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THE IMPACTS AND CHALLENGES OF A LIVING WAGE FOR IRELAND#

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ABSTRACT

Sustained and growing societal income and wage divides, combined with evidence of a polarising labour market, have brought greater attention to the concept of a living wage. Although missing from the socio-economic discourse for much of the twentieth century, it has enjoyed a renaissance in recent years. In principle, such a wage is intended to establish an hourly wage rate that should provide employees with sufficient income to achieve an agreed acceptable minimum standard of living. In that sense it is an income floor; representing a figure which allows low-paid employees afford the essentials of life.

A discussion on this issue has recently commenced in Ireland. Central to it will be the establishment of a widely accepted and sustainable mechanism for estimating and updating a living wage value. However, the implementation of a living wage also raises issues regarding its impact on different actors in society (employees, employers, civil society and the state). Similarly, successful implementation faces a number of challenges.

This paper considers some of these impacts and challenges, based on the experiences of living wage programmes elsewhere. In doing so, it points towards issues that need to be considered and addressed as any living wage initiative in Ireland commences.

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This paper complements another NERI working paper entitled '*A Living Wage for Ireland: Some Considerations and Initial Estimates*' (Collins, 2014a) issued in March 2014.

THE IMPACTS AND CHALLENGES OF A LIVING WAGE FOR IRELAND[1]

Micheál L. Collins, NERI

INTRODUCTION

Sustained and growing societal income and wage divides, combined with evidence of a polarising labour market, have brought greater attention to the concept of a living wage. In principle, such a wage is intended to establish an hourly wage rate that should provide employees with sufficient income to achieve an agreed acceptable minimum standard of living. In that sense it is an income floor; representing a figure which allows low-paid employees afford the essentials of life. Earnings below the living wage suggest employees are forced to do without certain essentials so they can make ends-meet. Above the threshold employees gain discretionary income to afford living standards and items beyond those deemed essential. The attention given to this issue underscores a growing appreciation:

> "for policy to consider low wage rates not just in the context of competitiveness and competition but also in the context of income adequacy and living standards" (Collins et al, 2012:17).

While discussions on the adequate remuneration of labour have been around for centuries it is only since the emergence of campaigns in the United States and more recently by London Citizens that the living wage has gained policy traction. In early 2014 a discussion on this issue commenced in Ireland.[2] Central to it will be the establishment of a widely accepted and sustainable mechanism for estimating and updating a living wage value; an issue addressed in detail in an accompanying NERI Working Paper (Collins, 2014a). However, the implementation of a living wage also raises issues regarding its impact on different actors in society (employees, employers, civil society and the state). Similarly, successful implementation faces a number of challenges.

This paper acts as a contribution to the debate on the emergence of a living wage in the Republic of Ireland. It considers some of these impacts and challenges, based on the experiences of living wage programmes elsewhere. In doing so, it points towards issues that need to be considered and addressed as any living wage initiative in Ireland commences.

The paper is structured as follows. The next section briefly overviews the concept of a living wage and its recent emergence. We then consider some of the impacts of the living wage on various societal groups, drawing on the literature on living wages, most particularly the assessments and evaluations of implemented living wage programmes. Subsequently a number of the challenges and critiques of the concept are reviewed. Finally the paper concludes.

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[1] This paper complements another NERI working paper entitled '*A Living Wage for Ireland: Some Considerations and Initial Estimates*' (Collins, 2014a) issued in March 2014.
[2] See VPSJ (2014)

THE LIVING WAGE

The living wage has a long history. In his review Anker points towards the concepts economic, political, philosophical and religious roots over many centuries (2011:1, 13-24). Wills and Linneker (2012:4) note its emergence in the coalfield areas of the UK in the 1870s and subsequently social reformers, most notably Rowntree, undertook studies to "bring rigour and clarity to the concept" based on assessments of living standards and 'the human costs of labour' (Hirsch and Moore, 2011:4; Rowntree, 1901 and 1918). Although missing from the socio-economic discourse for much of the rest of the twentieth century, it has enjoyed a renaissance in recent years.

That revival first occurred in the city of Baltimore in the United States in the mid-1990s and spread to other cities and countries as a municipal policy initiative focused on employees of companies subcontracted to work for public bodies and agencies. Although fragmented, the movement was widespread and focused on securing a living wage whose value was most-commonly linked to a family of four and the US government's official poverty line.[3]

In London, a broad-based community coalition named London Citizens formed and launched a living wage campaign in 2001. Incrementally, that campaign built political and business acceptance driven by what Unison identified as a "principle of fairness" that "very few people are prepared to justify forcing people to work for poverty wages" (2013:2). The London campaign also established an agreed method to calculate a living wage; one which has since been adopted by the Greater London Authority (GLA) who now issue an annual update of the figure.[4] The figure for the London wage reflects an attempt to estimate an hourly wage rate that provides enough for an individual/household to earn sufficient to meet basic living needs and have a margin to accommodate contingencies and thus remain above poverty levels. Appendix 1 outlines the process associated with calculating this figure.

To date the London living wage has been adopted by more than 200 accredited living wage employers plus there are 90 others working towards accreditation. In 2013 GLA Economics estimated it was being paid to 18,800 workers (2013:27). However, while it has provided a useful, and powerful, hourly wage figure that secures basic living standards, the TUC (2013) note that 572,000 workers in London continue to earn less than the living wage. As Lawton and Pennycook put it "in some senses, living wages have generated more heat than light" (2013:4).

Outside London, the availability of budget standards research has influenced the estimation of a living wage figure for the rest of the UK. That research, described in more detail in Collins (2014a), offers a research based method of establishing minimum essential living costs for various household types. In the UK this work has been undertaken by Centre for Research in Social Policy (CRSP) at Loughborough University and the Family Budget Unit at the University of York for more than a decade.

The growing interest in a UK outside-London living wage coupled with a desire to prevent fragmentation, avoid multiple living wage values across regions and avoid the emergence of multiple calculation methods, led to the establishment of a Living Wage Foundation in 2011. It

[3] See Brenner (2004) who profiles the various US living wage initiatives up to 2002 and Reynolds and Kern (2003). Hopkins (2003) also tracks its emergence among some NGOs and MNCs as part of their corporate social responsibility initiatives.

[4] Since 2012 the revised figure is published in November of each year, during Living Wage week.

also took on responsibility for accrediting employers wishing to sign-up to the living wage.[5] The outside-London approach offers a useful basis for an Irish approach to the calculation of a living wage given the availability of similar budget standards data for Irish households.[6] Appendix 2 outlines the process associated with calculating the outside London figure.

THE IMPACT OF A LIVING WAGE: SOME INSIGHTS

Across the literature on living wages, most particularly in the assessment and evaluations of implemented living wage schemes, there are useful insights into the impact that these initiatives have.[7] These can be considered across four categories:

- ***(i)*** ***on the individual/employee***
- ***(ii)*** ***on the employer***
- ***(iii)*** ***on the state***
- ***(iv)*** ***other impacts***

(i) on the individual/employee

There are obvious income impacts for low-income workers benefitting from increases in gross hourly earnings. When considering the hourly living wage rate, it is easy to overlook the annual significance of such increases to individual and household income. For example, an increase in hourly earnings of €1 for a full-time low-income worker is equivalent to a gross income increase of €1,956.75 per annum. Such an increase represents a multiple of any positive income tax or welfare changes that might arise from a Government budget (or indeed a number of budgets).

The precise disposable income impact of such wage increases is dependent on the personal circumstances of each worker.[8] As Wills and Linneker (2012:35) note, the gains are very relevant for those with no welfare dependencies, who gain all the extra gross income, and do not lose any benefits. However, others may lose welfare as income increases or pay higher social housing rent which tends to be set in relationship to income levels.[9] While individuals may not gain all the additional gross income, the impact will still be significant and improve their living standards. A relevant point, given that the 2011 SILC data shows that 6.5% of all employees live on incomes below the poverty line while the working poor represent 14.2% of all those classified as living in poverty in Ireland (NERI, 2013:79-80).

The literature also notes some non-financial benefits for employees. These include increases in human capital, as employees are now more likely to remain in employment and employers are freer to invest in them. Similarly, greater earnings stability allows employees to pursue

[5] See Hirsch and Moore (2011:13-14) and www.livingwage.org.uk
[6] Appendix 3 outlines the thresholds for living wages in a number of other locations.
[7] These assessments also build on the literature around the effect of minimum wages on employment and economic well-being more generally. See for example Brenner (2004), Luce (2002), Wills and Linneker (2012), Lawton and Pennycook (2013) and CBO (2014). The CSO (2014: 33-37) offer a useful list of the key research in this area.
[8] See Lawton and Pennycook (2013:38-40) who model this across the income deciles of the UK population.
[9] As is the case in the current differential rent scheme operated by the various local authorities in Ireland.

opportunities for self-financed education (London Economics, 2009: v, vii, 54). The well-being of employees and their families was also found to have improved as higher income and reduced financial stress lessened the challenges in making ends-meet and allowed more time for family life (Wills and Linneker, 2012: 36-38, London Economics, 2009: 54).

The increase in earnings for low paid workers does increase the cost of their employment and the literature has examined if these additional costs lead to job losses or reductions in available hours of work. While this issue is considered further in the next section, the evidence suggests little or no employment impacts (Thompson and Chapman, 2006:2, 20-21; Brenner, 2004:29; London Economics, 2009:v; CRO, 2014:2).

Overall, the experience elsewhere points to notable positive benefits for employees who receive a living wage.

(ii) on the employer

As the most obvious impact of a living wage is increases in hourly gross earnings for employees, there are clear implications for employers who pay these costs plus any additional employer social insurance contributions. The possible impact of these cost increases has been the focus of many studies on the living wage as well as more broadly in complementary research looking at the employment impact of increases in minimum wages.[10]

One of the most comprehensive studies of the business impact of a living wage was undertaken by London Economics, as an independent report commissioned by the Greater London Authority's Economics unit, in 2009. The study gathered qualitative and quantitative data on a range of performance metrics for companies who had implemented the living wage in London. It examined the impact on employment, the impact on organisational performance, the cost of implementation and the productivity and efficiency impacts of the implementation of a living wage.[11] The London Economics findings are consistent with what the literature (much of it from the US where these schemes have been running for two decades) would suggest.[12]

Overall the study found "evidence of little or no impact on business performance of London Living wage implementation". Employers reported no change in sales/turnover, limited effects (all small) both positive and negative to profits and the majority recorded no change in prices and output (2009:56). Furthermore, it concluded that there was "some evidence of significant financial and non-financial benefits achieved by those employers that have implemented the London Living Wage" and that "the absence of any evidence of substantial negative impacts on business performance on an on-going basis suggests that there is a likely positive net benefit of London Living Wage implementation for a typical firm" (London Economics, 2009:56).

Among the specific findings in that study, it was found that there were lower rates of staff turnover, substantial cost savings on recruitment and induction training, greater employee tenure and continuity of workforce. Absenteeism and sick leave also reduced, by approximately 5% on average, while worker morale and motivation was found to have increased. In common with much of the literature, there was limited evidence of productivity gains, although the

[10] See Dolton et al (2010) for a review of the UK experience and the international literature and an earlier paper from Metcalf (2007).
[11] The complete list of 24 indicators is outlined in the report (London Economics, 2009: 13, 83-84).
[12] For a good overview of this literature see London Economics, 2009: 75-78.

implementation of the living wage, and the necessity to absorb its additional costs, drove workplace reorganisation and this yielded increased employee productivity.[13] The research also found that the implementation of the living wage gave management more confidence to adopt new strategies that required workplace reform; although these reforms tended to occur post implementation rather than at the time of introduction. The reputation of employers was also enhanced through consumer awareness of their commitment to the living wage and in the case of those supplying contacted services, in improved quality of the services provided as perceived by buyers.

An earlier study of US living wage experiences by Thompson and Chapman cites a series of negative *ex-ante* studies of living wage proposals whose predictions of significant employer/supplier cost increases and significant job losses are not borne out by the evidence gather in the many *ex-post* assessments they also review (2006:20-21).[14]

How firms handle the increases in costs associated with the implementation of a living wage depends on the scale of the impact these costs have on organisations. Large organisations, such as financial services institutions, whose cleaning staff get earnings increases to the living wage level are unlikely to notice much of an increase in overall cost levels (it is such a small area of spending). Indeed, evidence from some London experiences suggest that executives, who decide on the implementation of the living wage for low paid staff such as cleaners, are often oblivious to the low pay rates these workers are on. For other organisations where a greater proportion of staff will receive an earnings increase the general experience has been that companies reorganise and absorb the increases through price increases, productivity enhancements and internal reorganisation (Brenner, 2004:29). The experience of a number of UK local authorities that have implemented a living wage reflects this with Islington council in London absorbing the increase through reorganisation rather than passing it on to ratepayers (NECPE, 2013:2). Similarly, a number of Scottish councils informed the Scottish Parliament's Local Government and Regeneration Committees' hearings into the Living Wage, that they saw the implementation of these increases as part of the reform of services and their delivery and as a method of recognising the commitment of employees in delivering those reforms (2012:13-14).

Thompson and Chapman also examined the situation where government agencies are buyers and require suppliers as part of the tender process to pay their employees the living wage. The concluded that the evidence shows that in general this had "only a negligible impact on city budgets" (2006:6). In cases where there are cost increase and these are passed on to consumers, such as at San Francisco Airport where it is estimated the living wage increased passenger charges by $1.42, the increases are considered small in the context of their impact on consumer

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[13] See also Thompson and Chapman (2006: 18) and Unison (2013: 11).

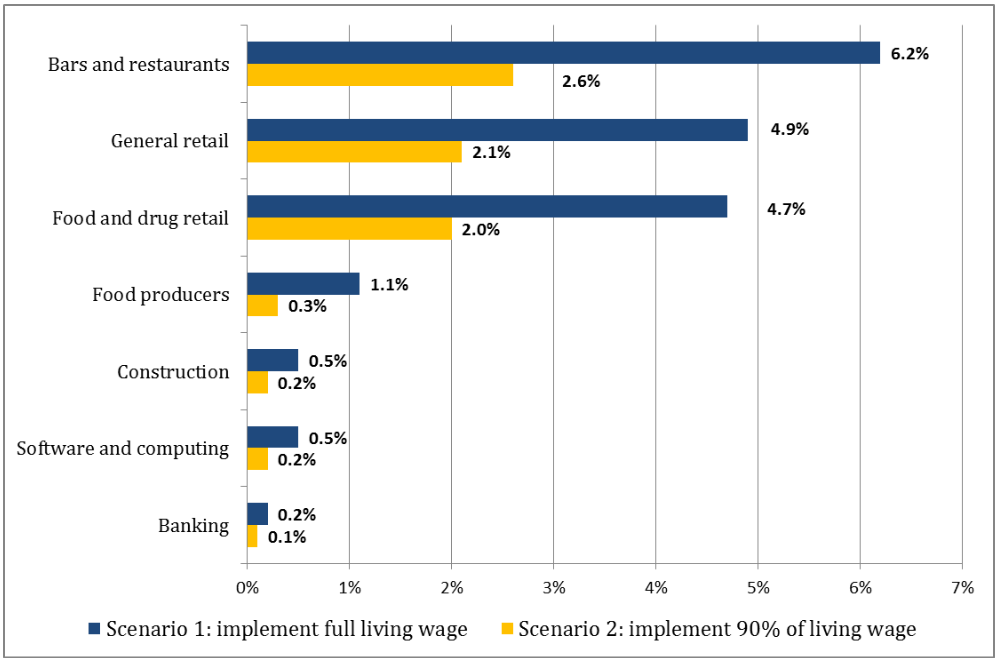
[14] Much of the evidence is reminiscent of other economic research on 'efficient wages' (see Stiglitz, 2002) and the oft cited 'common law of business balance' (attributed John Ruskin): "there is hardly anything in the world that someone cannot make a little worse and sell a little cheaper, and the people who consider price alone are that person's lawful prey. It's unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money – that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot – it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better".

demand and relative to other price/cost increases passed on for, say security measures, around the same time (Thompson and Chapman, 2006:8; Reich et al, 2005:124).

To estimate the wage-bill effect, Pennycook (2012) modelled the impact of a living wage on firm-level wage bills in the UK. The research examined 79 medium and large sized firms chosen from those listed on the London Stock Exchange. The firms examined were selected as they were, as a group, representative of the varying incidences of low-paid work across the range of industrial sectors. These covered seven sectors: banking (3 firms), construction (15 firms), software and computing (13 firms), food production (4 firms), food and drug retail (7 firms), general retail (27 firms) and bars and restaurants (10 firms). The report modelled two scenarios: (i) where the living wage was paid to every direct employee who currently earned below that rate; and (ii) where 90% of the living wage was paid to every direct employee who currently earned below that rate. Both scenarios incorporated a 'modest' wage spillover effect where employees marginally above each of the simulated wage thresholds received a 10% increase in hourly earnings.[15] It also differentiated between the living wage rate paid in London and outside-London.

The estimated results represent the first-round impact of implementing a living wage on firms wage bills and do not take account of any measures firms may adopt to mitigate some or all of these additional costs. As outlined below, evidence from existing living wage employers suggest that much of these increases are compensated by savings and other benefits simultaneously arising from the introduction of a living wage. The results also ignore the impact of the living wage on non-direct employees of the firms (contractors etc).

Chart 1: Estimated Average Firm-Level Wage Bill Increase from a Living Wage



Source: Pennycook (2012:11)

[15] Wage 'spillover' effects are also considered in the 'other effects' section later in this paper.

Chart 1 outlines Pennycook's findings. The scale of the estimated wage bill effects are, as would be expected, closely correlated with the proportion of low paid workers in each sector. Therefore, for some sectors the cost increases are small (at around 1% or less). In sectors such as bars and restaurants and retail the prevalence of low-paid workers results in higher wage-bill costs of between 4.7% and 6.2% under the scenario of a fully introduced living wage. These costs are reduced to between 2% and 2.6% where the living wage is partially introduced; perhaps as the first step towards its full implementation which may take longer for such firms.

(iii) on the state

The state through the taxation and social welfare system is involved in the redistribution of income from its initial market outcome to some more equitable position. As the living wage is concerned with what is often referred to as the 'pre-distribution' of income, any improvement in the equity of that distribution lessens the need for state redistribution to achieve a given outcome.[16]

In that sense, the state is a major gainer from the introduction of a living wage. As the income of low income households increases, they will pay more income taxes and more social insurance. As households spend that money, and given they are on low income they are likely to spend a large proportion of the income, if not all, the government gains through additional indirect tax revenues. Employers also pay more social insurance contributions. The increase in the gross income of low income households will also decrease the quantity of state expenditure on other transfers and supports for these households.

Quantifying the scale of this impact is challenging and depends on various assumptions. However, in his simulations of an extension of the living wage to all low-paid UK employees (an unlikely policy to be implemented anywhere[17]), Reed concluded that exchequer savings and revenue gains would be equivalent to 40% of the increased wages (Reed, 2013:10). Subsequently, he estimated that if a living wage was introduced for all 572,000 workers in London currently earning less than that amount, the British Treasury would gain £400m in tax and social insurance income and experience expenditure saving of £200m in reduced benefits and tax credits (by Reed for the TUC, 2013). This is equivalent to just over £1,000 per new living wage recipient.

(iv) other impacts

Two other impacts arise from the literature reviewing the living wage. First, the study by London Economics found some evidence of 'ripple effects' to the overall pay structure so that existing pay differentials were maintained when the living wage was introduced (2009: v). In his baseline analysis of the wage bill costs of a UK living wage, Pennycook simulates a 'modest spillover effect' whereby earners just above the living wage threshold experience a 10 per cent

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[16] Appendix 4 presents data on the pre-distribution of income in Ireland.

[17] Indeed the IPPR report on this issue for the UK recommends against it (Lawton and Pennycook, 2013:5). The report of the New Zealand Treasury on the feasibility of introducing a living wage for all low-pay earners is also dismissive of the idea although it notes the large benefits would flow to the state in welfare savings (NZ Treasury, 2013: 9, 11 and King and Waldergrave, 2012).

increase in hourly earnings (2012: 9, 17-18). Evidence, from studies on the impact of the minimum wage, suggest such spillovers are probable, although their magnitude is debated.[18]

Second, the emergence of a living wage campaign offers the chance for low waged employees to work collectively, and in conjunction with other community groups and trade unions, and serves as "a first step towards shifting power and resources to those who typically lack both" (Lawton and Pennycook, 2013:45; London Economics, 2009:54-55).

SOME CHALLENGES FOR A LIVING WAGE

Experience elsewhere points towards a number of challenges around the introduction of a living wage.

The acceptability of the concept serves as a large initial one. Commenting on its emergence in the UK, Hirsch and Moore note that the idea of a living wage was "initially dismissed as impossible" but developed to become recognised "as a compelling cause which offers benefits to workers, employers and to wider society" (Hirsch and Moore, 2011:4). A key part of that acceptance related to the establishment of a coalition of interested parties, including employers, who collectively underpin the concept and its implementation via a Living Wage Foundation. It also branded the concept and created accreditation procedures for employers. Acceptability has also been encouraged through public events launching the latest updates, publications listing employers who implement the living wage and endorsements by politicians and representative organisations.[19]

The establishment of a repeatable, transparent and broadly accepted calculation and uprating mechanism for a living wage stands central to the long-term acceptability and implementation of a living wage. Such a process needs to be put in place at the outset of concepts evolution in Ireland. Once established it should be written-up, made publically available and then reviewed every year or two, to ensure its relevance and feasibility.[20] Many of the technical issues relevant to the calculation and updating of an Irish living wage value(s) have been outlined in Collins (2014a).

Given experiences elsewhere, the implementation of the living wage is likely to proceed sector by sector in Ireland. There are obvious starting points in the public and financial sectors and in high profile service sectors like coffee shops and retail. Its broader implementation has significant benefits for low paid employees and their families, although this is likely to take time and be an incremental process. Pennycook's analysis of the wage bill effect of introducing a living wage in various industrial and service sectors the UK also points towards the possibility of introducing a living wage in a phased way for sectors with high wage bills and large numbers of low-paid workers (2012).

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[18] See for example Dolton et al (2009), Stewart (2009) and Butcher et al (2009).

[19] See Hirsh and Moore (2011:13) and examples of this in GLA Economics (2012 and 2013).

[20] In their review Lawton and Pennycook ask some 'hard questions' for the living wage including 'how can very large employers have more confidence in the process and formula that sets the living wage rate each year?' (2013: 45).

The establishment of a living wage figure, and its regular updating, also contributes to a greater appreciation of the costs of living faced by all employees, whether low paid or high paid. Therefore, beyond those on a living wage, the existence of the figure contributes to broader considerations of wage and income adequacy and how these changes for employees over time.

The living wage concept has also been subject to some critique. Bennett and Lister (2010) pull many of these together in their assessment of the proposal. One point of critique suggests that the focus on the living wage shifts attention off overall pay differentials and onto securing higher rates of lower pay. Thus the divides remain and they are not in any serious way addressed. However, it would seem that reforming income for the lowest paid workers does not in of itself impede on other measures to address high pay and the growing pay differentials that have emerged over recent years.[21]

The living wage has also been criticised as its evolution breaks the link between low pay and the structure of the labour market and exposes the determination of pay rates to other factors like income tax, benefit changes and changes in living costs. However, given the scale of low pay and the volume of workers deemed to be working below low pay thresholds[22], it is questionable whether the existing structures of the labour market adequately serve the objective of providing low paid workers with sufficient earnings to support a basic living standard.

A further critique relates to whether employers have a role to play in maintaining workers families; as implied by the living wage. If they do, Bennett and Lister suggest that perhaps employers might be better focusing on those employees with specific family and caring needs (children, maternity entitlements etc) rather than compensating all for possible needs that may or may not arise (2010:14).

CONCLUSION

As discussion on the living wage commence in Ireland, it is useful to examine the implications and challenges that will accompany attempts to implement it. The assessments above are intended to contribute to these discussions and the formation of a credible and sustainable initiative to implement it.

Considerations of adequate pay for low paid employees are essentially an element of pre-distribution rather than redistribution and offer another way, one which complements tax and welfare policies, to address living standards for those in the lower sections of the income distribution. As Wills and Linneker (2012:7) put it, rather like collective bargaining and state-sponsored wages councils, living wage campaigns adjust “the way in which the market distributes its rewards, before government gets involved” (Coats et al, 2012:8).

However, it is important not to over interpret the potential of a living wage. It is not likely to be a panacea for low pay or in work poverty, these issue will remain, but it serves as a tool in addressing them.[23] Indeed, given that a living wage leads to one figure for hourly wages in a region, it derivation based on assumptions and various household types guarantees that it alone

[21] For example see High Pay Commission (2011).
[22] See Eurostat (2012) for estimates for the number across the EU earning low-pay.
[23] The NZ Treasury review (2013:11) also speculates that it would have limited impact on poverty rates.

may not deliver a decent living standard for some of its recipients; that will also depend on their broader household circumstances. Similarly, it is important not to exaggerate the impact of the concept on others above living wage employees as it will continue to be the case that many skilled and experienced workers will be paid well above these thresholds.

Once established and agreed, the implementation of a living wage offers significant potential to enhance the living standards of low income workers and their families. Not only does it offer direct benefits to low paid employees, and their employers (see above), but it also establishes a useful benchmark and a tool to remind employers, employees and trade unions of the costs of making ends meet. It also serves as a tool for tracking this over time given changes to living costs, labour market structures and the tax/benefit system.

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APPENDIX 1: THE LONDON LIVING WAGE

The London living wage is calculated over a series of steps. These are undertaken, and published, by GLA Economics each year since 2005and reflect the process established using Family Budget Unit (King's College London) living costs data when the concept was first proposed for London. [24]

The process estimates a 'basic living costs' figure, an 'income distribution' figure and a living wage figure which is a combination of both. In summary the London method involves:

- The ***basic living costs*** figure is calculated as follows:
- Using as a base estimates of the costs of a 'low cost but acceptable' standard of living for four family types.
- These costs cover five sub-categories and are updated annually using direct data for London costs and Office of National Statistics price data:
    - housing
    - council tax
    - transport
    - childcare
    - all other costs (a 'regular shopping basket')
- Data is collected for these four family types with variations included for combinations of full-time and part-time work (total of 11 different combinations):
    - 2 adult 2 children aged 10 and 4
    - 1 adult 2 children aged 10 and 4
    - a couple without children
    - a single person without children
- An overall basic living cost figure is estimated with earnings at the national minimum wage, full availability of any benefit/tax credit entitlements, a 38.5 hour full working week and a 17 hour part-time working week.
- Dividing this by the total number of hours worked in the household provides an hourly wage level required to afford these basic living costs.
- The figure for each of the 11 different household combinations are weighted in accordance with their presence in the population. This gives a ***weighted average wage required to meet basic living costs.***
- For example in 2013 this figure was £7.45 per hour.

- The ***income distribution*** figure is calculated as follows:
- Published data from the Department of Work and Pensions provides the value for the disposable income after housing costs poverty line (60% of median income) for the 11 household types.
- Starting with the national minimum wage, and working upwards, estimates are made of the number of the working household examined that would reach this threshold assuming all relevant benefits are claimed.
- Iteratively, the wage rate is established where 80% of the households considered reach the poverty thresholds. This figure provides the ***income distribution figure***.

[24] See for example GLA Economics, 2013: 9-20.

- For example in 2013 this figure was £7.90 per hour.

- The ***London living wage*** figure is then calculated over two steps:
- First the ***weighted average poverty threshold hourly wage*** is calculated as an average of the basic living costs figure and the income distribution figure.
- The ***London living wage*** is calculated as this figure plus 15% and rounded to the nearest five pence. The 15% reflects the inclusion of a secure margin such that the person receiving it will not fall to the level of poverty wages (GLA, 2005: iii).
- For example in 2013 these calculations were:
  - (£7.45 + £7.90) / 2= £7.67
  - £7.67+15% = £8.82…rounded to £8.80

APPENDIX 2: THE OUTSIDE LONDON LIVING WAGE

The methodology developed for calculating the living wage outside London comprises the following:[25]

- Nine household types are examined
- Minimum living costs, to provide a Minimum Essential Standard of Living (MESL), are derived following the budget standards methodology (see next section) for all goods and services excluding housing costs, council tax and childcare.
- As housing costs, council tax and childcare can vary across areas these are estimated separately across the various UK regions and then averaged for inclusion in the calculations.
- Housing costs are taken as the average rental costs of council property for families with children. For those without children private rental costs are used with the value of the 25th percentile used.
- Council tax is taken as the average of the relevant band across all non-London local authorities.
- Childcare costs are based on the average of outside-London prices determined by a survey.
- For each of the family types the cost of a MESL is established.
- For each of the family types the gross wage required to be earned so that these costs can be met is estimated. The calculations assume that all the adults in the household work full-time and that all benefits and tax credits are claimed. For each of the family types the calculated disposable income (earnings – taxes + transfers/refundable credits) should be sufficient to afford the MESL.
- The gross income amount is divided by the number of hours worked by adults in the households to estimate the wage required by that household to afford the MESL. The calculations assume that there are 37.5 hours in a working week and 365/7 weeks in a year.
- The resulting wage requirements for the nine household types are weighted in proportion to their presence in the population and combined to provide a single living wage.
- That figure is rounded to the nearest five pence.

The outside-London calculation method also proposed an uprating mechanism for the annual revisions of the living wage figure. This includes a method to limit increases relative to the estimated rise in average incomes (see more detail later).

[25] See Hirsch and Moore (2011:8-11), Hirsch (2011, 2013) and Collins (2014a) for more details on this method.

APPENDIX 3: SELECTED LIVING WAGE VALUES AND THEIR € EQUIVALENT

Location	Date	Source	Value local	Value €*
London	2013	GLA Economics, 2013	Stg£8.80	€10.68
Outside London	2013	CSPR, 2013	Stg£7.65 capped**	€9.28
Outside London	2013	CSPR, 2013	Stg£9.08 not capped**	€11.02
New Zealand	2014	King and Waldergrave, 2014	NZ$18.80	€11.40
Metro Vancouver, Canada	2013	CCPA, Vancouver	C$19.62	€12.89
San Diego, USA	2013/14	City of San Diego Living Wage Program, 2013	US$13.99	€10.18

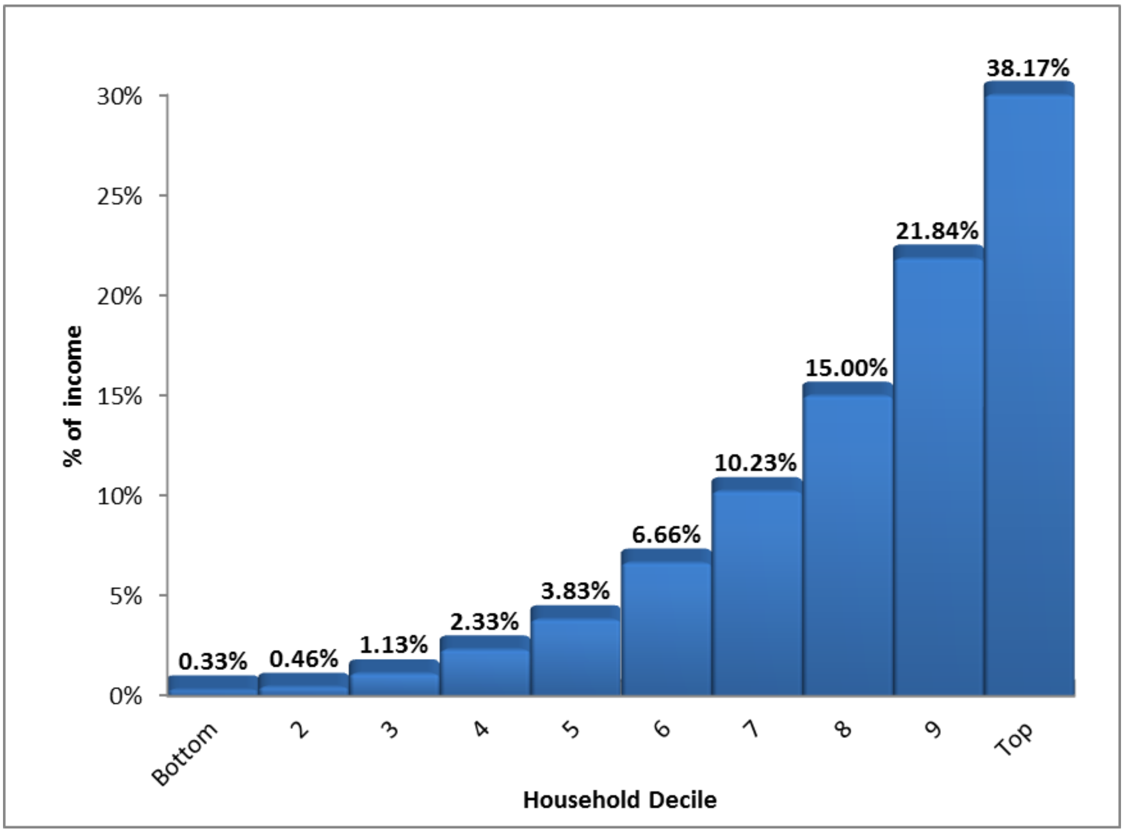
Notes: *exchange rates calculated at interbank rate on 26/2/14.
** see text in paper (Collins 2014a) for an explination of the capped and not-capped outside London figures
There are multiple living wage ordinances throughout the US. For illustrative purposes, one has been chosen for the table above.

APPENDIX 4: IRELAND'S DIRECT INCOME DISTRIBUTION

Collins (2013) outlined the latest household income distribution data for Ireland, based on SILC 2011. That analysis included calculations of the direct income distribution; i.e. the distribution of income from market sources (earnings and investments). In effect this represents the starting point in the redistributive process, the 'pre-distribution'. Subsequently, public policies on income taxation and social transfers alter the distribution.

As the living wage is concerned with altering the pre-distribution allocation of income, the chart below outlines what this looks like using the most recent Irish data.

Chart A4. Ireland's Household Direct Income Distribution, 2011 %



Source: Collins (2013:2)