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The Living Wage

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Summary

The living wage is an hourly rate of pay set annually by reference to the basic cost of living in the UK and London.

The current living wage is £7.85 per hour outside London and £9.15 per hour in London.

Unlike the National Minimum Wage, employers may choose to pay the living wage on a voluntary basis.

This note explains the living wage and how it is calculated, provides an overview of the policy response to the living wage debate and discusses reaction to it.

1. Overview of the living wage

The living wage (LW) aims to reduce in-work poverty where an individual's earnings are insufficient to take him above the poverty line. At £7.85 per hour outside London and £9.15 per hour in London, it is above the National Minimum Wage, currently £6.50 per hour for ages 21 and over.

Unlike the National Minimum Wage no legislation enforces the LW. The LW is "employee-focussed" insofar as it concerns the employee's standard of living without factoring in general labour market concerns; thus it looks "beyond the minimum wage, which focuses on what the labour market can bear without a significant effect on employment".¹ A joint report by the Resolution Foundation and Institute for Public Policy Research summarised the background to the LW:

The attraction of the living wage is explained by a simple fact: far too many people in the UK earn far too little to get by. While low pay is a feature of all advanced economies, the UK has a particularly high share of low-paid workers, with one in five employees in low-paid work. After falling in the early 1970s, the rate of low pay has risen gradually for the past 30 years. It is most prevalent among women, part-time and younger workers. In some sectors it is endemic; in hospitality, 69 per cent of workers are low paid, in retail 41 per cent. Recent years have also seen gradually rising rates of in-work poverty, in part the result of a public policy focus on "work first" that converted a significant minority of poor workless households into poor working households reliant on one or more low-paid jobs. While the minimum wage continues to play a vital role in safeguarding around one million of these workers from extreme low pay, on its own it is not a solution to the wider problem of endemic low-paid work.²

The Living Wage Foundation website lists a number of employers that have signed up as 'Living Wage Employers'; see [here](#).³

Although the LW in Scotland is the same as in the rest of the UK outside London, there has since April 2014 been a specific Scottish Living Wage Accreditation Initiative which lists over 200 Scottish employers accredited as paying the LW; see [here](#).⁴

On 29 October 2013 the Cabinet Office placed a deposited paper in the House of Commons Library showing Office for National Statistics estimates of the percentage of employee jobs, by constituency, with hourly pay below the living wage; see [here](#) (Excel file).⁵ The data relate to April 2012, the latest period for which results were at the time available.⁶

¹ Resolution Foundation & IPPR, *Beyond the Bottom Line: The challenges and opportunities of a living wage*, January 2013, p4

² Ibid

³ [Living Wage Foundation website](#) (accessed 25 June 2013)

⁴ Which Scottish employers are paying the Living Wage?, Scottish Living Wage Accreditation Initiative website (accessed 12 June 2015)

⁵ [Deposited Paper \(DEP2013-1722\), 29/10/2013](#)

⁶ [HC Deb 29 October 2013 c452W](#)

2. Calculating the living wage

There are two current commonly used hourly LWs: £9.15 per hour in London and £7.85 per hour outside London. Both rates were most recently updated on 3 November 2014.⁷

2.1 London

The Greater London Authority introduced an annually updated LW in 2005. In London the LW is calculated by combining:

- an assessment of the cost of achieving an adequate standard of living (a 'Low Cost but Acceptable' budget), assuming all relevant benefits and tax credits are claimed; and
- 60% of the median London income for representative London households – 60% of the median income is a common line for relative poverty.

The London LW computes a "poverty threshold wage" as an average of the wages needed to achieve these two incomes and adds 15 per cent to protect against unforeseen events. For more information on the London LW see [here](#).⁸

2.2 Outside London

Outside London, the Centre for Research in Social Policy at Loughborough University calculates minimum living costs, based on estimates of the cost of a socially-acceptable minimum standard of living, and then translates this into a wage requirement, again assuming that all relevant benefits are claimed.

However, the annual increase in the LW is subject to two caps, which reduce its level significantly. The disposable income cap limits spending increases funded by the LW, relative to rises in disposable incomes generally. The earnings cap prevents the LW rising two percent more than average earnings.

2.3 Further information

There is further information on the calculation of the LW in Chapter 2 of the aforementioned Resolution Foundation and Institute for Public Policy Research report.⁹

⁷ [New 2015 Living Wage Rates Announced](#), Living Wage Foundation website, 3 November 2014 (accessed 29 December 2014)

⁸ Greater London Authority, *A Fairer London: The 2012 Living Wage in London*, November 2012

⁹ Resolution Foundation & IPPR, [Beyond the Bottom Line: The challenges and opportunities of a living wage](#), January 2013, pp14-19

3. Policy response

3.1 Government policy

The Conservative manifesto stated that a Conservative government would:

support the Living Wage and ... continue to encourage businesses and other organisations to pay it whenever they can afford it.¹⁰

This reflects the previous Coalition Government policy on the LW, summarised in response to a December 2014 Parliamentary Question, as:

The Government supports all employers who choose to pay the living wage and encourages businesses to pay the living wage where it is affordable.¹¹

During a Backbench Committee Debate on 6 November 2014 the then Minister for Skills and Equalities (now Minister of State for Skills), Nick Boles, described the Coalition Government's approach to promotion of the LW vis-à-vis the National Minimum Wage.¹² The Minister said that, while companies that can afford to pay the LW should be encouraged to, some small and medium-sized businesses may not be able to pay the LW, therefore it:

is through argument and example that the case is best made, not by imposition. That is why the Low Pay Commission does not believe that imposing a living wage, or making the national minimum wage rise to the level of the living wage, would be sensible.¹³

On 6 November 2013 Baroness Royall of Blaisdon asked the Coalition Government "what steps they are taking to promote the adoption of the new rate of the living wage".¹⁴ Viscount Younger of Leckie said that the Government would support the living wage but not at the expense of jobs:

I should say that our key policy is to support the low-paid through the national minimum wage. It is set at a level that helps as many low-paid workers as possible, but without damaging their employment prospects. My right honourable friend Vince Cable has asked the Low Pay Commission to look at what economic conditions would be needed to allow the national minimum wage to rise in the future by more than current conditions allow, without having an adverse impact on jobs.

....

It is certainly true that businesses, particularly small and medium-sized ones, need to decide whether they should increase pay from the national minimum wage to the living wage, but it is very much up to them. Certainly there has been quite a lot of negative media coverage about the Labour Party's policy, in that small and medium-sized businesses felt that they would not be able to take

¹⁰ [Conservative Manifesto 2015](#), p21

¹¹ [Public Sector: Pay: Written question - HL3689](#)

¹² [HC Deb 6 November 2014 c1040-1068](#)

¹³ *Ibid*, c1068

¹⁴ [HL Deb 6 November 2013 c220](#)

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more people on if they decided to increase pay from the minimum wage to the living wage.¹⁵

On 24 June 2013 Richard Fuller asked what research the Coalition Government had undertaken into the effect of the LW on small businesses and employment:

Richard Fuller: To ask the Secretary of State for Business, Innovation and Skills what research his Department has undertaken on the effect of the living wage on small businesses.

Jo Swinson: There is no universally agreed definition of a living wage. Therefore, we have made no such assessment.

Richard Fuller: To ask the Secretary of State for Business, Innovation and Skills what research his Department has undertaken on the effect of the living wage on employment.

Jo Swinson: There is no universally agreed definition of what the living wage is.

One key Government policy for helping the low paid without adversely affecting employment is the national minimum wage (NMW). The role of the Low Pay Commission is to review the effects of the NMW on the basis of independent judgment and make recommendations to the Government. Their remit each year is to use analysis and evidence to set the NMW at a rate that achieves its aim of maximising the wages of the low paid without adverse effects on employment.

Since the introduction of the NMW, hourly pay has increased more at the bottom end than at the median without a discernible adverse effect on employment. Therefore, it appears that the Low Pay Commission has achieved its objective. However, their judgment is that if the national minimum wage was set higher than its current rate it would have an adverse effect on employment.¹⁶

On 10 June 2013 Bob Ainsworth asked whether the Coalition Government had assessed the effect on the welfare bill of introducing a national LW:

Mr Ainsworth: To ask the Secretary of State for Business, Innovation and Skills whether he has made an assessment of the effect of introducing a national living wage on the (a) level of overall dependency on in-work benefits and (b) size of the overall welfare bill.

Jo Swinson: There is no recognised definition of a national living wage. Therefore, we have made no such assessment.

Advocates of the living wage suggest that it should be a voluntary rate of pay, above the minimum wage that varies by region to reflect the cost of maintaining an adequate standard of living. The Government supports businesses who choose to pay a living wage however the decision on what wages to set are for workers and employers.

The Government's primary policy for helping the low paid is through the national minimum wage (NMW) and the role of the Low Pay Commission is to review the NMW on the basis of independent judgment and advice.... any increase to the NMW adult rate above the LPC's recommendation, although it might

¹⁵ Ibid

¹⁶ [HC Deb 24 June 2013 c8W](#)

reduce the take up of in-work benefits if the hourly increase led to an increase in weekly wages, is also likely to have an adverse effect on employment and consequently the overall welfare bill.¹⁷

In response to a number of other Parliamentary Questions, the Coalition Government made clear that its primary policy for supporting the low paid is the national minimum wage, that the decision to pay the living wage should be one for employers and that requiring employers to pay above the national minimum wage could be burdensome to business and damage the employment prospects of low-paid workers.¹⁸

3.2 Opposition proposals

Prior to the 2015 General Election, a Labour [press release](#) stated that a Labour government would introduce “Make Work Pay Contracts”. The press release explained how the contracts would function:

Firms which sign up to paying the Living Wage at the start of the Parliament will benefit from a 12-month tax rebate of up to £1,000 – and an average of £445 – for every low paid worker who get a pay rise.

The measure will be entirely funded from the increased tax and National Insurance revenue received by the Treasury when employees receive higher wages.

....

Make Work Pay Contracts ... will mean that in return for becoming accredited Living Wage employers within the first year of a Labour government, businesses will receive back 12-months' worth of the resulting increased tax and National Insurance revenues received by the Government.

....

Mr Miliband has asked Alan Buckle, deputy chairman of KPMG international, to consult with businesses and other employers, on the detailed implementation of this scheme as part of his Review on Low Pay.¹⁹

Shortly afterwards, during a [speech](#) on 5 November 2013, the then Leader of the Opposition, Ed Miliband MP, stated that a Labour government would offer the contracts “from its first day in office”.²⁰

3.3 The Scottish Government

The Scottish Government has control over pay for most civil servants in central government, government agencies, non-departmental public bodies and the NHS. Since 2011 the Scottish Government has required that staff within these areas are paid at least the LW. On 3 June 2015 the Scottish Government became an accredited LW employer.²¹

¹⁷ [HC Deb 10 Jun 2013 c211W](#)

¹⁸ [HL Deb 16 May 2013 ccWA10-WA11](#); [HL Deb 29 January 2013 cWA315](#); [HC Deb 23 January 2013 cc368W-369W](#)

¹⁹ Tackling the cost of living crisis with decent wages, helping business, cutting the cost of failure, Labour press release, 3 November 2013

²⁰ [Ed Miliband's speech on the cost of living crisis: full text](#), *New Statesman* [online], 5 November 2013 (accessed 7 November 2013)

²¹ Scottish Government announced as newest Living Wage accredited employer, Scottish Living Wage website, 3 June 2015 (accessed 12 June 2015)

4. Comment on the living wage

Business representatives have reacted cautiously to the LW. The Confederation of British Industry and the British Chambers of Commerce have both welcomed voluntary adoption of the LW, but have said that forcing businesses to pay it may result in a less competitive economy.²²

The Federation of Small Businesses has said that a mandatory LW would adversely impact small businesses that are struggling with cash-flow issues.²³

The chief executive of J Sainsbury's, Justin King, said that the LW was little more than a new version of the National Minimum Wage and that it would make sense if the two came together, although noted that the LW fails to take account of other forms of employee benefits, such as pension schemes and paid breaks.²⁴

The Trades Union Congress says more employers must sign up to the LW.²⁵ UNISON has stated that "we need a national living wage".²⁶

On 20 July 2013 the Archbishop of York, Dr John Sentamu, wrote in the *Observer* that "too few companies" are paying the LW and that "For the vast majority of low-paid people in the UK, the living wage remains an abstract concept, not a description of their pay rate".²⁷

In relation to the Labour Party's tax rebate proposal (see above), the *Financial Times* reported that the director general of the Confederation of British Industry, John Cridland, welcomed the scheme "because it is a carrot not a stick", and that the Federation of Small Businesses said the proposal was interesting, although "questioned whether it would have much impact on its members because few small businesses could afford to pay more and the tax break only lasted a year".²⁸ In an interview for BBC Radio 5, Mr Cridland said that some employers may not be able to pay the living wage without raising prices.²⁹

²² ['Business chiefs warn over costs of living wage'](#), *FT* [online], 5 November 2012 (accessed 25 June 2013); 'Founder of Low Pay Commission is opposed to paying staff a living wage' *The Times* [online], 22 July 2013 (accessed 22 July 2013)

²³ ['Boris Johnson backs living wage rise'](#), Channel 4 News [online], 5 November 2012 (accessed 25 June 2013)

²⁴ [Concern grows as low earners win 'living wage' rise](#), *Financial Times* [online], 4 November 2013 (accessed 7 November 2013)

²⁵ ['More employers must sign up to the Living Wage, says TUC'](#), TUC press release, 5 November 2012 (accessed 25 June 2013)

²⁶ ['We need a national living wage'](#), UNISON press release, 4 June 2013 (accessed 25 June 2013)

²⁷ ['John Sentamu: the scandal of the millions not paid enough to live on'](#), the *Observer* [online], 20 July 2013

²⁸ [Ed Miliband offers 'living wage' help for business](#), *Financial Times* [online], 3 November 2013 (accessed 7 November 2013)

²⁹ [Miliband's living wage tax break will raise prices, warns CBI chief](#), the *Telegraph* [online]

5. Living Wage Commission report

During summer 2013 an independent commission – the Living Wage Commission - began a year-long investigation of the future of the LW. The Commission was chaired by the Archbishop of York and included academics and figures from industry and the trade unions.

The [Commission report](#), published in June 2014, made the following recommendations:

- The UK government should make it an explicit goal to increase the take-up of the voluntary Living Wage to benefit at least 1 million more employees by 2020.
- The UK and devolved governments should ensure that all directly employed public sector employees are paid a Living Wage.
- The UK and devolved governments should ensure that the public sector always procures on value, rather than spreadsheet cost, which would enable stronger consideration of contractors paying a Living Wage.
- Central and local government should support the Living Wage by championing it to employers across the UK.
- The Living Wage Foundation should oversee the production of a toolkit for businesses to measure both the costs and benefits of increasing wages for the lowest paid workers.
- Accredited employers should proudly display the Living Wage kitemark in order to build consumer awareness of the Living Wage.
- The Living Wage Foundation should oversee the development of an online tool to allow consumers to identify which goods and services are from Living Wage providers.
- All publicly listed companies should publish the number of people paid below a Living Wage in their organisation, and the UK government should legislate if they fail to do so.³⁰

³⁰ Living Wage Commission, *Work that Pays – The Final Report of the Living Wage Commission*, June 2014, pp7-8

6. The living wage in North America

More than 140 American municipalities have a living wage law.³¹ A think tank, the Economic Policy Institute, published a report in 2006 which provides an overview of the variety of LW ordinances:

Despite having common goals, living wage laws vary considerably in practice. Most cover employees working under municipal contracts. Some also cover municipal employees, employees of businesses receiving public economic development dollars, or employees of businesses located in districts that have benefited from significant public investment. Wage levels vary from one dollar above the federal minimum wage to over twice the minimum. Some exempt nonprofit [sic] organizations, while others primarily affect human service providers.³²

The report made the following findings:

- LW laws have small to moderate effects on municipal budgets;
- LW laws benefit working families with few or no negative effects;
- LW laws have raised productivity and decreased turnover among affected firms;³³
- “Most of the available studies have concluded that there have been either no or only small employment losses as a result of adopting living wages”.³⁴

It concludes:

As in the debate over minimum wages, the question of the impacts of living wages on employment is ultimately answerable empirically. Thus far, the most reliable research on living wages suggests that the impact is modest. In the largest cities with the broadest-based living wage policies, there has been little measured employment loss. Given these results, prospective studies would do best to acknowledge that offsetting factors and modest costs for employers result in only limited job losses from a living wage policy. Ignoring the importance of offsetting factors will result in extreme overestimates of costs and job losses under a living wage policy.³⁵

Another paper evaluating the impact of LW laws on economic development in California concludes:

Ultimately, the findings of this paper confirm the general conclusions of individual case evaluations such as Fairris (2005) and Reich, Hall and Jacobs (1999), that living wage laws do not have large negative impacts on employment.³⁶

³¹ Charles Lamman, *The Economic Effects of Living Wage Laws*, 2014, piii

³² Chapman, J., Thompson, J. [‘The economic impact of local living wages’](#) *Economic Policy Institute Briefing Paper*, February 2006 (accessed 25 June 2013), p2

³³ Ibid, pp2-3

³⁴ Ibid, p9

³⁵ Ibid, p21

³⁶ Lester, W., [‘The Impact of Living Wage Laws on Urban Economic Development Patterns and the Local Business Climate: Evidence from California Cities’](#), Institute for Research on Labor and Employment, 2009

7. Further reading

Landman Economics, [*The Economic Impact of Extending the Living Wage to all Employees in the UK*](#), October 2013

A report commissioned by the trade union UNISON. The report concluded that a statutory living wage could result in a boost to employment:

using reasonable assumptions about the structure of the labour market and the current scope for economic stimulus in the UK economy, it is unlikely that the extension of the living wage to all UK employees would result in any substantial aggregate employment losses. In fact, it is quite plausible that adopting the living wage on a statutory basis could actually increase overall employment in the UK.

....

Using recent estimates from the IMF of the effectiveness of fiscal stimulus in the recent economic depression and combining them with the UK Office for Budget Responsibility's own multiplier estimates, this report has shown that once the potential macroeconomic stimulus effects of extending the living wage to all employees are taken into account, it is more likely than not that a statutory living wage would result in a modest boost to aggregate employment³⁷.

Queen Mary University of London, [*A short history of the living wage in the UK*](#), 24 October 2013

An overview of the living wage debate since the 1870s.

National Institute of Economic and Social Research, [*Modelling Demand for Low Skilled/Low Paid Labour: Exploring the Employment Trade-Offs of a Living Wage*](#), NIESR Discussion Paper No.404, 20 January 2013

The paper analysed the affect of introducing a living wage on demand for low skilled/low paid labour. It found that:

Amongst the 11 market sector industry groups we consider, the three sectors that would face the largest rise in their wage bill were all employers to sign up to the Living Wage are: Wholesale & Retail, Hotels & Catering; Other Community, Social & Personal Services; and less skill intensive manufacturing industries.³⁸

The report estimated that 160,000 jobs would be lost if the living wage was paid to all workers.

Pennycook, M., and Lawton, K., [*Beyond the Bottom Line - The challenges and opportunities of a living wage*](#), IPPR & Resolution Foundation, January 2013

The report explains the calculation of the living wage and presents an economic analysis of its impact on employment and employer costs.

³⁷ Page 17

³⁸ Page 1

Pennycook, M. [What price a living wage?](#), IPPR & Resolution Foundation, May 2012

Looks at the concept of a LW and makes clear that the cost of a living wage varies widely across industries.

Markit Group, [Living Wage Research for KPMG: Current Trends in Household Finances and Structural Analysis of Hourly Wages](#), October 2012

This report for KPMG looks at the structure of hourly pay across the UK and recent trends in household finances for those on either side of the LW threshold.

Wills, J. and Linneker, B., [The costs and benefits of the London living wage](#), School of Geography, Queen Mary University of London, October 2012

This study concludes:

...the research suggests that paying the living wage secures great potential benefits to the Treasury, and indirectly, to the tax-paying public and service users. While clients and employers would be paying more in wages while their workers' benefit levels go down, the research also indicates that these potential costs can be managed. Indeed, our case studies show that the headline increase in wages associated with the living wage – some 30-37% above the level of the NMW – was not reflected in the changing costs of the contracts or service. Clients and employers were managing down the costs of the service while also benefiting from reduced rates of labour turnover that made a minor but positive impact on costs while also providing additional benefits in workplace stability and relationship building. LW workers had higher levels of psychological well-being than their NLW equivalents and this would also impact positively on costs in the workplace as well as the wider society.³⁹

Institute for Fiscal Studies, [IFS analysis on the "living wage"](#), August 2010

This IFS note, based on previous LW figures (£7.85 in London and £7.60 in the rest of the UK), concluded:

An increase in wages for everyone in the private sector to the level of the "living wage" would lead to an increase in gross earnings of between £11.4 billion and £12.0 billion, of which about £4.5 to £4.9 billion would accrue to the Government through higher income tax and employee national insurance payments and lower spending on benefits and tax credits. Employers would also pay about £1.4 to £1.5 billion more in Employers' National Insurance. In total, the Treasury would gain between £5.9 billion to £6.3 billion. The implied effective tax rate on the additional earnings is 46%.

If public sector organisations were also to increase their wages to the level of the living wage, the total gain to the Treasury would be between £6.8 billion to £7.3 billion (i.e. about £0.9 billion more than if it applies only to the private sector). But there would also be additional direct costs to the public sector of about £3.2 to

£.3.4 billion in the form of higher wage bills and higher employer NI contributions.⁴⁰

London Economics, [An independent study of the business benefits of implementing a Living Wage policy in London](#), February 2009

This study “found clear evidence that employers have benefited across a wide range of areas after implementing the LLW [London Living Wage]”. It includes a literature review:

The findings of our review of the existing literature in the area of minimum wages and Living Wages may be summarised as follows:

- Living wage provisions are not generally associated with job losses or worker displacement;
- There is some evidence of productivity increases (often not statistically significant) associated with higher effort, lower staff turnover, reduced absenteeism, increased stability of workforce, and improved worker morale, motivation and commitment;
- Increased cost pressure leads firms to seek efficiency and cost savings elsewhere, such as reorganisation of workflows and substituting FT workers for PT workers (saving NI, training, etc);
- Increased training of staff and higher service quality
- Some evidence of ‘ripple effects’ to maintain pay differentials.

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