

The living wage – the UK experience and key issues

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What is a living wage?

- **A response** to growth in wage and income inequality
- **Benchmarked** against an adequate living standard
- **Distinct** from a wage floor based on labour market factors

What is a living wage?

- **Related to household income, but...**
- **A simplification** of multiple household situations

Principles of UK Living Wage

- **Acceptable** living standard = Minimum Income Standard
- **Consensual:** what the public thinks you need to have for a minimum standard of living

Principles of UK Living Wage

- **Average** of wage needed by different households where all work full time
- **Uniform** standard outside London
- **Takes account** of tax credits, benefits, etc

UK Living Wage

- **£7.65** = 20% above Minimum Wage (London =MW+40%)
- Taken up widely – public bodies, universities, private companies

UK Living Wage

- Parties engaging (tax breaks: Labour)
- Influencing Minimum Wage debate
- Yet remains distinct from Minimum Wage by voluntary nature

Key issues

Does it cost jobs?

- Depends on level. Caution.
- Yet US evidence that employers adapt to wage floors, not by cutting jobs.

Key issues

One Living wage or many?

- Localised levels can cause confusion
- Accept it's a simplification and a baseline: strong case that nobody should be below

Key issues

What happens when real level greatly outstrips wages growth?

Big problem in UK today because of

- Falling real wages
- Falling in-work benefits
- Multiplier effect through benefit tapers

Three responses – all difficult

- a) Stick to principle without compromise (risk decline in uptake)
- b) Limit application using a formula – in UK, cap on increase in any one year (but may be problematic in long term)

Three responses – all difficult

- c) Create more simplified version based on single person without benefits: less complicated. But tough not to cover families.

Three final messages

- Be pragmatic: Living Wage not perfect
- Most important principle: keep wages in touch with living standards over time
- A clear, plausible, single benchmark, based on evidence, is widely welcomed



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