

PERSPECTIVES FOR A EUROPEAN LIVING WAGE: A COMPARATIVE ANALYSIS OF NATIONAL AND INTERNATIONAL LIVING WAGES

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Abstract

Existing living wage methodologies vary considerably in their basic definitional elements. Neither the national concepts nor the international methodologies have thus been able to moderate policy discussions on adequacy of wages at the European level. This study provides an insight into how the international and national living wage methodologies based on basket of goods in Europe differ in basic building blocks: the objective with which the living wage exists, its definition setting the structure for its computation, household composition defining the typical family of the worker and finally the spouse's work intensity. We contribute to a search for a potential unification of currently fragmented methodologies. We discovered prevailing similarities in the objectives and definitions within each cluster, while the household composition and spouse's work intensity differ significantly between all the concepts. Further research is needed, still this paper suggests there is a way forward in humanizing labor market economics by internalization of the living wage concept.

Key words: Living Wage, Low Wages, Labor Economics

JEL Code: J300, J310, J800

Introduction

In October 2020, the European Commission has proposed a directive on adequate minimum wages in the European Union. What has been promised by the current Commission from its beginning and what has been discussed with stakeholders for months has come to a concrete proposal. Even though it does not set any concrete level of statutory minimum wage for the member states, there are signs of what the European Commission ideate. The explicitly stated aim is “*to ensure that the workers in the Union are protected by adequate minimum wages allowing for a decent living*” (European Commission, n.d.). According to the president of the Commission, “*workers should have access to adequate minimum wages and a decent standard of living*” (European Commission, n.d.).

However, following economic discussions on the proposal have shown a hardship in searching for the “adequate” level of remuneration as well as the “decent standard of living”. The closest economic concept for both adequacy and decency then considering wage level seems to be a living wage – a working income enabling decent living. This paper divides living wage concepts into national methodologies and the international counterparts. The existing international methodologies have not grasped the chance for entering an international economic discussion because of several methodological shortcomings, while the national methodologies seem to be too country-specific to serve as a common benchmark.

The cradle of the living wage in practice is considered to be the United States. Soon after some states translated living wage into legislation, the first attempts for establishing the concept with erudite methodology and both academic and public support was seen in other English speaking countries, such as Canada, Australia or New Zealand. Meanwhile, NGOs has begun to use living wages in campaigns in developing countries in fights for improved working conditions in garment plants of western multinational corporations.

The data-based analytical approach has built solid foundations for future development in the UK and the rest of Europe. In the 2000s, *the Living Wage Foundation* introduced first living wage in Europe. In 2014, the UK was followed by Ireland, where *the Republic of Ireland Living Wage* was calculated and quickly backed by the trade unions (Eurofound, 2017). Lastly, a group of experts in the Czech Republic has launched their project called *Minimum decent wage* and so developed the Czech equivalent of living wage in 2019.

Given the globalization and economic integration across the world, the demand for an internationally comparable approach emerged. A couple of academics has thus developed internationally applicable methodologies: Anker and Anker (2017) have developed an Ankers’ methodology, which is being used primarily by NGOs in developing countries. Only one year later, Guzi and Kahanec (2018) have created methodology based on international internet survey called WageIndicator. Both methodologies tried to overcome cultural and societal differences in perception of decency and come up with a usable alternative for the national living wages.

The focus of this paper is a comparison of the basic building blocks of European national and international living wage methodologies based on basket of goods. The aim is to find the differences, which could help to find the factors behind the limited internationalization of

national methodologies, as well as the low nationalization of international methodologies in the European area.

The method used is a comparative analysis of the two groups of methodologies. The main contribution of this paper is gaining insight in the definitional aspects of those concepts, their comparison from the national vs. international perspective and the evaluation of those differences vis-à-vis its use on European level.

1 Research Methods

This paper divides living wage concepts into national and international group. This division is based on the application of a specific methodology, which is either purely local – fits only the local data – or allows application to multiple countries. The latter, represented in this work by two international concepts, was necessarily already created with the aim of universality, which would allow comparisons between states.

The objective of this work is to compare the definitional aspects of national and international living wage methodologies. This work deals with what creates the boundaries for the subsequent practical calculation – the quantifying of the living wage. By the defining aspects of a living wage methodology, we consider the objective behind the concept, its definition, clarification of to whom the living wage serves (type of household) and who is the recipient.

The central research question is what makes the international living wage methodologies different from the national concepts in Europe. The answer to this question may lead to clarifying the advantages and disadvantages of international and national methodologies of living wages in Europe.

Among the national concepts examined in this paper, we include the Living Wage Foundation's living wage for the United Kingdom (abbrev. UKLW). This living wage have separate history for London and the rest of the UK. Originally as a London project, it was extended to the whole UK in 2011, and since 2016, both branches have had a common methodology, which will be discussed in this paper. Although the UK is not part of the EU and the debate on a common approach to minimum wages does not affect it much, the concept's history and influence on other European living wages is so significant that it cannot be ignored. The second national methodology is The Republic of Ireland Living Wage (abbrev. RILW) inspired by the UKLW. Finally, the third existing European national methodology is Czech Minimum decent wage (abbrev. MDW), which published the first calculation the most recently in 2019.

In the case of international initiatives, those are selected by a not trivial rule, that they should not only aim at developing countries, but whose methodology is applicable to Europe. For this reason, we do not include globally important Asia Floor Wage among the international methodologies, as it is regionally specific to a non-European area. On the contrary, we include the methodology of the researchers Anker and Anker (2017) (abbrev. AM) despite its main focus on enabling the computation in developing countries. It can be used for European developed countries as well. The AM is considered to be the mother of many other methodologies and even the WageIndicator international methodology also included in this paper explicitly mentions it is in line with the AM. This WageIndicator methodology (abbrev. WI) is the last one included in our sample. The WageIndicator Foundation started to collect data via online survey in 2001 and built its own methodology using those data.

Apart from national living wages and the attempts for their internalization, it is important to mention the third “income distribution approach” to living wage calculation, which has evolved from the field of statistical comparisons of national labor markets. This approach differs from the living wage methodologies mainly by not being built on baskets of consumer goods, but simply on relative income threshold, usually by the relation to average or median income, also called Kaitz Index. Researchers and policy makers have widely used this tool due to its easy computation and international comparability. However, its non-basket-based nature do not allow us to compare it with selected basket-based methodologies.

2 Comparison of living wage methodology groups

In this chapter, we will present the building blocks of all the selected methodologies with an emphasis on their national-international division. We will begin with the most general – the objective and the definition – followed by more concrete household composition and spouse’s work intensity.

2.1 Objective

All living wage initiatives follow a similar intention, which can be described according to Bennett (2014) as to find a socially acceptable minimum working income enabling decent living. Exact wording, however, differs from living wage to living wage. Some emphasize the decency, others talk about covering basic needs or a level that helps to overcome poverty for others (Anker, 2011). The specific form mirrored in the chosen wording usually corresponds to the objectives with which the living wages have been created.

The concept is widely used in campaigns for an increase of low wages. All three European initiatives have been launched with such promises. The UKLW's purpose is to “*encourage all employers that can afford to do so to ensure their employees earn a wage that meets the costs of living, not just the government minimum*” (Living Wage Foundation, n.d.) through campaign measures. The Irish RILW does not state its objective, but it can be deduced from the past achievements, when it was used in “*industrial strategies, civil society campaigns and in the larger public debate*” (Taft, n.d.). The platform for MDW explicitly mentions, that the objective of MDW is „*not to legislatively implement the calculated amount, [...] it should serve as a means to discuss wage and social benefit levels [...] It can also serve as a rationale for employees, unions, and employers when negotiating wages and salaries*“ (Platforma MDM, n.d.).

Living wages' closest policy application is a statutory minimum wage which sets a wage floor in order to increase the income of low-income employees and prevent them from working poverty. The first living wage legislation – in Baltimore, the United States – was developed in order to be straightly implemented in legislation. It is now a truly legally enforceable element at the regional level. None of the European cases have such goal, even though, they all naturally compare their calculations with minimum wages or other income-related policies.

The objectives of the international methodologies are not limited to a specific country and thus are more general, aiming to provide a tool for concrete initiatives. The mission of Global Living Wage Coalition, which adopted the AM methodology, is a cooperative effort in education, awareness and collective action in developing countries with a concrete focus to “*provide high quality and consistent knowledge and information about living wage levels [...] toward wage increases globally*” (Global Living Wage Coalition, n.d.). Similarly, WI has rather general mission: to provide data and information to employees, employers (WageIndicator.Org, n.d.).

The goal with which the concepts were created can evolve and the authors can change it over time if needed. Anyway, it influences the development of the concept and can serve as a barrier to its expansion abroad, or even within a given country, if it is strongly fixated as a tool of a certain campaign. In this respect, the international methodologies have a strong advantage due to their more general and rather analytical focus.

2.2 Definition

A definition of a living wage is a cornerstone on which a methodology can be built. According to the Eurofound's meta-analysis, the living wage should provide sufficient income to ensure a

decent standard of living for the worker (including dependents) concerning local social norms and economic specifics (Eurofound, 2017). Nonetheless, there is not one universal methodology, nor there is an all-embracing definition of living wage. The definitions of living wages vary greatly between different authors, initiatives and countries.

The referential definition of the whole field is the one based on Richard Anker's wide methodological review in 2011 (Anker, 2011), which, among others, analyzed 12 definitions of living wages from high-income countries, but only some of them were accompanied by a methodology and apart from four definitions from the UK, none of the rest was European. Anker and Anker (2017) compiled the definitions in the referential definition, which was later adopted by the Global Living Wage Coalition, which refers to a living wage as "*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.*"

When we compare our five studied initiatives (see Table 1), their authors generally understand the meaning living wage similarly. The importance lies in what each one emphasizes, where also lies a strict difference between national and international definitions. While all three national definitions explicitly state, that the living wage refers to an income needed for a standard of living either "defined by the public" (UKLW), "grounded in social consensus" (RILW) or "perceived by the majority of society" (MDW), the international definitions include no such reference. The national initiatives rather tend to get closer to the potential applicants' needs, especially when using in campaign. The international ones do not feel such a necessity. This reference, however, does not correlate with application of subjective measurements in order to cover the societal perception.

Much more factual meaning has the concepts' choice of the level of standard of living. The Irish and British definitions speak of "minimum acceptable standard", while AM and WI define it as a "decent standard". Although "decency" is not straightforwardly definable, its meaning certainly covers more than only acceptable minimum. A central methodological question builds on this choice of words: which consumer spending should be included in a living wage. There are two general lines. One approach is based on the history of living wage as a tool in the fight for higher wages in developing countries, which is based purely on providing basic human needs. The second approach, applied mainly in developed countries, extends this expenditure

to other, perceived as important by society, which ensure a decent quality of life. As Brenner et al. (2002) point out, the living wage should allow the recipient also expenses associated with social participation that are desirable for a decent life, whether it is culture, sports or various civic activities. But as our definitions suggest, campaigns in developed countries also take the minimalist path.

Tab. 1: Definitions of the living wages

Ankers' Methodology	“A 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, health care, transport, clothing, and other essential needs, including provision for unexpected events.” (<i>Global Living Wage Coalition</i> , n.d.)
WageIndicator	“Living wage is based on the concept that work should provide a minimum decent standard of living for a family.” (Guzi & Kahanec, 2018)
Minimum Decent Wage (CZ)	“A minimum decent wage is the reward for a standard eight-hour work day which provides workers and their households with adequate financial means to live a life that is perceived by the majority of society as the basic standard.” (Platforma MDM, n.d.)
Living Wage (UK)	“...the wage rates necessary to ensure that households earn enough to reach a minimum acceptable living standard as defined by the public.” (<i>Living Wage Foundation</i> , n.d.)
The Republic of Ireland Living Wage (IE)	“It is a wage which makes possible a minimum acceptable standard of living. It is evidence based and grounded in social consensus.” (The Rep. of Ireland Living Wage, 2009)

The concrete definition is important not only for highlighting important aspects of the concept. It also functions as a boundary for the methodology. In such sense, there is one more evident difference which will bring us to another subchapter: household composition. According to all definitions except the RILW, a living wage should provide enough resources for the recipient's family or his/her household. The RILW is an exception, because its definition does not mention it. The reason explains itself: its methodology stands on the standard of living of one individual without any dependent person.

2.3 Household Composition

While a wage is directly linked to the worker, the living wage level should, according to majority of initiatives, provide decent living standard also for a child or children, other dependent persons (sick, elderly in need of care etc.) or the whole family. The role of a person changes over lifetime - from an individual, through a member of a family without and later with

children, to a later age with potentially dependent parents. Despite that, no living wage distinguishes the stages in the life cycle. Even those, who differentiate between multiple household types, do not specify them by the life stage.

The international methodologies distinguish three family sizes often used in living wage methodologies worldwide. Both AM and its successor WI present a *typical family* with 2 adults and number of children determined by the fertility rate in the country and a *standard family* with two adults and two children. Even though WI partially builds on AM, it diverges with an *individual* without children as the third presented type. On the other hand, AM do not consider an individual as an important estimate, mainly because it would collide with its own definition. AM then distinguishes an *average household* size based on household data.

The use of fertility rate in the case of a typical family of a given country, however, creates disparities between countries. Living wage in two states with the same cost of living may differ. The same applies to the use of the employment rate in determining the work intensity of another adult in the household, which we will discuss in the next subchapter. Despite the same household costs, living wage can be different if one state is going through a period of lower employment.

The national initiatives choose one type of household as a reference, some expand also other possible types. The UKLW's approach resembles the average household method because it computes weighted average for a range of family types in order to present one number, while the published estimates encounter 17 different family sizes. It can, however, wipe considerable variability between various types of households. The presentation of one such "average of averages" might not correspond to necessary expenditures of any household at all, although it is a problem of a structure, not the amount of living wage itself. Presenting only one type of household may have a rationale after all, as it presents long-term average expenses. The lower costs before establishing family are offset by dependent children and older parents later. Alternatively, the higher wage even without having a dependent person may include a buffer in case of having a dependent person in the household at any moment.

The MDW presents the other extreme when it calculates the wage for only one type, although flexible, which is an adult with one dependent child. The problem of this approach might be underestimating the economies of scale in case of bigger families via pooling consumption. On the other hand, it fits to the concept of an individual's wage without the effect of pooling income (Collins, 2014).

Non-individualized methodologies contain a paradox: when a child is born to a family, the main worker's income requires change. The logic of living wage should provide sufficient income for variety of family situations, not only one specific type. It might be the reason why the RILW chose the individual household as the main estimate. It evolves already from its definition and distinguishes it from all the other methodologies. This is however in contradiction with a societal nature of living wage, because such wage level does not allow to raise a child and thus to fulfill the reproductive role of a family. The RILW actually adopted the approach, which was damned by Anker (2011), who emphasized that "average household" should omit the single-adult households in the first place. It is, however, only a matter of choice made by the authors of RILW because they also compute five other types of households with one or more children.

2.4 Work Intensity

A common feature of all existing methodologies is that the living wage belongs to the full-time worker without overtime. The advantage is a subsequent comparability with statutory minimum wage or other income policies, that are more closely tight to the living wage levels than minimum income, similar non-insurance social benefits or universal basic income. What differs is the income pooling possibility in case of the second worker in the household, which, according to some methodologies, do not have to earn full living wage. The most often reason is lower work intensity. Although, according to Anker (2011), the most common assumptions in methodologies around the world are one or two workers per couple, nothing in between. The explanation stems from the Anker's sample that is biased towards developing countries.

Theoretical assumptions can be in conflict with real situation in a concrete country. It is why some both international methodologies apply different work intensity based on labor market statistics. The AM estimates it according to labor force participation rate, unemployment rate and part-time employment rate. Easier estimation is used in WI for the typical and standard family. In case of typical family, it is determined simply by the employment rate in the country. The employment status for a spouse in the standard family is artificially set on 80%.

There is no working partner in MDW and RILW methodologies. The UKLW does not vary from the working adults' employment point of view, but the methodology diversifies the expenditures according to the standard costs of living of the concrete household type. This approach makes the estimates more complicated and thus less transparent. What is more, it recedes from the equality of each worker. The methodologies with spectrum of family types calculate the costs of living of a worker and his/her family. When a child is born to the family,

the costs needed to be covered in order to provide with are added to the previous needs. The UKLW methodology on the other hand assumes that not only the family's needs change with the baby, but also the needs of the working parent, which makes it closer to statistical fit but further from logical clarity.

Current methodologies consider the living wage to be a remuneration for standard working hours, meaning not only in full time contract, but also without the use of overtime hours (Guzi & Kahanec, 2018). The same applies for bonuses and other benefits, which are discretionary. If the household was dependent on bonuses, it would lead to instability of the household budget and its members' uncertainty.

Yet, changing shape of the world can pose additional problems, because the living wage targets the "lucky ones" who were able (and willing) to find the full-time job as well as keep it constantly without any costly job-seeking. As Ilsøe (2016) highlights, the increasing use of part-time jobs might relativize the living wage of a full-time worker and lead to a necessary discussion over "living working hours" or living income as such.

Conclusion

In this text, we have explored the differences in the basic building blocks of national and international living wage methodologies based on basket of goods. Our findings suggest that there is a strict red line between national and international methodologies lies in defining living wage as a wage enabling standard of living subjectively associated with the society's perception. Unlike the average wage or the minimum wage, the concept of living wage is associated with decency, the objective definition of which does not exist. For this reason, the definition of such a concept must include a reference to a social perception. The international methodologies fail to include this societal relation in their definition compared to national methodologies. On the other hand, this subjectivization is not always mirrored in the given methodology in a sense that it would contain subjective opinions, e.g., in the form of surveys.

Where the types of methodologies do not differ is the identification of the household. The individual concepts do assume various household compositions and their prioritization differs significantly, but it is not possible to draw a substantive dividing line between the two methodological groups. The only one negligible difference is in the presentation: the international living wages present three types of households with little methodological differences, while the campaigning nature of national concepts leads to creating one presentable wage. Apart from MDW, they also estimate spectrum of household types' living wages.

Yet, given the practical applicability of the concept at the international level, it seems important that the composition of households is comparable. A household identified by a country-specific employment rate or fertility rate would create inequalities between countries over time. In particular, the question of employment rate may be too cyclical to be able to express the universal principle behind the concept of living wage. There are arguments in favor of averaging households: the concept then reflects the common household composition, as in UKLW. But those arguments are limited only for the national level.

Further research should focus on the expenditure categories and the application of discussed aspects in actual computation. Only that will show is the found differences manifest themselves in the practice. The extension of comparative analysis focused on the computation could shed some light also on available and usable data possibilities. Following a study on data possibilities, further research can also explore this thinkable approach and its involvement in data-based methodology.

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