What Europe can learn from living-wage campaigns

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The UK’s Living Wage Campaign is a successful experiment in broad-based social advocacy.

The coronavirus disease (Covid-19) is having drastic consequences for the world of work. In most European countries workers who are not delivering essential ‘frontline’ services are being asked to stay home. Unfortunately many are out of work, while many of those who are not are minimum-wage and low-pay workers, including those working in retail and food-supply chains. How can we ensure that these workers, so essential to our daily lives, are adequately and fairly paid?

While the United Kingdom may be leaving the European Union, the UK campaign for a ‘living wage’ has lessons in this regard for the remaining member states—notably in the context of the European Commission’s commitment to introduce an EU-wide legal instrument on minimum wages, in line with the fair-wage provisions of the European Pillar of Social Rights. The campaign brings together employers, unions, researchers and civil-society activists of different stripes to make the case for decent pay for employees at the bottom of the pay ladder.

In existence since 2002, the campaign originally sought to draw attention to the plight of those on low pay in London and to the inadequacy of the (then newly introduced) statutory minimum wage in supporting a basic but acceptable standard of living. Eighteen years later, it is institutionally mature, with a developed methodology for revisions and increases. It has widespread public recognition, has convinced nearly 6,000 businesses to become accredited by the UK Living Wage Foundation and has extended its reach beyond the capital.

In November 2019, the London living wage was revised to £10.75 per hour (equivalent to €11.80 currently), which is 31 per cent higher than the statutory minimum wage for those aged 25 and over. The UK living wage outside London is lower but still some 13 per cent higher than the legal minimum. Each living-wage employer pledges to pay at least the living wage to all its employees and to third-party employees working on its premises.

Important lessons
Living-wage campaigns have six important lessons for minimum-wage policy more generally.

**Statutory minimum wages are not designed to ensure a minimum standard of living.** Legal wage floors have multiple objectives, including raising the income of employees on low pay, ensuring a level playing field for all employers and ‘ending exploitative low pay and redressing power imbalances between employers and workers at the lower end of the labour market’. Crucially, these goals need to be achieved with little or no negative employment effects. But the minimum wage is not designed to provide beneficiaries with a minimum acceptable standard of living. The *raison d’être* of living-wage campaigns is to go this one extra step, based on a detailed costing of what it takes to have a socially acceptable standard of living and to derive a wage from that costing. Campaigns covered in a recent Eurofound review of initiatives worldwide estimated the living wage as anywhere between 13 and 82 per cent higher than the relevant national legal hourly minimum wage.

**Even relatively high minimum wages may not stem rising in-work poverty.** Although the relative value of the UK statutory minimum wage has risen steadily since its introduction (from less than half to nearly 60 per cent of median hourly pay for those aged 25 and over), the share of workers in in-work poverty has also risen over a similar period (from 13 to 18 per cent in 2019). The UK is now at the top table as far as relative generosity of the statutory minimum wage is concerned, alongside a small group of member states with rates set at or near 60 per cent of median hourly pay (France and Portugal). So how can in-work poverty have increased? Part of the explanation is that many core costs, notably housing, are rising faster than wages. Around half of this increase in the UK in-work poverty rate is attributable to the increased cost of housing.

More generally, increasing private provision and low or decreasing public subsidy in areas such as housing, education, childcare and transport contribute to problems of affordability for those on low pay. It is no coincidence that the countries where living-wage campaigns have gained traction—the UK, Ireland, New Zealand, Canada and the United States—are those in which social spending is low by international comparison.

**Minimum wages should thus not be seen as a stand-alone policy.** Wages alone may not be enough. Especially for principal household earners on low pay, income from work may be supplemented by state transfers (housing benefits, child allowances, in-work benefits and so on)—some means-tested, some universal. It is the combination of these different elements of income that allows many workers and their households to escape poverty. The mix and interaction of policies is crucial.

**National minimum wages are blind to growing regional cost-of-living differentials.** There is a single statutory minimum wage regime in the UK but there are two distinct living wages based on where one lives. The London living wage is 15 per cent higher than its rest-of-UK equivalent. This underlines the large difference in regional cost of living, notably between larger, more economically dynamic, metropolitan areas and their hinterlands in the same country. The legal minimum wage is likely to be especially inadequate in high-
cost cities. This raises sustainability issues for the individual, households and society. The high living costs of cities make it hard for those on low pay to make ends meet. This may also jeopardise labour supply in many services in the public and private sectors, in health and care as well as in retail, hotels and restaurants.

There are many complementary approaches to boosting earnings. The voluntary Living Wage Campaign in the UK coexists with legal minima as well as with collectively negotiated wages in specific sectors and establishments. There is no a priori reason why such different approaches cannot operate together and reinforce each other in any national setting. In the UK, the minimum wage sets a floor above which unions can negotiate higher rates for their members. Living-wage campaigns provide an evidence-based justification for increasing the legal minimum while also serving increasingly as an alternative higher reference level for many union pay claims, especially in public-service sectors. The increasing share of employment in service sectors with weak collective representation means that rises in the legal (and voluntary) wage floors boost pay for low earners where social dialogue is limited or absent.

The politics of minimum wages are changing. A legal wage floor has always been a popular policy; increasingly, it is becoming a populist one. It was one of the first important pieces of legislation introduced by the UK Labour government after taking power in 1997. Its introduction in Germany was a condition of the social-democratic SPD entering grand coalition with the centre-right CDU in 2013. But the politics of the minimum wage have changed, in some ways remarkably. Nowadays, parties on the right and left of the political spectrum endorse higher minimum wages as a policy goal. Conservative, nationalist governments in Hungary and Poland have both recently announced sharp rises in the statutory minimum wage, as has the left-wing coalition in Spain. In the UK, the current Conservative government has pledged to ‘eliminate low pay’ by raising the minimum wage to 66 per cent of median pay by 2025. This was the same party that opposed the introduction of the minimum wage two decades ago, arguing that it would cost millions of jobs.

Political convergence

Various explanations can be offered for this political convergence on a traditionally partisan public-policy issue. A growing body of research evidence suggests that reasonably set minimum wages lead to limited (if any) negative employment effects, rebutting the orthodox, supply-and-demand-based predictions of classical economics. This may have encouraged parties on the right to appropriate the policy, neutralising it as a source of political advantage to their opponents on the left. Tightening labour markets—before the coronavirus crisis—and higher company profitability, as well as the pressure to be seen to be doing something about growing inequality, have provided a positive context for such moves.

But the idea of a living wage has also been an important spur to minimum-wage activism. At its simplest, the idea that those who work full-time should not want for basics is a compelling one. Living-wage proponents have been successful in underlining
that, for this to happen, policy-makers need to pay attention not just to levels of pay but also to the rising cost of living.

When we emerge from the current crisis much of what we took for granted in society will need to be looked at again—including how to ensure a decent standard of living for those contributing through their work to vital goods and services.