



EAPN TASK FORCE ON DECENT WORK

Background Note on Living Wages

1. Rationale and Background

This Note sets out considerations in relation to ‘Living Wages’, based on living wage campaigns developed by EAPN members in the UK and, particularly, in Scotland. EAPN has always defended quality and durable employment, as a sustainable route out of poverty for those who can work. In defining quality, the role of decent wages, able to ensure the earner (and their families) a life in dignity, is crucial. EAPN has steadfastly raised issues relating to the level of pay throughout its lobbying, both at the EU and at the national level, exposing its connections to in-work poverty and the damage low wages cause to individuals, communities, Governments, society, and the economy. We advocate for a positive hierarchy between adequate minimum income and minimum wages which are set at decent levels.

The latest figures from Eurostat show that 17.0% of employees were low-wage earners in the European Union (27 Member States) in 2010. This is based on a survey of businesses with at least 10 employees, and is likely to be a conservative estimate, because it does not take account of those working in micro companies. The proportion of low-wage earners in the EU was 21% among women, 29% among employees with a low level of education, 31 % among employees with a fixed duration working contract, and 30% among employees below 30 years of age ([Eurostat](#)). Low-wage earners are defined as those employees earning two thirds or less of the national median hourly earnings. The median is the midpoint whereby half earn less than this value and half earn more.

Statutory minimum wage rates exist in various European Member States, but not all. Germany is the latest country to introduce a legal hourly rate of €8.50, commencing in January 2015. Research by the German trade union confederation, DGB, estimates that 6.6 million workers have been earning less than this. While setting a floor on wages is an important step – covering about 4 million workers – concern remains that more than 2.5 million people in Germany will not benefit due to the operation of exemptions¹. This example illustrates that, while the existence of a minimum wage is a helpful tool to curb extreme low-wages, it does not come with a guarantee of providing income adequacy for all workers. Debate on the nature of and potential for a ‘Living Wage’ has emerged in recent times, in recognition of the need to

¹ Presentation by Friederike Posselt, Head of Collective Bargaining Coordination Division, German Confederation of Trade Unions (DGB) to seminar on Decent Work, Quality Jobs and Poverty at the European Parliament, 11/09/2014

surpass the limits of a minimum wage rate.

While these issues have been of ongoing concern for EAPN, they have become more urgent as a result of the rise in in-work poverty, due to the focus in the EU in response to the current crisis on getting people into jobs, reducing unemployment levels, and at the same time increasing competitiveness, with little attention being paid to the quality of jobs. A constant message from the EU and its Member States is that employment is the best way out of poverty. However, the reality is that, in 2012, an estimated 9.1% of the workforce was at risk of poverty, an increase from 8.9% in 2011, and 8.4% in 2010 ([Eurostat](#)). Therefore, if employment is to be a route out of poverty and provide for a decent standard of living, the causes of in-work poverty have to be tackled. A key part of this is that workers must earn a Living Wage.

Ensuring that workers have access to a Living Wage is one aspect of a range of interconnected elements that need to be addressed, if people are to have a job that provides them and their families with a decent standard of living, while also ensuring the well-being and quality of life of the worker. The EAPN position paper on [In-Work Poverty](#) and the [Explainer on Quality Work and Employment](#) present the analysis and the wider policy background of decent work, within which the issue of a Living Wage is set. They outline a comprehensive approach for ensuring that the issue of decent work is brought to the fore at EU and Member State levels.

The elements which make up decent work have been the focus of many institutions and organisations, including the International Labour Organisations, the European Trade Union Confederation, and the EU in the Charter of Fundamental Rights (among others). EAPN drew on these and the experience of its members to develop its [10 Principles for Quality Work](#). These principles include adequate/Living Wages, employment rights, social protection, quality working conditions and working environment, the reconciliation of private and professional life, the right to participate in collective bargaining and social dialogue, protection against discrimination, access to training and personal development, progression in work, and job satisfaction.

2. The concept of a Living Wage

The term *Living Wage* is an English language definition, which arose in Australia over a century ago, but which is still used to define the minimum income necessary to provide a worker with a basic, but acceptable, standard of living. In other languages, this concept will be captured in different ways (e.g. decent wage).

The development of Living Wage campaigns in the UK and the US has been associated with ‘community organizing’, involving the direct participation of workers and a network of local actors. It is a collaborative approach, building alliances between trade unions, community organizations, faith-based organizations, and others. In practice, the extent of grassroots mobilization varies, but is an important element in garnering broad-based support.

This approach to addressing low pay is not widespread, but has evolved in different ways in some countries and regions. There is a Wikipedia page on it, but the content is disputed http://en.wikipedia.org/wiki/Living_wage. Whilst the concept of a Living Wage has similarities with a range of other methods for calculating income or wage minimums, the Living Wage concept is distinct in a number of respects.

More than the biological minimum

A Living Wage level will be distinct from a subsistence level, because it goes beyond a biological minimum and calculates a 'low cost, but acceptable' standard of living, which will shelter housing and other incidentals, such as clothing and nutrition. In the UK and in some states of the US, the standard generally means that a person working full-time, with no additional income, should be able to afford more than the basics for quality of life, such as food, utilities, transport, health care, and minimal recreation, as well as one course a year to upgrade their education and childcare. Different states in the US use varying criteria for the calculation of the Living Wage. In the UK, a single methodology is used. Its starting point is for members of the public to identify what items people need for a minimum acceptable standard of living.

Not a Minimum Wage

A Living Wage is distinct from a National Minimum Wage, because the latter is set by law and typically in most countries has failed to meet the requirements to have a basic quality of life, leaving the employee to rely on Government programs for additional income. Minimum wages tend to reflect accommodations between employer interests and the State, reflecting a number of competing factors, including impact on the labour market, competitiveness etc, whereas a Living Wage should allow a human being in a civilized community to have a decent living estimated by current standards, irrespective of the employer's willingness to pay. The target is to ensure a worker's earnings are sufficient to meet a social norm of decency, rather than over reliance on welfare payments to supplement pay from work. The concept of a 'living wage' is also being used into negotiations over raising minimum wage level.

Different from collectively agreed wage rates and sectoral bargaining

Negotiations between trade unions and employers, and in some cases public bodies, will continue to set wage rates for particular professions and sectors. In many cases, rates agreed will be higher than the Living Wage, reflecting economic value, skills, and other factors. In sectors where some or all employees are paid less than the Living Wage, trade unions may wish to use the set Living Wage figure as a minimum bargaining demand, or to identify it as a future goal to be achieved incrementally, reflecting the realities of the bargaining process.

Relationship with the Minimum Income Standard

In the UK and Scotland, the Living Wage is related to the Minimum Income Standard (MIS). However, it does not seek to establish a level of pay which would be acceptable in all household circumstances. It recognizes that in certain circumstances (primarily where an individual has dependents), State support might still be required to reach an acceptable standard of living. The MIS is also referred to by NGOs as the base line for minimum income support. Existing in-work benefits and tax credits are also often taken into account in calculations of a Living Wage, to reflect the reality that otherwise the rate would be elevated to a level that would be unattractive to business.

Country or state wide?

Given that costs vary significantly within a country, particularly in relation to housing and travel, the Living Wage may operate using different geographical boundaries, reflecting a trade-off between accuracy and the need to establish a universally recognizable figure. In the US, Living Wages are generally calculated state by state. There is a single UK/Scotland figure for the Living Wage, but the London Living Wage is at a different and higher rate.

The Living Wage – mandatory or voluntary?

The calculation for a Living Wage provides a standard which may be implemented by government in law. In this respect, the Living Wage level could become the level at which minimum wages are set, although this is not currently the case anywhere in Europe. The Living Wage might also be adopted by Government in its activities as an employer, whereby it chooses to adopt it as a minimum rate of pay for all state employees, but not to legislate for it in the private sector.

The Scottish Living Wage campaign takes the view, as a matter of general policy, that the Minimum Wage should be raised to decent standards, but its main focus of campaigning is for the voluntary adoption of the Living Wage by employers and government as an employer. Employers become 'Living Wage employers', whereby none of their employees will be paid lower than the agreed Living Wage level. As the number of employers in different sectors achieving this standard grows, being recognised as a 'Living Wage' employer becomes something more employers will want to achieve. The approach has been somewhat different in the United States, where there is a legal obligation to pay a particular Living Wage rate in some States on a broader scale. Living Wage initiatives also typically include (limited) requirements regarding other terms of employment, such as the recognition of trade unions.

Promoting the importance of the Living Wage

The Living Wage is promoted as being:

- A human rights approach, which should be undertaken by all players in a civilised society
- A means for tackling social problems fostered by low income, such as in-work poverty
- Part of a wider response to the problems caused to the macro-economy of wages reducing as a proportion of company profits
- A means to tackle the undervaluing of specific types of work – particularly in the case of gender segregation, discrimination against migrant workers and against young people
- A specific approach to support workers not covered by collective bargaining agreements
- A means to improve the viability of local communities
- A way in which the state can reduce its welfare payments by increasing employer responsibilities
- Of international value, as a means to improve supply chain activities of companies selling in one country but manufacturing in others
- Of positive reputational advantage to employers, in relation to Corporate Social Responsibility and other PR outcomes
- Of significant business benefit to employers, in relation to creating a stable, well-motivated and skilled work force.

The approach countries take with regard to low pay differs. Some, such as Luxembourg, Ireland and the UK, have a statutory national minimum wage, which acts as a floor on pay while the practice is established in others, such as Sweden and Denmark, that the social partners independently negotiate collective agreements to cover various sectors in the economy. Germany has recently approved a national minimum wage of €8.50 per hour, to start in 2015, after many years of debate.

The President of the European Commission, Jean-Claude Juncker, has pledged support to the introduction of a national minimum wage in each of the six remaining countries where it is not in place, i.e. Austria, Cyprus, Sweden, Denmark, Finland, and Italy. However, this remains a matter of national competence. The interaction between low pay and social welfare and/or in-work benefits has an influence and is organised in different ways in each jurisdiction.

For most European Member States, the concept of a 'Living Wage' is new, and has yet to be applied on the ground, although the United Kingdom has been a frontrunner in this regard. While the minimum wage is set at a level that the market is deemed capable of bearing without adversely affecting employment and/or competitiveness, the concept of a Living Wage goes beyond pure market dynamics, to reflect a threshold of pay that meets the reasonable needs of a worker in life. The Living Wage recognises that the minimum wage may not be a sufficient standard on which to get by. It entails a higher level of ambition.

THE SCOTTISH LIVING WAGE CAMPAIGN

The Scottish Living Wage Campaign was established in 2007, and sets the Living Wage in Scotland. It is an alliance of the Scottish Poverty Alliance, Scottish trade unions, NGOs, voluntary sector umbrella groups and religious organizations.

As low pay still is a very real problem in Scotland, the Living Wage Campaign decided to take demands directly to employers and try to make a difference, building on the earlier success of such campaigns in London and elsewhere. These campaigns are based on a dual approach, combining lobbying employers, with the help of trade unions, with supporting grassroots organizations, to put pressure on local employers to take ownership of the campaign.

The campaign has proved remarkably successful: important institutions have become Living Wage employers, such as The Glasgow City Council, Scottish Enterprise (the agency responsible for business development in Scotland) and Employers in Voluntary Housing. The Glasgow City Council also started their own Glasgow Living Wage Campaign, signing up more than 130 employers as 'Living Wage' employers.

The Living Wage has also been debated twice in the Scottish Parliament. As the target were employers and not the State, thus placing on the former the responsibility to fight poverty, it was easier to garner political support. The campaigns also helped forge new links between local community organizations, trade unions, faith-based organizations and other civil-society organizations.

The experience in Scotland goes beyond negotiating a Living Wage rate. Employers may be accredited as Living Wage employers if they pay the Living Wage rate (currently £7.65 per hour) and assuming that certain other basic criteria such as permitting trade union activity and in the treatment of their workers in areas such as minimum holidays, training and other conditions are not breached. More information on <http://slw.povertyalliance.org/>.

OTHER EXAMPLES:**UK Living Wage Campaign**

The UK Living Wage Campaign was begun in 2001 by London Citizens. In 2005, following a series of successful Living Wage campaigns and growing interest from employers, the Greater London Authority established the Living Wage Unit to calculate the London Living Wage. Since 2001, the campaign has impacted tens of thousands of employees, and put over £210 million into the pockets of some of the lowest paid workers in the UK. Due to different costs of living, there are different Living Wages for London and the rest of the UK. Currently, the Living Wage Foundation in the UK offers accreditation to employers that pay the Living Wage, or those committed to an agreed timetable of implementation, by awarding the 'Living Wage Employer' mark. Information on the UK Living Wage Campaigns is available on the Living Wage Foundation www.livingwage.org.uk.

Ireland

In July 2014, a Living Wage Technical Group, made up of Trade Union, social NGOs, and progressive economists, produced a Living Wage for Ireland. The hourly rate is €11.45. This rate is derived from the cost of a Minimum Essential Standard of Living for an individual. The Technical Group has also produced gross annual salaries, which would provide Family Living Incomes for six family types.

United States

In the United States, the state of Maryland and several municipalities and local governments have enacted ordinances which set a minimum wage higher than the federal minimum, that requires all jobs to meet the Living Wage for that region.

Romania

Initiatives regarding a living/decent wage are mainly initiated by trade unions and NGOs, without having concrete support at political level. Employers' support is essential to promote the implementation of Living Wage practices on the labour market, especially of large transnational companies. Corporate Social Responsibility and Corporate Accountability are two important tools in relation to large national and transnational companies.

Other countries have mooted a Living Wage, but have not yet made progress.

For example, in 2010, the Malta Labour Party (the opposition party at the time) had proposed that a Living Wage should be introduced. However, this idea was dropped, due to the harsh negative criticism received mainly from employers' associations. To this extent, the suggestion of a Living Wage was not even listed in the Party's Electoral Manifesto.

3. Considerations regarding implementing a Living Wage action

Given the different starting points of Member States, a number of sequential steps may be required to reach this destination, or it may be possible for complementary paths to run in parallel. The question of whether to focus energy on one aspect, or whether to spread efforts across a number of initiatives, must be considered. Depending on circumstances, resources and opportunities, the chosen action may involve a specific action to introduce/increase a national minimum wage, and/or a collectively bargained agreement.

What kind of Living Wage action

The Scottish approach is focused on individual employers, rather than the full range of organisations operating in a particular sector. This has been based on a realistic assessment of what is achievable, at least in the infancy of the campaign. However, in the US, a Living Wage has been implemented in certain cities / States through (Living Wage Ordinances) or through conditions for contracted work². In some countries, there may be opportunities to campaign politically for a Living Wage rate to be set as a condition in public procurement contracts, including for contractors in the supply chain. However, this may involve complex legal considerations, and may only be suitable for a more established campaign. Efforts have been made in Scotland to this end, but the Government maintains that there are obstacles under EU competition law. It is useful to examine whether new legislation in this area passed recently by the European Parliament offers new avenues to pursue standards on wages.

Partnerships and alliances

Key to the success of Living Wage campaigns in the United States and the United Kingdom has been a collaborative approach. This has involved anti-poverty groups, trade unions and religious groups working in concert for a shared purpose. Establishing a coalition of stakeholders to support the cause is vital for effectiveness. This could include allies in academia and high-profile and/or well-known personalities to act as advocates.

Public Support

The concept of a 'Living Wage' is not widely understood or discussed in public debate. Awareness-raising is a key building block in order to gain a groundswell of support for the objective. This could involve public seminars, commentary in the media, and other actions or events to draw attention to the role of Living Wages in addressing low pay.

Political Support

The Living Wage campaign in Scotland has been considerably boosted as a result of the support of two major political parties, Labour and the Scottish Nationalist party. This did not happen overnight, and involved a great deal of lobbying and awareness-raising. Shifting the focus away from in-work state supports toward onto the responsibility of employers may be attractive to some in the political system, but may also meet considerable resistance. This links with debates about whether those on low wages should be assisted through the tax system or through wage increases. It is important to identify political champions, and to have convincing answers to opposing arguments, so as to win political and public support for the campaign.

² Explaining the Passage of Living Wage Legislation in the U.S., Suzanne Heller Clain, International Atlantic Economic Society Journal; July 2012; 40:315-327

Institutional context for wage-setting

The extent of collective bargaining coverage is an important consideration in deciding an approach to campaigning for a Living Wage rate. In some countries, such as Sweden and Denmark the bulk of workers are covered by collective agreements. Some Eastern European countries have low trade union density and limited experience of centralised agreements. A key consideration is to work out how to combine a Living Wage action (particularly if it is focused on a small number of employers rather than a broad category of workers) with existing wage-setting mechanisms so that they support rather than undermine each other. This may involve sequencing or else pursuing two or more strategies at the same time. It is important for dialogue to take place with trade union bodies to arrive at an optimum outcome.

Employer engagement

The attitude of employers is crucial in seeking to implement a Living Wage. This can be a difficult obstacle to overcome on a general level. In many instances, there has been opposition from the business community even to the introduction or augmentation of a national minimum wage, so it may be a considerable challenge to gain acceptance for a Living Wage on a broad scale. Nonetheless, an approach targeted on large companies or commercial institutions (e.g. banks) that wish to promote a positive image of Corporate Social Responsibility may bear fruit, as in Scotland where a formal accreditation system has proved a valuable incentive to sign up based on reputational gains. However, big players in the retail sector remain resistant. Once on board, it is important to use Living Wage employers as champions to extend coverage. It is particularly important to explain the benefits in terms of employee productivity and reducing staff turnover in order to counteract fears about increasing the cost base.

The Scottish Living Wage campaign has achieved most success with public sector employers, e.g. Glasgow City Council, the National Health Service and some government agencies, through political pressure. This may be a useful template to pursue in seeking wins for the campaign. Efforts to implement a Living Wage among individual employers do not have to substitute, but may run in tandem with support for improvements to sector-wide pay rates which would benefit a broader group of low-paid workers. The expansion of a Living Wage rate to whole industries or nationally may be a long-term objective, to be developed incrementally using national wage-bargaining institutions as well as initiatives at company level.

The issue of monitoring

There is a need to ensure employers who sign up to a Living Wage adhere to paying the rate and upholding other agreed terms, and do not engage in misuse. It emerged in the Scottish campaign that some companies were seeking to reduce hours, leaving workers no better off despite the Living Wage rate³. There is a clear role for trade unions in monitoring compliance with the support of other alliance members. However, constraints as regards resources (human and financial) would have to be addressed. This may become more of a pressing consideration once the action has gained traction rather than at the early stages.

³ David Moxham, Scottish Trade Union Confederation, Presentation to EAPN Task Force, 11/12/13.

Factors to keep in mind:

1. Calculating the Living Wage rate of pay

A key element of a Living Wage campaign involves calculating the rate of pay. In most cases, the focus is on calculating an hourly rate, but this is worked out based on the weekly, monthly or annual rate and then divided by the number of hours worked. Networks will have to establish the best method of calculating the rate in a way which is understandable, defensible and broadly accepted by the range of stakeholders involved.

Existing actions use different methods for calculating the rate of pay. However, the most common method used to establish the rate is Reference Budgets, either alone or mixed with other methods. Reference Budgets have been developed in different ways in many countries to establish a minimum essential standard of living. In Malta, a 2012 study on reference budgets, 'A minimum budget for a decent living', recommended that the minimum wage should be increased to €180 per week to reflect a decent living.

London Living Wage

The London Living Wage is calculated over a series of steps. These are undertaken and published by the Greater London Authority (GLA) each year since 2005, and reflect the process established using Family Budget Unit (King's College London) living costs data when the concept was first proposed for London.

The Living Wage is calculated using a combination of:

- i. a 'basic living costs' figure (Reference Budgets). The basic living costs' figure is calculated based on the weighted average living costs of four different family types (£7.45 per hour in 2013), and
- ii. an 'income distribution' figure. This is the figure at which 80% of the households across 11 household types have an income above 60% of the median income. This is based on disposable income after housing costs (£7.90 per hour in 2013). The London Living Wage is then an average of these two calculations (£7.67 in 2013), plus an extra 15% to ensure that people receiving it do not end up receiving poor wages. The London Living Wage for 2013 is, therefore, £8.80 per hour. The UK National Minimum Wage in 2013 was £6.31 per hour.

There is a separate UK Living Wage for outside of London, which is currently £7.65 per hour. This has been calculated by the Centre for Research in Social Policy from 2011.

Creating a positive hierarchy with minimum income levels

Reference Budgets are also being proposed as a method for establishing levels of minimum income⁴ and as the minimum required for providing people with a dignified life. Therefore, the question of creating a positive hierarchy between the income levels required to provide a minimum income and the levels required for someone who is working should to be considered.

⁴ Minimum income refers to a state's non-contributory means tested income supports provided to people who do not qualify for unemployment or certain insurance-based benefits.

Different ways to do this could be:

- Including the cost of in-work items in the basket of goods and services which make up the Living Wage calculation.
- Adding an additional percentage to the amount required for calculating an adequate minimum income, similar to that done to calculate the London Living Wage.

Other possible methods for calculating a Living Wage, suggested by EAPN members

While reference budgeting may be the most methodical approach to the calculation of a Living Wage rate, it is resource intensive, and may not be accessible to certain EAPN networks. Below are suggestions for alternative ways to proceed in the first instance, pending the development of a more robust methodology:

- Minimum wage, plus an agreed additional amount
- A rate designated which is above the poverty threshold level⁵
- Minimum unemployment benefit x 2 (or a slightly higher ratio). This provides that incentives to work for pay remain, at least for uninsured unemployed people.
- Median income x an agreed percentage (or a slightly higher ratio). This acts as a check and balance for low paid work in general.
- Average income x an agreed percentage. This could produce an even stronger balance on keeping a check on rising income inequality.

Issues to consider in calculating the rate of pay

1. Should it be a rate that is suitable to support an individual, or also provide a worker with sufficient income to support their family?

A rate which only takes into account the income needs of an individual worker means that workers with dependents may be unable to afford a decent standard of living for their families, where necessary to cover costs such as care. If not, is the State responsible for supporting families to meet these costs? The Scottish rate is for a standard worker and does not take account of dependents. If the cost of a family are included, how will this affect the rate and its potential acceptability to employers?

2. Should the rate cover the potential extra cost of going to work including travel, food, work clothes, etc.?

3. Should there be different rates for different areas, e.g. urban or rural areas, depending on the cost of living?

4. How do you calculate the number of hours in a week or month?

The issue of hours worked in a week or month plays an important role in determining the take home pay of workers. In calculating an hourly rate of pay, it is also important to agree how many hours constitute full-time of part time work.

⁵ Explaining the Passage of Living Wage Legislation in the U.S., Suzanne Heller Clain, International Atlantic Economic Society Journal; July 2012; 40:315-327.

2. Linking Issues

While the Living Wage is generally presented as an hourly amount, it is often only by working full-time for this rate that someone can have an amount that provides for a decent standard of living. This has to be an important consideration in the type of action and how it links with other issues impacting on household income such as part time work, precarious work, access to social protection, access to services, etc. In developing a Living Wage, it is important to think of the potential risk of the 'Living Wage rate' being taken by employers as the ceiling, as opposed to the floor, for wages.

In coming to an understanding of the issue of adequate pay, it is important to consider a range of other issues which impact on a household's disposable income. Some of these will also impact on the rate of pay a worker needs to earn in order for them and their family to have a decent standard of living.

Tax

Income taxes directly impact on take home pay. Other taxes, for examples for services or property, further reduce the disposable income of the household.

Social Protection Supports

Depending on the national context, workers may also have access to social protection payments, either to supplement low-pay, or because they or their family qualifies for a universal payment.

In-work supports

While a worker's pay should provide sufficient income for a decent life, in many situations it doesn't. This may be because the worker is on very low hourly pay, they work on a part-time or temporary basis, or because the pay is not sufficient to meet the additional needs of a worker's family. This situation may also be linked to the wider issues of quality work, where a worker is in a more precarious job or on a very flexible contract. In this situation, it is important to understand the interaction with in-work welfare supports which a worker may qualify for in order to supplement their income. Where such in-work supports exist, there are also conditions which impact on access to these supports.

Universal Supports

In many countries, low paid workers or their families may qualify for a universal social welfare support, such as a support for children, which is meant to support families with a specific cost, but contributes to the overall disposable income of the household.

Campaigns and actions to address low pay need to understand the impact tax and social protection supports have on take home pay and a family's disposable income, and decide if and in what way they influence the approach they will take in their activities.