**9d. Follow–up note for EUISG regarding the Living Wage**

**Request from EAPN President Sergio Aires**

I was asked by Sergio at the EUISG meeting of October 2014 to prepare a note for the EUISG clarifying

1. The distinctions between four terms used in English *living wage; minimum wage; minimum income and basic income.* The distinctions between the four terms *as used in the UK* are attached as **Appendix A.**
2. Drawing on the UK example, positives and potential issues of the Living Wage concept for EAPN campaigning. This is discussed below. **Appendix B** provides further information from extracts from the websites of the London Living Wage Foundation and Poverty Alliance.

Congratulate the Decent Work Task Force on their excellent paper and campaign guide on the Living Wage, ably presented in the meeting by Paul Ginnell and Amana Ferro. As Paul noted, the paper does address the issues. What I do in this Note is to summarise matters that EAPN networks may consider in the context of the fight against poverty. I would be very happy to receive comments.

**The Living Wage – what is it?**

* An hourly rate set independently and updated annually
* The Living Wage is calculated according to the basic cost of living in the UK
* Employers choose to pay the Living Wage on a voluntary basis

See: <http://www.livingwage.org.uk/what-living-wage>

The Living Wage campaign began in London in 2001 and by 2005/6 the Greater London Authority had agreed to calculate the Living Wage and pay it on its contracts. The current London Living Wage is £8.80. The campaign was taken up in areas across the UK. Since 2011 there has been an agreed way to calculate the Living Wage outside of London (it is done differently in London). The current UK Living Wage is £7.65. Wages are set annually in the first week of November and therefore will shortly change. The UK calculations are drawn from the work done for the Joseph Rowntree Foundation (JRF) by Loughborough University Centre for Social Policy (CRSP) on consensual minimum incomes. This work was established to calculate minimum acceptable incomes and use these to benchmark the inadequacy of government minimum incomes for people with no other resources (see the UK EMIN report). Because of its basis in calculating minimum income needs for various types of household (single adults, lone parents, two adult households with children and retirement households) there is quite a complicated relationship with an hourly wage for a single worker and how that works in terms of costs for households.

**The Living Wage as a campaign tool in the fight against poverty**

**Advantages**

***The Living Wage is an ethical/ moral claim*** – that no-one should work for a wage that provides less than a minimally acceptable standard of living.

* It is important that there is a moral argument about in-work poverty and why it should be eliminated, it implies a social responsibility and puts substance into and meaning behind the demand for ‘a fair days pay for a fair days work’.
* It can be an important contribution to putting the morality back into anti-poverty arguments, rather than accepting the framework of the debate as set by many governments and increasingly by EU institutions, as well as businesses – that only economic costs and benefits can be taken into consideration in decision-making. That particular game is rigged against the poor.
* It helps to put a floor under living standards of people in work that there is a rate below which no employer should go as to do so admits you are not paying enough for your workers to live on.
* In the UK the consensual reference budgets established by work for the JRF provide a credible underpinning for the level at which the Living Wage demand is set.
* Around four-fifths of employees are paid above the Living Wage hourly rate therefore its impact is on low paid workers. Women, Black and Asian minority ethnic groups and young people are most likely to be low paid and therefore most likely to be gainers, with a positive impact on equalities.

***The Living Wage demand targets employers***

* This may be a new approach for some NGO networks including those in EAPN, which may have focused on meeting need by addressing demands to central and local departments of state. There will be different tactics and skills required to access and address employers and manage relationships with them and with allies, including trades unions and community organisations (where the campaign is locally or regionally based or targets an employer or business sector). But it may be an opportunity to enlarge and strengthen the Network’s range of allies.
* A successful agreement by a business or group of businesses to pay a Living Wage is a practical achievement that quickly can change beneficiaries’ lives.
* The Living Wage demand is a contribution to tackling low pay in the sense that the demand is that pay should be increased to a minimum acceptable standard of living either for the employed individual or for their household (as the paper notes, the demand is different for different campaign groups in the UK and Ireland).
* There is evidence that paying a Living Wage improves workforce productivity and reduces employee turnover, factors which can help the Living Wage to ‘pay for itself’ to employers. There is also UK evidence from the only private provider of domiciliary care in the UK that does pay the Living Wage (in a notoriously low pay/ bad conditions sector) that the service provided to vulnerable clients is improved when delivered by a better paid and therefore more valued, workforce.
* There is evidence from the UK and the USA that you can achieve the Living Wage; there are nearly 600 Living Wage employers in the UK.

***The Living Wage has some political ‘traction’***

* The Living Wage campaign(s) in the UK have some ‘political traction’ (leverage and support) and a relatively strong and positive media profile. A successful campaign, in the sense of getting agreement from an employer or employer group or sector, can raise the profile of the campaigners in the media, in affected local communities and with government, who may be intrigued by a campaign focused on business and not on politicians. There is increased political traction in the UK because of the extent of low pay and the consequent cost to the taxpayer/ Exchequer of top-ups to low income working households (£171 billion over the 5 years to 2012). Higher wages would transfer some of that cost to employers (and probably ultimately to consumers, including the poor).

**Potential issues**

***Rights***

* The Living Wage is a campaign demand for a voluntary change by employers. What can be voluntarily given by employers can be taken away by them, therefore it is a less secure route to change than, for example, a change in the statutory Minimum Wage. This is the rate below which no employer can legally pay and it is enforced in the UK (but not well). However, the Minimum Wage is lower than the Living Wage demand, although both the Labour Party and the Green Party have committed to raising the Minimum Wage: respectively to £8 by 2020 and to £10 now.
* The Living Wage does not address individual rights to an income, which may have negative connotations regarding women’s rights.

***The income provided and risk of poverty***

* The Living Wage, like the statutory Minimum Wage, does not apply to those outside paid work or who are self-employed workers (or in old age retirement). Therefore in the UK it does not help the lowest income people of working age – those on statutory minimum incomes such as the 2.5 million registered unemployed, many of the several million disabled people of working age, plus over 4 million self-employed workers, who in the UK have lower incomes than employed workers and have experienced the greatest income reductions since the great recession of 2008-9.
* The Living Wage is an hourly rate and therefore workers with insufficient hours may not earn enough to keep out of poverty. This is true also of the statutory Minimum Wage as it too is set as an hourly rate. There are several million involuntary underemployed workers in the UK.
* The Living Wage outside London is calculated as a minimum acceptable standard of living. In the UK the rate, if paid for a full year’s work, does take people out of relative poverty measured as 60% of median household income. However, a cost of living based calculation may or may not take people out of absolute or relative poverty, depending on: what is consensually ‘acceptable’ in any country as a standard of living (and this may change in ‘austere’ times); what is included in the budget – e.g. for transport, childcare, social integration) and how and how regularly it is updated.

***Effectiveness in targeting poverty***

* The Living Wage is focused on low pay (which is a major risk of poverty in the UK) rather than low income directly. (The same is true of the statutory Minimum Wage). Households may have two or more Living Wage or statutory Minimum Wage workers, or none of the household workers may be covered.
* The Living Wage campaign has not yet succeeded in getting much employer agreement in the large low paid sectors such as retail, hospitality, social care and food production. The employers who have agreed mainly have relatively few workers paid below the Living Wage. Therefore it has not had much effect outside London in increasing wages for the in-work poor. The statutory Minimum Wage covers employees in all sectors therefore a rise would have much greater impact and the majority of beneficiaries would be women.

***Issues related to collective bargaining and trades union principles***

In the main, UK trades unions support the Living Wage campaign and some are strong supporters, though the campaigns are generally led by community and charity sectors in alliance with trades unions, (which themselves sometimes have ‘community’ sections such as UNITE Community).

However, there are some concerns. These include:

* Whether the campaign will take resources that could be put into campaigning for a higher statutory Minimum Wage as a floor under all employment
* Trades unions prefer to bargain a ‘rate for the job’ regardless of who does it or where it is done. There is some concern that more awareness including by employers of the cost of living basis of the Living Wage will lead to more pressure for regionalised or localised pay rates because cost of living varies regionally (there is already evidence of some English local authorities taking this view)
* Whether (even more than the Minimum Wage) the Living Wage could become a ‘ceiling’ or ‘maximum’ wage in employers’ view, as it covers a socially acceptable minimum standard of living
* Concerns about other parts of civil society getting involved in wage bargaining. This could be a stronger concern in countries where there are a large percentage of workers unionised or where there is sectoral, regional or centralised collective bargaining and where there are bipartite or tripartite bargaining mechanisms which are established by convention or law.

**Conclusions**

There are powerful attractions and advantages to the Living Wage campaign as well as some drawbacks and it may be already important in some networks’ activities, or can become so. But networks in countries in which low pay is a less important cause of poverty; or in which trades unions have much higher workforce coverage or there are statutory forms of wage bargaining, may find it less of a priority or not suitable for their combat poverty environment. Networks in some countries may feel unemployment insurance issues are a bigger priority in their country. Networks in countries which have not yet got broadly accepted mechanisms for establishing minimum acceptable standards of living may find it too great an effort to get credible figures for a Living Wage Campaign. Individual networks are well able to decide the value to them of a Living Wage campaign and to build alliances with other such networks.

A more challenging issue is what kind of a priority a Living Wage campaign should be for EAPN Europe. Certainly, it should be part of a package of demands we raise in the context of a broader position on decent work. The question is whether it should have a higher priority and more resources than that. It could give EAPN bit more profile and distinctness with certain audiences and this is more than ever necessary in our frail funding and branding context. But the variety of individual country and network circumstances may affect the realism of a common campaign. EAPN is already focusing on demands concerning a framework Directive on Minimum Income which would effectively put a floor under all incomes and on demands to complete Minimum Wage introduction in all EU Member States which would put a floor under all incomes from paid work. These are important and will have a big impact if put into effect, but are already difficult territory because of the legal weakness of the social dimension and because we are not a ‘social partner’ in the sense narrowly defined in the EU. The Living Wage is a demand addressed to employers and it would take some effort to work out how to make it a priority in addressing EAPN Europe’s funders, the European Commission, especially in the context of the agreed work programme. There is also a question of prioritising our limited resources, as it would have limited impact on poverty rates in the EU and there are other and better funded organisations and agencies who can take it up.

**Appendix A: Four concepts used in the UK**

***1 Minimum Income: A statutory provision***

Income support schemes that provide a household safety net for people who cannot work or get a job and who have run out of social insurance payments or who were never eligible for them. The UK scheme is statutory (fixed by law).

***2 “Basic income”: A campaign demand***

A small income granted unconditionally to all individual citizens; does not exist anywhere yet; (UK Green party supports a Citizen’s Basic Income)

***3 Minimum wage: A statutory provision***

A minimum salary for individual employees that is fixed by law (e.g. UK) or by collective bargaining

***4 The “Living Wage”: A campaign demand***

In the UK this is a campaign demand for higher wages that meet a modest cost of living. (But in Belgium the Living Wage has the meaning of the Minimum Income)

**Appendix B: Living Wage campaigns in the UK**

**History of the modern movement**

See: <http://www.livingwage.org.uk/history>

**Extract from the website**

* The modern UK Living Wage Campaign was launched by members of [London Citizens](http://www.citizensuk.org/chapters/telco/) in 2001. The founders were parents in the East End of London, who wanted to remain in work, but found that despite working two or more minimum wage jobs they were struggling to make ends meet and were left with no time for family and community life.
* The Living Wage is an example of communities, business, campaigners and faith groups coming together to find practical, non-statutory means to address working poverty and strengthen families.
* In 2005, following a series of [successful Living Wage campaigns](http://www.geog.qmul.ac.uk/livingwage/chronology.html) and growing interest from employers, the Greater London Authority established the Living Wage Unit to calculate the London Living Wage.
* In 2008 Trust for London selected the London Living Wage as a [special initiative](http://www.trustforlondon.org.uk/special-initiatives/london-living-wage/) and made a grant of over £1 million to deliver direct campaign work, research and an accreditation scheme for employers.
* The Living Wage campaign has since grown into a national movement.
* Local campaigns began emerging across the UK offering the opportunity to involve many more employers and lift many more thousands of families out of working poverty.

**The London Living Wage**

See: <http://www.livingwage.org.uk/what-living-wage>

**Extract from the website**

* The London Living Wage is currently £8.80 per hour.
* The London rate is set annually by the Living Wage Foundation and calculated by the Greater London Authority, it covers all boroughs in [Greater London](http://www.ons.gov.uk/ons/guide-method/geography/beginner-s-guide/administrative/england/greater-london-and-the-london-boroughs/index.html).
* Established 2005, calculated since 2006

**Calculating the London Living Wage**: See: <http://www.london.gov.uk/sites/default/files/living-wage-2013.pdf>

* Since 2006 the Greater London Authority Group has calculated the Living Wage by a combination of two approaches. The first, developed by the Family Budget Unit (FBU), estimates the costs of a ‘Low Cost but Acceptable’ (LCA) budget for a selection of households and calculates the wage required to meet these costs. This is termed the “Basic Living Costs” approach. The second – the “Income Distribution” approach – simply identifies the median income for London (appropriately weighted for 11 household types) and then takes 60 per cent of it. The Basic Living Costs approach yields an hourly wage of £7.45 per hour and the Income Distribution approach one of £7.90. The average of these two wages (called the “poverty threshold wage”) is £7.65 per hour. In order to protect against unforeseen events a margin of 15 per cent is added to the poverty threshold wage. This gives a figure of £8.80per hour (when rounded to the nearest five pence) as the London Living Wage. If means-tested benefits were not taken into account (that is, tax credits, housing benefits and council tax benefits) the Living Wage would be approximately £11.30 per hour. However we believe that in-work benefits and tax credits must be taken into account, as the tax and benefit system is, by design, redistributive.

**The UK Living Wage for outside of London**

* The UK Living Wage for outside of London is currently £7.65 per hour.
* The UK rate is set differently than the London Living Wage. It is set annually by the Living Wage Foundation and calculated by the Centre for Research in Social Policy at Loughborough University.
* The Living Wage figures are announced simultaneously in the first week of November of each year, during Living Wage Week.
* There is a Scottish Living Wage campaign led by Poverty Alliance (EAPN in Scotland). See: <http://slw.povertyalliance.org/>; it also uses the CRSP calculations

**Extract from the website**

* The [Centre for Research in Social Policy](http://www.crsp.ac.uk/) (CRSP) funded by the [Joseph Rowntree Foundation](http://www.jrf.org.uk/) began calculating a UK wide [Minimum Income Standard](http://www.minimumincomestandard.org/index.htm) (MIS) figure. The MIS is an average across the whole of the UK, but does not reflect the variation in the cost of living inside and outside of London.
* In 2011 Citizens UK brought together grass roots campaigners and leading employers from across the UK, working closely with colleagues on the [Scottish Living Wage Campaign](http://www.povertyalliance.org.uk/slw-home.asp) in particular, to agree a standard model, calculated by the CRSP, for setting the [UK Living Wage](http://www.minimumincomestandard.org/downloads/livingwage/The-Living-Wage-in-the-United-Kingdom-May-2011.pdf) outside of London.
* At the same time, following consultation with campaigners, trade unions, employers who support the Living Wage and HR specialists, Citizens UK launched the Living Wage Foundation and Living Wage Employer mark.
* These new initiatives from the UK wide campaign recognise and celebrate the responsible leadership shown by Living Wage Employers and support employers to incorporate the Living Wage into organisational structures long term.
* 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.
* Paying the Living Wage is a recognised sign of good practice in employment.

**Calculating the UK Living Wage (except London):** See: <http://slw.povertyalliance.org/about/how_is_it_worked_out>

**Extract from the website**

* The calculation is based on the Minimum Income Standard for the United Kingdom, the product of research by CRSP and funded by the Joseph Rowntree Foundation.
* CRSP's research looks in detail at what households need in order to have a minimum acceptable standard of living and includes things such as food, clothing, rent, council tax, fuel for heating your home and childcare (if applicable).
* What is included in this minimum standard is decided upon by groups of members of the public. The costs of these items are then sourced from national providers and chains. Therefore, the LW is rooted in social consensus about what people need to makes ends meet.
* The research recognises that different types of households require different levels of minimum income and a specific figure is worked out for each household type (single people or couples, living with or without children).
* A type of average is then calculated from the different figures to give us the minimum that each adult in the household needs to earn per hour to cover the basic standard of living.
* JRF have produced a video about the Minimum Income Standard and low-pay, which clearly shows the problems that arise when wages to do not increase with inflation. When we see that wages have only increased on average by 8% over the past 6 years, but rent has increased by 32% and energy by 45%, no one needs to get the calculator out to see that something isn't going to add up.