



Living wages in practice

April 2023

KEY MESSAGES

- The idea of a living wage, i.e. a wage that provides workers and their families with enough income to live on at some level considered adequate, has experienced a resurgence of popularity in recent years, as a result of the rising cost of essentials, the inadequacy of minimum wages in a number of OECD countries and the decline in collective bargaining coverage.
- A living wage is not the silver bullet to in-work poverty, which in OECD countries is often the result of underemployment rather than low pay. However, living wages can be useful in establishing a norm of fair pay and providing valuable information on the cost of living that firms and social partners may embed in their wage-setting processes.
- A wide range of approaches to calculating living wage estimates exists. While there can be no single way of defining and measuring a living wage, this variety can undermine the credibility of the living wage concept, if the assumptions and criteria that underlie its calculations are not transparent, and justified with a stated rationale.
- There is scope for greater clarity and consistency in existing methodologies. Various key stakeholders, including data providers, businesses, social partners and national statistical offices, can play a key role in ensuring that the concept of a living wage remains true to its ambition.

1. WHAT IS A LIVING WAGE (AND WHAT IS NOT)?

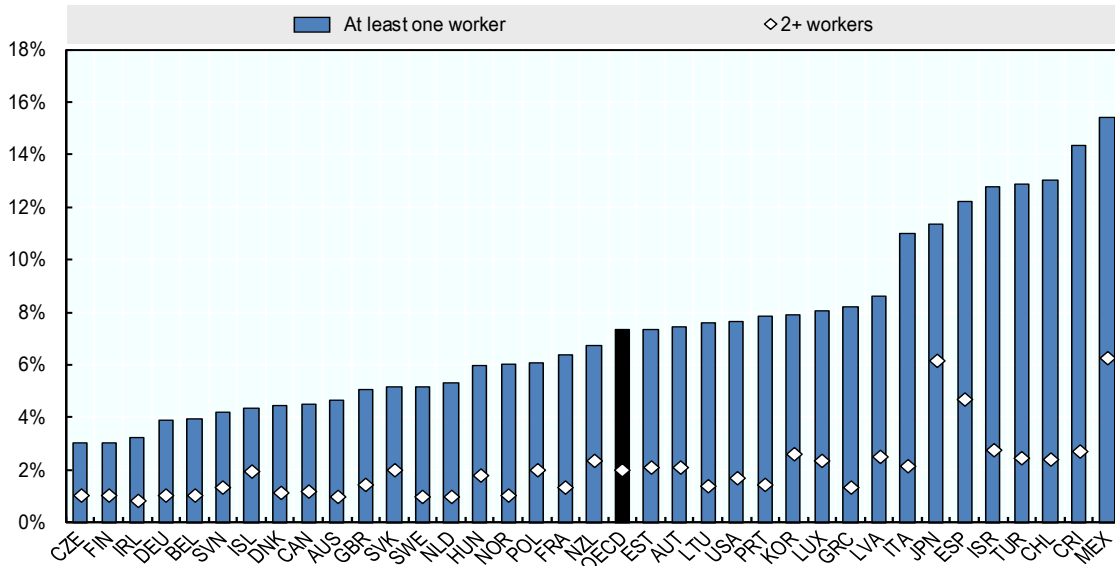
While work is the surest route to escape poverty, **employment alone does not always guarantee an adequate living standard**. In the run-up to the COVID-19 crisis, on average across OECD countries, 8% of individuals living in households with at least one worker were poor. In Chile, Costa Rica, Israel, Italy, Japan, Mexico, Spain and Türkiye, the share exceeded 10% of the working population. Also, nearly one-quarter of the working poor in OECD countries were living in households with two or more workers (Figure 1). **The recent rise in the cost of living** is affecting everyone's finances, but the impact **is felt most by low-income households**. Despite recent increases in most OECD countries, minimum wages are struggling to keep up with inflation, leading to falling real minimum wages (OECD, 2022^[1]).

The current context adds to the challenges of structural trends in labour markets and institutions. The widespread adoption of digital technologies and the transition to the green economy are exposing many low-skilled and low-paid workers to an increasing risk of unemployment or displacement. Collective bargaining can play an important role in addressing new and old labour market challenges; however,

workers’ voices have been under increasing pressure over the past three decades, as trade union density and collective bargaining coverage have declined.

Figure 1. In-work poverty in OECD countries

Percentage of working-poor by number of workers in the household, 2020 or latest available year



Note: The working poor are people with income below the OECD relative income poverty line, living in households with a working-age head and at least one worker. The OECD relative income poverty line is set at 50% of the median equivalised disposable income for the entire population. Data refer to 2020 for all countries except Costa Rica and the United States (2021); Austria, Belgium, the Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Israel, Lithuania, Luxembourg, Portugal, the Slovak Republic, Slovenia, Spain, Switzerland and Türkiye (2019); Ireland, Italy, Japan and Poland (2018); Chile and Iceland (2017).
 Source: OECD calculations based on the *OECD Income Distribution Database*, <https://stats.oecd.org/Index.aspx?DataSetCode=IDD>.

Against this background, **the concept of a “living wage”** – i.e. a wage that provides workers and their families with enough income to live on at some level considered adequate – has resurged as a concrete way not only to **meet a worker’s basic needs** but also to **respect their dignity and promote the financial resilience of their families**. The terms “minimum wage” and “living wage” have sometimes been used with fluidity, although they are conceptually different. Rather than setting legal and regulatory wage floors, living wage commitments typically take the form of a voluntary rate paid by employers that decide to go above and beyond the government minimum. However, in some cases, living wages may also be legally enforced at the local level and imposed selectively on organisations supplying public bodies or receiving public funding.

To a large degree, debates about living wages have taken place in national or sub-national contexts, closely related to the level of statutory minimum wages and their perceived inadequacy. However **efforts to create a more global movement for living wages** have often taken a different focus – the behaviour of multinational companies as employers. A central challenge that such movements put to multinational companies is to address pay not just among those that they employ directly, but also those working for other employers along their supply chain.

Recently, **alliances that include businesses and international organisations have sought to establish the principle of a living wage as part of a more inclusive model of economic growth**. In 2021, Business for Inclusive Growth, a partnership between the OECD and major corporations across the globe committed to ensuring that fewer people get left behind by greater prosperity, adopted a call for the

living wage as a key priority (B4IG, 2021^[2]). Similarly, the UN Global Compact encourages companies to promote and provide a living wage as an essential aspect of decent work to ensure all workers, families and communities can live in dignity (United Nations Global Compact, 2022^[3]). Finally, the Global Deal – a worldwide collaboration between stakeholders established by the OECD and International Labour Organization – promotes fair working conditions and pay in the global labour market, to ensure the benefits of globalisation are shared more widely (Global Deal, 2022^[4]).

A living wage can bring **benefits for both workers and employers**. It can raise the standard of living for low-wage workers and result in better productivity, recruitment and retention for employers. Conversely, not paying a living wage may lead to significant financial losses, including for example production stoppages due to strikes or lower productivity due to high worker turnover. These impacts are described and documented in detail in the forthcoming *OECD Handbook on Living Incomes and Living Wages for Global Supply Chains* (OECD, forthcoming^[5]).

Despite its relevance, the concept of a living wage is not without limitations. First, **low pay and in-work poverty are distinct issues**. Short part-time work and/or short employment spells over the year are a major problem for many working poor in OECD countries. As such, a single wage rate, designed for a specific set of family circumstances and resting on the assumptions of full-time, year-round jobs (as discussed below), **may not ensure an adequate living standard in all cases**. Second, the living wage is a form of ‘soft’ (non-binding) regulation that currently covers a very low proportion of low-wage workers in OECD countries. Further, its limited interaction with wage-setting institutions also means that the living wage **may fail to build a more general upward pressure on pay and conditions**.

As such, living wages are useful to establish a norm of fair pay and provide valuable information on the cost of living that firms and social partners may embed in their wage-setting processes, but without **complementary government policies and statutory or collectively agreed guarantees for minimum working hours**, a living wage alone may not be a route out of poverty for *all* workers.

Moreover, the concept of a living wage has **limited reference to broader economic conditions**, since it does not explicitly account for parameters such as the capacity of employers to pay, the productivity rate, etc. Its wide adoption at the industry or economy level would require an **extensive analysis of the macro-economic effects** of living wages on firms’ competitiveness and profitability, job creation as well as other labour market outcomes.

Finally, commitments to living wages face the **challenge of translating abstract principles into meaningful action**. Most importantly, while it is acknowledged that there can be no single way of defining and measuring a living wage (as discussed in the next section), the risk is that it becomes only a slogan, or a strategy to deflect claims for regular negotiations over pay and conditions.

2. MEASUREMENT CRITERIA MATTER

There is **no general agreement on how the living wage should be calculated although there has been convergence in recent years on the application of common standards** (Balestra, Hirsch and Vaughan-Whitehead, 2023^[6]). Most living wage methodologies share a common approach, but typically rest on **variations of several measurement criteria**, including:

What defines the living standard that the living wage represents. The task of measuring a set of living costs that allow working families to live adequately is challenging. Typically, living wage estimates are based on calculations of how much has to be spent on categories such as housing, food, clothing and household goods. Ideally, this should be based on needs, in the context of contemporary definitions of what is a decent standard of living. Observing actual expenditures of people on relatively modest means within a given society can, to some extent, define norms, but also risks under-estimating needs, particularly where there are large inequalities, and *consequent unmet needs among lower-income groups*. Yet

“scientific” calculations of what comprises a need in different societies can be difficult to make other than through actual consumption patterns, especially for budget areas related to social norms, such as social participation. A common compromise has been to cost items meeting basic material needs, such as housing and food, on scientific principles, and rely on official household expenditure or ad hoc surveys for spending categories where guiding principles are not available, such as health care.

What type of data are used. Computing living wage estimates is data-intensive, requiring information on needs and prices that is timely and context-specific. National statistical offices collect a range of data that, to a certain extent, could be mobilised to cater to the needs of living wage initiatives. However, official statistics often lack sufficient spatial disaggregation to be used as a unique source of information. For this reason, living wage methodologies rely, to varying degrees, on fieldwork to fill data gaps. While primary data – i.e. first-hand data gathered by researchers themselves – may meet the granularity requirements for local or area-specific estimates that secondary data – i.e. data collected by other sources, including statistical offices – may fail to satisfy, the quality of the information collected should be assessed against rigorous statistical standards, notably in the case of online or ad hoc surveys.

What kind of family should a living wage support. Several different approaches have been used. A common approach is to calculate the needs of a “standard” or “typical” family type, such as a couple with two children or with the number of children derived from official fertility rates, on the basis that a living wage must allow workers to support their families, not just themselves as individuals. Another possibility is to take an average of different family types, weighted by population. However, any of these approaches will over-provide for some families and under-provide for others.

What working pattern is assumed for other family members. Living wage estimates are sensitive to the number of wage earners in the family. A common approach is to assume that only one adult works full-time, while the other adult in the couple is jobless. This scenario has the merit to shelter workers’ families from the negative income effect of temporary shocks, but it does not reflect common working patterns in OECD countries and may lead to a living wage that business may find too costly to implement. An alternative is to consider that the second adult in the couple works part-time and receives the living wage hourly rate, with the part-time work schedule being usually derived from national or local statistics on labour force participation, unemployment and part-time employment.

What is the geographic focus of living wages. Living wage rates are usually defined at the sub-national (regional or local) level, to reflect geographical differences in prices, needs (such as transport requirements) and living patterns. Certainly, in countries with wide differences between urban and rural areas, a single living wage rate may provide poor approximations of living costs in some cases. However, there are two significant drawbacks of localisation, especially with fine-grained differences by community. One is that employers operating across a country may find them hard to engage with, especially if different living wage calculations for different area types co-exist in a single place. Another risk is that the norms and expectations of poorer areas, as well as low prices that reflect and perpetuate the poverty of local producers, become entrenched.

How living wages change over time. Living wages are periodically (annually or even more frequently) updated to account for variations in the cost of living. Built-in assumptions, such the percentage of a family budget represented by food and housing, may become out of date over long periods, with the risk that low living standards persist among lower-paid workers even while a country becomes more prosperous. Living wage methodologies should therefore consider how to monitor and review the evidence and underlying assumptions on which the original calculation was based.

For the living wage to be a meaningful benchmark, **the assumptions that underlie its calculations must be transparent; and justified with a stated rationale.** The latter is critical since **none of the choices underpinning the computation of a living wage is purely technical.** How basic needs are identified and priced, which family types are used in the calculations, how working patterns are defined and whether non-wage income is considered are all factors that significantly impact living wage estimates and that need

to be analysed and debated openly. Transparent methodologies that are regularly reviewed also give the opportunity to **develop international practice over time**, based on observation of which methods appear to be most effective in improving the lives of workers.

KEY RECOMMENDATIONS

The variety of interpretations of what a living wage represents and methods of translating this idea into an actual pay rate makes it possible to adapt the application of the living wage to different conditions. However, there is scope for greater clarity and consistency to be developed around some key principles. In particular, the central idea of a living wage being sufficient to support a decent living standard in the context of the place where it is paid needs to be applied in a **transparent way**.

Having set such a standard in any one place, the other essential element is to have a **robust system for maintaining it over time**, capable of reflecting changes in both prices and social norms and factoring in considerations around the economic environment where businesses operate and existing social security programs.

Strengthening current approaches requires **joined-up and coherent action** from a number of key stakeholders, as highlighted below.

- **Data providers** play an important role in providing business and civil society with living wage estimates, typically available at the local level. To enhance the credibility and relevance of such estimates, it is important to:
 - Clearly communicate the criteria, assumptions and data sources underlying the living wage calculations.
 - Integrate people's views of what constitutes an adequate standard of living, notably for those spending categories where expert advice or technical recommendations are not available.
 - Find the right balance between the ambition to provide localised living wages and the need to compare these estimates with external benchmarks, often available at a more aggregate level. When national estimates of living wages are produced, data providers should document how these national averages are derived.
 - Make living wages available to various actors, such as workers' representatives, researchers and civil society organisations.
- Computing living wage estimates requires timely and granular information on household needs and prices. **National Statistical Offices** already collect a range of data that could be mobilised to respond to the needs of living wage practitioners. They could contribute to improving the quality of living wage estimates by:
 - Increasing the spatial disaggregation of their data on earnings, household expenditures and prices.
 - Improving the harmonisation of surveys on household budgets and expenditures.
- Implementing a living wage in the workplace requires a number of operational decisions by **businesses**, as well as a careful assessment of the costs and benefits that the implementation of a living wage will entail. To increase the credibility of their commitments in this field, businesses should:
 - Publicise their commitment towards paying a living wage externally, by indicating on their website and/or in their reporting tools the selected living wage benchmark and underlying

- criteria, as well as the categories of workers covered by the commitment, e.g. the company's own employees, core contractors, workers in the first-tier supply chain, etc.
- Hold themselves accountable for closing the gap between actual wages and living wages, by selecting a reliable and recognised methodology, setting a roadmap with clear milestones and timelines, and reporting regularly on how far they are on the journey to a living wage.
 - Incorporate living wage policies into a more holistic fair-pay approach to promote and improve the quality of the working environment for their workforce and in their business operations in sourcing countries.
 - While conceptually and legally distinct, living wages are not independent from wage institutions like the legal minimum wage and collective bargaining. **Social partners** play a key role in monitoring the enforcement of living wages and incorporating living wage practices into collective bargaining and negotiations. The following steps should be taken to strengthen the dialogue around living wages.
 - Raise workers' awareness of their rights and working conditions, which is indispensable for initiating a process of change.
 - Ensure that living wages are affordable for employers and deliver a decent standard of living to workers and their dependants. This is an important consideration, since a living wage set too low may not produce the desired improvements in living standards, while setting it too high may make it too costly for businesses to implement.
 - Engage with businesses committed to paying living wages by monitoring the implementation of the living wage as well as the resulting organisational changes affecting the workforce.
 - Hold discussions on how living wages can improve the working conditions for all workers in the long run and ensure that everyone in the company is on board with the living wage journey. This is key to avoiding perceptions among some more skilled staff that the implementation of a living wage will make them 'worse off' than before, due to a flattening of the pay structure or to lower wage differentials.

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