopted in most municipal living wage campaigns, where the reference income level is in many cases either the federal poverty line or some function of it. In these cases, the living wage is based on a relative calculation based on an arbitrary threshold often only tenuously linked to actual needs. Such an approach has less claim to embody sufficient resources to reach the living standard indicated in many of the definitions offered above – 'a basic but socially acceptable standard of living'.

In addition, in definitions 1 and 4, the living wage is defined in social terms, that is, affording the possibility of active citizenship and social participation. This goes beyond the basic material requirements of subsistence and would include, for example, the costs of a (basic) 'social life' (though generally excluding the consumption of alcohol or tobacco (Anker, 2011a)), of engaging in exercise or sport, of access to information and media sources enabling informed citizenship and decision-making, and so on. Again, what is considered necessary to facilitate adequate levels of social participation is largely a subjective assessment (should it include a mobile phone, a smartphone or a car?) and is decided in the UK living wage approach by focus group consensus (Padley and Hirsch, 2017). This involves focus group members agreeing on the items without which a basic, acceptable standard of living cannot be maintained.

The capacity 'to live with dignity' and 'to maintain self-respect' (Definition 1) also implicitly recognises that the living wage should be calibrated to existing social norms, expectations and living costs in a specific time and place, on the basis that individual dignity or self-respect are conditioned to a large extent by such social norms. Workers should have access to what 'the custom of the country' determines, in Adam Smith's (2003) phrase, and should evolve in line with living standards.

Living wages should be location-specific. This is made explicit in definitions 2 and 3. Living wages vary from place to place, including across regions within the same country. In the UK, there are separate London and 'rest of the UK' living wages reflecting the higher costs of living in the capital city. The Massachusetts Institute of Technology (MIT) living wage calculator allows separate living wage calculations to be made for 381 US metropolitan areas. For a family of four to live in a one-bedroom dwelling may have been common and acceptable in the 19th century in most parts of Europe, and may still be in parts of the developing world, but with improvements in living conditions that is no longer the case in current EU Member States. That said, what exactly is considered 'acceptable' may vary from region to region and country to country, for example, in relation to access to transport, healthcare or housing (public or private), as will be observed later in this report.

Implicitly, living wages should also vary across time as they need to adjust in line with changes in both the cost of living and the standard of living. Most of these changes will be upwards in non-recessionary times, but if price deflation occurs or diminished circumstances dictate, downward adjustments to the living wage are theoretically possible – similar to what has occurred in some statutory minimum wage regimes following the global financial crisis (for example, in Greece and Ireland).

Contingent elements

Definitions 1, 2 and 4 make it clear that the living wage should be sufficient for the needs of both the worker and their family. However, the other three definitions make no reference to families, and Definition 6 refers only to the worker. If a living wage is to cover the needs not just of the worker but also of dependants, only a range of living wages, separately calculated, could cater to each of the different household composition types. If one reference household is to be chosen instead, one of the main scholars of the living wage suggests that while 'there is no general consensus on what household size to use to estimate a living wage, … four persons is the most common assumption' and comments that 'a family size of four has a strong logic to it, as it implies approximate population replacement' (Anker, 2011a). Based on the OECD modified household income equivalence scale used by Eurostat, the income required to cover the needs of a four-person household comprising two adults and two children under 14 would be 2.1 times that required by a single adult.[2] Deciding whether or not a living wage covers the wage earner alone or a typical family unit including a non-working spouse will lead to two living wage estimates, one more than double the other.

In current practice, living wages are mainly but not always conceived of as applying to the needs of families. For this reason, this report departs from Anker's assessment and considers the family coverage of the living wage as a contingent rather than a core requirement. The ILO minimum wage-setting convention (No. 131, 1970) specifies that a worker's minimum wage – which is invariably lower than the

2 According to which, the first adult in a household has a weighting of 1 in terms of household income requirements, additional adults or persons older than 14 have a weighting of 0.5 and additional children <14 years of age have a weighting of 0.3. Some more recent OECD analysis relies instead on a simple formula, the square root of the household size. For the modal working family unit of four persons, the difference is marginal, 0.1 or 5%.

living wage – should be sufficient to support the family and not just the worker. Similarly, under Article 4 of the Council of Europe's European Social Charter (1961) on 'the right to a fair remuneration', signatory parties undertake 'to recognise the right of workers to a remuneration such as will give them and their families a decent standard of living'. Compliance with this provision has been assessed in relation to the percentage of average pay represented by the statutory minimum wage (or, in their absence, relevant collectively agreed wage floors). In practice, the threshold wage level was diluted by changes to the methodology the European Committee on Social Rights – the body charged with overseeing implementation of the charter – uses to assess compliance introduced in 1998. Prior to this, 68% of the gross national average wage was the 'decency threshold'. After this, 60% of the net national average wage was the threshold and the ECSR 'took the view that an individual salary earner but "not the family" would have access to a decent living standard' (Adams and Deakin, 2017, p. 209), despite explicit reference to family subsistence in the text of the charter. Over time, the requirement that a minimum or living wage would cover the needs of a family has tended to weaken while the importance of social transfers to supplement low-paid households' income has increased.

The Irish living wage is based on the income required by a full-time worker to cover their own basic needs. This has the advantage of being relatively easier to calculate but means that the derived living wage will be only very partially representative and will be inadequate for the majority of households where individual workers support dependants. The UK living wage is based on a weighted average of different household types, including single-person and family households. This has the advantage of being somewhat more representative and reflects a greater diversity of household needs but the disadvantage is the complexity of the information needs and calculations. Ultimately, a living wage threshold based on a single reference household type **or** an average necessarily means that the core objectives of a living wage in terms of living standards cannot be met for many existing household types, in particular for those with many dependants and limited household work intensity; only a range of living wages adapted to different household formations and work intensities could satisfactorily meet this core objective.

Only one of the definitions above refers to the volume of work required to generate the living wage. Definition 2 indicates that the remuneration relates to a 'standard work week', understood as a full-time working week for a single worker, without the need to work overtime. It raises the question as to whether part-time workers – accounting for over 20% of employment in the EU as a whole, and growing as a share – should be able to afford a minimum socially acceptable standard of living based on their work income. In practice, living wages do not cater to such an expectation. Most operational living wages are set, like many minimum wage thresholds, as hourly wage rates and their calculations presuppose full-time working hours (37.5–40 hours per week) and continuous labour market attachment. Where these conditions are not met, as is likely among a growing proportion of low weekly wage earners in many developed countries, the living wage will not be able to fulfil its primary objective.

On a related point, there is no indication in the definitions of the number of employed persons at household level assumed in the living wage calculation. With EU average female employment rates converging on male rates, it can be assumed that many working households have more than the equivalent of one full-time worker. But assuming 1, 1.5 (that is, one full-time and one part-time worker) or 2 full-time equivalents as the reference household work intensity will imply a large difference in the living wage required to cover household needs.

These important parameters of the living wage calculation will be looked at in more detail in Chapter 4. For now, suffice it to say that most operational living wages are set as single hourly wage thresholds,[3] similar to the statutory minimum wage in most countries. This introduces a conflict between the core living wage objective – securing a decent and acceptable standard of living – and the means established to achieve it. A single hourly wage rate may secure the required standard of living for a specific reference household type but will not be able to do so for larger households or households with low work intensity.

Interaction with state benefits and the 'social wage'

None of the living wage definitions highlighted above refer to other forms of household income, such as state transfers, or to the impact of labour taxation. But these are an important component of income in many low-paid households, notably in those countries where living wage initiatives have emerged. The adequacy of wages is therefore related to the efforts of the state regarding the provision of affordable, good-quality public goods and services.

3 With minor caveats; for example, separate hourly living wage rates depending on whether the employed person benefits from employer-funded health insurance.

Low-wage earners pay income tax on their earnings. In some countries where the living wage movement has been especially prominent, for example the US and the UK, in-work benefits or tax credits – a form of negative taxation – serve as a strong supplementary income support to low-income working households. Most living wage initiatives assume that workers pay the relevant income taxes and claim all of the benefits to which they are entitled.[4] Take-home pay plus eligible social transfers combined should generate enough income to afford the living wage living standard.

Access to core public services such as education or health in many EU Member States is often subsidised or free at point of use for most low-earning households. This 'social wage' (Gautié and Schmitt, 2010) is an important complement to labour income and contributor to living standards. Those below certain income thresholds may benefit from a range of subsidised provision in relation to public housing, childcare, subsidised heating, transport, and so on. Again, the assumption in the UK and Irish living wages is that the subsidised cost of such services and provision is what counts in living wage calculations. The living wage is based only on what workers have to pay out of their own pocket.

The core consideration is that the state has a role in boosting income for low-wage earners, supplementing labour income with targeted transfers or accessible and subsidised public services in order to ensure that low-paid work does not necessarily leave households below poverty thresholds. Living wage calculations should include these non-labour sources of income; the more generous they are, the lower the living wage burden on employers. According to Canadian living wage proponents:

> *a key way in which employers can reduce the payroll costs of the living wage is to advocate for progressive policy changes to increase government benefits to low-income earners and enhance public services that improve quality of life for all families.*
>
> (CCPA, 2017)

It is important to recall that the growth in state supports to individuals and households follows processes of 'decommodification' which effectively transferred certain public goods from the sphere of market activity to that of state provision as welfare states grew post 1945. These processes varied from country to country and country cluster to country cluster in the EU (Esping-Andersen, 1990). High levels of public provision of basic goods and services necessarily lighten the burden on labour income to make up a living wage. A higher social wage compensates for lower disposable income. The corollary is that processes of 'recommodification' – for example, via privatisation of services previously provided free to end users funded from common taxation – will expand the basket of goods and services that have to be paid for from disposable income or in some cases raise the price needed to pay for them, thus raising the level of the required living wage. Living wage campaigns have been most prominent in primarily English-speaking countries with liberal market economies, where the privatisation or marketisation of formerly public services began earliest and has been most extensive. This has resulted in greater demands on the disposable income of low-paid earners for services or goods that may be more highly subsidised or provided free in other countries.

To summarise, what must a living wage do, and what should a living wage do? A living wage must:

- provide enough income from take-home pay to provide an adequate, 'decent' and 'socially acceptable' standard of living for a full-time worker
  - based on the living standard norms of the country or location
  - while also providing the material basis of social participation/inclusion enabling active citizenship
- be adapted to local circumstances and cost of living

A living wage should:

- be updated regularly to reflect changes in the cost of living and changes in living standards
- provide adequate income not only for a worker but also contribute to covering the needs of family dependants.

4 Not necessarily a valid assumption; see Eurofound (2014).

3 Living wage initiatives in selected countries

Living wage initiatives are enacted in quite distinct ways in the US and in other examples from the English-speaking world. In the US, living wages are legally enforced at the local level (generally through ordinances at the city or county level), although coverage of businesses and employees remains quite limited, for reasons set out below. In the other countries with operational living wage initiatives (the UK, Ireland, Canada and New Zealand), living wages have no legal status, are voluntary and are based on company accreditation. The sections below outline the development of these national living wage initiatives.

United States

The modern living wage movement originated in the US in the 1990s, motivated by stagnant or declining real income and living standards for low-earning workers and the inadequate pay protections of the federal minimum wage machinery. Successful campaigns have been locally organised, though with an increasing level of information-sharing and coordination provided by grass-roots groups such as Acorn (the Association of Community Organisations for Reform Now) and the Economic Policy Institute (a non-profit policy think tank which aims to include consideration of low- and middle-income earners in economic policy discussions).

An important context for the living wage campaign in the US has been the declining real value of the federal minimum wage – in place since 1938 – which has no mechanism for uprating other than a positive vote in Congress. Infrequent adjustments have made the federal minimum wage increasingly irrelevant as a consequence. It currently stands at USD 7.25 per hour (€6.25) or 35% of median hourly earnings, much lower than that in most advanced economies and worth 30% less in real terms compared to its level of 50 years ago, despite a doubling of real per capita income over the same period. It was last raised in 2009. The living wage movement and, more recently, campaigns such as the Fight for $15 have been one response. Another response has been to increase policy activism on mandatory wage floors at levels below the federal level, that is, at state, local and city levels, where law-making rights often extend to worker pay. Higher minimum wage floors are now in place in 29 states (Economic Policy Institute, 2018) compared to 11 in 1991 (United States Department of Labor, 2018). These include many so-called 'red' or Republican-dominated states, traditionally the party more associated with business and employer interests and less inclined to legislative intervention in labour markets, notably mandated wage floors.

The first city living wage (Baltimore, 1994) covered around 1,500 workers (Luce, 2017), a small fraction of the low-paid earners in the city. A small number of more ambitious 'area-wide' living wage laws were enacted in the mid-2000s in San Francisco, Albuquerque and Santa Fe (Pollin et al, 2008, p. 11). These raised wage floors for all workers in the three cities and preceded today's primarily city-based campaigns for a USD 15 per hour (€13.27) minimum, over twice the current level of the federal minimum wage.[5]

The 125+ city or region-wide living wage initiatives launched in the US in the 1990s and 2000s were enacted through ordinances and had the force of law. They relied on the substantial devolution of legal powers to sub-state level in the federal system, including to cities and counties. In the majority of cases, these ordinances covered principally those employed in businesses which received public monies, subsidies or had a service contract with the city or region. Low-paid workers employed directly by the city authorities have also been covered by such living wage ordinances while campaigns have also been waged in universities and in large employers on publicly owned land, for example Los Angeles airport. One campaign that attracted national attention in the US involved the occupation by Harvard students of the main university administration building in 2001 to demand living wages for university janitors and guards.

Most living wage ordinances in the US set rates in relation to the federal poverty line rather than being estimated – as in the other countries in this report – on the basis of a costed 'basket of goods and services' considered appropriate for a 'modest but basic' standard of living. The reference household is often a family of four: two adults and two children.

5 All currency conversions indicated in the text are based on the annual average euro conversion rate in the relevant year.

MIT and the Economic Policy Institute (EPI) have produced estimations of living wages and associated living costs, broken down by area and household type but, curiously perhaps, most implemented living wage initiatives have not relied on these. In 2017, over 40 cities in the US had higher citywide minimum wage rates in the range of USD 8.50–16 per hour but the term ‘living wage’ is rarely any longer used to label such wage floors. Indeed, while the current US campaigns focused on a minimum USD 15 per hour (€13.27) are clearly a follow-on from earlier living wage initiatives and frame their demands in living wage terms, there is limited empirical basis for the claim.

> *When it came time to form their wage demand, workers thought the current New York City ‘living wage’ rate of $10 was far too low to live off. They thought $20 was likely too hard to win. They settled on $15.*
>
> (Luce, 2017)

The campaign has prospered despite its lack of empirical underpinnings. In this case, a simple message and an eye-catching rate have been important in galvanising a movement in support of pay increases for low-paid workers. In October 2018, online retailer Amazon announced that it will pay a minimum of $15 per hour to all of its 250,000 US employees. The $15 per hour claim has also circumvented one of the difficulties encountered in more methodologically robust living wage approaches, which is that a wide range of local living wage rates – justified by regional variations in costs of living – is cited as an obstacle to take-up by employers, especially those with multiple establishments.

United Kingdom

The UK/London living wage campaign is the biggest, most established and most developed of the voluntary, accreditation-based living wage initiatives. The original impetus for the campaign was community activism in East London protesting the low wages of cleaners working in the premises of major international banks. This gave rise to the London living wage campaign. London Citizens, a local branch of UK Citizens, a nationwide community organising group comprising faith groups, voluntary agencies, unions, students’ and residents’ groups, was the main instigator. London Citizens claimed the statutory minimum wage introduced in the UK in 1999, only a few years before it began its living wage campaign, was not sufficient to provide for a decent living given the higher cost of living in the capital. It later convinced the Greater London Authority to support the establishment of a London living wage unit. Similar types of movements emerged throughout the country and led to the establishment of a UK-outside-London rate in 2011. From 2011 to 2015, when a common national methodology for the living wage was established, the Centre for Research in Social Policy (CRSP) of Loughborough University was responsible for calculating the living wage level outside London, while the Greater London Authority Living Wage Unit calculated the London figure based on an earlier method for estimating living costs. Since 2016, a common method has been devised for calculating both London and UK living wage rates. The Resolution Foundation is now responsible for making the calculations, in close consultation with CRSP. The Living Wage Commission (including Living Wage-accredited employers, trade unions, civil society and independent experts) was set up in January 2016 to oversee the calculation of the living wage rates in London and the UK, while the Living Wage Foundation is responsible for implementing the living wage by accrediting those employers paying living wages.

In November 2018, there were over 4,700 accredited living wage employers in the UK, including one-third of the FTSE 100. These companies commit to paying all of their employees aged 18+ the living wage. Only ‘guaranteed, non-deferred payments’ can be included in the UK/London living wage, which does not include therefore employer pension contributions (on the basis that they do not support current consumption), productivity payments, bonuses, etc. They must also have a plan in place to pay at least the same rate for all regular, on-site subcontracted or self-employed staff (those working for more than two hours a day, in any day of the week, for eight or more consecutive weeks); an important ancillary objective of many living wage campaigns has been to protect workers from potential wage-depressing effects of outsourcing of activities such as security, cleaning and catering. Accreditation is by way of a signed licence between the Living Wage Foundation and the employer who gains the right to use the Living Wage Employer mark. Fees vary by company size with larger companies paying more. Some larger companies, including Burberry, Aviva, KPMG and IKEA, serve as ‘principal partners’, promoting the organisation and its work in the business community (Heery et al, 2017). Living wage rates are revised annually and accredited employers have six months to implement the revised rates.

The Scottish living wage

The UK living wage has a vigorous offshoot in Scotland which, together with London, are the two areas with the highest concentration of living wage employers in the UK. Over 1,000 employers in Scotland were accredited living wage payers in November 2017, agreeing to pay their employees at least GBP 8.75 per hour (€10.15). As accreditation in Scotland only began in 2014, this makes it the region with the fastest spread of living wage employers.

Three features of the Scottish living wage are worth noting.

First, the campaign has official encouragement with the devolved Scottish Government itself a living wage employer. It has been an active living wage payer since 2010/2011 (MacLennan, 2017) and an accredited living wage employer since 2015 (Scottish Living Wage Campaign, 2015). It was estimated in 2012 that 15,000 workers in the public sector had already benefited from the adoption of living wage policies (MacLennan, 2017, p. 23). The Scottish Government led by the Scottish National Party also funds accreditation by a direct grant to the Poverty Alliance which manages the process.

Second, the government has included the living wage as a consideration in public procurement contracts, though not as a requirement due to competition law considerations. The Scottish Government sought and received clarification from the European Commission confirming that contracting authorities were unable to make the payment of a specified wage rate above the minimum wage, enshrined in law, a mandatory requirement as part of a competitive tender process. However, contracting authorities could take account of bidders’ approaches to fair work practices – including payment of the living wage – and evaluate this as part of the procurement process (MacLennan, 2017, p. 40). In practice, there has been a carrot-and-stick approach to contractors, for example those in the home care and housing support sectors. Funding supports offered to local councils ensure living wage pay for employees in such contractor firms and the withdrawal of such funding if living wage commitments are not met.

Third, the payment of the living wage to state employees is an important element of an overall pay policy geared towards reducing pay inequality in the public service. Living wage commitments were entered into by the Scottish Government in 2010 despite a sharp post-recession reduction in public spending. The pay consequences of this fell mainly on higher earners; those earning less than GBP 21,000 per year received a minimum annual pay increase of GBP 250. On the other hand, senior civil servants and government ministers were subject to extended pay freezes, and budgets for senior civil service pay were progressively cut from 2011 to 2015.

In January 2017 the number of employees in accredited companies was around 1.4 million, just less than 5% of UK employment (Heery et al, 2017). Data collected by the Living Wage Foundation from accredited employers reveals that around two-thirds of direct beneficiaries of the living wage are part-time workers and just over one-third (36%) are indirect workers, employed by contractors. In terms of sectoral presence, there is a concentration in a number of high- or above-average paying sectors: professional services, information/communication, health and social work and other services constitute nearly half of all accredited companies. Accreditation has proved more challenging in low-paid sectors; for example, none of the supermarket, hotel, fast-food or coffee chains had become living wage employers by early 2017. For some high-paying employers, accreditation may be a relatively undemanding badge of corporate social responsibility given that the majority of their employees are already paid above the living wage threshold.

Approximately 120,000 workers were estimated to have had their pay increased as a result of accreditation by early 2017 (Heery et al, 2017). This accounts for around 2–2.4% of the 5–6 million workers in the UK earning less than the living wage, underlining the limited reach of the voluntary system.

Introduction of the UK ‘national living wage’

In April 2016, the UK government introduced an important change to the statutory minimum wage regime, in place since 1999. A significantly increased statutory minimum wage applied to workers aged 25 and over. This was labelled the ‘national living wage’ (NLW) and was set at GBP 7.20 per hour, an increase of GBP 0.50 per hour on the previous year’s minimum wage. Separate, less generous minima were retained for those aged under 25. In addition, the government committed to increase the NLW to 60% of median hourly pay by 2020 (from an estimated 55% in 2015), at the upper end of the international scale in terms of relative generosity of minimum wage floors.

This commitment – expressed as a target minimum hourly rate of GBP 9 by 2020, equivalent to 60% of median hourly pay – was, however, ‘subject to sustained economic growth’ occurring between 2015 and 2020. Based on lower than expected recent output growth, more recent estimates are that the UK NLW will be GBP 8.60–8.80 in 2020. Nonetheless, the raises anticipated are significant: an increase of over 30% in nominal terms over five years and around three times the predicted consumer price inflation (CPI) index growth. Consequently, the number of workers being paid the NLW ('the bite') may more than double by 2020. Earlier estimates from the UK Office of Budget Responsibility indicated that this number would grow from 1.3 million workers in 2015 to 2.8 million in 2020 (OBR, 2017) or around 12% of total UK employment.

In the context of this report, important points to note regarding the UK NLW are that:

- it is statutory, a legally enforced higher minimum wage for those aged 25+
- it is distinct from and lower (35% lower in London/15% lower in the rest of the UK in 2018) than the voluntary, accredited UK living wage(s)
- it is not based on an estimate of basic living costs
- the same NLW rate applies across the UK; there is no higher rate to take account of higher living costs in London

Although the NLW is, based mainly on the second and third considerations above, not a 'real' living wage and has been criticised for deliberately sowing confusion about the term (Brown, 2017), it is motivated in part at least by similar considerations. It aims to raise the wages of those on low pay, to improve living standards of low-paid households and to combat growing wage inequality. It is also of course an explicit acknowledgement and appropriation of the living wage concept. Initial fears that the NLW would distract from the real UK living wage campaign have proven to be unfounded. If anything, it appears to have strengthened it, in part by offering official sanction to the 'living wage' concept. The number of real living wage-accredited firms has more than doubled in the UK since the government announced the introduction of NLW in July 2015, from 1,700 to 4,700+ (November 2018). The shrinking differential between the statutory and 'real' living wages may also have encouraged employers to 'go the extra mile' and seek accreditation.

The NLW will undoubtedly raise earnings among low-paid workers. It is also likely to reduce not just the incidence of 'very low pay' – where the UK minimum wage has been most successful since its introduction in 1998 – but of low pay as well. Eighteen months after its introduction, it was considered an important factor in the decline in the share of low-paid employment (less than 66% of hourly median pay) in the UK to below 20% – the first time this had occurred since the 1980s (Bangham, 2017).

According to the UK government, the NLW will contribute to moving the UK from a 'low wage, high tax, high welfare society to a higher wage, lower tax, lower welfare society' and will also ensure that 'low wage workers can take a greater share of the gains from growth' (UK Government, 2016), thereby reducing inequality.

For this latter aim to be achieved, however, the gains from an increased NLW will need to exceed losses in terms of increased taxes and foregone in-work benefits at the average individual worker level. This condition is unlikely to hold as the main means to achieve the third element of the broader policy goal – a 'higher wage, lower tax, lower welfare society' – will be a rationalisation and freezing/reduction of the means-tested state benefits currently available to low-wage workers. In-work benefits have become an important source of income for low-paid households in the UK. They reduce in-work poverty and 'make work pay' by supplementing labour market income for those on low pay. During the Labour government of 1997–2010, these benefits increased from 0.25% of GDP to 2% of GDP (OBR, 2017) and are considered an important factor in reducing the incidence of child and household poverty over the period. The London living wage would have needed to be 25% higher in 2012 (GBP 10.70 per hour instead of GBP 8.55) if means-tested benefits were excluded (Lawton and Pennycook, 2013). One objective of the current Conservative administration is to reverse the budgetary trend and put a greater onus on employers rather than the state to support living standards of low-income households. Welfare reforms were introduced in 2013 under the banner of Universal Credit, designed to combine six existing state benefits in one payment. Some benefits will be increased by Universal Credit – notably childcare allowances – but the programme has been subject to funding cuts in recent years such that, according to the Resolution Foundation, 'it is set to be almost £3 billion a year less generous than the tax credit system it replaces' and will leave working families on average GBP 625 per year worse off (Resolution Foundation, 2017). The freezing of allowances in a context of the sharp post-Brexit rise in inflation (CPI 3% in 2017) will entail an additional reduction in transfer income. Despite the rising wage floor, many NLW earners could end up worse rather than better off in terms of take-home income, especially lone working parents on whom the cuts fall heaviest.

Ireland

Ireland provides an example of a living wage campaign originating in civic and religious organisations supported by research centres, rather than in grass-roots campaigns as in the US and the UK. The Vincentian Partnership for Social Justice (VPSJ), a Catholic charity, has been one of the main proponents of living wages in Ireland following earlier research in calculating 'minimum essential living standards' using a similar methodology to that used in the case of the UK to calculate the minimum income standards underlying the UK living wage rates. Other organisations have linked with the VPSJ and are represented on the Irish Living Wage technical group which has revised the national living wage rate on an annual basis since 2014. These include unions (Unite), researchers (universities and the Nevin Economic Research Institute) and other charities (Social Justice Ireland). The Irish living wage is also supported by SIPTU (a union) and TASC (a think tank). The Irish living wage was set at €11.90 per hour in 2018, 25% higher than the statutory minimum wage (€9.55). There is no accreditation scheme for living wage employers in Ireland but some employers have nonetheless independently announced that they will pay their Irish employees the Irish living wage. At the 2015 Living Wage Forum held in Dublin, firms and organisations such as IKEA (one of the most prominent employer supporters of the UK living wage), SSE Airtricity, Oxfam Ireland and the Labour Party are reported to have made such commitments. Supermarket groups Aldi and Lidl have also indicated that they pay their direct employees the Irish living wage.

Canada

Living wage initiatives emerged later in Canada than in the US, with the first such claims made on behalf of workers contracted out as healthcare providers in British Columbia in the mid-2000s. Different living wage levels exist across communities, although Living Wage Canada is a coordinating body which was set up to foster learning and information-sharing and to contribute to creating a living wage movement. The Canadian Living Wage Framework provides a consistent approach to living wages (including its definition, calculation methodology and strategy for recognising those corporate and community leaders adopting a living wage policy) and receives research and advocacy support from the Canadian Centre for Policy Alternatives to assist local campaigns. As in the case of the UK living wage, the Canadian living wage also operates a living wage employer certification process by which employers (both public and private) committing to pay their staff and contracted service staff a living wage are accredited, although in the Canadian case the thresholds are calculated locally in each of the many different communities across different regions where living wages are calculated.

New Zealand

The New Zealand living wage movement was established in 2010 and has again followed a similar voluntary, accreditation-based approach to that in the UK. The first citywide campaigns occurred in 2012 in Auckland and Wellington and were followed by other local networks around the country before all the different organisations supporting living wages combined their efforts. In 2013, Living Wage Aotearoa New Zealand, the national accrediting body (whose governing board includes faith-based religious groups, unions and community/secular groups) was created, while independent research led by the Family Centre Social Policy Research Unit calculated the first living wage rate for New Zealand at NZD 18.40 per hour (€10.40). This single national threshold was updated in 2014 and 2016, and for 2018 was calculated at NZD 20.55 per hour (€12.10), 25% higher than the statutory minimum wage.

A noteworthy feature of the New Zealand living wage has been its avoidance of a focus group-based consensual budget approach to the estimation of living costs on the grounds that it generated 'estimates that were considerably higher than what might in the end be agreed as a defensible and achievable level for the living wage'; in this case, both political and employer acceptability were clearly important considerations. Instead,

> *A second way of estimating the budget items constituting necessary expenditure uses independent data sources. With the higher than expected estimations from the focus groups, this second estimate was the one used in deriving a living wage.*
>
> (King and Waldegrave, 2012)

Related initiatives and research in other EU Member States

Debates about 'decent' wages and more explicit references to living wages have surfaced in some European countries other than the English-speaking ones. Eurofound has gathered information through its Network of Correspondents and has identified some of the more relevant debates on living wages and related concepts in Member States. In general, discussions are more about the need to have higher minimum wage levels and to secure decent wages.

Living and 'decent' wage discussions in selected Member States

Austria

While there is no statutory minimum wage in Austria, trade unions have called for a minimum wage of €1,700 a month for full-time work, to be implemented in sectoral collective agreements. Though not articulated as such, the living standard envisaged is similar to that of a living wage.

Bulgaria

The Confederation of Independent Trade Unions in Bulgaria (CITUB) has included the living wage concept in its work programme 2017–2022, where it states: 'In asserting our principle of decent wages we need to impose an upgrade on the minimum wage mechanism, to encompass a living wage. Although not universal and obligatory, the living wage is a reliable mechanism to overcome the drastic inequalities in pay and an important element in the transition to having a sustainable middle class.' CITUB has recommended that living wage rates be calculated for different regions.

The government and social partners were in 2017 discussing target levels for the statutory minimum wage. Three scenarios upon which to base a minimum wage have been presented: a) on two-thirds of the median wage; b) on growth in GDP per capita and inflation and c) on the fact that the minimum wage should guarantee the minimum living standard for the average-size household with an average level of household labour market activity. The third scenario does not use the term 'living wage' explicitly but is clearly closely related. Employer organisations have come out against this third scenario.

CITUB calculates a living cost indicator every three months, which includes the main costs of securing a basic living standard in Bulgaria. It includes food, housing, health, education, transportation and holiday expenses. The total cost to support a four-member household (two parents and two children) was BGN 2,235 (€1,143) in September 2016, equivalent to an average living cost per person of BGN 558.82 (€286) per month. On the other hand, the absolute poverty threshold (based on a consumer basket of 100 vital goods and services for subsistence) was BGN 300 per person (€153) in 2016. The Bulgarian statutory minimum wage was BGN 460 (€235) per month in 2017.

Croatia

Policy discussions centre around the term 'decent wages' (*pristojna nadnica*). A recent study estimated the level of living wages in Croatia based on crowdsourced web survey data (Numbeo.com) on local living costs, in Croatia and other developed countries, and related them to other pay benchmarks (Klimovský, 2014): living wages were estimated at €450 in Croatia (€500 in the capital Zagreb) per month, above the statutory minimum wage (€400) and well above the income poverty threshold (€270).

Czech Republic

Discussions relate more to the concept of decent wages (*Důstojná mzda*), but the concept of living wages has been explicitly invoked by some NGOs and trade unions. The first informal working group to discuss living wages was established by some NGOs (NaZemi, Fredrich-Ebert-Stiftung, Multikulturní centrum Praha and the Ekumenická akademie), while trade unions (the Czech-Moravian Confederation of Trade Unions, Českomoravská konfederace odborových svazů, ČMKOS) contributed to the spread of the living wage concept during its 'End of cheap labour' campaign in 2015. Representatives of non-profit sector organisations, trade union representatives and academia (RILSA/*VÚPSV*) were in 2017 working to agree on a suitable definition and methodology for calculating a living wage.

Denmark

There is no precise Danish translation of the term 'living wage', though *en løn man kan leve af*, literally translated as 'a wage you can live off', is discussed. Living wage-related debates focus more on in-work poverty and on 'social dumping', the latter especially with relevance to eastern European workers in the country's transport and construction sectors. An interesting development has been research on the concept of 'living hours', understood as the number of hours of work required for an acceptable standard of living, assuming a normal good hourly salary (Ilsoe, 2016). The number of wage earners working fewer than 15 hours a week in a job has doubled since 2001, from 6% to 12%.

Hungary

There is no distinct local term in Hungarian for a 'living wage'. Discussions among stakeholders typically refer to a wage which is in parity with the minimum income required for subsistence (*létminimum*), used in the context of minimum wage discussions. The Hungarian Trade Union Confederation (Magyar Szakszervezeti Szövetség, MASZSZ) proposed that by 2018, 'every person working full time should be able to earn an amount equal to the subsistence minimum'. According to union calculations, the net minimum wage was 83% of the subsistence minimum in 2016. The government subsequently raised nominal minimum wage rates by 15% between 2016 and 2017 (Eurofound, 2017b).

Lithuania

The most common terms used with regard to the wage rate necessary to provide workers and their families with a basic but acceptable standard of living are *minimalus gyvenimo lygis* (minimum living standard), *minimalių poreikių krepšelis* (minimum needs basket) and *absoliutaus skurdo riba* (absolute poverty line). More than one-fifth of Lithuania's population was living below the 'at risk of poverty' threshold in 2016. There are regular debates about a generally accepted minimum amount of income that would secure a decent subsistence level in the country, but these typically come from the policy or academic field rather than from government.

In an effort to update minimum standards of living calculations that go back to the immediate post-transition period (1990), the Ministry of Social Security and Labour commissioned an academic study that attempted to calculate the income people need to cover their minimum needs based on a costing analysis of such needs. Based on a basket including both food and non-food items, Navickė (2016) estimated that the monthly amount necessary for households to cover their minimum needs in 2017 was €238.35 per head.

Poland

The concept of decent wages (*godna płaca*) has become one of the most discussed policy themes in recent years against the background of poor employment conditions among segments of the workforce, characterised by a high incidence of fixed-term contracts, civil law contracts and low wages. The current government has committed to significant minimum wage raises from PLN 1,850 (€424) per month in 2016 to PLN 2,100 (€482) per month in 2018, and to applying minimum wages to civil law contracts. The state research body, the Institute of Labour and Social Affairs (IPiSS), calculates two relevant indicators (the subsistence minimum and social minimum) that could be useful for future living wage estimates. The subsistence minimum is based on a basket of goods and services deemed necessary to meet the most basic biological needs of household members, while the social minimum adds the products and services necessary to meet the minimum social needs of households. Each calculation is made yearly for several different household types.

Portugal

There is no policy debate as such about living wages, but a research project on minimum income standards has raised a public debate about household income adequacy. The research project is based on the reference budget methodology of the CRSP (Loughborough University, UK), which has been the basis of the UK living wage calculations.

According to recent estimates (April 2017), the required monthly budget for a minimum acceptable standard of living for a couple of working age with two minor children (2 and 12 years old) was €1,816.

Slovakia

Policy debates relate mainly to the concept of decent pay (*dôstojná mzda*), in relation to ensuring the basic needs of Slovak households and are often associated with other discussions on minimum wage levels and wage comparisons with higher-income European countries.

A study by the Institute for Labour and Family Research (IVPR) using data for 2010 estimated the income threshold at which a household does not need to severely restrict spending on individual items. The Institute estimated that in 2010 an individual living on an average wage of €769 per month would not have to unduly limit their consumption. This compared to a minimum wage of €317 per month in 2010.

In 2014, a local iteration of the living wage indicator in the international Wage Indicator project was implemented by the Central European Labour Studies Institute in Slovakia. Information on living expenses was gathered directly from people via a web-based questionnaire which estimated the costs needed to cover expenses for the basic needs of an individual, consisting of the cost of renting a single-room apartment out of the centre, a diet including the recommended daily intake of calories, transport and 'other expenses', estimated at 10% of the total monthly costs (for example, phone bill, clothing and entertainment). The results of the project show that in Slovakia an individual can cover the costs of basic needs from a minimum wage of €352 (around €305 net) in some regions, but not in larger cities with higher housing costs. In these areas, for example in Bratislava, an income of at least €440 (€370 net) is required to cover basic expenses. The government is committed to introducing significantly above-inflation rises in the minimum wage rate and a 10% nominal increase has been agreed for 2018, to €480 per month (Eurofound, 2018).

Note: *Material has been compiled from inputs from correspondents to questionnaire-based 'comparative analytical reports' on 'In-work poverty' in 2016 – kindly provided by colleagues in Eurofound's Quality of Life research unit – and on 'Living wages: policies, debates and research' in September 2017. For the other Member States (except Ireland and the UK), no relevant information was presented.*

4 The living wage in practice

Approaches to calculating the living wage

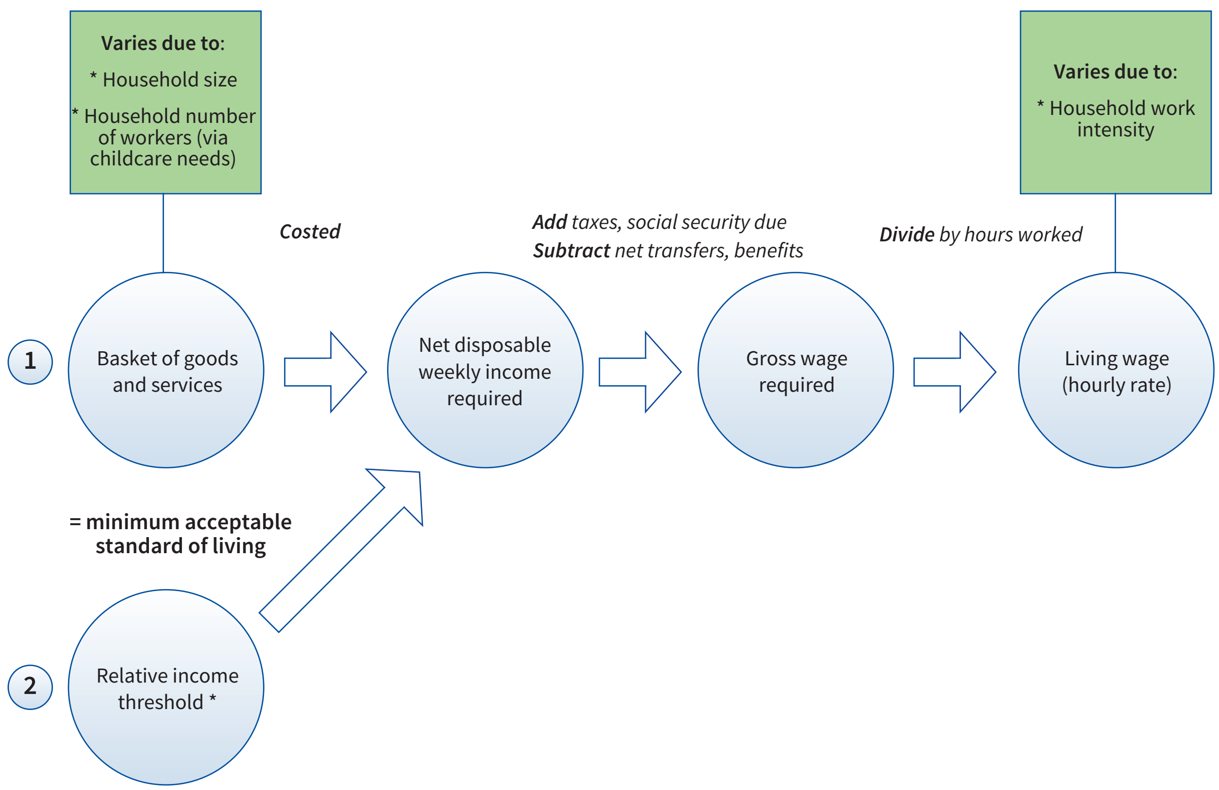
The central concern of the living wage is with a certain living standard considered to be 'reasonable', 'decent' or 'minimally acceptable'. One key point is that the wage itself, while important, is derived from an indicated basic or minimum living standard and is secondary to it.

There are two main alternative approaches to establishing the targeted living standard. One is a statistical approach relying on a share of an existing wage or poverty threshold as a basis for defining the minimally acceptable living standard. That has been the main approach in the US living wage campaigns to date, where the federal poverty line is often the threshold baseline. By implication, such an approach is less ambitious in its aims as it seeks merely to ensure that workers earn enough to escape poverty.

The second, more painstaking, approach is to establish a basket of goods and services commensurate with the targeted living standard, including a detailed itemisation of all the standard consumption categories – housing, food, transport, education, childcare, etc. – and then to work out what hourly wage would be necessary to generate the income to afford such a basket, considering parameters such as household size, number of workers/weekly working hours and labour taxes and benefits. The basket can vary in composition based on many factors, including institutional context, climate and geographical conditions, culture and the quality and price of goods and services – all of which, in turn, may vary strongly between countries, but also between regions within countries. Variants of this second method have been adopted for the living wages in the UK, Ireland, New Zealand and Canada, and underlie the living wage estimates in the US, for example, in the MIT living wage calculator (MIT, 2018).

Figure 2 illustrates the two main paths to a living wage calculation.

Figure 2: Two paths to a living wage



Source: *Authors' elaboration*

The first approach has more in common with the main rationale of the living wage: to generate an income sufficient to maintain a defined living standard. The second approach is derivative and is based on statistical thresholds (such as relative poverty) that may or may not be adequate to achieve such a living standard.

That the second approach might be problematic can be gleaned from some examples from the US. Most of the over 125 municipal living wage ordinances implemented in the 1990s and 2000s are based on the wage income required to get a worker or a worker and their family up to an income equivalent to the federal poverty line (Luce, 2017). This involves costing an 'economy food plan', designed to secure a 'nutritious but monotonous diet', and then simply multiplying the income required to purchase such a plan by three. The assumption is that low-income families spend one-third of their income on food. This rather basic approach to assess living needs has some obvious shortcomings. For example, it is based exclusively on food costs, which tend to decrease as a share of household expenditure as overall living standards rise (Engel's law),[6] and it omits from its calculations categories whose costs have tended to rise much faster, and which constituted a much higher share of household expenditure in 2017 than they did in the 1960s (for example, childcare, housing) when the federal poverty threshold was introduced. According to the Bureau of Labor Statistics, the average household expenditure on food in 2015 was 12.5%.

The methodology has not been modified since the 1960s, though the threshold is revised in line with CPI every year. In 2011, a new supplemental poverty measure was introduced in the US. This was partly a response to the perceived inadequacy of the original federal poverty line – though it did not replace it, it merely supplemented it. The new indicator includes state transfer income, adjusts income for childcare and medical costs, etc. and includes a broad representative range of household costs rather than just relying on a food basket (Mishel et al, 2013). For Pollin et al (2008), the federal poverty line is 'completely inadequate as a measure of minimum living standard threshold' in the US, not only because of its outmoded methodology but also because it is a national measure that is not adapted to large regional variations in living costs. He refers to work carried out in the 1990s by the National Research Council to derive alternative measures of poverty. The average of the eight measures outlined was 42% above the official poverty line. Considering the higher costs in most of the urban centres covered by living wage laws, Pollin considers the 'federal poverty rate + 60%' 'poor' for urban living standard comparisons. He then notes that in Boston in 2001 the annual income required by a two-adult, two-child family – based on the Economic Policy Institute's basic family budget measure (a living standard based on the first method in Figure 2 above, which aims for 'a safe and decent standard of living, accounting for the major family expenditures related to housing, childcare, food, transportation, healthcare, other miscellaneous expenses and taxes') – would have been nearly three times the official poverty line (USD 54,190 vs USD 17,960, €60,200 vs €19,950 in 2001) and nearly double Pollin's adjusted poverty line (USD 28,740, €31,930). An important caveat is that the EPI-based estimates are all market-based and take no account of public subsidies such as public housing, medical provision or childcare. Inclusion of such subsidies as household revenue would have narrowed the gap between the Boston living wage and the wage required for the EPI-based basic family budget. With both adults working full time, this would have required an hourly wage of USD 13.03 (€14.50); when the Boston living wage had been set at USD 9.11 (€10.10), the hourly wage required to meet the official poverty line was USD 8.63 (€9.60), the state minimum wage was USD 6.75 (€7.50) and the federal minimum wage was USD 5.15 per hour (€5.72) (Pollin et al, 2008).

Cases like this underline that a just-above-poverty wage and a living wage are quite different thresholds, the living wage being generally much higher. It also demonstrates that linking wages to statistical poverty thresholds will be insufficient to maintain even a basic living standard when the poverty threshold itself is set at too low a level, as is the case in the US. Finally, it confirms that the statutory wage floors in the US – federal or state – were in this case inadequate in securing living standards for full-time earners and their families even equivalent to the official poverty line.

In the EU, the main poverty threshold is set higher than in the US. The relative poverty threshold is defined as 60% of median equivalised household income. In the US in 2016, the federal poverty line for a two-adult, two-child family was USD 24,339 per annum (€21,900), or 41% of the median household income (United States Census Bureau, 2016).[7] A poverty-escaping income or wage in the EU would therefore be nearly 50% higher in relative terms than its equivalent in the US, other things being equal. Living wage calculations in the EU so far have been based largely on Method 1 in Figure 2 above, 'the basket of goods and services' approach, and not on a poverty–statistical threshold approach, although the London living wage, until 2016, was based on an equally weighted combination of a 'basic living costs' basket

6 Engel's law dates back to the 1850s: 'food share of total expenditure decreases as income per capita increases'. According to estimates, 'income elasticity of food expenditure fell from around 0.80 for an average low income country, to around 0.70 for an average lower middle income country, 0.60 for an average upper middle income country, 0.30 for an average high income country, and .10 for the highest per capita income countries' (Anker, 2011b, p. 36).

7 Median household income was USD 59,039 (€50,900) per annum based on €1.12 = USD 1 (see United States Census Bureau, 2016).

and a relative income target (60% of median income by household type at the UK level) (D'Arcy and Finch, 2017).

The next section will look at what has been included in such a basket to secure a 'minimally acceptable living standard' in the UK and Ireland, what consumption categories are used to group items, how the contents of the basket are selected and revised and some general considerations of living wage policy design.

Determining the contents of the 'living wage basket'

A 'living wage basket' represents the goods and services that a working household needs to ensure access to a minimally acceptable standard of living. All living wage calculations include coverage of the following basic categories of expenditure: food, housing/accommodation, household goods and services, household energy, transportation, healthcare, childcare, personal care and clothing. The UK and Ireland living wages also include a category for social participation. The Irish living wage includes a category for savings and contingencies, while the London living wage (up to 2016) featured a top-up of 15% over and above all the specific costings to cover unforeseen contingencies (an example given is of a washing machine breaking down; D'Arcy and Finch, 2017). Living wage calculations tend to exclude expenditures considered undesirable or inessential (Anker, 2011a), such as tobacco and pets, though the UK MIS – the basis for calculating the UK living wage – does include a modest budget for alcohol (around GBP 5 per week for a single worker, €5.60). The UK MIS 'covers needs, not wants; necessities, not luxuries; items that the public think people need in order to be part of society' (Davis et al, 2016).

An important point of all living wage calculations is that they are based on publicly available data and are transparent in their methodology and calculations. They are intended to be robustly evidence-based, credible and open to contestation.

Crowdsourced data to estimate living wages

The calculation of a living wage requires two types of information: on the one hand, extensive consumption data, which provides the average price of goods and services; on the other hand, a specific methodology that establishes the basket of goods and services a worker requires in order to afford a certain living standard, considered to be 'reasonable' in a given social context.

The internet provides possibilities for some innovative data gathering techniques capable of complementing, and in some cases challenging, what governments have been doing for many decades, often at significantly lower cost (Cavallo and Rigobon, 2016). Crowdsourcing data involves soliciting internet users to volunteer data on some subject of interest, generally free of charge, in order to generate extensive, non-official datasets on matters of public interest. With around 340,000 contributors ('the crowd'), Numbeo is the world's largest database of users providing up-to-date information on worldwide consumer costs. It gathers the average price of more than 60 different goods and services. Items costed include 1 kg of apples, a pair of jeans and a monthly fee for a private kindergarten. While the platform ranks countries, its main focus is at the level of cities and towns. For example, it distinguishes between housing prices within and outside city centres. This makes it potentially a useful instrument in the living wage calculation process.

Inspired by the International Comparisons Program at the World Bank, the Billion Prices Project monitors price trends of 267 goods among 11 countries (including Germany, the Netherlands and the UK). Initially created to challenge the official inflation predictions in Argentina, which were seen as being underestimated in the period 2007–2015, it uses online prices as a proxy of item costs among these countries. One weakness is that this dataset is limited to supermarket prices (Fabo and Belli, 2017).

WageIndicator.org is another crowdsourced platform that allows its users to compare wages among 70 countries (16 Member States of the EU). Based on a methodology developed by the Global Living Wage Coalition, it has also put in place its own cost of living survey. While Numbeo provides cost of living estimates among hundreds of cities worldwide, WageIndicator identifies, among other things, what would be a living wage in the covered countries. Its basket of goods and services covers the monthly expenses necessary to afford food, housing and transportation plus a 10% margin for additional expenses (such as education, health or clothing) (WageIndicator.org, 2018). Its cost basis is therefore more limited in scope compared to the operational living wages covered in the main body of this report. Among its many advantages in the calculation of living wages, it includes social welfare entitlements, covers four types of regions (metropolitan, large city, small city and rural area) and crossmatches data with other databases to optimise accuracy. The food basket is based on the number of calories a person needs for good health, as described by the World Bank (Haughton and Khandker, 2009). Thanks to its 10% additional margin for 'other costs', WageIndicator is able to remain broad and non-prescriptive and to avoid controversy on whether, for example, alcohol or holidays should be included in the basket.

However, this type of crowdsourced data is likely to have significant bias: it only represents respondents with internet access, and the sample only includes respondents who decide themselves to participate (Bethlehem, 2010). Weighting adjustments may correct for some of these biases (Guzi and de Pedraza García, 2015).

While potentially useful, it should be noted that the living wages estimated using the WageIndicator data and methodology deviate markedly from those of the operational living wage initiatives and estimates covered in this report. For instance, in the UK, they established the living wage for a single worker at between 56% and 77% of the minimum wage (WageIndicator.org, 2018), while living wage estimates based on the reference budget/consensual budget standard approach have always been higher than the statutory minimum wage.

Table 2: Comparison of different UK monthly wage minima

	2018	Euro equivalent
Statutory minimum wage	GBP 1,243[a]	€1,392
WageIndicator living wage – single adult	GBP 695–960[a]	€778–1,075
Current living wage in the UK (excluding London)	GBP 1,452[b]	€1,626
WageIndicator living wage – typical family (2 parents and 1.8 children, 1.6 working)	GBP 875–1,270[a]	€980–1,422
WageIndicator – two parents and two children, one working	GBP 1,420–2,050[a]	€1,590–2,296

Sources: [a] *WageIndicator.org (2018);* [b] *D'Arcy and Finch (2017)*

Defining what goes into the living wage baskets in both the UK and Ireland is the joint work of researchers, experts (ensuring, for example, that food items selected satisfy basic nutritional needs) and citizen representatives participating in focus groups. A principle of both the UK MIS and the Irish equivalent (the minimum essential standard of living – MESL) is that it is based on social consensus.

The UK focus group discussions typically involve 6–10 people (8–12 in Ireland) from a mixture of socioeconomic backgrounds. Group participants are selected on the basis of their household type so that single working-age adults without children discuss the needs of workers without children and working parents discuss the needs of households with children. In this way, separate budgets are developed for different household formations based on input from citizen representatives. The discussions are moderated by experts/researchers and aim to develop a 'negotiated consensus' among the socially mixed groups, with meetings conducted over many sessions (Davis et al, 2016; Living Wage Ireland, 2017). In the Irish focus groups, participants first attend an orientation meeting. A first focus group produces an agreed draft list of items and a second group reviews the work of the first group and reaches a consensus on a second draft listing of items. This is then rechecked for each costed item in each category, and a final consensus reached by a third and different focus group. The MIS and MESL are both therefore based on detailed qualitative research, following a consistent method using the same set of steps and checks in each iteration. In this way, changes in the living wage baskets can be considered as reflecting changes in society at large and not just the opinions of one group.

Living wage proponents highlight the 'bottom up' nature of the process to devise the living wage baskets. Although experts are involved in mediating the discussions, the baskets are based 'on what members of the public think' is required for an acceptable living standard (Hirsch, 2017a). This distinguishes them from minimum wage-setting or advisory bodies where there is input from a diversity of social partner, business, civil society and state representatives (in, for example, the LPC), although these are generally 'expert commissions'; discussions of worker/household needs are absent or of relatively low priority, and there is little if any direct citizen or worker input.

Table 3 summarises the main expenditure categories in UK and Irish living wage baskets, established by the consensual budget approach.

Table 3: Breakdown of living costs by category, UK MIS and Irish MESL (%)

UK		Ireland	
Living wage/Minimum income standard		Minimum essential standard of living	
Cost category	%	Cost category	%
Housing	30.6	Housing	36.4
Domestic fuel	5.6	Household energy	7.3
Household goods/services	6.0	Household goods/services and communication	7.9
Clothing	2.5	Clothing	2.5
Personal goods/services	4.9	Personal care	3.4
Transport	9.4	Transport	6.9
Food and drink	17.3	Food	14.4
Social/cultural participation	16.1	Social inclusion/participation and education	11.2
Other costs	7.7	Health and Insurance	4.7
		Personal costs	2.1
		Savings and contingencies	3.1
Total (GBP 286.54 per week, €349)	**100.0**	**Total (€372.73 per week)**	**100.0**

Note: *for comparability, this table is based on one specific household type in both countries: a single-worker household with no dependants. There is a more complete, annotated version of the table in Annex 2. Conversion based on €1.22 = GBP 1 (2016).*
Sources: *Davis et al (2016) for the UK; Living Wage Ireland (2017) and VPSJ (2016) for Ireland*

The main household cost is for housing itself. Rent accounts for around one-third of all household spending in both the UK and Ireland minimum income standards. None of the living wage estimates in this review provide for the cost of owning a home rather than renting a home; this is presumably based on the consideration that even if the costs of servicing a mortgage might be lower than that of renting a similar property, it is increasingly unlikely that low-wage earners have access to the capital or deposit necessary to secure a mortgage in the first place. The only other categories that constitute more than 10% of household spending are food/drink and social participation. The share of spending on different consumption categories is broadly consistent in the two countries, with higher relative housing costs in Ireland offset by lower relative costs for social participation. Taking 2016 exchange rates into account, the costings of the minimum income standards are also comparable in that they reflect similar costs/standards of living in neighbouring Member States. Neither budget includes a provision for credit card, loan or debt payments or the costs of caring for disabled/ill or elderly family members, and there is minimal provision for savings, for example for retirement or children's future education (Ireland only).

In Ireland, the living wage is calculated on the basis of just one household type (single full-time worker without dependants), and the assumption is that such an individual would have no access to social housing and would be reliant on the private rental sector. This implies a quite different basket of goods and services than that for the UK, where the living wage is calculated on a weighted average across 17 representative household types and where family-related expenditures therefore come into consideration. Also, a higher level of public provision is assumed in the UK basket than in the Irish basket – based on higher subsidies for childcare, non-recourse to private health insurance and greater access to social housing. Some of these subsidies are specifically family-related.

The weekly household minimum income standards costing breakdowns indicated in Table 3 are net outgoings from disposable income. The gross wage required to generate that net income is higher (for example, 11% higher in Ireland for the single-worker household in Table 3). Low-income households in particular are often in receipt of subsidised services (for example, childcare, sometimes transport), free public service provision (for example, healthcare under the UK National Health Service) and other state transfers or benefits (child allowances, in-work tax credits). These are all included in the final estimation of living wages on the basis of full take-up of entitlements. The more generous such social entitlements are, the lower will be the costs of the minimum income standard. The living wage will accordingly be reduced to incorporate these additional transfers of income from the state. In the period of public spending retrenchment in the UK after 2008, cuts in public provision led instead to increases in the living wage that rose faster than inflation as wage income was obliged to cover a greater range of household costs. In the US, where there is a much lower level of social entitlement and limited access in particular to public healthcare for wage earners, living wages are often quoted in two versions: one higher headline rate where the employer does not contribute to private health insurance for the employee, and a lower rate where the employer does contribute. In Seattle, for example, the respective rates were USD 15 per hour and USD 13.5 per hour (Seattle Office of Labor Standards, 2017), equivalent to €13.27 and €11.95 respectively.

Adjustments to the basket of items is only one of the factors influencing the cost of a minimum income standard; a more important factor is inflation. The baskets are itemised, including up to 2,000 different costed items in the case of Ireland. Inflation adjustments can be made at the item level based on real cost (Ireland, UK) or on a general inflation index such as CPI applied to the whole basket. The former, more detailed approach requires more data and more work but is preferable as consumption patterns differ between poorer and average income or richer households and inflation therefore impacts households differentially. Food price inflation in the UK, for example, was higher than average inflation between 2008 and 2014 but has been lower subsequently; as food accounts for a higher share of low-income household expenditure, this was reflected by higher than average increases in the basket prices up to 2014 and lower increases after 2014. Due to its focus on single-worker households, the Irish living wage is blind to one other source of above-inflation cost increases: those associated with childcare.[8] Childcare costs in the UK have risen approximately 50% since 2008 (Davis et al, 2016, p. 29) and have increased above inflation in Ireland as well. These are not reflected in the costing breakdowns shown in Table 3.

One common measure of housing affordability is whether households pay more than one-third of disposable income on housing (the housing cost to income ratio). If households are obliged to pay more than this, remaining income is unlikely to be sufficient to make ends meet. According to the Joseph Rowntree Foundation, an independent organisation carrying out research and advocacy on poverty in the UK, the share of UK low-income households (bottom quintile) where housing costs surpass this threshold increased from 30% to 39% between 1998 and 2014 (MacInnes et al, 2015). The equivalent figure for middle-income (third quintile) households was 9%, and for high-income households 2% (2014). The persistence of historically low interest rates improves housing affordability for those who are in a position to take on mortgage debt, but low interest rates are strongly linked to house price increases which have meant that a contracting share of UK workers have been in a position to purchase their own home; home ownership rates among those born in the early 1980s are around half of those born 30 years earlier. Khoman and Weale (2006) found that between 1995 and 2006, house prices in the UK rose at a rate of 3% per year faster than gross disposable income. As rents tend to correlate with house prices, most low-income earners reliant on private rented accommodation face increasing housing costs, often combined with low housing security. Greater reliance on the private rented sector with its higher costs is accentuated by ‘a shrinking social rented sector’ as public housing investment and subsidies/supports have declined (Corlett and Judge, 2017). Recent research (Dustmann et al, 2018) shows that the contribution of housing costs to the affordability challenge faced by low-income households is not confined to English-speaking countries. In Germany, among individuals in the bottom quintile of net household income, the share of income spent on housing increased from 27% in 1993 to 39% in 2013, while the share spent on housing decreased from 16% to 14% in the top quintile of net household income.

The living wage campaign in the UK originated in East London in the early 2000s and was motivated in part by escalating housing costs among low-paid workers. The main reason that a separate higher living wage is set for London is that housing costs are much higher in the capital than those for the remainder of the UK: ‘London’s poverty rate is 17% before housing costs – below the regional average – but around 27% after housing costs’ (Living Wage Commission, 2014, p. 10).

In Ireland, the main factor driving the most recent increases in the living wage (from €11.50 per hour to €11.70 in 2017 and from €11.70 to €11.90 in 2018) has similarly been the rapid increase in private rental housing costs. This has offset declining prices for food, health insurance and other household goods, as well as some reductions in tax liability (Living Wage Ireland, 2017). The effect of rising housing costs was especially visible in the Dublin area, where housing costs for the single worker (€216.26 per week) were nearly 60% higher than for the reference region (cities, except Dublin) featured in Table 3 above. This differential in housing costs was by far the most important factor contributing to the living wage basket being 23% more expensive in Dublin compared to the other Irish cities (Living Wage Ireland, 2017).

8 Though supplementary to the headline rate, separate calculations for different household types do take these into account.

Revisions and upratings

The minimum income standards indicated above change over time and the baskets are modified in line with regular reviewing or rebasing exercises and inflation adjustments. In the UK, MIS baskets are reviewed on a four-year cycle, with a full rebasing (baskets re-established 'from scratch' by new focus groups) every fourth year, a 'lighter-touch review' every second year and inflation upratings per basket item as per retail price index changes every year. In the UK, the 'content of the baskets has been largely stable' between 2008 and 2016 (Davis et al, 2016), but some changes are worth noting:

- There has been an 'austerity effect' for items such as occasional family meals out – costings are now based on quarterly rather than monthly outings. Also, there is greater factoring in of discounted prices and offers given their increased prevalence.
- Transport: cars for families with children were introduced as a basket item in 2012; public transport was assumed until then. This was the biggest one-off shift in costs in the period and coincided with government cuts to public transport while also reflecting a shift in social norms (D'Arcy and Finch, 2017). Greater mileage on cars was introduced in 2016, given the rationale that it is 'harder to move closer to where you work' due to constrained housing options.[9]
- Higher costs for children: growing focus on the necessity for children to get a healthy diet, participate in social activities, engage in opportunities for education and develop life skills, with a reluctance to economise on related costs. Specific changes include the inclusion of nursery costs in 2016 for youngest children, rather than childminder costs (though the extra costs are largely covered by extended public subsidies and tax credits/Universal Credit), and a higher budget for out-of-school activities.

Inflation-adjusted, the MIS budget excluding housing costs and childcare was less expensive in 2016 than in 2008 for two-parent families with at least two children (-4%) but more expensive for lone parents (+12% for lone parents with a single child).

The rebasing exercises are intended to capture changes in material norms or standards. In Canada, the Vancouver living wage was amended in 2017 to include internet connection and two basic mobile phone 'talk and text/no data' subscriptions and to exclude a landline telephone subscription. Two justifications were offered: first, official figures indicated that 84% of Canadians have internet subscriptions; second:

> *most low wage parents use cell phones instead of a landline phone and internet access at home has become a requirement for participating in community life and for accessing public services and education, particularly in small towns where government offices have closed and in-person education opportunities are not easily available.*
>
> (CCPA, 2017)

Accommodating different household types

Living wage campaigns are heavily reliant on a single, well-publicised hourly wage rate, generally updated annually. In the UK, the adoption of a single rate based on weighted average was 'a conscious compromise to produce a widely known and accepted figure for campaigning purposes' (Hirsch, 2017b). The single rate serves an important communication and awareness-raising role and allows for a relatively simple message. In the US, current low-wage campaigns focus on an even simpler objective: USD 15 per hour (€13.27).

A simple headline rate draws attention to cost of living issues for low-paid workers and underlines the deficiencies of minimum wage rates in securing adequate household income. It also of course has an important role in boosting incomes for a share of the employees of those 4,400 (2018) UK employers, for example, that voluntarily commit to the living wage. Finally, a single rate (or dual headline rate as in the UK) which is updated based on explicit, transparent criteria facilitates employers in terms of payroll administration. Where living wage rates vary across regions, as in Canada for example, there has been resistance from employers based on the requirement to apply different rates in different company establishments.

But the publicised headline rate self-evidently cannot meet the living wage objective of securing a basic but acceptable living standard for all household types. A two-adult family with two children has significantly greater absolute expenditure needs than a single adult living alone. Variation in need by household size and composition implies that there should be a range of living wages rather than a single reference rate. The minimum income standards and consensual budget standards research which provides the basis for the UK and Ireland living wage calculations does provide a series of calculations for different household types, as will be seen later, but in the first instance, the headline

9 It should be noted that public transport is, however, the default in the London living wage – based on better public transport options, and perhaps also on limitations on car usage in the capital due to congestion charges. This is also the case in Ireland, where the inclusion of cars in the living wage basket applies only to households with dependent children outside Dublin.

living wage has to be calculated with some notional household in mind – in terms of the number of adults and children, the employment status of the adults and the extent to which the adults are expected to be working (full time or part time). The table below sets out the various reference households used in different living wage calculations.

Table 4: Reference household for living wage calculation

Country	Reference household
UK	Weighted average of 17 different household types
Ireland	Single full-time worker (39 hrs per week) with no dependants
New Zealand	Two adults, two children. One adult working full time (40 hrs per week), one working part time (20 hrs per week)
Canada	Two adults, two children. Both adults working full time (35–40 hrs per week)

Sources: *Living Wage Ireland (2017), King (2016), CCPA (2017)*

Table 4 shows that there are four different living wages and four different ways of including household structure to calculate them. The UK uses a weighted average while each of the other three countries settles on a specific household type as a reference. The UK method has the advantage of all household types being represented in the calculation, but a disadvantage in terms of complexity of data collation and calculation. The decision to use the single worker without dependants as the reference category in Ireland was taken for a combination of practical reasons, for example to ensure a relatively simple calculation, but also strategic reasons, including to set the number 'sufficiently low as to offer a reasonable target in terms of upward negotiating pressure on the national minimum wage' (Healy, 2017). It cannot accommodate, therefore, the specific needs of workers with families – a weakness given the salience of fast-rising housing and childcare costs, which impinge to a greater extent on households with families. The organisations behind the Irish living wage do however provide MESL budget estimates for various family types, and these could be the basis of separate living wage calculations for larger households (see Table 5). The New Zealand and Canadian living wages are premised on a standard family unit of two adults and two children, but with different assumptions regarding household work intensity. The choice of such a household reflects both the modal household size for working households with children and also broader requirements of population sustainability based on replacement rates of just over two children per adult female.

The New Zealand living wage makes provision for part-time work. One of the two working adults is assumed to work part time. This is also the household work intensity suggested by Anker (2011a) in his methodological guidance on living wage-setting. But in all four countries the part-time employment rate is above OECD (and EU) averages, in the range of 19% for Canada to 24% for the UK (OECD, 2017c); and in common with most developed countries, the part-time employment rate has been rising structurally over time. The earliest living wage campaigns and many minimum wage regimes from the early 20th century were often based on one full-time earner; that is, a single male breadwinner. They were adapted to the predominant model of household labour market participation in their time. Inclusion in the 21st century of one part-time worker in a family-based living wage calculation reflects processes of social change in developed countries and an increasing propensity for two-worker households, notably resulting from increasing labour market participation of working mothers. In practical terms, the differences between a 1.5 and a 2 full-time equivalent wage income may be negligible for living wage calculations. Part-time work on the part of one parent helps to offset childcare costs, which are invariably only partially subsidised (at best) and which represent a fast-growing share of household expenditures based on above-average inflation.

The key point from the discussion above is that no single rate, however calculated, can meet household needs for minimum acceptable standards of living that vary according to household size and the working patterns of household adults. A living wage based on the UK (or Canadian or New Zealand) approach may be adequate in this regard for households with one or two children and should be generous for single workers without dependants, while the Irish living wage will by construction be insufficient for working households with dependants. In this important regard, a living wage that relies – like most minimum wage regimes – on a headline hourly pay cannot secure its primary objective, which is to secure a basic but acceptable living standard for all workers earning that rate. For many household types, it can only do so if supplementary sources of income – mainly state transfers – make good any shortfall.

The main living wage calculations in the US – the EPI Family Budget Calculator and the MIT Living Wage Calculator – make explicit estimates for many different household types. Not being constrained by the requirements of a living wage campaign, there is no headline hourly rate but a range of rates for many hundreds of different locations. Similarly, many living wage initiatives calculate (or allow to be calculated) a range of living wage rates in addition to their headline rate based on different representative household types.

Table 5: Living wage rates, UK and Ireland, by region and selected household type

		Single adult, no dependents	2 adult, 1 child	2 adult, 2 child	2 adult, 3 child	2 adult, 4 child	1 adult, 1 child	Living wage rate 2018	Minimum wage rate 2018	Difference %
UK										
UK excluding London	GBP	9.50	7.40	8.80	15.70	18.65	14.30	**9.00**	7.83	**15**
London		10.60	7.80	9.60	18.70	21.10	14.35	**10.55**	7.83	**35**
UK excluding London	euro equivalent	*10.60*	*8.30*	*9.90*	*17.60*	*20.90*	*16.00*	*10.10*	*8.80*	
London		*11.90*	*8.70*	*10.80*	*20.90*	*23.60*	*16.10*	*11.80*	*8.80*	
Ireland	euro	**12.00**	**10.20**	**11.60**	**14.60**	**14.70**	**12.50**	**11.90**	9.55	**25**
Dublin		*14.45*	*11.45*	*12.65*	*16.35*	*15.85*	*17.15*			
Rural		*10.55*	*9.65*	*11.45*	*14.65*	*14.40*	*9.55*			

Note: *As family/household types are more differentiated (e.g. by age of children) in source documents, figures are indicative only as household categories may not be strictly comparable between countries. The publicised living wages for Ireland, for the UK excluding London and for London for 2018 are marked in red. In 2016, a common methodology for the UK and London living wages, hitherto separately calculated, was made operational. This addresses the previous undervaluation of the London living wage. It is intended that the publicised London living wage will converge with the 'reference rate' over time.*
Sources: *Authors' elaboration based on D'Arcy and Finch (2018) for the UK and Living Wage Ireland (2018) for Ireland*

In the case of Ireland, for example, the headline publicised rate can be seen as a 'teaser' rate for a more elaborate set of calculations covering the greater needs of larger households. Table 5 indicates living wage hourly rates for Ireland and the UK for different household types.

As previously indicated, all of the rates are based on full take-up of available social benefits and housing subsidies. Even with sizeable additional state transfers for low-wage earners with dependants, the living wage required for larger households is much greater than for the single-worker, no-dependant household (the reference for Ireland) or the weighted average of different household types (the reference for the UK/London). The living wage for a 'standard' two-adult, two-child household is broadly similar to that of a single person with no dependants, but again this rests on the assumption of both adults working full time.

The main assumed pattern of household work intensity is for all household adults to be working full time (New Zealand is the exception). Full-time work is based on 39 hours per week in Ireland and 37.5 hours per week in the UK. Hourly rates would accordingly be higher where one or both adults was working part time, though with some compensation in reduced childcare outgoings.

An implicit assumption is that all workers wanting to work full time can do so. In reality, the growing incidence of part-time work in the EU has been accompanied by a growing share of involuntary part-time workers and people working very short hours (Eurofound, 2017c). Living wage calculations also generally presuppose continuous paid employment. Given growing shares of atypical work, including short contract work, this itself is likely to be an increasingly optimistic assumption for many of the low-paid workers that the living wage seeks to benefit. For these reasons, guarantees on working hours may be as important as hourly rates for many workers. The concept of 'living hours' is increasingly articulated, for example, in Denmark, where the share of workers working fewer than 15 hours per week has doubled since 2001 (Ilsoe, 2016).

Regional variations

Table 5 also demonstrates sizeable regional variation in the living wage calculations in both countries. As already indicated, there are separate UK living wage calculations for London and the rest of the UK, based on higher costs of living in London and the fact that until recently there were distinct historical living wage campaigns with different methodologies for calculation, supporting research, in and outside the capital. Only since 2016 has a common methodology been adopted for both living wages in the UK. The voluntary living wage for London is currently 17% higher than that for the rest of the UK and is likely to diverge further in the future. In Ireland, the posted living wage is based on a weighted average calculated over four different regions/settlement types (Dublin, cities (except Dublin), towns and rural). As in the UK, the capital's higher living costs are evident in estimates of living wage hourly rates which can be derived from the technical documentation (Living Wage Ireland, 2018). These are 20% higher in Dublin than those of the country as a whole. This underlines the particular relevance of living wages in larger, higher-cost metropolitan areas, where many campaigns have originated. In the US, the differential indicated between living costs in Boston – one of the first living wage cities in the 1990s – and average costs nationwide was 25% (Pollin et al, 2008).

The main source of the regional variation in living costs within countries is housing and childcare costs, which are consistently higher in Dublin and London compared to other regions in both countries. Food basket costs, for example, vary much less by location. For the reference household in the Irish living wage calculations (single full-time worker, living alone, no dependants), weekly housing costs in the capital are more than double those of the rest of the country (€238 per week vs €108 per week, 2018). This differential is almost the same as the overall gross living wage salary differential (€564 per week vs €428 per week, 2018) between Dublin and the other three regions (weighted average). In London, for adult households with no dependants, and therefore reliant – as in Dublin – for living wage purposes on the private rental market, the differential in housing costs between London and the rest of the UK is 60% for single persons and 135% for couples. It is likely that the reason for the big difference for couples is that the housing costs foreseen for single workers without dependants in London incorporates the high probability of living in shared and, therefore, relatively cheaper accommodation for those without dependants in the capital. This assumption is not made for working couples in London, who are assumed to be living in a one-bedroom flat.

The UK living wage calculations are based on weighted averages of different household types. All of the household types where dependent children are present are assumed to be in the (less expensive) social rented sector. For example, the estimated rent costs of a two-adult, four-child family are lower than for a single person living alone in London assumed to be in private rental accommodation. Housing costs for a couple in London without dependants constitute over 40% of household budget at the living wage but 12–24% for workers with dependants.

For childcare costs, there are also significant differentials between the capital city and the rest of the country in both the UK and Ireland. Childcare costs in London are in the range of 19–24% (D'Arcy and Finch, 2017) more expensive compared to the rest of the UK, depending on household type. In Ireland, the difference is even bigger, in the range of 25–30%. Part of the reason for this greater difference is the higher share of childcare costs, notably for preschool children, that are subsidised in the UK compared to Ireland. New rules introduced in 2017 allow working parents in England and Wales to get 30 hours of free childcare per week for 3–4-year-olds, double the previous figure. This would constitute around 70% of childcare costs for parents of children in this age group, where childcare costs are typically highest.[10] Childcare subsidies have also been expanded in Ireland in recent years, but the subsidy coverage of Early Childhood Care and Education (ECCE) is much more limited and would cover at most 30–35% of costs for children aged 3–5 years.[11] The childcare costs in the MESL are the amount payable by the household after the ECCE subsidy is paid to the provider. The relative costs of childcare are also greater in general in Ireland compared to the UK.

Some general conclusions can be drawn from this section. The most important is that a living wage – even if based on a single publicised rate – needs to encompass ancillary calculations if it is to secure a minimum basic standard of living for all workers given the large variation in household circumstances and needs. In this regard, the living wage and minimum income standards can be considered complementary. The MIS research reflects the complexity of household types and household work intensities and provides many answers tailored to different household situations, but it does not provide a single rate that can serve as a focus for campaigning and advocacy. The living wage, on the other hand, expressed as a single hourly rate, produces a very 'simple answer to a complex question but one that acts as a readily identifiable reference point' (VPSJ, 2016).

Based on the UK and Irish living wage calculations, larger households would require a living wage up to twice as generous (in hourly terms) as the publicised living wage rate. Second, there is no consistent reference household for the various living wage calculations covered in this section. The reference is a weighted average of all household types used in the UK, single-worker, no-dependant households in Ireland and two-adult, two-child family units used in Canada and New Zealand. Third, living wages tend to be higher in large, metropolitan areas compared to their hinterlands in the same country, in an indicated range of 15–25%. This reflects higher living costs in the larger cities. These differentials appear to relate principally to higher housing costs and higher childcare costs. Finally, the availability of state transfers and subsidies introduce another important source of variation in living wage calculations both within countries and between countries. Within countries, this can arise because low-income families with dependants have more access to housing benefits than those without dependants, who are more reliant on market rents. The availability and accessibility of public or subsidised housing is a significant factor in lowering living wage requirements, especially for larger households.

10 While the 2017 living wage calculations take account of this increased subsidy, D'Arcy and Finch (2017) note that 'data available on the implementation of this commitment is limited' and that, as such, its inclusion would be subject to review.

11 Based on a subsidy of three free hours per day, five days per week, limited to school term only (Citizens Information, n.d.).

Between countries, there are different levels of subsidy in core household consumption categories – housing, childcare, health – even between two countries often assigned to the same anglophone category in comparative research on national welfare regimes. The UK living wage includes some subsidised social rental sector components in its housing costs calculation, while the Irish living wage does not. This is reflected in higher relative and absolute housing costs in the Irish living wage. Changes in social benefit levels are an important part of living wage calculations; the more generous the transfers, the lower the burden on labour income/employers to raise low-income households and the lower the living wage.

Sample living wage rates

Living wages are higher than minimum wage rates in the same locality. As already indicated, most living wage initiatives are mobilised on the basis that statutory minimum wage rates are inadequate in providing a basic living standard and that a higher threshold is therefore necessary. Table 6 shows that the current UK (outside London) living wage is set at a modest 15% above the UK statutory minimum wage (the NLW, see Table 5, p. 35.). This is the smallest gap observed between legal minimum wages and living wages in the small sample of locations featured. In North America, on the other hand, both the Vancouver (Canada) and San Jose (US) city living wages are over 80% higher than the relevant statutory minima.

While set above the statutory minimum wage, existing UK and Irish living wage rates are all modest pay rates by most definitions. They are, for example, low pay rates according to the common OECD standard (less than two-thirds of median hourly pay). In the range of 55–63% of median pay, they are close to the 60% of median hourly pay level, which is increasingly set as a target threshold for more progressive statutory minimum wages and is also the threshold that the European Trade Union Confederation (ETUC) indicates in its 'Europe needs a pay rise' campaign. In 2014, only

Table 6: Sample of 2017/2018 living wage rates

Location	Living wage (LW) (per hour)	Minimum wage (per hour)	LW as % of minimum wage	Median hourly wage [a]	LW as % of median wage	Start date	Mode of operation
UK – London	GBP 10.55 (€11.90)	GBP 7.83 [b] (€8.80)	135%	GBP 19.00 (€20.90)	56%	2003	Via employer accreditation. 1,450 accredited employers in London in 2018.
UK – outside London	GBP 9.00 (€10.20)	GBP 7.83 (€8.80)	115%	GBP 15.20 (€17.20) (all UK)	>59%	2011	Via employer accreditation. 4,700 employers accredited employers in UK in 2018.
Ireland	€11.90	€9.55	125%	€20.16 [c]	c. 59%	2014	Not operational. Advocacy only.
New Zealand	NZD 20.55 (€12.10)	NZD 16.50 (€9.70)	125%	NZD 25.00 (€14.70)	82%	2013	Via employer accreditation. 85 employers in 2017.
Canada [d] – Vancouver	CAD 20.62 (€14.10)	CAD 11.35 [e] (€7.80)	182%	CAD 22.50 (€15.40) British Columbia	-	2008	Via employer certification. In British Columbia, 80 employers certified as LW payers.
Canada – Calgary	CAD 18.15 (€12.45)	CAD 13.60 (€9.30)	133%	CAD 25.89 (€17.75) Alberta	-	2008	Via employer certification. 'Small employer-recognition programme'.
US – San Jose	USD 21.82 [f] (€19.30)	USD 12.00 (€10.60)	181%	USD 28.70 (€25.40)	76%	1998	By legal ordinance, covering all employers with city contracts or city funding.

Note: *2018 data for UK, Ireland and New Zealand, 2017 others. All are subject to annual revision unless noted.* [a] *The median hourly wages indicated are not always based on the same population of earners as the living wage. As a result, the percentages (living wage/median wage) should be considered as indicative only.* [b] *The statutory UK MW (so-called 'national living wage') for those aged 25+, covers all UK with no London-specific rate. Separate sub-minima for 21–24-year-olds (GBP 7.38 per hour, €8.30), 18–20-year-olds (GBP 5.90, €6.70), 16–17-year-olds (GBP 4.20, €4.70).* [c] *Indicative only. Rate from 2014, based on European Structure of Earnings survey data (employers with more than 10 employees only).* [d] *Living wage rates and certification processes in Canada vary from location to location. The Canadian Living Wage Framework estimates that there are 54 living wage communities in Canada.* [e] *Minimum wages in Canada enacted and enforced at province/territorial level rather than nationally. Minimum wage hourly rates range in 2017 from CAD 10.85 (c. €7.45) in Nova Scotia to CAD 13.60 (€9.30) in Alberta.* [f] *Or CAD 20.57 per hour (€18.20) if health benefits provided by employer.*
Sources: *Various*

three Member States (France, Portugal and Slovenia) had minimum wages set at this level or higher (Eurostat, 2017), and updated data for 2016 show only one country (France) with a minimum wage above 60% of the median. The majority of EU minimum wage rates are at or below half of the median hourly rate (ETUC, 2017).

To summarise, based on an admittedly very small sample of observations, while legal minimum wage rates generally lie in the range 35–60% of median hourly earnings, living wage rates are higher and in the range 55–85% of median hourly earnings.

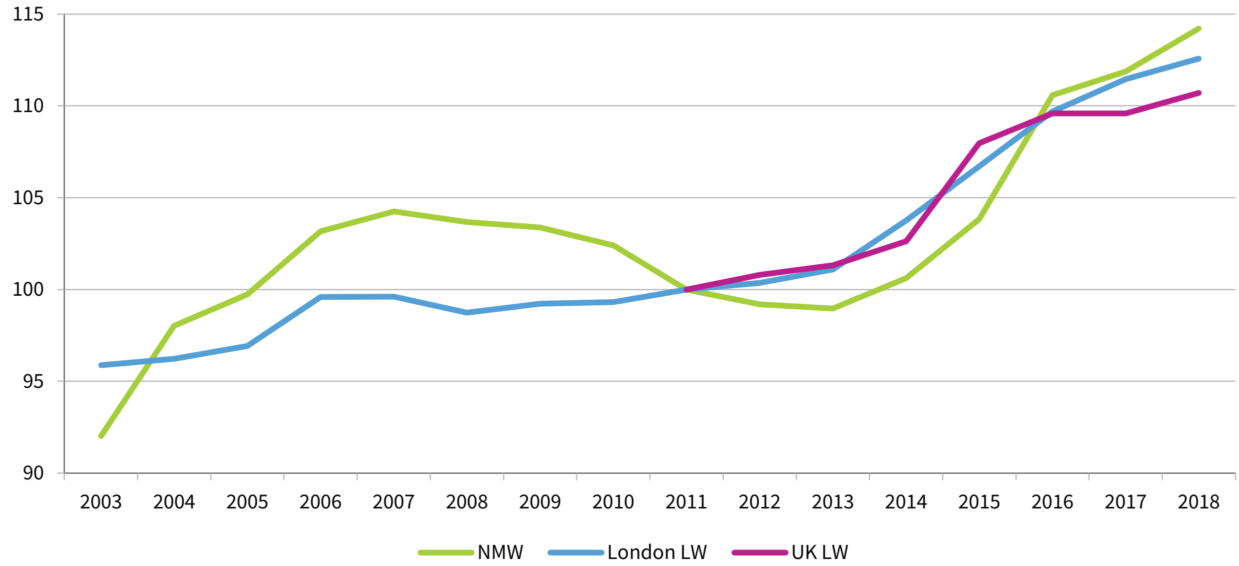
Changes in rates over time

All of the living wage rates covered in this report are revised annually. These upratings take account of price changes per item in the living wage 'basket' but also changes in the basket's composition based on focus group input. As Figure 3 shows, annual increases have tended to exceed inflation in the UK; similar increases have been observed for Ireland. The main reason for this is that the basket of goods and services for low-income households tends to have a high weighting in goods/services where inflationary pressures are greatest – notably housing and childcare. Between 2003 and 2017, the London living wage rose by 59% in nominal terms while inflation (Harmonised Index of Consumer Prices – HICP) rose by 37% in the same period – equivalent to a cumulative increase of 16% in real wages. In their brief period of operation, the UK (outside London) living wage and Irish living wage rates have also increased in real terms.

But these increases have been modest in comparison with those of the national minimum wage. In the UK, the tripartite LPC makes recommendations to government on the annual revision of the statutory minimum wage and has acquired a reputation for robust evidence-based advice. At the launch of the UK national minimum wage in 1999 there was widespread concern, in particular among employers and policymakers, regarding potential negative employment impacts (Brown, 2017). The LPC's conservative approach to rate setting and revision is credited with avoiding such pitfalls and allaying these concerns. Figure 3 shows that rises in the statutory minimum wage have consistently surpassed those for the London living wage – suggesting that the London living wage revisions have been at least as prudent as those of its statutory counterpart.

One striking difference is the pro-cyclical nature of the shifts in the statutory minimum compared to the comparatively steady increases in the real value of the living wages. The real value of the national minimum wage rose sharply up to 2007, declined during the global financial crisis and its aftermath up to 2013 – as a result of modest nominal increases but sharp increases in inflation – before jumping again with the introduction of the NLW in 2015. Minimum wage setters tend to take advantage of periods of stronger growth, when employer resistance is likely to be more muted, in order to boost the earning power of minimum wage earners and meet their core policy objective of improving the lot of low-paid workers. Conversely, they exercise greater restraint during downturns, when the policy concern shifts to rising unemployment. UK living wage increases

Figure 3: Change in real value of UK statutory minimum wage and living wage rates, 2003–2018 (rebased to 2011 = 100)



Notes: *The rate indicated for the national minimum wage for 2015 onwards is the higher minimum ('the national living wage') applying to those aged 25+. The UK (outside London) living wage has been operational since 2011. Full table data is available in Annex 1.*
Source: *Authors' elaboration, based on Eurostat HICP data for UK inflation (October estimate of each year)*

have, by comparison, been steadier and less cyclical. Living wages are already set at a higher level, and they are more anchored to living costs and less influenced by broader macroeconomic conditions or shifting policy priorities. In addition, they have been smoothed via a capping mechanism which restricts year-on-year rises. This is detailed in the next section.

Each of the three UK wage floors shifted to a faster real growth rate in 2013 and 2014 as the recovery became more established. Over the medium term, there has been some upwards convergence of the statutory minimum towards the living wage rate in the UK.

Other aspects, including caps and shock absorbers

Living wages should evolve to reflect the cost of living and changes in benefits/state transfers but they must also be adjusted with a view to the requirements and expectations of their different constituencies. Employers, in particular, emphasise the importance of a methodology for rate revision which is transparent but also one that ensures that changes are predictable and smooth over time. In this way, the calculation of present and future labour costs is less subject to unexpected shocks. Some 'shock absorbers' included in the UK living wage calculation address this requirement.

Year-on-year rises of the UK living wages are capped at CPI + 3 percentage points. This allows for the living wage to appreciate in real terms based on general CPI. The additional 3 percentage points allows in particular for deviations in the composition of expenditure for low-income households compared to the average household. It also caters for any upwards adjustments in the living wage basket based on changing social norms as evidenced from focus group inputs and reductions in entitlements/social transfers requiring compensatory increases in the living wage. It also, in principle, embodies a buffer for progressive, equalising wage developments where positive labour market conditions allow this.

The formula (CPI + 3 percentage points) is the compromise solution adopted when a common methodology for the UK and London living wages, hitherto separately calculated, was implemented in 2015. Previous caps had been based on tracking changes in median household income or average earnings, which tend to appreciate faster than prices, though these included a smaller additional increment (2 percentage points). A cap based on the year-on-year increase in average hourly earnings is used in Ireland (Living Wage Ireland, 2017), but without additional increment. An argument in favour of using inflation rather than average wage developments in the cap calculation is that the living wage aims in the first instance to track changes in the cost of living.

Where the cap is exceeded in a given year, a reference living wage rate is calculated as well as the applied rate – the first based on the 'pure' living wage uprating calculation, the second based on the capped rate. In principle, in succeeding years the applied rate should converge with the reference rate and, in time, the 'real' living wage rate should apply. The importance of the cap can be seen in the UK, where rate rises for the living wage exceeded the cap every year from 2011 to 2015, based on stagnant real earnings and reductions in tax credit entitlements. The cap was therefore triggered in each of the years, leading to a divergence of the calculated reference rate and the published operational living wage rate. The cumulative effect was that by 2015 the reference rate was over GBP 1 an hour (€1.37), higher than the operational living wage rate. This 'weakened considerably the link between changes in the applied living wage and changes in living costs' (Hirsch, 2017b).

Other shock absorber measures include the use of multi-year moving averages for volatile components of expenditure (for example, housing/rent). In the UK, the Living Wage Commission also reserves the right to phase in sharp shifts in the calculated rate over a number of years (Hirsch, 2017b).

So, while the rationale for introducing such caps is clear, the evidence from the UK/London living wages is that they may compromise the core underlying claim of the living wage – to match wages to changes in living costs. This is especially true in times when policy changes have a negative impact on household income coming from sources other than the labour market, as was the case in the UK in the early years of this decade. The 'social wage', the net effective transfers from the state to low-paid workers via child benefits, in-work benefits, tax credits, housing subsidies and so on, and the living wage are complementary. Negative changes in one should be offset by positive changes in the other.

5 Assessment of the impact of living wages

There is an extensive literature on the potential effects of wage floors. Most of this literature refers to the impact of minimum wages. There are fewer empirical studies on the effects of living wages due to their limited implementation to date. The empirical evidence from statutory minimum wage schemes is more straightforward because, with some exceptions, they affect the workforce in general. Living wage schemes are fewer, their coverage is more limited and they are voluntary in nature, raising questions of bias and data availability. As a consequence, it is not possible to use the same econometric methods used to estimate, for example, employment outcomes in the burgeoning minimum wage literature and apply them to living wage initiatives.

Assessments of living wage initiatives therefore tend to highlight their impacts on employer costs (often by sector), employer reactions to cost increases, the 'bite' or share of employees benefiting from increased wages in covered employers, employer accreditation levels and breakdown by sector (for example, in the UK voluntary living wage), employee turnover and more qualitative impacts such as job satisfaction and corporate image.

Employment effects

Minimum wages

The most discussed aspect of wage floors in the literature refers to their potentially negative impact on employment levels. According to neoclassic economic theory, setting a wage floor above the wage equilibrium level determined by the interaction of labour supply and demand in competitive labour markets results in unemployment. While there are more people willing to work at the higher wage level, the employer's demand for labour is reduced as some workers become too expensive to hire and still make a profit.

This binding wage floor is likely in theory to damage the employment prospects of the lower-paid and less productive employees (typically young and low-skilled) it aims to help. From this perspective, even if the impact of wage floors on aggregate employment levels is negligible, it could affect specific groups of workers due to the potential existence of substitution effects.

Nevertheless, classical economics also accommodates scenarios in which wage floors may lead to employment creation. These arise because labour markets in particular are unlikely to be characterised by perfect competition. First, in a situation where a single or dominant buyer of labour exists in a local labour market (known as monopsony), employers may exploit their pricing power to either pay lower wages or to employ lower numbers than they would in a more competitive market. A wage floor in these circumstances can raise pay and employment numbers simultaneously, in effect serving as an antidote to the inefficiencies of a monopsonistic market. Second, according to efficiency wage models, employers may expand employment as a result of higher wages, increasing workforce productivity. This relationship between productivity and wage earned means that a higher wage floor may incentivise the least productive workers to improve their skill levels in order to remain employed (Cahuc and Michel, 1996) or incentivise employers to increase skill levels through training in order that minimum wage workers are sufficiently productive to generate their marginal product of labour. A third, macroeconomic channel for potential positive employment effects of a minimum wage is an increase in aggregate demand based on redistribution of income towards low-income households, whose marginal propensity to consume from income is relatively high.

The evidence of the effect of minimum wages on employment outcomes has evolved over time and has if anything become more inconclusive. Up to the 1990s, a consensus existed on the negative effect of minimum wages on the employment levels of younger workers, as summarised in Brown et al (1982): 'a 10% increase in the minimum wage reduces teenage employment by 1 to 3%'. This research distinguished employment effects between different groups: for teenagers (16–19 years old), a 10% increase in the minimum wage reduces employment by up to 1.5% for young adults (20–24) the impact is negative but smaller than for teenagers; for adults, the impact is uncertain, according to both theory and empirical research. This consensus was progressively challenged from the early 1990s by a new wave of data-driven studies using pseudo-experimental methods (Card and Krueger, 1994; Dube et al, 2010). These reported modest and often not significant (Dolado et al, 1996; Vaughan-Whitehead, 2010) negative employment effects of wage floors on youth employment.

Card and Krueger (1994) observed small positive employment effects resulting from a rise in statewide minimum wages in New Jersey restaurants compared with restaurants in neighbouring towns in Pennsylvania where no minimum wage increase occurred. Using aggregate data, in a comparison of higher than federal minimum wage states and standard federal minimum wage states, Pollin et al (2008, pp. 216–222) showed that employment growth was greater in the states with higher minimum wages, including in low-paid sectors most affected by minimum wage increases.

An overview of recent research on the minimum wage concludes that the employment effects of minimum wages are ‘elusive’ (Manning, 2016), while the positive impacts on worker wages are clear. Though negative employment effects are more likely to be observed in studies involving younger workers/teenagers (the category most likely to be paid the minimum wage and the most exposed to potential negative employment effects), even for this group the ‘[negative] employment effect is hard to find’. This does not mean that minimum wage floors have no effect on employment. It is instead an acknowledgement that minimum wages have tended to be set conservatively, at a relatively low level, and have been generally successful in their secondary policy mandate to minimise labour market distortions. All labour economists agree that at a certain point, raising minimum wage rates is bound to generate negative employment effects, but at what precise turning point this occurs is largely still a matter of conjecture. There is a ‘range of indeterminacy’, according to one of the older concepts of minimum wage research (Lester, cited in Card and Krueger, 1995) which estimates the range of minimum wage floor increases that can be expected to entail marginal or non-significant employment losses. The lower limit of this range of indeterminacy has shifted upwards over a generation of minimum wage research, and based on the empirical research cited above, the upper limit may not yet have been breached. However, partially in response, statutory minimum wages have become even more prevalent across developed countries as policymakers have become less anxious about the labour market consequences of such interventions. Policymakers have also become more emboldened to make bigger increases in minimum wage rates, with more progressive targets for their future development (for example, as a share of average or median wages). This has happened notably in central and eastern European countries (Eurofound, 2018) but also in western European Member States such as the UK, and in many cities and states in the US. Political parties that had, in recent memory, been hostile to statutory minimum wages as ‘job killers’ are among those most actively revising upwards the real value of wage floors (BBC News, 1998, 2015). In the case of the UK, this policy reversal has explicitly appropriated the living wage banner.

One consequence of relatively fast-rising statutory minima, in the UK and elsewhere, will be further data allowing a re-examination of the link between minimum wage rates and possible negative employment effects. As recent increases in the minima have been proportionately much higher in real terms, there is a greater likelihood of identifying the ‘elusive’ turning point where higher wage floors translate unequivocally into reduced employment prospects.

For the purposes of this report focusing on living wages, the most illustrative examples regarding minimum wages would come from those few cases where the latter are either set at very high levels or have been subject to notable hikes. Such examples provide a better approximation to the employment effects of living wages. France provides an example where statutory minimum wage levels are set at comparatively high levels, at around 60% of the median wage. France has been characterised in the past by relatively high unemployment rates, especially among younger people, and this has often been attributed to its high minimum wage. Earlier analysis (for example, Abowd et al, 2000) comparing the effects of minimum wage regimes in France and the US on youth employment provided support for such a case. However, according to Manning’s (2016) recent overview of minimum wage research, ‘the fact that the minimum wage is increased every year according to a formula with only small variation relative to average earnings means that it is very difficult if not impossible to clearly identify the impact of the minimum wage in France’.

Germany and Slovenia provide two recent examples where minimum wage levels were introduced or raised suddenly and significantly. The Slovenian statutory minimum wage was raised by almost 25% in March 2010 (from €597 to €734 gross per month) due to legislation, an increase from representing 41% of the median wage to around 50%. Unemployment rates were on the rise from 2008 in Slovenia (and in neighbouring countries) and started to decline notably from 2013, but the deep economic contraction occurring in the country from the onset of the financial crisis makes it difficult to assess the specific impact of the minimum wage hike. Nevertheless, negative employment effects, especially for young and low-skilled workers, have been identified by some research using microdata. Laporšek et al (2015) found that the minimum wage rise increased the probability of both transition from employment to unemployment and/or inactivity and job-to-job transition for affected workers. The negative effect was higher among young and low-skilled workers, whose transitions from unemployment back into employment have been negatively affected as well.

A more recent example is provided in Germany, where statutory minimum wages set at €8.50 per hour (representing nearly 50% of the median wage in the country) were introduced in 2015 in part to address an increasing incidence of low-paid work, especially among those not covered by collective pay agreements in the wake of the Harz labour market and welfare reforms of the 2000s. It may be too early to assess the impact of this policy change, although some empirical studies using microdata at the establishment level have already identified small negative employment effects (Bossler and Gerner, 2016). However, the German unemployment rate has continued its steady decline during and after the introduction of the minimum wage and was, at the time of writing, at its lowest level in a generation (less than 4%). In its August 2015 monthly report, the Bundesbank stated that 'the impact of the introduction of the minimum wage on the total volume of work appears to be very limited in the present business cycle' (Deutsche Bundesbank, 2015). A more recent econometric analysis concluded that the introduction of the minimum wage had made a positive contribution to economic growth, mainly through enhanced wage growth and consumption among those on low pay, and had shifted labour market demand away from 'mini jobs' while having a 'positive but not significant effect on employment' (Herzog-Stein et al, 2018).

Living wages

In general, empirical studies on living wages, most of them conducted in the US (where the effect of the mandatory city-based living wage ordinances in the 1990s and 2000s was extensively analysed), find that living wage thresholds affect a small proportion of companies and that they typically result in a 1–2% increase in the costs (operation costs/sales) they face, although this impact may be significantly larger in low-wage industries (see Brenner, 2004, for a review).

Due to their relatively short history, some of the initial studies on the impact of living wages were driven by prospective analysis which estimated the likely outcomes of living wages during the study period, before their impact was known. Such studies generally predicted insignificant employment effects. For example, this was the case with the introduction of the living wage ordinance in Santa Fe in 2003, adopted by the City Council, introducing a USD 8.50 per hour (€6.90) threshold in 2004, USD 9.50 (€7.70) in 2006 and USD 10.50 (€8.50) in 2010. Prospective empirical studies evaluating the impact of the living wage introduction in 2004 estimated that an increase of 1% in the costs over the total sales was to be expected at the representative firm (although it would reach levels of 3–4% in the accommodation and food services industry and more than 2% in healthcare), with negligible employments effects (Pollin et al, 2008).

Several prospective studies have also been conducted in the UK. An early prospective study provided an upper bound estimate of the employment effects of living wages by modelling a scenario in which all private sector employees would earn at least the living wage (Lawton and Pennycook, 2013); that is, raising the statutory minimum wage level to living wage level, an increase of 20% outside London and 40% in London. According to this study, overall labour demand would be reduced by around 160,000 people, which represents around 4% of the four million private employees that would benefit by such a wage rise and a 0.5% reduction in overall UK employment – 'not a large impact, but not negligible'. The largest negative impact would be on the employment levels of employees below 22 years of age and in the wholesale and retail and the hotel and catering sectors. According to the authors, these estimates represent a worst-case scenario because standard labour market models tend to overstate labour demand effects by, for instance, underplaying the labour market imperfections that explain 'efficiency wages' (Akerlof and Yellen, 1986; Stiglitz, 1987) or the extent to which higher wages may increase the incentive to work. Moreover, they acknowledge that a similar model applied to the introduction of the UK national minimum wage in 1999 would also have predicted job losses, which in the end did not occur. Reed (2013) conducted a similar exercise by estimating the potential impact of extending the living wage to all employees in the UK and found in contrast that 'aggregate job gains in excess of 7,000 are the most likely outcome of a statutory living wage', resulting from likely job losses in certain low-wage sectors being more than offset by job gains in some other sectors due to the multiplier effects of higher wages over the whole economy.

Brenner and Luce (2005) studied the impact of living wage ordinances on contractors (private employers holding contracts with municipal governments) in three cities (Boston, Hartford and New Haven) and investigated the employment effects via a survey (only carried out in Boston) conducted three years after the implementation of the living wage. They found that 'firms forced to raise wages actually significantly expanded the number of staff assigned to their city contracts and did not turn to part-time instead of full-time jobs to absorb higher labour costs'.

An empirical study conducted after the introduction of the living wage ordinance in Santa Fe did not identify an adverse impact on the job market since:

> *workers in low-wage occupations employed in Santa Fe prior to the living wage ordinance experienced no employment losses following either the initial $8.50 minimum wage or the subsequent increase to $9.50.*
>
> (Hollis, 2015)

Nevertheless, one study conducted at the time found that the unemployment rate among the least educated workers increased notably after the introduction of the first threshold in 2004 and that 'for Santa Fe workers without high school diplomas, the minimum wage ordinance resulted in reduced usual hours of work per week by 3.6 hours' (Yelowitz, 2005), although the methodology used in this study has been criticised and other researchers have highlighted that overall employment in Santa Fe grew by 2%, exactly the same rate as the whole of New Mexico, in the period after the ordinance (Pollin et al, 2008).

As has been suggested by some of the empirical studies cited above, employers have options other than reducing employment in order to adapt to higher wages. This is one of the important shortcomings of labour market models assessing the employment effects of wage floors: they do not consider the potential changes in the behaviour of employers (and employees). The lack of employment effects as a result of higher wage floors may be due not only to labour market imperfections but also to employers adapting to absorb higher wage costs rather than potentially costly disruptions of existing employment relationships (Card and Krueger, 1995; Aaronson, 2001). These are covered in more detail in the box below.

Hypothetical EU living wage: An accounting exercise

This box presents a hypothetical scenario in order to assess how the introduction of a living wage might impact on labour markets in broad terms. The exercise allows us to determine the share of workers earning less than such a wage level and to describe the characteristics of such workers in different Member States. It also adds evidence to the existing debate about the coordination of minimum wage policies at European level which was begun over a decade ago (Schulten et al, 2005) but has been given fresh impetus; for example, in the recent Trades Union Congress (TUC) and European Trade Union Confederation (ETUC) wage campaigns ('Europe needs a pay rise') and in the fair wage commitments of the EPSR.

As explained throughout this report, the concept of living wages rests on the introduction of wage floors which result from detailed calculations that include the needs of different households and changes in the costs they face by using a basket of different goods and services. Due to the lack of adequate comparative data to conduct such an exercise at EU level and for the sake of simplicity, the hypothetical policy scenario considered here departs from this living wage methodology and explores instead the impact of setting wage floors at a level equalling 60% of median wages across European Member States. This specific level has been selected for three reasons: first, and most importantly, the estimated 'real' living wages in the UK and Ireland are in a reasonably narrow range around 60% of the median hourly wage level (see Table 6); second, 60% of median pay has become a reference rate for progressive statutory national minimum wages, for example in France and also in the UK; third, this is the level typically referred to in the debate on EU-wide minimum wage policy and was, for example, the reference threshold of previous Eurofound research on the topic of European minimum wage coordination. In this work, the precise reference rate was 60% of the median full-time equivalent monthly gross wage across European countries (Eurofound, 2014).

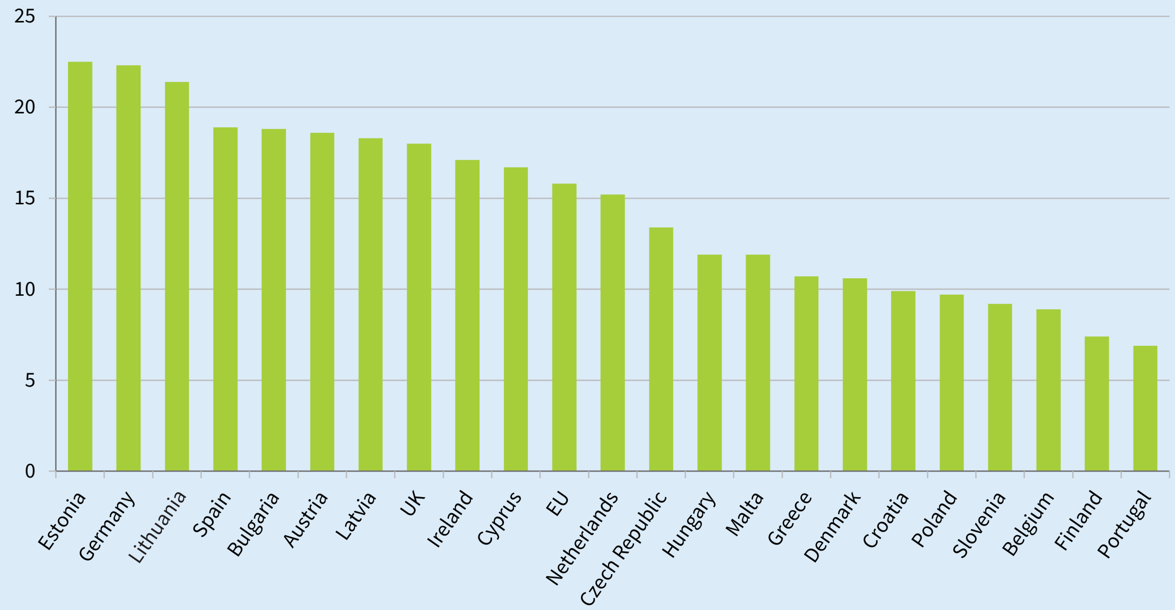
The analysis conducted is primarily aimed at providing an accounting exercise indicating the size of the population affected by such policy, and its characteristics, leaving aside other possible policy considerations.[12] Figure 4 presents an analysis based on European Union Statistics on Income and Living Conditions (EU-SILC) data measuring the proportion of employees whose wage levels are currently below 60% of the median wage in their countries. The analysis includes EU28 countries except Luxembourg, Italy, Sweden, France, Slovakia and Romania, where data is considered unreliable and will not be included.[13]

For the EU as a whole, around 17% of employees would currently be found below the hypothetical living wage level. A wide cross-country variation emerges. In relative terms, the largest segments below the threshold are in the Baltic countries, Austria, Bulgaria, Germany, Ireland, Spain, and the UK (in all cases representing at least 17% of the total employees and well above 20% in Estonia, Germany and Lithuania). On the other hand, a living wage set at 60% of median pay would affect a much lower share of the workforce in Portugal, Belgium, Scandinavian countries and several eastern European countries (Slovenia, Poland and Croatia), where the low-paid share accounts for less than 10% of employees.

12 For a detailed discussion on the implications of an EU-wide coordination of minimum wage policies, relevant also for the case of living wages, see Eurofound (2014).

13 Notable discrepancies in the data emerge in those countries when comparing EU-SILC data with the other main source of European wage data, the Structure of Earnings Survey (SES). According to SES, low-pay levels would be much higher in Romania and Slovakia, while they would be significantly lower in France, Italy, Luxembourg and Sweden. See Eurofound (2014) for further details.

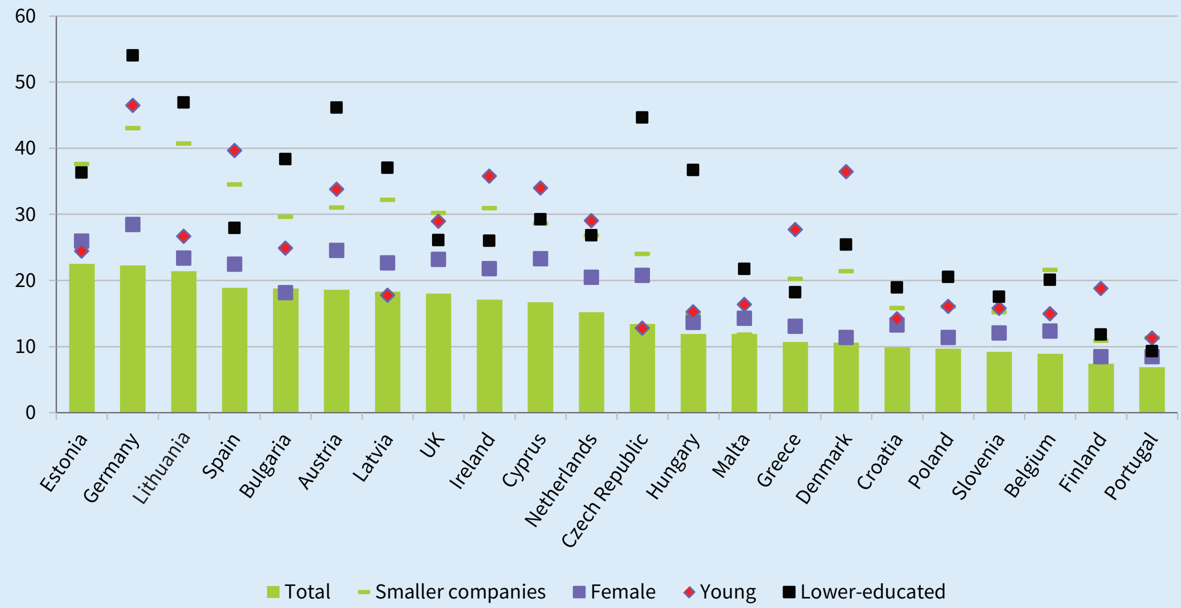
Figure 4: Proportion of employees in EU Member States affected by the hypothetical living wage policy, 2015 (%)



Note: *Countries where data were considered unreliable are not included.*
Source: *Authors' elaboration, based on EU-SILC data*

The incidence of lower wage levels is not homogeneous across the workforce; therefore, population subgroups would be affected differently by the introduction of such a hypothetical wage floor. Figure 5 presents data on those groups that would particularly benefit from it given their much stronger presence at the bottom of the wage distribution. The incidence of low pay is notably high in the case of lower-educated employees (especially in some eastern European countries such as the Czech Republic, Hungary and Slovakia, and in Austria and Germany), younger employees (especially in most Scandinavian and Mediterranean countries) and, to a lesser extent, female employees and those working in smaller firms. Although not shown in the figure, employees in specific sectors such as accommodation and catering, retail and agriculture are also much more likely to be in low-paid work.

Figure 5: Proportion of employees affected by the hypothetical living wage policy, by specific characteristics, 2015 (%)



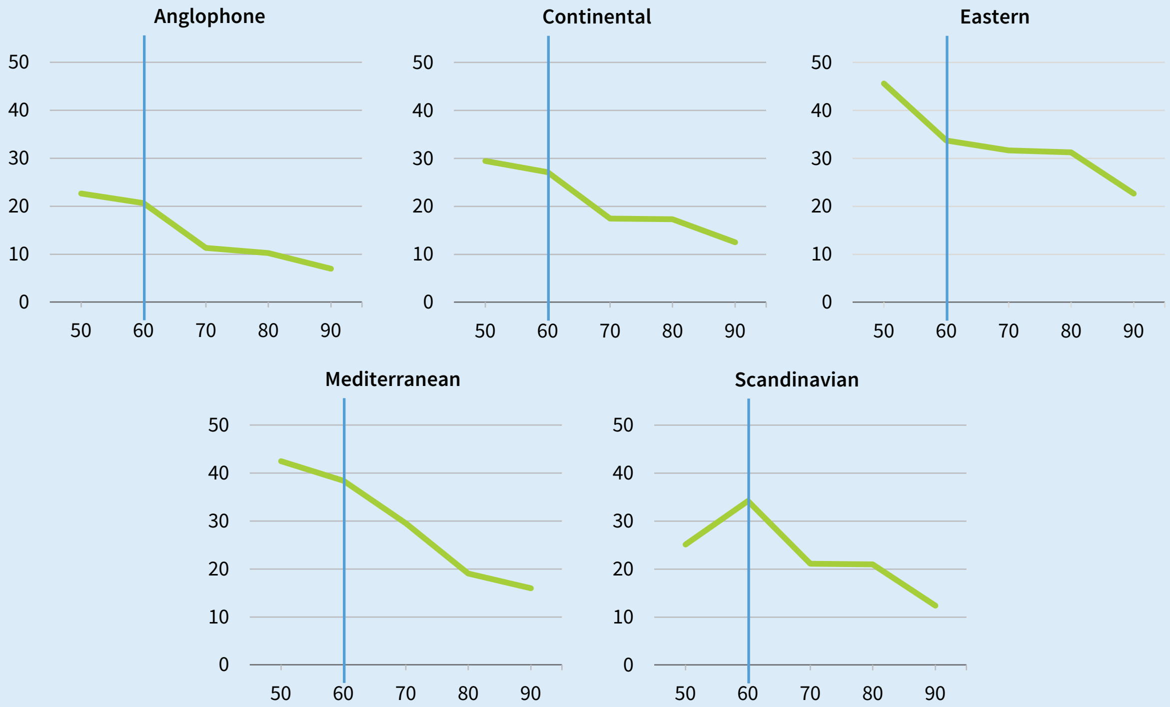
Note: *Countries where data were considered unreliable are not included.*
Source: *Authors' elaboration, based on EU-SILC data*

Due to wide divergences in real wage levels across the EU, this hypothetical living wage equalling 60% of the median would be set at very different levels across European countries, ranging from slightly above €200 per month in Bulgaria to above €2,500 per month in Denmark.[14] For the purposes of this analysis, what is most relevant is whether this policy of setting wage floors at 60% of the median wage would really embrace the concept of a living wage. Answering this question poses an important challenge, since the concept of living wages links the labour income earned by individuals to the satisfaction of the material needs of the individual and possibly of other household dependants, while the hypothetical policy illustrated in this analysis is just the result of setting wage floors arbitrarily across European countries at a certain level.

Given the limitations posed by EU-SILC data, an analysis is presented assessing the extent to which these living wage levels are able to cover the most basic material needs of households. Considering the complexity of household needs across regions and countries, it is not possible to make broad estimations from EU-SILC data. It does however allow the construction of a material deprivation index, a measure commonly used by Eurostat.[15] The deprivation index developed by Eurostat considers as 'materially deprived' those households that cannot afford at least three of the following items: to pay their rent, mortgage or utility bills without arrears; to keep their home adequately warm; to face unexpected financial expenses; to eat meat or proteins regularly; to go on holiday for at least a week annually; to be able to afford a television set, a washing machine, a car or a telephone. Households which cannot afford at least four of these nine items are considered to be 'severely deprived'.

For the sake of simplicity, the analysis considers only those households comprising a single person working as an employee, so that the association between the living wage threshold and the needs of the household can be more easily established. Figure 6 plots the incidence of material deprivation (on the y-axis) against a wage scale

Figure 6: Share of households affected by material deprivation at different relative wage levels (expressed as a percentage of the median wage), 2015



Notes: *The y-axis represents the share of households affected by material deprivation, while the x-axis represents the relative wage levels (of households of one employed person) expressed as a share of the median wage. The x-axis values have been grouped: 50% refers to those with wage levels of 50–59% of the median; 60% refers to those with wage levels of 60–69% of the median, and so on. Country groups: Anglophone includes the UK and Ireland; Continental includes Austria, Belgium, Germany and the Netherlands; Eastern includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland and Slovenia; Mediterranean includes Cyprus, Greece, Malta, Portugal and Spain; Scandinavian includes Denmark and Finland.*
Source: *Authors' elaboration, based on EU-SILC data*

14 A threshold corresponding to 60% of the median wage would equal the following levels across European countries: Austria €1,781.5; Belgium €1,905.5; Bulgaria €210.8; Croatia €442.1; Cyprus €875.5; Czech Republic €505.6; Denmark €2,521; Estonia €568.2; Finland €1,810.6; Germany €1,715.6; Greece €706.8; Hungary €318.2; Ireland €1,811.7; Latvia €431.5; Lithuania €368.2; Malta €925.6; Netherlands €1,994.3; Poland €403; Portugal €551.8; Slovenia €893; Spain €1,042.9; UK €1,522.5. For these calculations, the very low wage values (corresponding to less than half the minimum wage in each country) have been eliminated (for more details, see Eurofound, 2014).

15 For example, it is used as one of three sub-indicators in the 'at risk of poverty and social exclusion' (AROPE) indicator used in the EU2020 strategic targets. This sub-indicator measures whether a household can afford several items generally considered necessary for an adequate standard of living and can be understood as a measurement of the basic needs of households and the extent to which they are met.

(expressed as a percentage of the median income, on the x-axis). The vertical line set at 60% would approximately represent the wage floors resulting from the hypothetical living wage policy (although not exactly, as explained in the notes of the figure). European countries have been grouped in country clusters. The data offer two main insights.[16]

First, the incidence of material deprivation is highest in eastern European countries, followed by Mediterranean countries, and is much lower in continental, anglophone and Scandinavian countries.[17] Second, as expected, the incidence of household material deprivation declines as relative wage levels improve, although the relationship between the two seems to be generally more linear in western Europe, while the incidence of material deprivation is more persistent in eastern European countries, even at levels approaching median pay.

The data suggest that a hypothetical wage floor at 60% of median wages across European countries would mean a majority of households (understood as those with a single adult working as an employee) would not be subject to material deprivation. Nevertheless, while households with such a wage level are generally much less affected by material deprivation than those below it, material deprivation would still be a reality among a significant proportion of households, especially in eastern Europe.

Alternative adjustment mechanisms to higher labour costs

Whether employers decide to change hiring decisions or to dismiss employees following a hike in wage floors will depend on the magnitude of the cost increases they face and what other options they have to adapt their operations to these higher costs. Such higher costs are not equally distributed across sectors and are proportionately higher in low-wage industries such as security, food and accommodation or janitorial services.

For instance, Pollin et al (2008) estimated prospectively the expected impact of the introduction of a living wage ordinance in the Santa Fe City Council in 2004 – set at USD 8.50 per hour (€6.90) – and they found that for a median representative firm, the introduction of the living wage would result in a modest increase of 1% in costs (relative to total sales). By industry, the largest cost increase (around 3–4%) occurred in the accommodation and food services sector, while increases of more than 2% would be recorded in the waste management and healthcare sectors. Their prospective results were later corroborated by payroll and sales data provided by some firms affected by this living wage ordinance. Similarly, according to a recent study in the UK (Lawton and Pennycook, 2013), the introduction of living wages covering the whole workforce would result in an estimated increase in the employer's wage bill of 1–2% on average, although the impact would be greater in certain low-wage sectors such as retail and catering (more than 5%).

Second, once we know more about the increase in costs faced by employers, we can identify alternative adjustment mechanisms for firms beyond staff dismissals or reduced hiring. The basic rationale is that employers have many good reasons not to want to dismiss staff; for example, severance costs, loss of job-specific human capital or the potential impact on the morale of the remaining staff.

Evidence on the operation of these adjustment channels is more extensive in the US. According to some of this research, the most common responses of companies to deal with increases in wage floors are cost reductions resulting from lower labour turnover, improvements in efficiency as a result of better management and more motivated staff, reductions in the wages of higher-paid employees and small price increases to the end consumer (Schmitt, 2013). Based on a framework proposed by Hirsch et al (2011), Schmitt (2013) lists some of the adjustments most commonly identified by the literature, presented below together with some of the main findings from the literature from both sides of the Atlantic.

Working hours

Employers can first of all respond to wage floor increases by reducing working hours. This would in fact result in a reduction of the total labour demand, so can be considered a negative employment effect. Empirical studies in the US generally find little or no adverse impact of living wages on employment levels or working hours (Adams and Neumark, 2003; Neumark, 2002; Freeman, 2005; Chapman and Thompson, 2006). There is some evidence in the UK of modest reductions in working hours as a result of the voluntary adoption of living wages by employers, albeit outweighed overall by associated wage gains (D'Arcy and Whittaker, 2016). Of course, workers receiving the same income for working

16 Data must be interpreted with care since the small number of observations at certain wage levels and the quality of the data gathering for the variable on material deprivation result in missing observations for some wage levels and in notable jumps for households at rather similar levels of relative wage levels.

17 The data on material deprivation for continental countries are biased upwards by the presence of a large number of missing values in Germany.

fewer hours may consider the trade-off to be positive; for example, in terms of work–life balance.

Non-wage benefits

Employers can respond to increases in wage floors by reducing employees' fringe benefits, such as private health coverage, pension contributions, the use of company cars and other subsidies. In the UK, there is some evidence that low-paid employees earning a living wage lose out on some non-wage benefits such as overtime, sick pay or pensions (Grimshaw and Carroll, 2002). In the US, many living wage ordinances stipulate two rates: one rate where the employer provides health insurance coverage and a second higher rate where the employer does not.

Training

Employers could respond to higher wage floors by reducing training provision for their lower-wage employees in order to offset costs. A more common research finding however is that companies respond by training their lowest-skilled employees in order to increase their productivity in line with their higher wages (Acemoglu and Pischke, 2001). For instance, in the UK, among the employers surveyed three months after the introduction of the NLW and that suffered increases in the wage bill, 15% reported having invested more in training in order to adapt to the higher wage threshold (D'Arcy and Whittaker, 2016).

Wages at the top

Employers also have the option of paying higher wages at the bottom by reducing those of higher-paid and longer-tenured workers; for instance, by limiting or delaying their pay rises or other extraordinary payments such as bonuses. This would result in a more compressed wage distribution within companies. There is some evidence from Scotland that living wage commitments in the public sector were partly paid for by pay freezes or cuts among senior public servants.

Employer productivity

Employers may also respond to a minimum wage hike by trying to improve their efficiency and increase their output with the same use of resources. Wage floor increases may work as a general incentive for management to find ways to improve work processes and work organisation; for instance, introducing new team-working practices, providing better customer service, investing more in training or improving workforce effort and motivation.

Research in the UK has identified this positive impact on productivity among accredited living wage employers. One study showed that around two-thirds of the employers reported an increase in the output per worker after the adoption of the voluntary Living Wage (GLA Economics, 2009). These results are in line with previous research on minimum wages which showed that many companies increased their productivity as a result of the introduction of the statutory minimum wage (LPC, 2002; Metcalf, 2008) with some researchers pointing out that larger gains in productivity tended to occur in large firms (Rizov and Croucher, 2011).

Reduced employee turnover

A reduction in staff turnover (traditionally high in low-paying sectors) as a result of higher wages can compensate at least partially for higher labour costs through savings in recruitment and training; lower staff turnover has been signalled by employers as the most important positive effect of the adoption of living wages (Wills and Linneker, 2012).

Evidence from minimum wages points to the same main findings. In the UK, there is also evidence that those benefiting from a minimum wage increase are more likely to remain in their posts (Dickson and Papps, 2016), thus reducing turnover.

Employee productivity

Higher wages can also boost productivity among employees, as predicted by efficiency wage models. Higher wages may stimulate employees' efforts by increasing the cost of losing their job (Shapiro and Stiglitz, 1984) or just due to higher motivation and a willingness to reciprocate the pay increase with greater effort (Akerlof, 1984).

Research has identified a link between higher pay and lower levels of absenteeism (and turnover) (Gregg, 2000). Research in the UK has found that the adoption of the living wage by employers has generally resulted in an improvement in the quality of the work done by the staff, and in a reduction of absenteeism (GLA Economics, 2012). In the US, living wages have been found to increase productivity (Chapman and Thompson, 2006) due to factors such as greater work effort (Brenner, 2004) or significant falls in staff turnover as in the case of San Francisco Airport (Reich et al, 2003).

Research on the Hamilton living wage (Canada) (Zeng and Honig, 2017) took a social exchange theory approach and found that living wage workers have higher affective commitment and lower turnover intention and were more likely to support the organisation they work for in various ways, including: 'protecting the organization's public image, helping colleagues solve problems, improving their skills and techniques, providing suggestions or advice to a management team'.

Price increases

According to many research studies, price increases seem to be one of the main mechanisms companies use to adjust to both living wages and minimum wages. In the UK, some studies suggest companies voluntarily adapting to living wage requirements did not need to increase price levels (GLA Economics, 2009). Nevertheless, and contrary to their stated plans before the adoption of the UK NLW, 36% of the employers surveyed three months after its introduction reported a rise in price levels, making it the main adjustment channel used by employers to adjust to the higher wage bill (D'Arcy and Whittaker, 2016). This may be explained by the fact that price increases are relatively easier to implement than productivity/efficiency improvements, especially in the short term. In the US, living wage ordinances apply mainly to the public sector so price increases are sometimes more difficult to identify, but research also points to the importance of price adjustments. Brenner and Luce (2005) reported that around 15% of firms responded to the Boston living wage law via higher bid prices on city contracts and almost 10% of firms by raising prices for other services.

Regarding minimum wage levels and according to research in the UK, almost 70% of employers responded with price hikes (although only 30% did so significantly) to the introduction of the statutory minimum wage (LPC, 2002). The increases were more common in those companies operating in more competitive markets (such as hotels, bars and restaurants) than in others such as social care where public funding serves as a constraint. Wadsworth (2007) also identified price increases after the introduction of the UK national minimum wage. In the US, several studies suggest that firms have relied on pricing in particular to adapt to higher minimum wages (Card and Krueger, 1995; Aaronson, 2001; Lemos, 2008).

Profits

Instead of raising prices, employers may absorb the extra costs resulting from higher wage floors by accepting reduced profits. In the UK, around 30% of the employers surveyed three months after the introduction of the NLW reported that they adjusted via accepting lower profits, making it the second most important adjustment channel used by employers, after raising prices (D'Arcy and Whittaker, 2016). In the case of the Boston living wage law, almost 40% of the service contractors reduced their profits as a result. Research in the UK has also identified lower profits within firms following the introduction of minimum wages (Draca et al, 2011). Reduced profitability may jeopardise future recruitment activity, which would therefore affect employment outcomes in the medium to long term.

Social effects

Although far less researched than employment effects, the research literature has also examined the effect of wage floors on phenomena measured at macro level, including wage or income inequality and poverty levels.

Inequality

Higher wage floors can squeeze the wage distribution from the bottom and thus reduce inequalities. This impact may in turn have ripple effects beyond those workers directly affected (Teulings, 2000, 2003; Autor et al, 2010). For instance, prospective research in the UK before the introduction of the NLW estimated that this policy would affect more than three million employees earning wages below the NLW threshold, but also three million employees who were earning wages above the threshold (D'Arcy and Corlett, 2015). In the US, Pollin et al (2008) estimated the ripple effects produced by state and federal minimum wage increases in the period 1983–2002 and found that these effects are important and widen significantly the overall impact of higher wage floors. Other channels by which wage floors may work as a social cushion refer to the buffer they provide against wage reductions in recessionary labour markets (Bertola and Rogerson, 1997; OECD, 2011).

Poverty

Changes in wage floors also have an effect on household income. Minimum wage hikes and living wage ordinances have been linked to lower poverty rates in the US (Dube, 2013). Moreover, wage levels at the wage floor threshold and household income levels are more closely correlated in the US than in Europe, and a prospective study conducted on the potential effect of a living wage in Santa Monica showed that households would have been able to retain 60–73% of the wage increases associated with the introduction of a living wage ordinance, the other part of the rise being absorbed by income and payroll taxes and reduced access of families to the federal programme of cash payments to families below certain income levels (Pollin et al, 2008). Brenner and Luce (2005) found that the Boston living wage ordinance primarily benefited women and people of colour, groups typically more affected by poverty and in-work poverty. Nevertheless, one-third of the beneficiaries of the living wage remained poor even after the ordinance came into effect. A recent estimate from the UK considers that if all workers had an hourly pay at least at the living wage level, more than 20% of employees would benefit from a wage rise, but that this would mainly benefit those households around the middle of the income distribution and households of single people and couples without children (Lawton and Pennycook, 2013).

The actual impact of a living wage on household income levels is not straightforward and will depend on a complex link between pay and household income, which is affected by tax and benefit systems, among other things. Empirical research suggests higher wage floors do not seem to have a significant impact on reducing poverty levels (Brown, 1999). People earning minimum wages are more likely to be young workers living in middle-income households than other types of workers living in poor households (Maître et al, 2013). The main cause of household poverty in Europe is unemployment and low household work intensity rather than low pay; as a consequence, household composition and the number of wage earners are the most important determinants of household poverty (Marx et al, 2012). For these reasons, minimum or living wages can only ever be one element of anti-poverty policy.

Fiscal benefits

Living wages or higher minimum wages also generate fiscal benefits. Lawton and Pennycook (2013) estimate that GBP 3.6 billion (€4.3 billion) would be the total gross savings resulting from the universal application of the living wage in the UK, more or less equally split between higher income tax payments, more national insurance contributions and savings on means-tested benefits and tax credits. This figure would be offset by GBP 1.3 billion (€1.5 billion) in extra costs of paying state employees the living wage. Net savings would amount to around 0.4% of government revenue.

Other impacts

According to the literature, the benefits of higher minimum or living wages may extend beyond income towards wider concepts of well-being. For instance, those receiving the London living wage have reported higher levels of well-being (Flint et al, 2013), while the Living Wage Ordinance in San Francisco is reported to have resulted in better outcomes on subjective health, premature death or sickness absence (Bhatia and Katz, 2001). Moreover, some survey-based research (Pollin et al, 2008) has found that workers prefer income received for work over that received from benefits (‘handouts’), meaning that the same income generated primarily via a living wage – that is, with less reliance on in-work benefits – is accorded greater value.

6 Perspectives of social partners and other groups

Unions and employer representative groups tend to have divergent views on the wisdom or utility of living wages, often an extension of their attitudes to wage floors more generally. Unions are supportive of any external support to worker wages, whether legal or voluntary, and can use reference wage floors to negotiate higher pay, including for members higher up the wage distribution. Employer representative groups tend to be more sceptical based on considerations such as increased labour costs and encroachments on the employer prerogative of pay setting. Beyond these characteristic positions, however, there is much nuance. Unions have in many cases been quite hesitant in their embrace of Living Wage campaigns. And individual employers, notably in the UK with over 4,700 accredited living wage companies, have been positive not just in their living wage obligations, but in actively advocating its virtues to other companies.

An important beneficiary of living wage campaigns is the state itself. Increased tax revenue and reduction in means-tested in-work welfare supports represent significant budgetary savings, easily outweighing' for example, the extra cost of paying UK public sector employees the living wage (Lawton and Pennycook, 2013). The following sections look in more detail at the living wage positions of the main social partner groups.

Trade unions

Unions have assumed an important role in living wage campaigns, unsurprising given their core function in advocating for better worker pay and employment conditions. They have however rarely been the sole movers or originators of living wage movements. And their function has been different than in their core bargaining activities for members. In living wage campaigns, they advocate for better wages for the lowest paid in general, whether members or not, in conjunction with a host of other actors, rather than as one privileged agent. This may conflict on occasion with their obligations to their own members – often higher-paid workers potentially at risk of seeing their differentials eroded.

Broader coalitions of activist, community and religious groups have always been present in living wage initiatives. For this reason, living wage movements may be seen by some in the union movement as diluting their exclusive role in the area of pay bargaining, or indeed implicitly as 'a criticism of hard-won collective bargaining agreements' (Sellers, 2017). It has also been argued that high wage floors may crowd out collective bargaining in low-paid sectors by eroding the incentive of employers and trade unions to negotiate wages (Aghion et al, 2008). There has been a comparable hesitation regarding statutory minimum wages in countries with strong collective bargaining coverage, such as Sweden and Denmark, where most unions continue to consider a statutory minimum wage as an unwanted state intrusion in matters more appropriately dealt with directly by the social partners. The comparatively low incidence of low pay in these countries offers an important justification for this historical stance in countries where the government refrains from setting a statutory minimum wage.

In the UK, 'trade unions used to argue against the introduction of a general statutory minimum wage arguing that it would reduce the incentives to join a union' (Sellers, 2017). From this perspective, the emergence of a statutory minimum wage floor in the UK in 1998–1999 (with union support) and subsequently of living wage initiatives reflects a realistic assessment of changing circumstances, in particular the weakening of union collective bargaining power in the UK, and acknowledgement that the state has a role to play in positively supporting worker wages, complementing union negotiation efforts oriented to the same end.[18]

This acceptance of externally set wage floors has also been accompanied by a greater openness to collaboration with other social actors on pay-related matters. There have been efforts by unions to collaborate with other community groups pursuing similar objectives. New forms of civil society with ground-up mobilisation on specific issues (such as low wages) have become important strands of recent industrial relations research (for example, Tattersall, 2009; Heery et al, 2017).

18 A similar conversion by the German union movement with regard to the introduction of the 2015 German minimum wage is often explained in terms of European Court of Justice jurisprudence undermining the *ergo omnes* application of negotiated minima to non-members.

For unions, living wages are just one of a number of ways of campaigning to raise wages, complementing more traditional activities such as negotiating with and pressuring employers in wage settlements, publicising the issue of low pay and its associated problems, and seeking higher statutory minimum wages. Living wages can become an especially effective twin-track for union pay efforts where they gain some currency as a reference threshold and can serve as a benchmark in pay bargaining.

Unions have other motivations for a more positive engagement with living wage movements. First, minimum and living wages and the basic ideas underpinning them are popular not only among members and potential beneficiaries but also among the general public (see Fedorets and Schroeder, 2017, for a review of recent surveys in the US, the UK and Germany). As one union interviewee suggested, it is 'a hard concept to argue with … the idea that work should allow one to at least have a simple but decent living standard'. Campaigns for higher wage floors may be actively used as recruiting tools, especially in a context of declining membership rates and low levels of collective representation in relatively fast-growing low-paying sectors such as hotels, retail and restaurant/food services. It can be expected to be especially appealing to young people given the low-wage profile of this group, although, according to a union expert on the living wage, it may have been more useful at identifying new, younger activists and campaigners than in raising membership rates among young people. Luce (2017) observes that in the US, union campaigns for living wages have had little or no positive recruitment effect. Union density is around 2% in low-wage sectors, such as restaurant/food services and retail department stores, despite workers in these sectors being highly motivated, including via strike action, to fight for a USD 15 per hour minimum (€13.27).

Second, living wages can become an important 'moral reference point' in pay negotiations with employers, especially where the living wage 'brand' has become more established. One approach is that general pay claims are formulated in terms such as 'a 2% increase, with all those on lowest grades raised to the living wage'. The success of the living wage campaign means that this reference point has become increasingly recognised and normative and is routinely used as a benchmark by UK union negotiators; for example, in the National Health Service and local government services (Sellers, 2017). Some supermarket chains in the UK commit to pay the living wage even though they are not accredited Living Wage employers (Heery et al, 2017). The existence of ripple effects by which changes in wage floor levels affect not only those employees below the threshold but also indirectly others above it has been long noted (Freeman, 1996). The magnitude of these ripple effects is larger in those countries with strong collective bargaining structures capable of maintaining between-job wage differentials. This results in a more generalised improvement of wages in the low-paid segment with a stronger effect on reducing wage inequality levels (Grimshaw, 2013).

In the US, living wage initiatives have also been important in securing ancillary objectives such as union recognition. Pollin et al (2008, p. 151) note that many living wage ordinances:

> *include nonwage provisions relating to labor relations [including] a labor peace clause requiring firms engaged in city-financed development projects to sign an agreement with any labor union seeking to represent their employees. In essence, employers agree not to interfere with union organizing and unions agree a no-strike clause for the duration of the contract.*

Nonetheless, within the union movement, there has been some hesitation in fully endorsing the living wage. In the UK, the TUC only formally adopted the living wage in 2011 as a target in its pay campaign. There remain concerns, for example, about possible consequences for pay rates of better-paid union members in a context of public sector pay freezes. Will they be subject to pay restraint in order that lower-paid workers receive the living wage? This is reflected in different levels of enthusiasm for the idea among unions based on the share of low-paid workers, though Sellers (2017) notes that while:

> *professional unions representing medical professionals and teachers simply have no members paid below the living wage, ... they are supportive of campaigns for living wages for cleaners in schools and hospitals.*

In terms of current union priorities on worker pay, Sellers (2017) indicates the following:

1. increase the statutory minimum wage to GBP 10 per hour (€11.40)
2. encourage living wages wherever employers can afford it/it can be achieved
3. negotiate strong pay rises for the 80% of union members who earn above the living wage
4. address excessive boardroom pay.

According to a UK union representative interviewed, the most important of these remains the core union prerogative of negotiating higher pay for their members. The living wage is a priority but not the top pay priority for UK unions.

In its campaign for rises in low and minimum pay levels, the ETUC has adopted a similar position. It accepts that current minima are so far short of a targeted 60% of median or average hourly pay in most countries – its preferred target – that it is more realistic to pursue a two-stage strategy. This would involve first seeking to achieve the 60% of median hourly pay threshold and thereafter to pursue the higher 60% of average hourly pay. This would go some way to making the 'minimum wage a living wage', though, as was shown, a threshold based on a percentage of median/average earnings can only approximate a living wage at best, based on a full cost of living calculation. The two-step process would also have a positive equality dividend. The gap between median and average hourly pay is greater in countries where inequality is higher so pay increases in the second phase would be greater in these countries.

A coordinated effort[19] across EU Member States would, according to the ETUC, mean faster growth of wage floors in countries where relative levels are currently low, greater upward convergence of pay rates – narrowing large east–west pay differentials within the EU, for example – and a boost to aggregate demand, strengthening the economic recovery. It would also give practical expression to the commitments set out in the EPSR, proclaimed in November 2017, to the right to 'fair wages', to 'adequate minimum wages' and to the aim of preventing in-work poverty. But the ETUC highlights that adequate minimum wages/living wages are only one element of union pay campaigns and that they need 'to be accompanied by initiatives to strengthen multi-employer bargaining structures and increase collective bargaining coverage, which are essential to more dynamic growth in wages across Europe' (ETUC, 2017).

Employers

Some employer representative groups have been critical of living wage initiatives. Employer federations are obliged to represent the interests of a broad range of member employers, from large multinationals to single-establishment SMEs. This is likely to predispose them to take a critical view of wage floors.

For example, the Irish Business and Employers Confederation (IBEC) – the principal representative body for private sector employers in Ireland – has described the living wage as 'a fundamentally flawed concept' and 'not fit for purpose'. Among the main criticisms are:

1. The practical impossibility of a single wage rate which would suffice to ensure the basic living wage objective: a modest but basic standard of living.
2. The full-time worker as a reference fails to take account of the increasing share of part-time workers, especially among the low-paid.
3. The non-inclusion of some elements of remuneration, such as pension payments and non-recurring sales or performance bonuses, in the UK living wage calculation means that employers are not credited for many pay-related benefits that raise worker take-home pay. All 'deferred, non-guaranteed payments' are excluded from the living wage calculation.
4. The living wage calculation is contingent on public policy (on income tax, housing and childcare subsidies, etc.) where 'there is no practical reality for employers to translate this into the employment contract'. In this regard, the living wage is an 'unhelpful distraction to fundamental policy challenges around housing supply and childcare costs'.

In addition, IBEC casts doubt on the voluntary nature of the UK living wage given the obligation on accredited employers to compel contractor firms with employees on their premises to pay the living wage. As Heery et al (2017) point out for the UK, this is not an incidental category; it accounts for more than one-third of all workers benefiting from the UK living wage (36%). IBEC also points out that all of the organisations represented on the Irish Living Wage technical group, that oversees annual reviews of the living wage rate, are either 'trade union backed or of similar ideology' and that the body lacks representatives from government or business (McElwee, 2015).

An important element in the success of the UK living wage campaign in becoming operational and established was an early and tactical engagement with individual employers. This frequently took the form of 'carrot and stick' publicity operations in high-wage sectors such as finance. Global bank headquarters were 'named and shamed' for paying contracted cleaners at below living wage rates – the stick. The reputational redemption of living wage accreditation was the carrot. Subsequently, campaigns such as ShareAction have seen activists petition for living wages at shareholder meetings of larger companies, with some success. Advocacy from accredited companies and 'peer to peer employer recruitment' (Heery et al, 2017) have been an important factor in expanding the ranks of living wage employers.

Individual employers may identify advantages of living wage adoption that outweigh any disadvantages in terms of labour costs. Cardiff Business School carried out a survey of living wage employers in the UK in

19 Calls for EU-level coordination of statutory wage minima go back at least 10 years (Schulten et al, 2005). For more recent analysis on the implications of such a coordination, see Eurofound (2015b).

autumn 2016 and found that the key justifications for signing up to the voluntary living wage standard were 'values'- or 'mission'-led. Firms were motivated by the desire to position their firms as 'good' or socially responsible employers. Of course, this also had benefits both as a 'branding' initiative aimed at consumers but also assisted employee recruitment and retention. The decision to seek accreditation came primarily from owners and senior management. The main challenges identified were all labour cost-related (higher employee wage bill, reduced wage differentials and increased costs of subcontracted services), but these were considered as being of 'limited', 'moderate' or 'major' significance' in only a minority of cases (42%, 24% and 15% respectively). Nearly all (93%) employers indicated that they had benefited from accreditation.

The cost–benefit calculation of living wage accreditation is more likely to be positive when the share of low-wage workers in the company is already comparatively low. Despite accreditation of over 4,000 companies in the UK, none of the main hotel, supermarket or fast-food chains had become accredited living wage employers by 2017 while there were 'concentrations of accreditation in a number of relatively high-paying industries' including information/communication and professional, scientific and technical services. Around 6% of accredited organisations in 2017 employed 1,000 or more people while 68% were small enterprises (fewer than 50 employees) and 19% were medium sized (50–249 employees) (Heery et al, 2017).

State/public authorities

The state is an important beneficiary of living wages. First, increases in employee pay boost income tax revenue. These are amplified where there are spillovers from living wages higher up the wage distribution or where living wage employees shift into higher tax brackets. Second, and equally important in the case of the UK, living wages reduce in-work benefits expenditure. These are means-tested and benefits diminish as take-home pay increases. In the UK, the main such benefit is a working tax credit which can boost household income for low-paid workers by up to GBP 2,000 per year (approximately €2,270). As already noted, there was a strong growth in such transfers to low-paid workers in the UK from 1998 to 2010. In 2015, the budget for working tax credits was more than double that for unemployment benefits (Hood and Keiller, 2016).

The potential savings for the state are necessarily much greater from the statutory minimum than from voluntary living wages, given near universal coverage of the former.

Other social actors

Beyond the tripartite social partners, contemporary living wage initiatives have tended to involve a broader set of social actors. They have emerged from grass-roots local movements and have evolved into complex coalitions of religious groups, civil society/community and local activist groups. Migrant support groups and equal pay activists often participate in such coalitions given the prevalence of low pay among migrant and female workers. Finally, researchers and academics have provided important support in terms of the (often formidable) data collation requirements of living wage calculations and in terms of credible mechanisms for periodical reviewing and uprating of the rates.

Campaigns for a living wage therefore involve many different actors, combining in particular organisational, advocacy and political capacity on the one hand (to mount a campaign) and technical and analytical capacity on the other (to give a sound empirical basis to any living wage claim). Trust for London, an independent charitable foundation tackling poverty and inequality in London, funded research and campaigning and helped to professionalise and simplify the London living wage campaign, making it more attractive for employers to join.

The role of religious groups has been especially important. The London living wage originated in a campaign to improve the pay of low-paid workers in East London in 2001, organised by The East London Community Organisation, an umbrella for various community and religious groups in East London. Citizens UK, a community activist group, the majority of whose member organisations are religious (Heery et al, 2017), has been instrumental in extending the campaign beyond London. The original impetus for the first modern living wage campaign – in Baltimore in 1994 – came from religious workers working in soup kitchens and homeless shelters who recognised that many workers and their families were among those regularly using their services. The obvious inference was that many families were living in poverty, some even homeless, despite there being a worker in the family (Pollin et al, 2008). In Ireland, the VPSJ, a faith-based NGO, has been one of the earliest advocates for an Irish living wage and two of its representatives currently sit on the six-person Irish Living Wage technical group. There are therefore strong echoes from the earlier living wage movements of the late 19th and early 20th century, one of the earliest landmarks of which was the publication of *A living wage* (1906) by American Catholic social thinker, theologian and priest Father John Ryan. Ryan drew support and inspiration for his advocacy from *Rerum Novarum*, Leo XIII's 1891 papal encyclical, itself considered one of the foundations of modern Catholic social thought:

> *there underlies a dictate of natural justice more imperious and ancient than any bargain between man and man, namely, that wages ought not to be insufficient to support a frugal and well-behaved wage-earner.*
>
> (Pope Leo XIII, 1891)

Ryan's advocacy of a 'synergistic relation among scholarship, moral teaching, and political activism' in the early 1900s continues to describe well the broad partnership dynamic of modern living wage movements.

The input of researchers and academics has also been an essential support for all successful living wage campaigns, offering statistical backing for the wage claim and often generating original research and data on what constitutes 'a basic but acceptable standard of living' in the absence of relevant government-funded research (Grimshaw, 2004). In the UK, Loughborough University's Centre for Research in Social Policy and more recently the independent think tank Resolution Foundation have provided much of the data analysis and research backing the annual revisions of the London and UK-wide living wages. This technical input has been an important contribution to the credibility and, ultimately, political acceptability of successful living wage campaigns.

In some cases, the research input on living wages is independent of any operational living wage. This is, for example, the case in Ireland, where the national living wage campaign, again based on a broad coalition of actors, plays largely a research and advocacy role with a well-publicised showcase when the new annual living wage rate is published (Living Wage Ireland, 2017), but with no accreditation of companies or local or state authorities implementing the indicated rate for all employees.[20] Similarly, MIT's living wage calculator or the EPI's similar Family Budget Calculator in the US provide extensive data tabulations on local living wage estimates for different household types in many locations (over 300 in the case of the MIT calculator and over 600 in the case of the EPI) but are primarily a public information resource – useful and adopted by some local living wage campaigns but not linked as such with any.

From many accounts of living wage activism, both in the UK and the US, it emerges that the development of the organisational capacity to mount a campaign was as important as the cause for which the campaign was ostensibly mounted, securing pay rises for the low-paid. Coalitions working together on living wage campaigns are likely also to mount campaigns on related social justice issues. In the US, there are strong linkages between the 'Fight for $15' campaign and the Black Lives Matter movement and other immigrant rights movements (Luce, 2017), for example.

> *The [American] living wage movement … is not simply concerned with improving wages for workers employed by businesses holding municipal government contracts, even though this is the immediate target of their efforts. The living wage movement is committed to reversing the economy-wide wage squeeze, stopping tax giveaways to big business, reenergizing the labor movement, and ending the war on the poor.*
>
> (Pollin and Luce, 1998)

In the UK, Citizens UK has campaigned on improving job opportunities in inner cities and helping vulnerable youth escape from gang culture, and on the living wage.

The living wage has served partially as a popular pretext for the bottom-up mobilisation of different groups which then developed means of public action to pursue it. For Citizens UK, these have included forms of public protest (for example, picketing of business headquarters), media/publicity campaigns and the use of 'accountability assemblies' where politicians are invited to publicly endorse the living wage (Heery et al, 2017). This latter device was instrumental in gaining support for the London living wage both from its original endorser (a Labour mayor, Ken Livingstone) and his successor (the Conservative Boris Johnson). In the US, similar pressures on state-level political representatives have resulted in a reinvigoration of the state-level minimum wage machinery in contrast to the paralysis observed at federal level.

In some cases, the campaigns have become 'too successful'. Heery et al (2017) indicate that the Living Wage Foundation was begun in the UK 'in large part because the success [of the living wage campaign] was threatening to swamp Citizen UK's other activities' (p. 803). This new body took responsibility for employer recruitment and accreditation in 2011 and, subsequently, the Living Wage Commission was set up (2016) to steer the effective merger of the London and UK living wages.

20 This does not prevent individual companies from implementing the published living wage rate, however. German retail group Aldi announced that all of its staff in Ireland would be paid the Irish living wage of €11.70 per hour from 1 February 2018. It also pays its UK employees the UK/London living wage but has remained unaccredited, probably due to the difficulty of applying the living wage to subcontractors' employees.

This marks a phase of mature institutionalisation of the living wage in the UK, as the campaign moves on from its roots in local activism. The emphasis is increasingly on employer buy-in, peer-to-peer advocacy and less on the more adversarial tactics employed at the campaign's outset. It remains noteworthy how broad-ranging the nine-person membership of the Commission is, encompassing representatives from charities, academia, religious organisations, small and large business leaders and the TUC general secretary (Living Wage Commission, 2016).

7 Conclusions and policy pointers

Conclusions

The living wage movement has re-emerged since the 1990s in a small number of English-speaking developed countries. It aims to build on the successes of statutory minimum wage regimes and also to highlight that in some countries they are of limited effectiveness in combating poverty, in-work poverty or income inequality. One important reason that they only partially address such phenomena is that the minimum wage rate may be set too low. Only in a small number of countries is it adequate to raise a worker above the ‘at risk of poverty’ threshold without the assistance of supporting state benefits. These latter have become increasingly important in supporting low-paid household incomes over the last generation in living wage countries such as the UK.

These issues are especially acute in larger cities and capital zones with relatively high costs of living in general, and high housing costs in particular. It is no coincidence that the first modern European living wage campaign originated in London or that cities such as Seattle, New York and San Francisco have been at the forefront of the Fight for $15 campaign in the US.

Statutory minimum wages have become a popular policy tool, especially across the developed world. They boost wages among the lowest-paid in a period of growing income inequality. The evidence from research increasingly suggests that when prudently set, they do so with little or no negative effects on employment outcomes. Most minimum wages are embedded in institutional structures, often with tripartite commissions, and have mandates that require them to be conservatively managed. They tend to err on the side of caution and are designed to eliminate as far as possible negative labour market outcomes. As a result, most of the empirical literature on the employment effects of minimum wages is based overwhelmingly on minimum wage levels and revisions that have been reasonable, with levels in the range of 35% to 60% of median pay and revisions closely tied to cost of living or wage inflation.

Living wage campaigns seek to raise the bar in terms of low pay, and they do so based on a simple and compelling idea: that work should pay enough to allow workers to have a basic but decent standard of living in the place where they live. They are higher than minimum wages in all of the examples cited in this report (in a range of 15% to over 80%). What counts as a ‘decent standard of living’ is assessed relative to the customs of the country and time. The main (but not exclusive) means that has been developed to make these judgements has been bottom-up consultation with citizen focus groups designed to form a consensus on what products/services should and should not be included in a living wage ‘basket’. There has been a growing literature (and practice) in the areas of minimum income standards and reference budget setting that promises to strengthen the methodological basis of such calculations, including possibly for cross-national application. These tools were developed originally to assess income inadequacy for a variety of different applications – for indebted households, for households in receipt of social assistance, etc. – and have subsequently proven to be equally useful as a gauge of the living needs of working households.

The first consideration of the living wage is the real cost of living. The wage itself is derived from a detailed ‘basket’ costing, adjusted for taxes and transfers. The fact that it is based on a social consensus and bottom-up consultation rather than expert-led, as is the case in most minimum wage systems, is positive. It should not, however, blind us to a number of legitimate concerns about the living wage concept and its operationalisations.

The first is that living wages are defined in words (‘adequate’, ‘decent’, ‘sufficient’) and expressions (‘live with dignity’, ‘socially acceptable standard of living’) that ‘have value-laden meanings but are difficult to quantify’ (Veit-Wilson, 1998). Forming a social consensus across many focus group iterations about what items are needed in order to live with dignity does not necessarily allay concerns about the fundamentally subjective nature of the judgements being made.

A second concern is that even though living wage campaigns tend to emulate minimum wage systems in having a single banner hourly rate, no plausible single rate can cover the range of cost of living requirements determined by different household types and sizes, and different household labour market participation rates and hours of work. This last is an especially important consideration when the principal recent vector of employment destandardisation has been the rising share of part-time work, which has led to concerns about ‘living hours’ as much as living wages in some countries.

A weighted average of different household types – as used in the UK/London living wages – is one way of at least incorporating such considerations into the overall calculation. But this means, for example, that the 2018 London living wage rate (GBP 10.55 per hour, €11.80) is set too high for a single full-time worker with a working partner and no dependants, but too low for a sole breadwinner in a two-adult, two-child household.

A third, related concern is that a single national rate (or even a dual capital/rest-of-country rate as in the UK) is ill-adapted to the very significant regional differentials in cost of living that minimum income standards research often reveals.

For a number of households, the living wage will not be able to 'do what it says on the tin': to secure a decent but basic standard of living. Only a complex matrix of living wages taking account of each of the variables indicated above could feasibly do so. But the living wage, where successful, has been a campaign in the first instance and a data collation exercise only of necessity. There are detailed tabulations for different household types available from the Irish MESL or the UK MIS calculations or MIT's Living Wage Calculator in the US. But these are largely for reference and secondary to the centrepiece of the campaign, which is the living wage rate itself. Having a single, well-publicised, annually revised rate is especially useful for communication and campaigning purposes, serves to keep the issue of low wages in the public eye and draws attention to the perceived inadequacy of the minimum wage.

Most of the living wage initiatives covered in this report are voluntary in nature. Employers willing to pay all of their direct employees and contracted workers working on their premises the living wage seek accreditation and can publicise that they are living wage employers. Only in the US are firms mandated to pay living wages, but only in those 125 or so locations where a living wage ordinance has been passed by the regional or city authorities and where the firms are involved in public procurement. Living wage coverage is therefore much more limited than a statutory national minimum wage. Even in the successful and established UK living wage initiative, with over 4,000 accredited employers, estimates are that some 120,000 workers have directly benefited from a pay rise as a result of the living wage – less than 3% of the current estimate of around five to six million low-paid workers in the UK.

However, the impact of living wage campaigns cannot be assessed using the simple metric of direct beneficiary numbers. In the UK, there are many employers that pay the living wage without being accredited. They have also benefited other workers as the living wage has become a collective bargaining norm in certain sectors. More generally, the living wage had already established itself in the UK in 2012 as an 'idea whose time has come' – the words of a prime minister (David Cameron) and leader of a political party that had opposed the introduction of the UK statutory minimum wage in 1998. In 2015, a successor Conservative government embarked on an ambitious uprating of the statutory minimum wage system, borrowing the living wage brand to do so. Though not a 'real' needs-based living wage, the UK 'national living wage' is a multi-year commitment to raise the relative value of the legal minimum hourly wage to 60% of the median hourly wage, on a par with the most generous state systems worldwide. The benefits in terms of higher wages will be offset in many cases by significant in-work benefit reductions, with the European Commission forecasting that recent 'social reforms [in the UK] risk increasing in-work poverty' (European Commission, 2018c). Nonetheless, there is positive evidence that the incidence of low pay may be in decline in the UK, and the 'real' voluntary living wage campaign itself continues to prosper.

The living wage campaign of the 1990s and 2000s in the US has transformed itself more recently into an even simpler claim for a USD 15 per hour (€13.27) minimum – more than twice the federal minimum. This has been increasingly successful at city level, while at state level low-pay activism has played a strong role in rejuvenating the state-level minimum wage machinery, raising state minima in 20 states since the 1990s (often with indexation) even as the federal minimum has stagnated.

In these ways, local voluntary living wage campaigns with partial coverage and reach have mobilised awareness-raising campaigns that have ultimately fed into broader initiatives, including legislation, to boost the earnings of the broader population of low earners. They have done so through often eclectic coalitions of local activists, civil society and faith-based groups, academics and unions and, in their most successful instances, have been effective at persuading and enlisting employers to their cause.

Policy pointers

Impact on statutory minimum wages

Most living wage initiatives are voluntary with limited involvement of the public authorities. In the US and the UK, they have broadened the public debate surrounding low pay in countries where low-paid incidence and in-work poverty is high. They have also mobilised new agents to work together in pursuit of a common goal and empowered those workers offered least protection from existing labour market institutions – the low-paid, with limited organisation or collective representation. From the US and UK examples, it is evident that these efforts have had a material impact on statutory minimum wage-setting policy. So, one policy lesson of the living wage initiatives is that broader coalitions of social actors can contribute constructively to influence minimum wage policy, further strengthening its democratic and participative credentials.

Cost of housing puts living standards at risk

Living wages have brought into relief the costs of a basic living standard, especially in those countries where other forms of ‘social wage’ are either in decline or set at a comparatively low level. The focus on living costs is important where consumer price inflation (as measured by a single index) fails to account for much higher cost increases in certain necessities such as housing or childcare. A common feature of the countries and cities in which living wage movements have emerged is the growing share of income that low-paid households are obliged to spend to secure housing. The opportunities of home ownership for low-wage earners, in the UK for example, have declined, and private rental rates have increased as market prices for property have risen sharply in real terms while social housing supply has been limited in a context of budget cuts.

Regional variations

Living wage initiatives have also 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 minimum wage levels for areas with high living costs, similar to the London weighting premium that raises wage levels in London for many, mainly public sector, employees. The London living wage is set higher than the ‘rest of UK’ rate, but the statutory minimum wage in the UK is the same inside and outside the capital.

Role of public authorities

Beyond awareness raising, there are other concrete ways in which policymakers have chosen to support living wage movements. First, public authorities can themselves become living wage employers committing to pay public employees the living wage, as has been the case in the Scottish civil service and health system, for example. The state is the biggest employer in all Member States, accounting for between 15% and 35% of employment. Its weight and example can be an important determinant of private sector wages, especially at the lower end of the wage distribution. Such an obligation could also be extended to workers not directly employed by the state; those working on public premises in outsourced service provision have been among the most exposed to downward wage pressures in the post-recession period of public spending restrictions. Making living wage pay a criterion for consideration in public procurement processes may be considered. A combination of the above two approaches has been implemented in some universities in the US where all outsourcing is conditional on the contractor matching pay and employment conditions of equivalent workers on the university payroll. As the state is one of the main beneficiaries of living wages via increased tax revenue and reduced outgoing transfers, a proportion of these costs will always be recouped.

Second, governments can also add low-wage shares to the list of areas in which pay transparency applies. There has been a trend to mandate transparency in respect of gender pay differentials or higher executive pay. One possibility would be to require firms to report the percentage of employees earning the minimum wage and the living wage.

Third, governments can contribute to the considerable research and administration effort behind living wage campaigns; for example, by facilitating access to official data on consumer prices, housing and transport costs, and so on. The Scottish Government funds the accreditation system for the Scottish living wage, and the London living wage benefited for many years from a publicly supported living wage research unit within the Greater London Authority.

Reducing income inequalities

Living wages contribute also to stemming the rise of in-work poverty and of income inequality. Even if their direct influence in this regard may be minor, their framing of low pay as a public policy issue appears to have had knock-on effects, boosting minimum wage levels and pay rises. They set a benchmark for progressive minimum wage-setting. One of Tony Atkinson’s 15 proposals to address growing inequality was to establish a ‘national pay policy, consisting of two elements: a statutory minimum wage set at a living wage, and a code of practice for pay above the minimum’ (Atkinson, 2015).

State transfers to low-wage households

But jobs and pay are only one part of the story. Systems of means-tested, in-work benefits have become increasingly important in supporting low-income households in some countries, as have other forms of state transfer including childcare benefits and housing allowances. These are and will remain an integral part of the minimum wage and living wage calculus. Where such benefits taper off sharply in the minimum-living wage range, as is often the case, they can end up undoing much of the income boost of the living wage. Tax and benefits policy should be designed to make work pay in this pay range and not to penalise those seeking to improve household income through work.

Where benefit levels are reduced as a result of government policy, this will require greater rises in the living wage, all else equal. But such rises may themselves – as in the UK and Ireland – be constrained by the adjustment mechanisms designed to smooth changes over time. An ongoing value of the research work underpinning the living wage will be to make visible these relationships and their implications for living standards in low-pay households.

Supporting the ‘fair wage’ provisions of the European Pillar of Social Rights

Do living wage initiatives, few as they are in the EU, have lessons for policy coordination at European level? Possibly. There is a growing policy concern regarding wage adequacy, as evidenced in the 2017 European Pillar of Social Rights, even if pay lies explicitly outside the area of EU legislative competence. Living wages covered in this report are heavily reliant on a strengthening body of research on minimum income standards and reference budgets which, at European level, has become increasingly cross-country and comparative in scope. This contributes to the living wage method: a detailed costing of a consensually agreed ‘basic but decent’ standard of living adapted to local circumstances and to changing living standards. And it is this method that represents probably the most fruitful line of development in terms of comparing and aligning (living) wage developments across Member States and ensuring that workers earn enough to afford a decent standard of living.

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Annexes

Annex 1: Change in nominal value of UK statutory minimum wage and living wage rates, 2003–2018

	Inflation	GBP per hour		
Year	HICP (2015)	National minimum wage	London living wage	UK living wage
2003	76.0	4.50	6.40	
2004	76.9	4.85	6.50	
2005	78.7	5.05	6.70	
2006	80.6	5.35	7.05	
2007	82.3	5.52	7.20	
2008	85.9	5.73	7.45	
2009	87.2	5.80	7.60	
2010	90.0	5.93	7.85	
2011	94.5	6.08	8.30	7.20
2012	97.0	6.19	8.55	7.45
2013	99.1	6.31	8.80	7.65
2014	100.4	6.50	9.15	7.85
2015	100.3	6.70	9.40	8.25
2016	101.2	7.20	9.75	8.45
2017	104.2	7.50	10.20	8.70
2018	106.7	7.83	10.55	9.00

Note: *National minimum wage from 2015 onwards refers to the higher rate for those aged 25+.*

Annex 2: UK and Irish minimum income standards – illustrative breakdown of living costs

UK				Ireland			
Living wage/Minimum income standard				Minimum essential standard of living			
Cost category	GBP per week	%	Notes	Cost category	Euro per week	%	Notes
Housing	87.68	30.6	Private rented sector foreseen for households with children (lower quartile). 'Social rented' sector for workers with children. Housing standards are adjusted for London where over half of single workers without dependents are assumed to share.	Housing	135.82	36.4	Irish LW is based on a single-worker with no dependants household. Costs estimated at 90% of location-specific private rental for a one-bedroom apartment.
Domestic fuel	15.96	5.6	Gas central heating.	Household energy	27.11	7.3	Gas and electricity.
Household goods/ services	17.10	6.0	Includes flooring, furniture, bedding, etc. with costs spread over time. Dishwashers excluded. Also includes communications including landline phone, mobile phones (cheapest contract), childcare (nursery costs after free state provision, £10 per month babysitting).	Household goods/ services and communication	29.47	7.9	Furnishings, household services, etc., mainly provided by landlord (see Housing above). Main cost: cleaning and maintenance. Mobile phone basic plan, internet access included.
Clothing	7.12	2.5	School-branded uniforms increasingly compulsory.	Clothing	9.45	2.5	Clothing costed separately for men and women; costs 15% more for men than women.
Personal goods/ services	14.00	4.9	Toiletries, health-related items (including 3 prescriptions pa), one dentist treatment pa, optical care (new glasses every second year), hairdressing.	Personal care	12.74	3.4	Personal hygiene costed separately for males and females (females 40% more expensive).
Transport	26.89	9.4	Car for households with children, outside London only. Public transport (weekly bus pass) for other transport needs.	Transport	25.81	6.9	Public transport (e.g. weekly bus pass) in cities; small car for smaller towns and rural areas.
Food and drink	49.61	17.3	Three meals per day. Balance of 'health and convenience'. Discounted prices factored in since 2014.	Food	53.80	14.4	Detailed low-cost diet (discount supermarket).
Social/cultural participation	46.11	16.1	TV, laptop, internet access. Printer/paper for households with secondary school children. Small budget for adult birthdays (£20 pp) and Xmas (£15). Bigger budgets for children, up to £150 for secondary school children for Xmas presents. £5 pw pocket money for older children. £80–150 pa per child for toys, games, craft materials. Budget for family to 'eat out' once a quarter (£25 per adult, £15 for younger children, etc.). One week self-catering holiday in the UK pa.	Social inclusion/ participation and education	41.85	11.2	Swimming once a fortnight. Football weekly. Week-long holiday in Ireland. TV licence. Sunday newspaper. Socialising: €15 pw. Education course (ECDL) included. Also laptop, printer, basic software under same Education heading.

UK				Ireland			
Living wage/Minimum income standard				Minimum essential standard of living			
Cost category	**GBP per week**	**%**	**Notes**	**Cost category**	**Euro per week**	**%**	**Notes**
Other costs	22.07	7.7	Extra category based on cost tabulation in Davis et al (2016), covers household water rates, council tax and household insurance.	Health and Insurance	17.38	4.7	Private health insurance ('regarded as an essential need … when there is no entitlement to a full Medical Card'). Home contents insurance.
				Personal costs	7.78	2.1	Includes trade union membership and charity donations.
				Savings and contingencies	11.52	3.1	Personal savings. Emergency money.
Total	**286.54**	**100.0**			**372.73**	**100.0**	

Notes: *The costings are illustrative only and based on a single person of working age in both cases to assist comparability. UK headline average and Irish 'cities (except) Dublin' are the reference categories. Costs for households with dependants are higher as indicated in Table 5. Costing of durables/household goods is spread over long durations, e.g. 20 years for a bookshelf, 5 years for a wallet, 2 years for a jersey (Ireland). Euro to GBP average conversion rate = 1.22 (2016).*
Source: *Davis et al (2016) for the UK; Living Wage Ireland (2017) and VPSJ (2016) for Ireland*

Annex 3: Network of Eurofound correspondents contributing to the report

Comparative analytical report on *Living wage policies, debate and research*		
Country	**Correspondent**	**Organisation**
BG	Ekaterina Markova	ISSK-BAS, IR Share
DK	Carsten Jorgensen	FAOS, University of Copenhagen
CZ	Soňa Veverková	Institute of Public Finance
HR	Predrag Bejakovic and Irena Klemencic	Research Institute for Labour and Social Affairs
HU	Ambrus Kiss	Policy Agenda
LT	Rasa Zabarauskaite and Inga Blaziene	Lithuanian Social Research Centre
PL	Dominik Owczarek	Foundation Institute of Public Affairs
PT	Heloísa Perista and Paula Carrilho	CESIS - Centro de Estudos para a Intervenção Social
SK	Rastislav Bednarik	Institute for Labour and Family Research
Comparative analytical report on *Policies addressing in-work poverty in the EU*		
AT	Bernadette Allinger	FORBA (Working Life Research Centre)

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A living wage has been defined as a measure of income that allows an employee a basic but socially acceptable standard of living. In recent decades, living wage initiatives have emerged in a small number of mainly English-speaking countries, including the UK and Ireland. These initiatives have developed in response to the inadequacy of income for many working households reliant on existing statutory minimum wage rates. They set out a methodology for calculating a wage that would allow wage earners and their dependents to live with dignity, in line with the fair wage provisions set out in the European Pillar of Social Rights adopted in 2017. This report aims to provide policymakers with a practical guide to the living wage concept.

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency whose role is to provide knowledge in the area of social, employment and work-related policies. Eurofound was established in 1975 by Council Regulation (EEC) No. 1365/75 to contribute to the planning and design of better living and working conditions in Europe.

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