

LIVING WAGES IN CONTEXT: A COMPARATIVE ANALYSIS FOR OECD COUNTRIES

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Living wages in context: A comparative analysis for OECD countries

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Abstract

At a time of rising cost of living, wide wage inequalities and widespread in-work poverty, the demand for a living wage has heightened. The concept of a “living wage” has some limitations, including that it is operationalised in a variety of ways. This variety may serve the purpose of making it a more relevant instrument, typically by providing information on the cost of living that firms and social partners may embed in their wage-setting processes; however, the variety can also increase a lack of transparency. The paper reviews some of the most common methodologies, by identifying points of convergence and divergence. Living wage estimates produced by the *Fair Wage Network* are then put into context by benchmarking them against internationally comparable wage metrics and poverty lines. Finally, the paper presents a number of critical steps to strengthen the concept of a living wage. This paper does not assess the economic cost or feasibility of living wages, not at the firm level or at the broader industry and economy level. This paper advises using the living wage as one of the pieces of information that – when properly contextualised – could inform wage negotiations and wage policies set in consultation with social partners.

Résumé

À une époque où le coût de la vie augmente, où les inégalités salariales sont importantes et où la pauvreté au travail est répandue, la demande d'un salaire décent s'est accrue. Le concept de « salaire décent » présente certaines limites, notamment parce qu'il est mis en œuvre de nombreuses manières. Cette diversité peut toutefois permettre d'en faire un instrument plus pertinent. Elle peut, par exemple, fournir des informations sur le coût de la vie que les entreprises et les partenaires sociaux peuvent intégrer dans leurs processus de fixation des salaires. Toutefois, cette diversité peut également accroître un manque de transparence. Ce document passe en revue certaines des méthodologies les plus courantes, en identifiant les points de convergence et de divergence entre elles. Les estimations du « salaire décent » produites par le *Fair Wage Network* sont ensuite replacées dans leur contexte en les comparant à des mesures salariales et à des seuils de pauvreté comparables à l'échelle internationale. Le document présente un certain nombre de mesures essentielles pour renforcer le concept de « salaire décent ». Ce document n'évalue pas le coût économique ou la faisabilité du « salaire décent », ni au niveau de l'entreprise, ni au niveau plus large de l'industrie et de l'économie. Il conseille d'utiliser le « salaire décent » comme l'un des éléments d'information qui, moyennant une mise en contexte appropriée, pourraient éclairer les pratiques générales de négociation salariale et les politiques salariales définies en consultation avec les partenaires sociaux.

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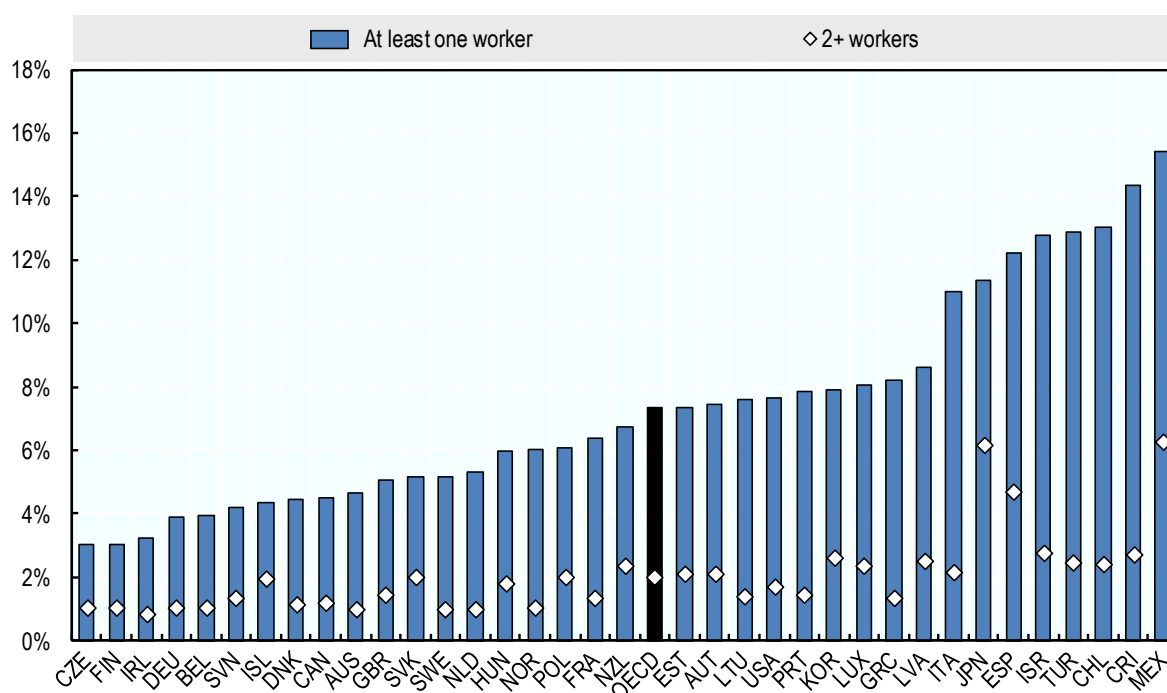
1 Introduction

The COVID-19 pandemic has disproportionately hit vulnerable workers. In many OECD countries, employment rates and working hours decreased most for low-skilled and low-paid workers, as well as for those in low-paying occupations and non-standard jobs (e.g. part-time, temporary and self-employed workers). In low-paying occupations, one in ten jobs was destroyed across OECD countries (OECD, 2021^[1]). Furthermore, the post COVID-19 employment recovery of low-paid workers has been lagging in several countries (OECD, 2022^[2]). More recently, the sharp rise in energy and food prices is a cost that risks falling disproportionately on low-wage workers. Despite the rise in nominal wages, household purchasing power has been eroded as inflation outperformed the nominal growth of wages and incomes (OECD, 2022^[2]). Some of these more recent trends compound the structural trends of labour markets and institutions.¹

Employment considerably reduces the risk of poverty in all OECD countries. In the run-up to the COVID-19 crisis, on average across OECD countries, 51% of individuals living in jobless households were poor (according to the OECD relative-income measure of poverty). This proportion was six times higher than that of households with at least one worker (OECD, 2022^[3]). That said, having a job is often not enough to avoid poverty: on average across OECD countries, 8% of individuals living in households with at least one worker were poor, a share that exceeded 10% of the working population in Chile, Costa Rica, Israel, Italy, Japan, Mexico, Spain and Türkiye. Also, nearly one-quarter of the working poor in OECD countries were living in households with 2 or more workers (Figure 1.1). Therefore, the working poor constitute the largest target population for anti-poverty policies in all OECD countries, accounting for around 68% of all working-age poor.

Figure 1.1. 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 backdrop, and spurred by various initiatives (see Section 2), the concept of a **‘living wage’** – a wage that allows employees and their dependants to reach a basic but decent standard of living – has resurged as a lever to meet a worker’s basic needs and to acknowledge that they are *“part of a prospering society, not just a tool for its creation”* (Hirsch and Valadez-Martinez, 2017, p. 19_[4]).²

Importantly, the living wage is not intended to be enshrined in legislation as the minimum wage or as social welfare payment. Instead, it should be seen as one of the elements that may inform wage negotiations and motivate companies’ efforts to behave more responsibly. Indeed, fuelled by increased consumers’ ethical consciousness, the development of ethical standards for businesses and widespread concerns about globalisation and its negative effects on the wages of low-skilled workers in developed countries, a growing number of businesses – especially those relying on suppliers operating in developing countries – have taken action and put in place voluntary programmes to ensure a living wage to their workers and throughout their supply chain. Living wage commitments have become an important piece of corporate Human Rights policies, as recognised by the *OECD Due Diligence Guidelines*.³ That said, living wages remain a voluntary tool, whose adoption needs to be assessed by companies against the broader economic conditions faced.

The main justification for a living wage is that it raises living standards for the workers that receive it, including providing a route out of poverty for some of the working poor (Swaffield et al., 2018_[5]; Horton and Wills, 2019_[6]). Other justifications include improved self-esteem and work–life balance for employees,

improvements in productivity, recruitment and retention for employers (Bennett, 2013^[7]), and healthier and more socially engaged citizens (Hirsch and Valadez-Martinez, 2017^[4]).

However, the concept of a living wage may have some limitations. First, low pay and in-work poverty are not the same thing (see Section 5): besides low hourly wage rates, in-work poverty at the household level could also reflect low work intensity, with short hours or periods off work, and/or not all adults in the household being employed relative to the number of dependants (OECD, 2009^[8]). This means that there should be a package of anti-poverty actions to increase the supply and quality of both jobs and workers. Second, the 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, the level of technology, the unemployment rate, etc.

In addition, 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**. Over the past decade, a number of methodologies have been developed. These approaches share a common approach but typically rest on different assumptions and combinations of data sources. While '*a silver-bullet methodology does not exist, nor will it ever exist*' (Anker, 2011, p. 52^[9]), the variety of approaches does not *a priori* undermine the credibility of the living wage concept as long as these are developed according to transparent and consistent standards. The present paper contributes to this debate by **reviewing different living wage methodologies**, identifying their differences and similarities, and assessing the impact of various assumptions on the resulting estimates. In addition, the paper **benchmarks living wage estimates against some commonly used international indicators on wage distributions and poverty**. While the side effects of a wide implementation of a living wage are not considered in the analysis (see Box 1.1), the benchmark exercise already provides relevant insights into the affordability of a living wage relative to prevailing wages and into its possible impacts on poverty alleviation.

Box 1.1. Possible flow-on effects of a wide adoption of living wages

This paper does not address the implications that businesses' commitments to paying living wage levels along their supply chains may have for their purchasing practices and for the economic conditions in the countries where supply chain suppliers are operating. Similarly, the paper does not examine the economic arguments for (or against) the living wage **at firm level** (i.e. possible effects on employment, competitiveness and profitability) and from a **broader macro-economic perspective**. The wide adoption of living wage policies may have a number of unintended, negative effects such as:

- Wage relativity, where those who are earning a little above the living wage are keen to retain their relative wage differentials to those who were earning below the living wage;
- Potential for increased inflation, due to higher wage levels. Moreover, the indexation mechanisms that automatically and fully adjust living wages to inflation could lead to a price-wage spiral, especially in times of inflationary pressures;
- Job loss for lower-skilled workers. Businesses may react to a higher wage floor by hiring workers whose productivity can command that rate, and by reducing the job opportunities or hours available to some of the low-wage workers. This could, in turn, increase out-of-work poverty;
- Changes to labour supply, since higher wage rates can incentivise working more hours, but they can also incentivise a drop in hours worked;
- Impact on human capital accumulation, since increasing the wage levels of lower-income earners who typically have lower educational attainment may reduce returns to higher education.

On the positive side, as already mentioned, living wages can lead to a greater ability to attract and retain talent, greater staff motivation, lower absenteeism, and increased productivity. 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^[10]).

The analysis in this paper should **not be seen as an OECD endorsement of the living wage concept**. Instead, it should be considered as an exploration of the variations that a given method can produce and an illustration of the type of considerations that could inform living wage commitments.

The main findings of this paper are as follows:

- **There is scope for greater clarity and consistency in some key principles underpinning calculations of living wages.** In particular, it is necessary to define, conceptualise and apply in a clear and consistent way the central idea of a living wage, a wage sufficient to support a decent living standard in the place where it is paid. Moreover, it is essential to have a robust system for **maintaining living wages over time**, capable of reflecting changes in both prevailing prices and social norms.
- **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 are considered are ingredients of living wage estimates that need to be analysed and debated openly.
- **The living wage is more than a number.** Setting a living wage rate too low may fail to improve living standards; setting it too high may be too 'ambitious' for employers and never get adopted. Further, assessing the economy-wide effects of a living wage requires information on the share of workers that could be affected by it. **When official statistics are available, these should be used**

for “locating” the living wage within the earnings distribution of each jurisdiction, e.g. to understand how large the share of workers currently paid less than the living wage is. Official statistics can also be used to **assess the adequacy of living wage estimates** through comparisons with national estimates of household income and expenditures.

- **The living wage alone is not a route out of poverty for all workers.** A single wage norm, designed for a specific set of family and individual circumstances, may not ensure an adequate standard of living for workers in different situations. When living wage commitments take the form of a voluntary rate paid by employers who decide to go above and beyond the government minimum, its effectiveness also depends on other forms of economic and social support targeting low-income working families. While the living wage is an important tool shaping the “pre-distribution” of earnings, without **complementary government policies**, it may not guarantee that wages can be set at a level that truly meets people’s needs.
- A possibly wide adoption of living wages at industry or economy level would require an **extensive analysis that considers the macro-economic effects of living wages on firms’ competitiveness and profitability, job creation as well as other labour market outcomes**; as well as an assessment of alternative market or policy instruments that alleviate poverty.

The paper is organised as follows: Section 2 introduces the concept of a living wage and summarises how living wage initiatives have developed as a response to contemporary labour market conditions. Section 3 sets out how living wages are being calculated and applied by a range of different initiatives. Section 4 discusses the impact of different assumptions on family size and working patterns on the living wage rates produced by the *Fair Wage Network*. Section 5 puts living wage estimates produced by *Fair Wage Network* into context by benchmarking them against internationally comparable wage metrics and poverty lines. Section 6 concludes by discussing a number of critical steps that stakeholders could consider to ensure the credibility and sustainability of the living wage concept going forward.

2 Origins of the living wage and recent initiatives

Wage inequality and the argument for wage floors

Movements for fair or living wages have been around for centuries (Stabile (2008^[11]); Hirsch and Valadez-Martinez (2017^[4])). They have been associated with perceptions that labour markets do not necessarily provide fair pay levels due to power imbalances between employers and workers.⁴ While global income inequality has decreased in the past three decades, due to rapid economic growth in emerging economies, within-country inequality has grown (Chancel et al., 2021^[12]). In the average OECD country, the income of the richest 10% of the population is about 9 and a half times that of the poorest 10%, up from 7 times in the 1980s (OECD, 2022^[13]). Driving forces of this growing income gap have included: growth in the income share generated from capital compared to labour; increased flows of goods, services, capital and labour across international borders, increased exposure of workers in developed countries to competition from low-wage economies; growing returns to skills mirrored by a higher wage penalty for unskilled workers; and a reduction in redistribution.

Several OECD countries have also been experiencing a slowdown in the growth of real wages relative to productivity, which has been reflected in a falling share of wages in GDP. Moreover, wage growth in the lower part of the distribution has been lagging behind average wage growth, contributing to rising wage inequality (OECD, 2018^[14]). While lower wages contribute to inadequate living standards of working families, they are not the only factor at work. Low household income is not driven solely by inequality in hourly pay (or in full-time monthly rates), but also by low hours worked, household composition as well as fiscal transfers to and from working households (OECD, 2009^[8]). For example, Blundell et al. (2018^[15]) show that higher concentration of high earners in households (e.g. through two graduates marrying) has played a major role in generating higher income inequalities. Furthermore, low-paid workers are not always in the lowest-income households, although the overlap varies considerably across countries (see Section 5). While many factors influence this relationship, low pay is more likely to contribute to household poverty in countries where minimum wages are low relative to average or median pay, and where fiscal support for low-income families is weak.

Even where overlaps between low wages and income poverty are limited, pay that is too low to support an individual or a family intrinsically makes workers vulnerable, forcing them to rely on other family members or state aid to make ends meet. In this sense, the case for pay rates sufficient to cover living costs can be seen as a matter of fairness and social justice. The existence, or widening, of wage inequalities does not necessarily imply that pay at the bottom end of the distribution is too low to live on. However, increased wage inequalities can contribute to the perception that low pay is producing insufficient incomes relative to the norms of a particular society.

The meaning of a living wage

While the above context helps explain why calls for a living wage are so resonant in the 2020s, its meaning remains debated. This is not helped by a wide range of usages, ranging from generalised movements or slogans (such as the “fight for 15” dollars an hour in the United States) to more precise, empirically backed calculations of living costs; and from descriptions of compulsory minimum wages to ordinances applying to specific public employers or their contractors, to voluntary initiatives in the context of corporate social responsibility programmes.

While these multiple usages are hard to avoid where – as highlighted below – the impetus for living wages is coming from many different quarters, all definitions of living wage have two key distinctive features. The first is that **a living wage is conceptually distinct from a minimum wage**. The living wage is a description of an “adequate” pay rate, rather than simply describing a floor in the wage distribution, i.e. what the law says that employers should pay as a minimum (see Box 2.1). This does not rule out an overlap between minimum and living wages. For example, a compulsory minimum wage is sometimes labelled as a ‘living wage’ to reflect the intentions of those who set it.⁵

Box 2.1. Living wage and minimum wage

Minimum wage and living wage have similar objectives: the minimum wage aims to protect workers against unduly low pay and the living wage aims to ensure that full-time workers do not live in poverty. The two concepts are often used interchangeably; however, there are some differences (Anker and Anker, 2017^[16]):

- First, minimum wages set legal and regulatory wage floors: employers must pay at least the minimum wage or be subject to fines and other legal enforcement measures. By contrast, living wages provide a benchmark for employers that voluntarily commit to go further than paying mandated minimum wages, ensuring their employees earn a wage that they can live on.
- Second, minimum wages and living wages are set in different ways. On the one hand, minimum wage levels are set in a political process – where the relative power of employers and workers play an important role – and account for both workers’ needs and economic factors, such as labour productivity, firms’ ability to sustain higher wages and the overall effects on employment and on the economy’s competitiveness (cf. ILO convention 131). On the other hand, living wages are only concerned with workers’ needs and are typically based on research identifying the cost of a basic, acceptable living standard (see Section 3 for a methodological review of different approaches to estimating a living wage).
- Finally, living wages are updated regularly – at least once a year – through automatic indexation mechanisms, while this is not always the case of minimum wages.
- Importantly, minimum wages and living wages constitute important elements within the broader wage negotiations that social partners conduct in respect of workers’ freedom of association and collective bargaining rights.

The second key feature is that **a living wage is typically based on evidence on the cost of a decent standard of living**. There are a wide range of approaches to deriving the earnings needed to cover the basic needs of a reference family. In practice, households vary greatly both in terms of their required spending (because of heterogeneous household composition) and in the relationship between wage rates and income (because of variations in working hours and in the fiscal transfers applicable to different household situations, see Section 5). In addition, there is no single way of defining or measuring what makes a living standard adequate (see Sections 3 and 4). Nevertheless, the living wage can be a meaningful benchmark, provided the assumptions that underlie its calculations are transparent, and justified with a stated rationale.

Living wage initiatives

The term “living wage” has been used by a range of social actors, including grass-roots initiatives, international business coalitions, governments and public bodies. On the one hand, a panoply of initiatives can make it hard to pin down what living wages mean in practice. On the other, all these initiatives rest clearly on the idea that business models relying on low wages, leading to poverty and inequality, need to be changed.

Initiatives and responses within countries

Modern living wage campaigns originated largely with grass roots campaigns in the United States from the 1990s onwards. Often driven by community action groups, many supported by faith-based organisations, they typically aimed to improve pay for specific groups of low-wage workers in local areas. A similar model was used in the United Kingdom, adopting community organisation strategies inspired by those in the United States.

Over the past three decades, living wage initiatives have multiplied, often taken a much wider perspective and pursued different objectives (see Box 2.2). For example, in the United States a nationwide “fight for 15”, associated initially with strikes by fast food workers, has become a national movement, leading to the adoption of a USD 15 an hour minimum wage (more than twice the current federal average) by several states, and to attempts by the Biden administration to set the national minimum at this level. In the United Kingdom, community initiatives led to the establishment of the Living Wage Foundation, a national body accrediting “living wage employers” (Living Wage Foundation, 2022^[17]). In other countries, such as New Zealand and Ireland, campaigns developed later and started with national initiatives calculating what a living wage should be.

Trade unions have had a varying degree of involvement in these developments, playing a different role than their traditional one of collectively bargaining the pay of specific groups of workers. Generally speaking, as the decline in trade union density and bargaining power has been accompanied by widening wage inequalities and, in some cases, by a fall in the real value of minimum wages (Hirsch and Valadez-Martinez, 2017^[4]), trade unions and other labour organisations have often become leading champions of “minimum living wages”.

Box 2.2. Different objectives of living wage initiatives

Living wage campaigns can be differentiated according to their objectives and successes in prompting certain actions by governments and employers. These include:

- **Commitments by individual employers to improve minimum pay, above what is required by law.** For example, the United Kingdom has over 9 000 “living wage employers”, accredited by the Living Wage Foundation, committed to pay the national or London rate set annually by the Foundation based on empirical evidence of what the public considers the minimum required.
- **Increases in compulsory minimum wages explicitly linked to living wage criteria or given a living wage label.** In practice, adopting such a label has not been accompanied by government commitments to increase these wages in line with the cost of living. When a minimum (hourly) wage of USD 15 was adopted by California and New York, for example, these were phased in over several years, at pre-scheduled rates unrelated to inflation. The UK’s official “National Living Wage” (a rebranding of the compulsory national minimum wage) is lower than the “real” living wage set by the Living Wage Foundation, and linked to median pay rather than living costs, implying that it could lose value when real pay declines. In 2021, the Irish Low Pay Commission was asked by the government to look at how a living wage could become the basis for a statutory minimum, having regard for living costs and other considerations such as affordability. These caveats reflect government’s concern for setting minimum wages at a level that does not damage employment, and therefore its reluctance to make living costs the only criterion for these levels.
- **Selectively imposed living wage requirements.** Living wages may be imposed as a condition to operate, either as a contractor to a specific public body, or in a specific location such as an airport. In the United States, living wage mandates have been imposed on organisations supplying public bodies or receiving public funding (Eurofound, 2018^[18]). Leverage can be achieved by requiring living wages to be paid throughout a supply chain in various ways – for example, to be recognised as a living wage employer in the United Kingdom, organisations are required to ensure that suppliers operating on their premises also pay living wages to reduce incentives to contract out services to lower-paying companies (Living Wage Foundation, 2022^[17]).

International coalitions of companies and multi-stakeholders

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 adequacy. However, efforts to create a more global movement for living wages often have a different focus – i.e. the behaviour of multinational companies as employers, particularly in manufacturing industries supplying cheap goods to western consumers, where the ethics of benefiting from very low-cost labour has been called into questions. For example, the Asian Floor Wage Alliance was launched in 2005 by trade unions and labour rights activists to establish minimum pay standards in the garment industry; this initiative aimed to ensure that multinational companies pay adequate wages not just to the workers 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 ethical corporate behaviour, and of a more inclusive business model. In 2021, Business for Inclusive Growth – a partnership between the OECD and major corporations launched in the aftermath of the G7 Biarritz Summit – committed to ensuring that fewer people are left behind by greater prosperity and adopted a call for living wages as a key priority (B4IG, 2021^[19]). 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 live in dignity (United Nations Global Compact, 2022^[20]). 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^[21]).

Like any initiatives seeking to promote corporate social responsibility, attempts to develop global commitments to living wages face the challenge of translating abstract principles into meaningful action. Most importantly, while it is acknowledged that there is no single way of defining and measuring a living wage, the risk is that it is set at a level below ‘decency’. Therefore, in an approach endorsed by the Business for Inclusive Growth and by the UN Global Compact, the IDH Sustainable Trade Initiative issued a call for action on living wages (IDH - Sustainable Trade Initiative, 2021^[22]) backed by an approach for assessing whether such wages are set at appropriate levels (see Box 2.3).

Box 2.3. IDH's Recognition Process

IDH Sustainable Trade Initiative has developed a process to identify living wage methodologies that meet certain principles, i.e. that:

- Data representative of the relevant location are collected;
- The methodology applies to a typical working family living in that area;
- Key areas of life including food, housing and transportation are covered;
- An expected number of working adults is taken into account;
- Gross pay requirements take into account fiscal deductions;
- Urban/rural differences are accounted for;
- Estimates are not distorted by conflicts of interest, including with the funder;
- A clear account of the method and calculations is published;
- Benchmarks are updated in line with inflation and reviewed after not more than five years.

These criteria do not produce any single basis for a living wage calculation, and nor do they guarantee that the method used will genuinely capture a living standard appropriate for a given country at a given time. In addition, these criteria do not explicitly include consultation with stakeholders.

However, by requiring transparent, evidence-based, independent and regularly updated calculations, the criteria give the living wage brand some integrity. Transparent methodologies that are regularly reviewed also give the opportunity to develop international practices over time, based on observation of which methods appear to be most effective in improving the lives of populations.

To date, six methodologies have been recognised by IDH: the Full-Fledged Anker Methodology, the Anker Reference Value Methodology, the Fair Wage Network Typical Family Methodology, the WageIndicator Typical Family Methodology, the Living Wage for US Monthly Methodology and the NewForesight Living Wage Benchmark Methodology. Estimates based on the Fair Wage Network Methodology provide the basis for the empirical analysis presented in Sections 4 and 5 of this paper.

3

Estimating the living wage: A methodological review

Translating the concept of a living wage into a monetary value requires a number of steps. A variety of methodologies have been used to set living wage rates, resting on variations of what a decent living standard involves. This is a function of various elements such as the jurisdiction considered, the items included in the consumption basket, the assumptions on working hours and patterns, the family types used, etc. Drawing on a review of initiatives conducted in the context of this project, **this section discusses the key elements that are generally considered when determining a living wage rate. The purpose of this assessment is not to advocate for any preferred approach, but to identify points of convergence and divergence across methodologies, and thereby inform the debate about how the living wage should be fixed and promote convergence towards common and robust practices.**⁶ The review complements and builds upon previous similar analysis (e.g. Anker (2011_[9]); Anker and Anker (2017_[16]); Eurofound (2018_[18]); Hirsch and Valadez-Martinez (2017_[4]); Hurley (2021_[23])) and ongoing undertakings (e.g. IDH Benchmark Recognition Process).

This Section reviews 12 different living wage initiatives and methodologies.⁷ Some of these initiatives target countries in a specific world region (e.g. Asia Floor Wage Alliance), while others rely on an approach that is applicable to both developed and developing contexts (e.g. WageIndicator Foundation and the Fair Wage Network). In addition, the review covers a number of initiatives focusing on one specific OECD country (e.g. Living Wage New Zealand) or sub-national jurisdiction (e.g. Living Wage Canada). The methodologies reviewed have typically been developed by civil society organisations, non-profit organisations, trade unions, community-based groups, academics, and employers, with independent institutions sometimes producing these estimates.

When relevant, the review also considers selected “reference budget” initiatives. While these initiatives do not directly focus on the operationalisation of a living wage, their underlying aims are similar to those of living wage initiatives, and their computational approaches provide the basis for the estimation of the living wage in a number of national, sub-national or local initiatives.⁸ [Annex A](#) provides detailed information on the methodological aspects of the initiatives covered in this section.

There is broad consensus amongst initiatives on the core elements of the living wage definition. According to all initiatives considered in this section, **a living wage should provide workers and their families a basic but decent standard of living,⁹ taking into account the context prevailing in a given place and time.** While some initiatives explicitly refer in their working definition to the spending categories that a living wage should provide to workers and their families (e.g. the WageIndicator Foundation, the Fair Wage Network and the Asia Floor Wage Alliance), others only refer broadly to a “decent standard of living” (e.g. the national living wage initiatives for Canada and Ireland). Several initiatives (e.g. the Clean Clothes Campaign and the Living Wage New Zealand) additionally emphasise that a living wage should enable workers to participate as active citizens in society.¹⁰

The methodologies reviewed in this section all refer to a “livability” criterion (Stabile (2008_[11])), and to a **commonly accepted threshold of decency**, implying that workers should be entitled to wages that cover their own needs and those of their dependants.¹¹ **A standard approach to deriving a living wage value is used by all approaches.** It involves the following steps:

- First, to define the *quantities of different goods and services* that should be included in the consumption basket reflecting the basic but decent standard of living for an illustrative family type.
- Second, to *compute the total costs for this representative basket given prevailing prices*, which also implies ascertaining whether there are significant geographical differences in price levels that should be reflected in sub-national estimates.
- Last, to *translate the household disposable income needed to meet that standard of living into the gross earnings to be paid* as a living wage to workers. This last step reflects assumptions on the number of wage earners in the family, and should account for income tax and social contributions paid by workers and, ideally, for the social transfers received by the family type considered.

Much variation exists in the parameters and specifications underpinning each computational step.

While different methodological choices do not necessarily challenge the concept of a living wage, **the assumptions that underlie each step of the calculations need to be transparent and justified with a stated rationale.** In particular, the following assumptions need to be clearly explained: *i) What is the decent standard of living that a living wage should meet?; ii) What type of family does a living wage support?; iii) What working patterns are assumed for the workers and other family members?; iv) What is the geographic focus of living wages?; v) How do living wages change over time?* These are the main focus of the remainder of this section. While these steps are discussed below as subsequent steps of a linear computational strategy, in reality they are part of a dynamic process where each step mutually influences others.¹² For instance, the assumption on the number of full-time equivalent employees in the family not only directly affects the living wage level – since, all else being equal, the wage earned by two workers in the family will be half of that earned by a single wage earner – but also influences some of the expenses that the living wage is meant to support – for instance, when both parents are assumed to work, childcare costs will be higher than when considering a single wage earner in the family.

In general, while a full standardisation of the concept of living wage may neither be fully possible, nor desirable, **there is scope to define common high-level guidelines that companies and social partners may want to follow.** By definition, calculations of living wages, as any estimates of living standards and income adequacy, should take into account economic and social elements that are relevant to any given time and geography. Those calculations should also encompass considerations regarding the environment in which businesses operate. All in all, the right balance should be found between general principles that may underpin living wage calculations and the contextual elements that reflect the social and economic dimensions of living wages. As elaborated in the rest of the paper, social partners have a central role in establishing this balance.

What is the decent standard of living that a living wage should meet?

As the first step to estimating a living wage, it is necessary to identify the *goods and services that enable workers and their families to enjoy a basic but decent standard of living.* All the initiatives reviewed here agree **that a decent life goes beyond food, housing and clothing;** and most of them further include healthcare, childcare, education, transport and communication in the living wage basket. Table 3.1 presents an overview of the spending categories included in the estimation of the reference budget by different initiatives.¹³

Table 3.1. Overview of main spending categories considered when setting living wage rates

Initiatives	Number of categories	Food	Housing	Healthcare	Clothing	Childcare / Education	Top-up amount	Other categories
Fair Wage Network (international)	8	x	x	x	x	x	x	transport, communication
Global Living Wage Coalition – Full-Fledged Anker Methodology (international)	4 main	x	x	(x)	(x)	(x)	5%	other necessities including (x), transport, communication, household equipment, recreation, culture
WageIndicator Foundation (international)	9	x	x	x	x	x	5%	transport, utilities, phone costs
Asia Floor Wage Alliance (Asian countries)	2 main	x	(x)	(x)	(x)	(x)	(10%)	non-food including (x), transport, fuel
Clean Clothes Campaign (Eastern European countries)	2 main	x	(x)	(x)	(x)	(x)	(10%)	non-food including (x), transport, fuel, communication, leisure and culture, holidays
Canadian Centre for Policy Alternatives (Canada – BC)	9	x	x	x	x	x	two weeks of work for each parent	parent education, transport, telecommunications, other household expenses
Living Wage Technical Group Ireland (Ireland)	15	x	x	x	x	x	x	transport, energy, communication, household goods, household services, personal care, personal costs, social inclusion, insurance and savings
Living Wage Aotearoa New Zealand (New Zealand)	12	x	x	x	x	x	USD amount estimate	transport, energy, communication, household contents and services, miscellaneous goods and services, recreation and culture, other expenses
Resolution Foundation / Living Wage Commission (United Kingdom)	16	x	x		x	x		tobacco, household insurance, other housing costs, household services, water, motoring, other travel costs, fuel, personal goods and services, social and cultural participation
Economic Policy Institute (United States)	6	x	x	x	(x)	x		transport, other necessities including (x)
MIT Living Wage Calculator (United States)	7	x	x	x		x		transport, other necessities, civic engagement (including education)
Finnwatch (guidelines)	12	x	x	x	x	x	10%	transport, communication, household goods, personal hygiene, recreation and cultural activities, monetary aid for relatives (only for developing countries)

Note: The number of categories listed in the second column refers to the full list of spending categories given in [Annex A](#). (x) indicates that the spending category is included in the basket but not expressly modelled.

The number of main spending categories varies considerably across initiatives, ranging from two (e.g. Clean Clothes Campaign) to 16 (e.g. UK Living Wage Commission).¹⁴ In general, **national living wage initiatives in OECD countries are characterised by a larger number of more finely detailed categories** compared to those focusing on developing countries or operating in an international context. This not only reflects the relative importance of some core categories – such as food and housing – that represent a greater share of overall budgets in developing countries than in OECD countries, but also reveals differences in computational approaches and considerations on data availability.¹⁵ A detailed list of necessities (e.g. quantifying the number of clothing items and shoes per person, or the number of medical visits per person and year) is mostly used by initiatives that estimate living expenses based on household surveys and expenditure data. In contrast, using few broad categories leaves more freedom as to what items to include under each heading and how to price them. This more general approach is mostly used by initiatives that estimate living expenses by extrapolating food costs to other categories or by using expenditure ratios rather than detailed expenditure data.¹⁶

Most initiatives, with the exception of those developed in the United Kingdom and the United States, also include a top-up amount (sometimes also referred to as “savings” or “margin for unexpected expenses”) in their living wage basket. Setting aside a portion of the living wage as top-up will certainly help protect workers and their families against future unforeseen events that might entail extraordinary costs. At a time of increasingly precarious employment and frequent shocks, such as the COVID-19 pandemic and the cost-of-living crisis, such top-ups can also help workers cope with short spells of unemployment.

Within each spending category, multiple approaches are used to determine what people need in order to enjoy a decent standard of living. In broad terms, approaches can be grouped into two categories:

- *Needs-based approaches* identify people’s needs in a specific context based on either guidelines, benchmarks, experts’ recommendations, international or national consumption standards and norms (*needs-based approaches derived from expert knowledge*) or on public consultations where agreement is achieved about households’ basic necessities (*needs-based approaches derived by public consultation*). Needs-based approaches derived from expert knowledge are typically used to determine food and housing needs, but seldom applied to other spending categories (e.g. healthcare) due to the lack of relevant guiding principles. In needs-based approaches derived by public consultation, public views are sometimes supplemented with advice from researchers or experts in the respective fields.
- *Expenditure-based approaches* account for how people actually live or what they purchase, and typically rely on data from official household expenditure surveys, *ad hoc* consumption behaviour surveys or reference baskets that mirror regional or national consumption patterns.

A detailed overview of the approaches used by each initiative is provided in Table 3.2 below. This shows that **most initiatives use a combination of different approaches. However, how these are combined and how their mix differs across initiatives is not always clearly documented in the information publicly available.**

Table 3.2. Overview of the main approaches used by different living wage initiatives to set the levels of different basket items

Initiatives	Needs-based		Expenditure-based
	Derived from expert knowledge	Derived by public consultation	
Fair Wage Network (international)	guidelines (FAO food balance sheets and FAO database, WHO balanced diet definition, UN-Habitat for decent housing)		workers' expenditures surveys and fieldwork investigations
Global Living Wage Coalition – Full-Fledged Anker Methodology (international)	guidelines (WHO / USDA nutritional values for food, UN-Habitat, national housing standards and norms)	focus groups discuss the type of food they eat regularly and where they buy it, the types of health expenses they have to afford, their accommodation needs and rental costs, as well as their educational expenses.	fieldwork investigations (food, housing, health care), expenditure data (utilities, other essential needs)
WageIndicator Foundation (international)	guidelines (FAO food balance sheets and FAO database, ILO working hours standards, local standards for housing), recommendations (World Bank food calorie intake benchmark)		for most categories, expenditure data, fieldwork investigations and web-based surveys
Asia Floor Wage Alliance (Asian countries)	guidelines (food)	focus groups decide on items based on calorie guidelines (food)	expenditure data and multipliers based on Engel's Law (non-food expenses)
Clean Clothes Campaign (Eastern European countries)	guidelines (food)	local groups decide on items based on calorie guidelines (food)	expenditure data and multipliers based on Engel's Law (non-food expenses)
Canadian Centre for Policy Alternatives (Canada – BC)	guidelines (national nutritious food basket)	focus groups to revise budgets	reference basket (food consumption behaviour and nutritional needs, housing, clothing, transport), multipliers to extrapolate costs (other household expenses)
Living Wage Technical Group Ireland (Ireland)	experts' inputs on requirements (food, home heating, transport)	deliberative focus groups (most categories)	expenditure data (healthcare, childcare, transport)
Living Wage Aotearoa New Zealand (New Zealand)	guidelines (food, housing)		survey on consumption behaviour and expenditure data (most categories)
Resolution Foundation / Living Wage Commission (United Kingdom)	experts' inputs (food nutritional values, fuel requirements, motoring)	deliberative focus groups (all categories)	
Economic Policy Institute (United States)	guidelines and recommendations (food)		reference basket (food), expenditure data (most categories), multipliers to account for regional differences (most categories)
MIT Living Wage Calculator (United States)	guidelines (food)		reference basket (food), expenditure data (most categories)
Finnwatch (guidelines)	guidelines (area-specific dietary and nutritional food, UN-Habitat for decent housing), recommendations (WHO / FAO food calorie intake benchmark, clothing)	inputs from employees, other stakeholders, local organisations, trade unions	expenditure data (most categories)

Note: The categories for which each of these approaches apply are given in brackets. Expenditure data includes surveys, national statistics, databases, etc.

Major similarities across living wage initiatives are highlighted in Table 3.2. *Expenditure-based approaches derived from expert knowledge* are used by almost all initiatives to identify the food items necessary for a decent life. While the initiatives focusing on developing countries or cross-country regions mostly use international guidelines (from WHO and FAO) on nutritional values and calorie intake (paired with area-specific food recommendations) for a healthy diet, national initiatives mostly use national nutrition guidelines and experts' inputs on food requirements. International initiatives (i.e. the Fair Wage Network, the Global Living Wage Coalition and the WageIndicator Foundation) also use guidelines from international agencies (e.g. UN-Habitat) and local standards for selecting suitable housing options to include in the living wage basket.

Ideally, the calculation of how much must be spent to provide a decent standard of living on categories other than food or housing, should also be based on needs.¹⁷ Yet, needs-based calculations of what comprises a need in different societies can be difficult to make other than through *expenditure-based approaches* relying on survey data on consumption expenditures. This approach is followed, for instance, by the Fair Wage Network (based on two different types of survey) and by the WageIndicator Foundation (mostly through web-based surveys). Observing actual expenditures of people on modest means in a given society can, to some extent, help define “norms” based on their prevalence and avoid using a norm for “decency” that is out of line with how people of modest means actually live. However, it also risks underestimating needs and perpetuating inadequate living standards, due to the presence of “unmet needs” among lower-income groups.

Another way in which spending patterns are being used by some living wage initiatives is to identify (and cost) items meeting basic material needs, such as housing and food, based on available evidence, to measure the ratio between total household expenditure and outlays for these “essentials” categories among households on relatively modest incomes, and finally to multiply the value of essentials by this ratio.^{18,19} This approach is arguably most valid in poorer countries, where essentials make up a very high proportion of overall budgets (see Anker and Anker (2017_[16])), although even in these cases there is the potential for underestimating unmet social needs. **In countries where food is only a small proportion of what people spend, on the other hand, how other needs are estimated acquires greater importance.** (Hirsch and Valadez-Martinez (2017_[4])).

One way to ensure that needs are not underestimated is to consult workers or citizens about what should be included in a norm for decency in their society (*needs-based approach derived by public consultation*). Such an approach can be used either as a supplement or as an alternative to other methods. It also has **the advantage of giving a living wage credibility in terms of public acceptance of the implied norms.** In a number of countries, the compilation of the living wage basket is informed by deliberative focus groups that develop lists of items for each spending category from scratch, and check-back groups that subsequently reassess the selected items.²⁰ In most cases, discussion groups include members from various socio-economic backgrounds to gain different perspectives on the necessities needed for a decent life. Researchers and experts often contribute recommendations on required quantities for specific types of products (e.g. food calorie intake or fuel and heating needs).

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 (e.g. household expenditure surveys are not representative of consumption patterns at local level) or are not disseminated in an appropriate format to be used as a unique source of information (e.g. normally only aggregated price indices are published rather than individual prices necessary to calculate living wage rates). For this reason, living wage initiatives often rely 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.

Primary data collection efforts are typically (but not exclusively) used to price the living wage basket. **Pricing strategies differ across living wage initiatives, and multiple data sources are used in the process.** Table 3.3 summarises pricing strategies and provides an overview of the main data sources used by the different initiatives.

Table 3.3. Overview of main pricing strategies and data sources used by the living wage initiatives assessed in this paper

Initiatives	Pricing strategies	Primary data	Secondary data
Fair Wage Network (international)	average (utilities, water, electricity, garbage collection, fuel/gas, internet connection, maintenance, repairs, household equipment)	fieldwork investigations (most categories), worker interviews (all categories)	WHO / FAO guidelines (food)*, UN guidelines (housing)*
Global Living Wage Coalition – Full-Fledged Anker Methodology (international)	average (food, highest and lowest prices of each item are discarded), average (rent, extreme rent values are discarded), average of 40th-50th income percentile for urban and 50th-60th income percentile for rural (maintenance), average of 40th-50th income percentile for urban and 50th-60th income percentile for rural (other needs)	fieldwork investigations (food, housing, healthcare, education, transport), focus group discussions (food, housing, healthcare, education)	expenditure surveys (housing, healthcare, education), external data supplier (food), WHO / USDA nutritional guidelines (food), international and national standards (housing)*
WageIndicator Foundation (international)	lower-range prices in stores / markets (food), regular monthly pass (transport), minimum monthly expenses (healthcare, education)	own web-based surveys (most categories), fieldwork in stores / markets (food), fares (transport)	Data from national statistical agencies (healthcare, education, phone costs), FAO database (food)*, Numbeo database (food, housing), WB data (national employment / fertility rates)*
Asia Floor Wage Alliance (Asian countries)	average market costs (food), a food share of 45% and another 55% for non-food costs extrapolated from food costs	workers' food basket surveys	guidelines (food)*, national statistics (weighting evidence), WB conversion factors, country-specific CPIs
Clean Clothes Campaign (Eastern European countries)	40%-60% or 30%-70% ratios between food and non-food items, non-food costs extrapolated from food costs	workers' food basket surveys	guidelines (food)*, national statistics, Eurostat, FAO index (weighting evidence), WB conversion factors, CPIs
Canadian Centre for Policy Alternatives (Canada – BC)	average (food), median (rent, utilities), maximum premium (healthcare), median (childcare), reference amount (clothing), reference price and bus pass (transport), least expensive (communication), median (parent education), percentage extrapolation (other household expenses)	fees on websites (communication, parent education), fares (transport)	market surveys (housing, childcare), cost report (food), census on reference basket costs (most categories), guidelines (food)*
Living Wage Technical Group Ireland (Ireland)	90% of average of private sector (rent), part-time and full-time childcare plans, monthly / weekly pass, occasional taxi / bus (transport)	discussion groups (most categories)*, fares (transport), comparison websites (healthcare)	expenditure surveys (healthcare, transport), rent index (housing), report (childcare), schemes (childcare), experts' inputs (most categories)
Living Wage Aotearoa New Zealand (New Zealand)	average (food), average of 25th percentile (rent), weighted average (energy), pass (transport), average (communication), average and median (education)	market prices (communication), fares (transport)	household surveys (all categories), cost survey (food), databases (rent, energy, healthcare), reports (healthcare, transport), guidelines (food, housing)*
Resolution Foundation / Living Wage Commission (United Kingdom)	average and weighted average (rent), weighted / adjusted average (childcare), regular London pass (transport), weighted average (tax)	discussion groups (most categories)*, prices collected by the Minimum Income Standard (MIS) research team at various stores and suppliers (most categories), fares (transport), micro-	government statistics (rent, tax), household surveys (childcare), review (housing), experts' inputs (most categories)*

Initiatives	Pricing strategies	Primary data	Secondary data
		simulation model (tax)	
Economic Policy Institute (United States)	average (food), 40th percentile and weighted average (rent), lowest cost plan and weighted average (healthcare), average (childcare), percentage top-up (other necessities)		web survey (housing), expenditure surveys (healthcare, transport, other necessities), reports (food, childcare), cost plan (food), database (transport), calculator tools (healthcare), micro-simulation model (tax), guidelines (food)*
MIT Living Wage Calculator (United States)	average of low cost (food), weighted average (rent), median and cheapest option (childcare), cheapest broadband plan, typical cell phone plan, low-price cell phone (other necessities)		web survey (housing), expenditure surveys (healthcare, transport, other necessities, civic engagement), market survey (childcare), cost plan (food), database (childcare), web tool (healthcare), handbook (tax), micro-simulation model (tax), guidelines (food)*
Finnwatch (guidelines)	low-cost basic essentials with sufficient quality at local prices (food), median (rent), yearly inflation adjustments	employee questionnaires, local stakeholders, market surveys, fees, fares	official databases from statistical departments or public institutions, household expenditure data, WHO / FAO guidelines (food)*, UN guidelines (housing)*, recommendations (food, clothing)*, local organisations, trade unions

Note: Not all initiatives provide pricing information for all categories included in their living wage basket. The columns on data sources include both data used for the basket item identification (indicated by a *) and their pricing.

Regardless of the source used to estimate prices, these can typically be based on different reference points, e.g. the median, the average or a given percentile of the distribution of expenditure/income, depending on the initiative and the spending category to be priced (see Box 3.1). At times, the least expensive option available on a local market is selected; however, there is evidence that people on low incomes pay more for essential products and services than their higher-income counterparts (the so-called *poverty premium*). This is either because they live in areas where food choices are more limited and expensive due to the types and locations of food stores, or because they are locked out of the cheapest deals on utilities (Davies and Trend, 2020_[24]). Hence, **considerations should be taken so that the pricing of the living wage basket adequately reflects the cost of living for low-income families.**

Box 3.1. How are different spending categories priced?

The pricing strategies summarised in Table 3.3 are applied differently depending on the spending categories considered.

- Data on **food** prices are typically collected by living wage initiatives in stores, websites, web-based surveys or with the help of surveys on food spending of local workers. Most initiatives consider items with sufficient quality and lowest available price, while others rely on average prices of the respective items.
- Data on **rental** costs are primarily collected based on secondary sources, such as expenditure surveys, market surveys and databases. In order to estimate rental costs from these sources, living wage initiatives refer to either the median, the average or certain percentiles of national or local rental distributions. Some initiatives also conduct local surveys to elicit rental prices directly from workers.
- Regarding data on **healthcare expenditure**, living wage initiatives mainly use databases on the costs of governmental healthcare insurance plans (or equivalent) and household expenditure data. Some initiatives consider the lowest insurance premium available on the market, while others refer to the average or maximum premium.
- Costs of formal **childcare arrangements and children's education** are mostly based on governmental childcare and education schemes, or are derived from market surveys and reports. Some living wage initiatives estimate the costs as the median or (weighted / adjusted) average of all available childcare and education options. Whether full-time or part-time childcare plan options are considered differs across initiatives. It also depends on underlying assumptions on family size and composition and on the number of working adults in the family (see below).
- As for **transport** costs, living wage initiatives mainly collect price data from websites on transport fares as well as expenditure surveys, databases or reports. While international living wage initiatives and those focusing on developing countries assume workers and their families use public transportation only, national initiatives in OECD countries also include the use of private cars.
- Costs of **communication services** are often collected from websites. Some initiatives search for the least expensive internet and telecommunication providers, while others rely on the average internet and telecommunication prices available on the market.

As already mentioned, some initiatives price explicitly only selected spending categories, while the remaining cost is derived according to a fixed ratio. The Asia Floor Wage Alliance and the Clean Clothes Campaign, for instance, only distinguish between food and non-food items, with the former category being priced explicitly and the cost of the latter being extrapolated from the estimated food expenditure, based on 45:55, 40:60 or 30:70 weights.²¹

The Full-Fledged Anker Methodology proposes a compromise between the (laborious) approach of identifying and estimating the cost of each and every non-food and non-housing (NFNH) item and the (conceptually problematic) approach of relying on observed spending patterns from household expenditure surveys. In this approach, a preliminary estimate of NFNH costs is made using recent household expenditure survey data by multiplying the “NFNH to food expenditure” ratio in these data by the cost of the food category in the living wage basket. Post checks of the preliminary estimate of NFNH costs are then completed using focus group discussions and primary data collected by researchers in the study location to ensure that the amount computed is sufficient to satisfy the needs of the worker and their family (Anker and Anker, 2017_[16]).

What kind of family does a living wage support?

The cost of a basic but decent lifestyle depends on the size and composition of the modelled family. Living wage estimates are based on either a reference family that is deemed to be representative of a given society and time or on an average of different family types (Table 3.4). Both approaches imply that **a living wage will cover the needs of some families but not of others**.²² When living wages are derived for a reference family, one common approach is to ensure that wages are high enough to provide a decent standard of living for a *standard* family of two parents and two children (or for a different family type with equivalent needs).²³ A standard family of four ensures population replacement and it is reasonably consistent with the average family size in most countries.²⁴

Alternatively, living wage estimates may refer to a *typical* family, where the number of children is typically derived from national or regional fertility rates.²⁵ Some initiatives (e.g. Fair Wage Network and WageIndicator Foundation) provide estimates for both a standard and a typical family, as well as additional scenarios (e.g. single-parent). While in virtually all initiatives, living wage calculations are based on the assumption of meeting the needs of the worker and their family, the Irish living wage refers to the basic needs of the worker alone.²⁶ While this is easier to calculate, it also means that the derived living wage will be inadequate for the majority of families where workers have dependants (Eurofound, 2018_[18]).

A second approach, used by the UK Living Wage Commission, is to take an average of the needs of a range of family types. This has the advantage of reflecting a greater diversity of family needs but also disadvantages due to the complexity of calculations.²⁷ The choice made by most US initiatives is a middle way between a reference family and an average of different family types, as earnings requirements are computed for families of specified types, leaving it to living wage campaigners to decide whether to use a single family type or an average.

Table 3.4. Overview of assumptions on family size and working patterns used by different living wage initiatives

Initiatives	Standard family	Typical family	Number of full-time workers
Fair Wage Network (international)	2 adults, 2 (and more) dependants	2 adults, number of dependants consistent with local fertility rate	based on average number of full-time workers in a country derived from FWN surveys, generally 1 full-time worker
Global Living Wage Coalition – Full-Fledged Anker Methodology (international)	2 adults, 2 children (if the fertility rate in the study area is close to two)	consistent with average household size and fertility rate in the study area	number of full-time workers based on labour force participation rate, unemployment rate, part-time employment rate
WageIndicator Foundation (international)	2 adults, 2 children	2 adults, number of children consistent with countries' fertility rate	number of full-time workers based on country-specific employment rate (typical family), 1.8 full-time workers (standard family)
Asia Floor Wage Alliance (Asian countries)	a family of three consumption units, 3 different family compositions		1 full-time worker
Clean Clothes Campaign (Eastern European countries)	a family of three consumption units, 3 different family compositions		1 full-time worker
Canadian Centre for Policy Alternatives (Canada – BC)	2 adults, 2 children (common family size in BC)		all adults work full-time
Living Wage Technical Group Ireland (Ireland)	1 adult (for yearly robust comparisons) 6 additional, Ireland-specific family sizes (based on Census data)		all adults work full-time

Initiatives	Standard family	Typical family	Number of full-time workers
Living Wage Aotearoa New Zealand (New Zealand)	2 adults, 2 children (common family size in NZ)		1.5 workers (one full-time, one part-time)
Resolution Foundation / Living Wage Commission (United Kingdom)	17 different family sizes		all adults work full-time
Economic Policy Institute (United States)	10 different family sizes		all adults are employed (unclear if full-time or part-time)
MIT Living Wage Calculator (United States)	12 different family sizes		1 or 2 full-time workers (depending on the family type)
Finnwatch (guidelines)		It should be region-specific (at least 2 adults, 2 children)	1.5 workers as benchmark (should be based on labour force participation, unemployment rate, data on typical working hours in the area)

What working patterns are assumed for other family members?

A closely related issue relates to the assumption about the **number of wage earners** and dependants in the family. A common approach is to assume that only one adult works full-time in the family, while the other adult is either jobless or works part-time.²⁸ The part-time work schedule for the second adult is usually derived from national or local statistics on labour force participation, unemployment and part-time employment.²⁹ An alternative approach, used for the Canadian and UK living wage estimates, is to assume that both parents in the target family work full time (Table 3.4). This approach has been justified based on the argument that it is not realistic for employers to pay a wage that provides enough to live on regardless of how many hours someone works. However, it fails to reflect the reality of many working households facing involuntary part-time arrangements and under-employment. This approach also leads to higher childcare costs, since no parent is available to provide childcare at times during the day when children are not in school or pre-school care.

The choice of the most suitable approach typically depends on the nature of the living wage initiative considered. In the case of civil society campaigns aimed to increase current minimum wages to a 'decent' level, the assumption that all wage earners in the family are paid a living wage seems more plausible, since in this case all workers would earn at least the living wage. Conversely, in the case of voluntary initiatives taken by individual businesses, the assumption of only one breadwinner in the family has greater appeal, since there is no guarantee that additional wage earners in the family will be paid the living wage. In either case, it is clear that the assumptions on the working patterns of other family members are critical in determining the living wage rate. Moving from a single- to a dual-earner model significantly affects the resulting living wage rates, as shown in Section 4.

What is the geographic focus of living wages?

A living wage rate may relate to any **geographic area**, but needs to consider advantages and disadvantages of how this area is defined. A highly localised living wage can be sensitive to local conditions, including differences in prices, needs (such as transport requirements), customs and prevailing living patterns. Certainly, in countries with wide differences between urban and rural areas, a single living wage rate would be a poor proxy of living costs in different areas. On the other hand, **there are two significant drawbacks of localisation**, especially in the presence of fine-grained differences across communities. One is that employers operating across a country may find it hard to apply different wage

rates to workers performing the same functions across communities, especially if different living wage calculations for different area types co-exist. Another risk is that the norms and expectations of poorer areas, as well as low prices that reflect the poverty of local producers, become entrenched. These considerations make the choice of the most appropriate geographic focus of living wage calculations more than just a technical matter, but one that should reflect the ‘political’ ambitions of the living wage initiative considered – including the extent to which they should aim to contribute to a reduction in local differences in living standards. That being said, the impact of accounting for spatial differences in costs of living within most OECD countries is likely to be smaller than other methodological choices, such as the number of wage earners per family.

In general, highly localised living wage estimates are produced by international initiatives, which either focus on selected localities in a given country (e.g. the Global Living Wage Coalition - Full-Fledged Anker Methodology) or have the ambition to cover the entire national territory (e.g. the Fair Wage Network or the WageIndicator Foundation). In this latter case, national living wage estimates are derived as a simple or weighted average of local wage rates. Sub-national differences in costs of living are also considered in a number of initiatives targeting a single country, applying different territorial grids. In the Canadian approach, living wage estimates vary at provincial level, while in the case of the United States living wage rates are derived at state and county level. In Ireland and New Zealand, two countries where spatial differences in prices are believed to be rather limited, a uniform wage rate is applied for the entire territory. By way of contrast, the UK initiative differentiates between a London living wage estimate and one for the rest of the country, to account for higher living costs in the capital city.

Deriving a national average from sub-national estimates makes the former dependent on the number of localities covered by the living wage initiative. This approach is the opposite of that used by National Statistical Offices, which start from a representative national estimate that is then disaggregated at an appropriate geographical level. Similar considerations apply depending on whether the national living wage is computed as simple or weighted average, and on the choice of weights. **Information on how local or area-specific living wage are aggregated at a higher geographical level is sparse in the technical documentation publicly available**, despite the impact this may have on the robustness of the living wage estimates as well as on the findings from the empirical analysis presented in Section 5 of this paper.

How do living wages change over time?

Living wages are periodically revised to account for variations in the cost of living as well as economic and social changes. Where living wages are calculated with reference to a household budget classified by various expenditure categories, these amounts are **typically indexed using category-specific inflation data**. All the initiatives reviewed in this section update their estimates **at least annually**, some even more frequently, to reflect changes in prices. However, a price-indexed living wage may not fully reflect changing norms, or structural changes affecting family needs, particularly in societies undergoing rapid economic transformations. Built-in assumptions, including the share of a family budget represented by food and housing expenditures, may become out of date over long periods. One way of dealing with this is to peg the living wage to changes in average or median wages or incomes, thus creating a link between the desired wage floor and the level of economic development in a given context. Another approach is to **periodically recalculate household needs, taking account of changes in society** (Hirsch and Valadez-Martinez, 2017^[4]).

Many initiatives periodically review the underlying methodologies and reappraise family needs. For instance, recent additions to the living wage basket of the MIT Living Wage Calculator include the cost of mobile and broadband service, and a “civic engagement” category to support recreation, pets, museums, movies and reading materials. Finally, a number of initiatives also account for changes to the tax and benefits system that affect the relationship between pay and income.

4 A comparison between living wage estimates based on different assumptions

This Section draws on living wage estimates sourced from the Fair Wage Network (FWN) to discuss the impact of different assumptions on family size and the number of wage earners on living wage rates. The analysis should not be interpreted as an “OECD endorsement” of the FWN initiative compared to others that rely on methodologies recognised as robust by IDH. The Fair Wage Network estimates are used here (and in Section 5) for practical reasons: first, because they cover a broad range of OECD countries; second, because the estimates are available nationally; and finally, because the authors of this paper were granted access to them in a format suitable for comparisons with external benchmarks. Estimates based on other methodologies – including the Full-Fledged Anker methodology, which makes large use of secondary data – could not be used for comparative purposes due to limitations in country coverage and the focus on sub-national jurisdictions.³⁰

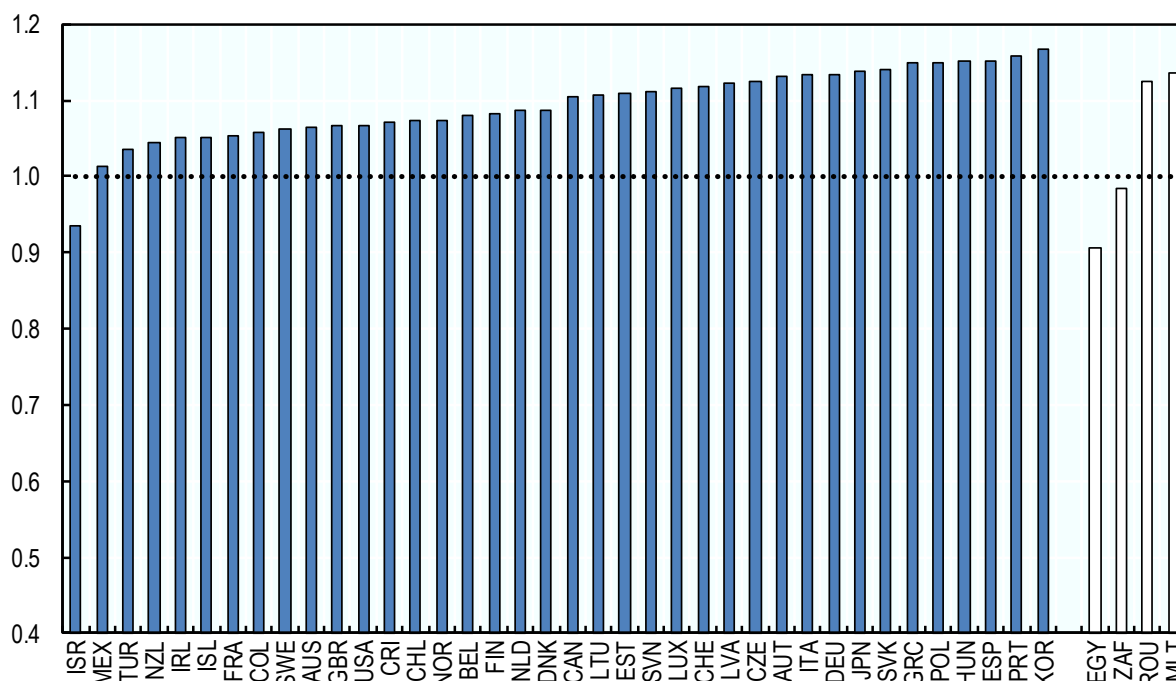
The impact of different methodological assumptions on the living wage estimate

The first important choice when calculating a living wage is the **size of the reference family**. All else being equal, the larger the number of children – and more generally of dependants – the higher the living wage needed to cover the basic needs of such family.

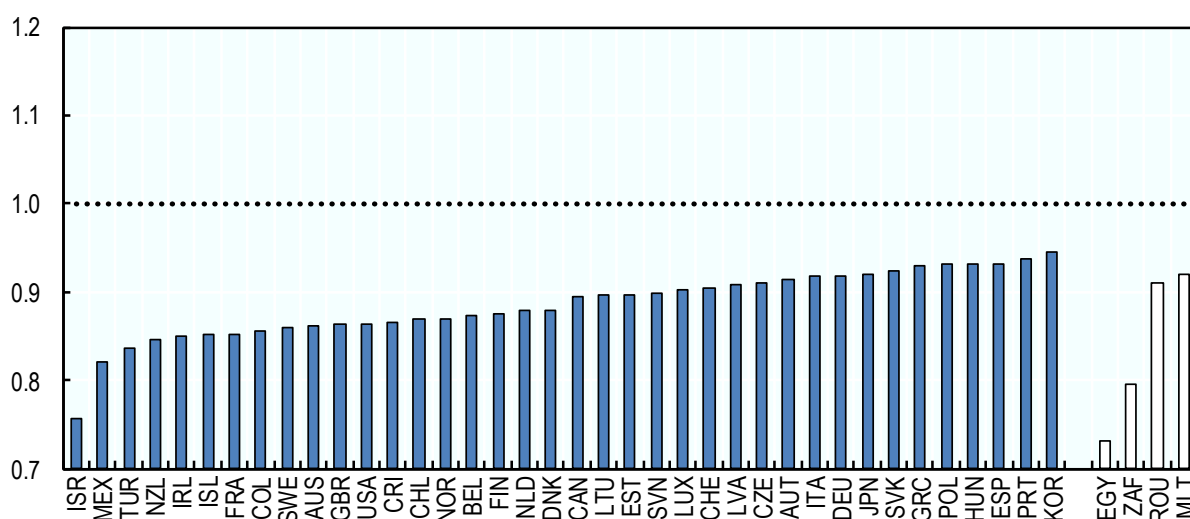
Figure 4.1 compares Fair Wage Network estimates for two family sizes. The first is composed of two adults and two children/dependants – which is referred to as a “standard family” in most living wage initiatives (see Section 3). The second is composed of two adults plus the average fertility rate in the country (a “typical family”, according to most living wage initiatives). A bar higher (lower) than the horizontal line set at 1 indicates that the living wage for a couple with two children is higher (lower) than the living wage for the typical family. In high-income countries, where fertility rates are generally slightly below two, the difference between living wages for these two family arrangements is small (below 20%), with FWN estimates for the standard family being higher than those based on fertility rates. One exception is Israel, where the fertility rate is above two, which leads to a higher living wage for the “typical family” than for couples with two children. In low- and middle-income countries (e.g. Egypt), where the fertility rate is above two, the FWN living wage rate for a couple with two children is below that of a family whose size is based on fertility rates.

Figure 4.1. Variation of FWN living wages related to the size of households

Panel A. Ratio of FWN monthly living wage for a couple with two children to that of a couple plus the average fertility rate, 2020



Panel B: Ratio of FWN monthly living wage for a single-parent family with children along the fertility rate to that for a couple plus the same fertility rate, 2020



Note: Panel A: The size of a typical family reflects the country's fertility rate. A bar higher (lower) than 1 indicates that the living wage for a couple with two children is higher (lower) than the living wage for the typical family. Panel B: A bar lower than 1 indicates that the living wage for a single-parent family is lower than that for a couple plus the average fertility rate.

Source: Fair Wage Network, <https://fair-wage.com/living-wage-database/>.

Panel B in Figure 4.1 provides a similar comparison between living wage estimates for two types of families, a single-parent family with the number of children along the fertility rate and a couple with the

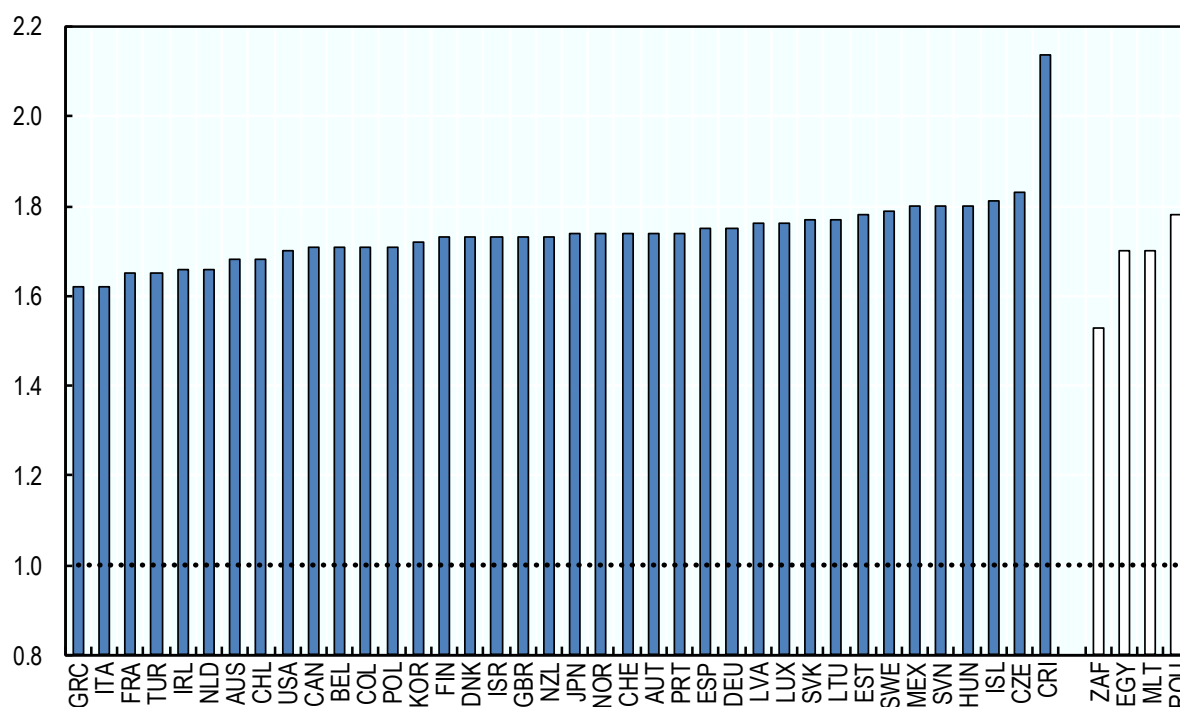
same number of children. Not surprisingly, in all countries, FWN living wage estimates for the single-parent family are always lower than those for couple families, although with relatively small differences in the gap across countries (ranging between 76% and 95% among OECD countries, and similarly between 73% and 92% among the non-OECD countries shown in the chart). For all countries, these gaps reflect the assumption that the needs of families increase proportionally to the number of family members, an assumption that closely mirrors the one embodied in the World Bank estimates of extreme poverty – but that differs from the assumption of economies of scale in household needs (i.e. that needs increase less than proportionally with the increase in family size) used by the OECD and most statistical offices in their analysis of income poverty and inequality.³¹

The second choice that needs to be made is the **number of income earners in the family**. Two possible scenarios are usually considered: under the first, the “decent” family budget is provided by a single wage earner; in the other, this same family budget is provided by the earnings of all workers in the family. Clearly, living wages per worker will be lower when it is assumed that more than one full-time worker contributes to securing a decent standard of living to the whole family.

Figure 4.2 compares two living wage rates based on different assumptions on working patterns: one based on a single wage earner in the family (the so-called *un-adjusted living wage*) and the other where the number of full-time equivalent workers in the family reflects the average number of income earners in the country, based on FWN survey results (*adjusted living wage*). The figure shows how different assumptions on the number of wage earners in a family affect the living wage threshold. The difference between the two sets of estimates varies from 60% in Italy and Greece to above 130% in Costa Rica. When considering the implications of such a methodological choice, it is important to be aware of their respective advantages and limitations. Adjusting the living wage for the number of income earners prevailing in the jurisdiction considered has the merit of better reflecting the income reality of most households in OECD countries, where two-earner families are the norm; it is also a more reachable target since it represents a lower benchmark. However, the adjusted living wage level is often low – often falling below the legal minimum wage (see Section 5). Moreover, such a level would be insufficient to address the needs of different families, such as lone parents or families with one income earner and multiple dependants.

Figure 4.2. Variation of FWN living wage rates depending on the number of income earners

Ratio of the FWN monthly living wage earned by a single full-time worker (unadjusted) to that earned by the number of full-time equivalent workers (adjusted) derived from the average number of income earners in the country, typical family, 2020



Note: The horizontal line at 1 represents the case the un-adjusted living wage, i.e. the living wage derived under the assumption of one income earner in the family, is equal to the living wage adjusted for the number of income earners in the family. A bar higher than 1 indicates that the unadjusted living wage is higher than the adjusted one.

Source: Fair Wage Network, <https://fair-wage.com/living-wage-database/>.

Setting the living wage based on a single full-time worker would have the merit to reduce economic insecurity and the exposure of families to risk and shocks, such as the COVID-19 crisis. The unadjusted threshold would cover basic needs regardless of the number of income earners, the employment status and the earning levels of other family members. This target, however, being particularly ambitious, may be more difficult to reach especially when the goal is to apply it to global supply chains rather than only to a single company and its employees.³²

5 A comparative analysis of living wage estimates

Benchmarking living wage estimates against high-quality, cross-comparable standards helps increase the credibility of the living wage to policy makers, social partners and employees, by ensuring that it is meaningfully defined and consistently applied across jurisdictions. At the same time, using a living wage as a reference point allows assessing the adequacy of current wages and social support measures and has the potential to inform and spur coherent public and private action towards the goal of achieving a decent living standard for all workers.

This Section assesses living wage estimates sourced from the Fair Wage Network (FWN) against a number of external benchmarks compiled by the OECD, other international institutions and national statistical offices. The analysis is meant to illustrate why comparisons with external benchmarks are important. As already stated in Section 4, the analysis should not be interpreted as an “OECD endorsement” of the FWN initiative.

The comparisons presented in this section reflect the ‘dual nature’ of the living wage, a concept that, on the one hand, refers to the pay rate of an individual worker and, on the other hand, aims to ensure a decent standard of living to the worker’s family. This is reflected in the range of benchmarks selected for comparison: **various individual-level earnings metrics** allow to assess where FWN living wages are located within the wage distribution, how large the gap is with minimum wages and how many workers currently earn less than the FWN living wage rate. Moreover, **different household-level measures of poverty** are mobilised to assess whether the FWN living wage makes good of its promise to cover the basic needs of working families.³³ While the analysis is mostly limited to OECD countries and mainly relies on national FWN living wage estimates, due to lack of comparable benchmarks beyond OECD countries and/or at sub-national level, this section also includes an **assessment of sub-national living wages for the United States**, one country where plausible external benchmarks at the sub-national level exist.

The analysis considers the FWN living wage of a single-earner family as baseline scenario, although the case of a dual-earner family is also presented in comparison to statutory minimum wages. While the latter scenario is well suited to account for the economy-wide effects of a generalised adoption of living wage practices and acknowledges that the breadwinner model is no longer the norm in developed countries, the former scenario better reflects the voluntary nature of business commitments to the living wage. Assumptions on working patterns affect not only living wage levels (being lower under the dual-earner scenario than under the single-earner one, since the cost of a decent living standard is defrayed over the number of full-time equivalent workers in a family), but also the resulting household income, since in most OECD countries the amount of taxes paid and of benefits provided depends on the number of wage earners in the family. The number of full-time equivalent employees per family is computed by Fair Wage Network based on the average number of income earners in a country (derived from FWN survey results), while other data providers also use parameters reflecting country-specific labour market characteristics, such as the labour force participation rate, the unemployment rate, and the part-time employment rate

and/or hours of work.³⁴ Regardless of the parameters used, it is assumed that one adult per family has full-time work year-round while the other works part-time, and that both are paid the same hourly wage.

All comparisons in this section refer to monthly or annual wages for year 2020, and do not account for the raises in nominal minimum wages that took place in almost all OECD countries between January 2021 and September 2022. To the extent possible, the analysis relies on ratios of the FWN living wage rate to the selected benchmark, rather than showing monetary levels, in order to avoid any sensitivity related to the choice of the base year for comparisons, and of the exchange rate used to convert wages and incomes expressed in national currency into US dollars. Benchmark indicators referring to a year prior to 2020 are adjusted for inflation using the consumer price index (CPI) of each country.

Benchmarking FWN living wages against individual-level earnings metrics

The central idea behind a living wage – i.e. that a worker should be able to reach a living standard appropriate for the time and place where he or she lives – distinguishes it from a minimum wage, which refers to a statutory threshold that employers are required to pay, regardless of the basis on which its level is set (see Box 2.1). However, these concepts start to overlap where minimum wages seek in some explicit way to support decent living standards,³⁵ how effectively they perform this function depends on how they are set and updated in different countries (ILO, 2022^[25]).

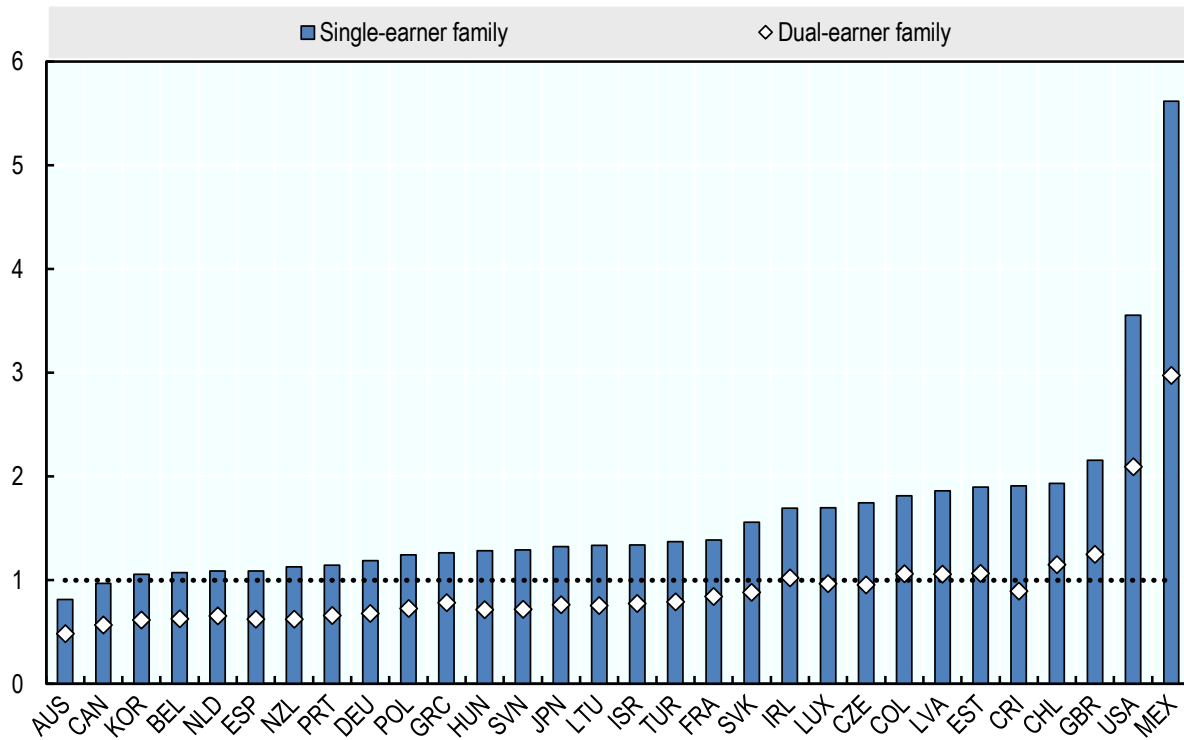
Legally-mandated minimum wages – set by statute, decision of a competent authority, a wage board, a wage council, or by industrial or labour courts or tribunals – currently exist in 30 OECD countries. There are, however, large differences across countries in terms of both their levels and their evolution over time. In nearly half of OECD countries with available data, over the past decade the minimum wage has grown by over a quarter, outpacing the growth in average wages. Despite this increase, in many OECD countries minimum wages are below 60% or even below 50% of median wages.³⁶ Moreover, even though almost all OECD countries have raised minimum wages in the wake of the cost-of-living crisis, increases often fell short of inflation and led to falling real minimum wages (OECD, 2022^[26]).

Figure 5.1 shows the relationship between minimum wages and the FWN estimates of the living wage defined for a single-earner (bars) and dual-earner (diamonds) reference family (whose size is defined according to the country's fertility rate) in the 30 OECD countries where statutory minimum wages exist.³⁷

Under a single-earner scenario, the FWN living wages are consistently higher than minimum wages, with the only exception of Australia. In some OECD countries (Korea, Belgium, the Netherlands, Spain, New Zealand and Portugal), the FWN living wage for a single-earner family would be only slightly above the minimum wage, while in most other countries, the rate would be 20% to 90% higher than the national minimum wage. In the United Kingdom, the FWN living wage of a single worker would be more than twice the minimum wage, while in the United States it would be four times as high.³⁸ In Mexico, the country where the gap is highest, a single worker would need to work almost six full-time minimum wage jobs in order to reach the FWN living wage.³⁹ Conversely, **under the scenario of a dual-earner family (where the required family budget is divided by the number of income earners), the FWN living wages would be above the minimum wage in less than a third of the OECD countries** shown in Figure 5.1. Large cross-country variation persists, with the FWN living wage for a dual-earner family ranging from half the minimum wage in Australia to almost three times the minimum wage in Mexico.⁴⁰

Figure 5.1. FWN living wages and minimum wages

Ratio of monthly living wage to the monthly statutory minimum wage, 2020. Single-earner (bars) and dual-earner (diamonds) family based on fertility rates.



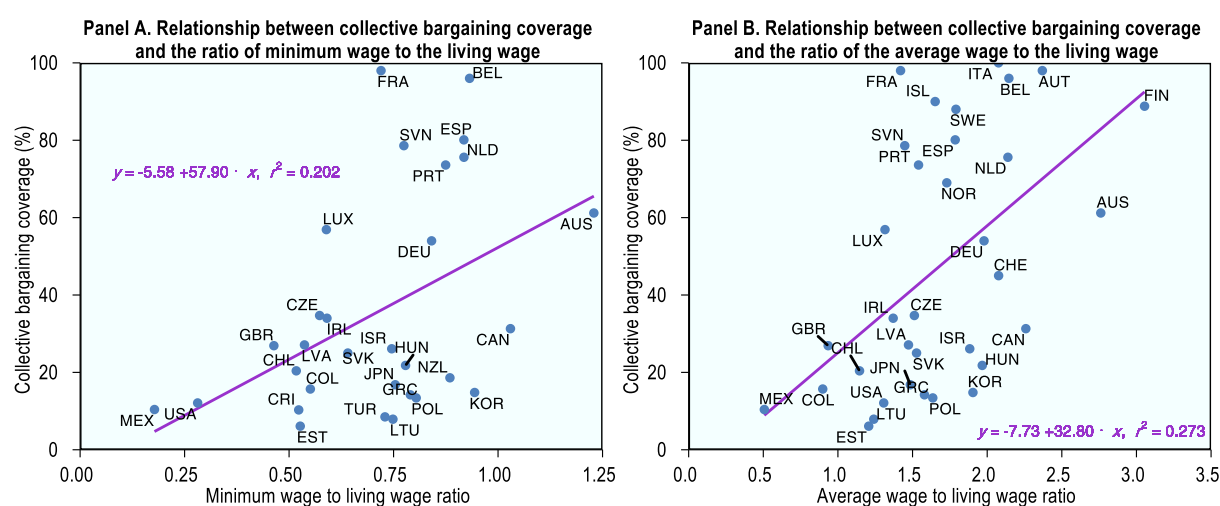
Note: Both the FWN living wages and minimum wages are expressed in current prices (2020) and national currencies. The FWN living wages refer to a typical family, whose size depends on the fertility rate of the country. Under the single-earner scenario, only one adult per family is employed full-time year-round; under the dual-earner scenario, one adult works full-time year-round while the other works part-time, with the amount of work done by the second adult being country-specific. The second earner is paid the *hourly* FWN living wage rate. The horizontal line at 1 represents the case where the FWN living wage is equal to the minimum income. A bar higher (lower) than 1 indicates that the FWN living wage is higher (lower) than the minimum income. Statutory national minimum wages do not exist in Austria, Denmark, Finland, Iceland, Italy, Norway, Sweden and Switzerland. For countries where statutory national minimum wage levels are defined in annual terms (Australia, Canada, the United Kingdom and the United States), these annual values have been divided by 12 or by 13 (in Costa Rica, to account for the mandatory payment of a 13th-month salary) in order to obtain a monthly equivalent.

Source: OECD calculations based on the *OECD Minimum Wage Database*, https://stats.oecd.org/Index.aspx?DatasetCode=MW_CURP; and living wage estimates provided by Fair Wage Network, <https://fair-wage.com/living-wage-database/>. Data from the *OECD Minimum Wage Database* are taken from national websites, the WageIndicator Foundation (<http://www.wageindicator.org/main/salary/minimum-wage>) and Countryeconomy.com (<http://countryeconomy.com/national-minimum-wage>).

Wage levels generally reflect the strength of wage institutions, especially of the legal minimum wage (i.e. the more frequently the minimum wages are adjusted, the higher the wage floor is in the country) and of collective bargaining (i.e. the presence of collective bargaining rounds, on the top of the minimum wage, allows trade unions to negotiate additional wage increases either at the national, sectoral/regional or enterprise level). Panel A of Figure 5.2 plots OECD countries according to their collective bargaining coverage – measured by the share of employees covered by collective agreements – and the level of the minimum wage – which is reflected in a lower deficit compared to the FWN estimate of the living wage.⁴¹ **In countries where legal minimum wages are adjusted frequently** – as in Belgium, the Netherlands, France – **or where**, despite the absence of a legal minimum wage, **high coverage of collective bargaining leads to frequent adjustments of starting wages** – as in Nordic countries (Finland, Sweden, Norway), but also Austria and Italy – **the gap between minimum wages and the FWN living wage**

estimates is lower. These two types of wage institutions are weaker in other EU contexts – like the Baltic countries (Estonia, Lithuania, Latvia) – where there is less tradition of collective bargaining, and in non-EU countries – like Mexico, the United States or Colombia – where collective bargaining (when it exists) mainly takes place at a decentralised level (at enterprise) and where the legal minimum wage is not adjusted regularly. In some countries (e.g. Canada, New Zealand), however, weaker collective bargaining institutions are compensated by a strong minimum wage setting (ILO, 2020^[27]). The large cross-country variation between collective bargaining coverage and the level of statutory minimum wages (relative to the FWN living wage) – as depicted in Panel A – reflects the fact that **the share of employees covered by collective agreements represents only one of the building blocks of collective bargaining. Equally important are the level of bargaining, the degree of flexibility and notably the role of wage co-ordination** (OECD, 2019^[28]; OECD, 2019^[29]).

Figure 5.2. Relationship between FWN living wages, minimum wages, prevailing wages and collective bargaining



Note: Collective bargaining coverage measures the extent to which salaried workers are subject to union-negotiated terms and conditions of employment. For details about living and minimum wage rates, see note to Figure 5.1. Data refer to 2020.

Source: OECD calculations based on the *OECD/AIAS database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS)*, www.oecd.org/employment/ictwss-database.htm; the *OECD Minimum Wage Database*, https://stats.oecd.org/Index.aspx?DatasetCode=MW_CURP; the *OECD Employment and Labour Market Statistics* (database), <https://doi.org/10.1787/data-00571-en>; and living wage estimates provided by Fair Wage Network, <https://fair-wage.com/living-wage-database/>. Data from the *OECD Minimum Wage Database* are taken from various national statistical websites, the WageIndicator Foundation (<http://www.wageindicator.org/main/salary/minimum-wage>) and Countryeconomy.com (<http://countryeconomy.com/national-minimum-wage>).

Panel B of Figure 5.2 shows that **countries characterised by strong wage institutions also experience higher actual wages – as captured by the gap between average wages and the FWN living wage estimates.** Countries that are on the top right of Panel B (Finland, Austria, Italy, Belgium and the Netherlands) experience the highest gaps between the average wage and the FWN living wage. These countries also feature strong collective bargaining, generally at different levels – national, sectoral or regional, and enterprise. Panel B also highlights a stronger correlation between collective bargaining coverage and the distance between the average wage and the FWN living wage than in the case of gaps between the FWN living wage and the minimum wage (Panel A). Low collective bargaining in countries like Mexico, Colombia, Estonia and Lithuania seems to keep average wages close – and sometimes even below – the FWN living wages.⁴² Taken together, **this evidence points to the need to ensure the effective involvement of social partners in statutory minimum wage setting and updating, and to**

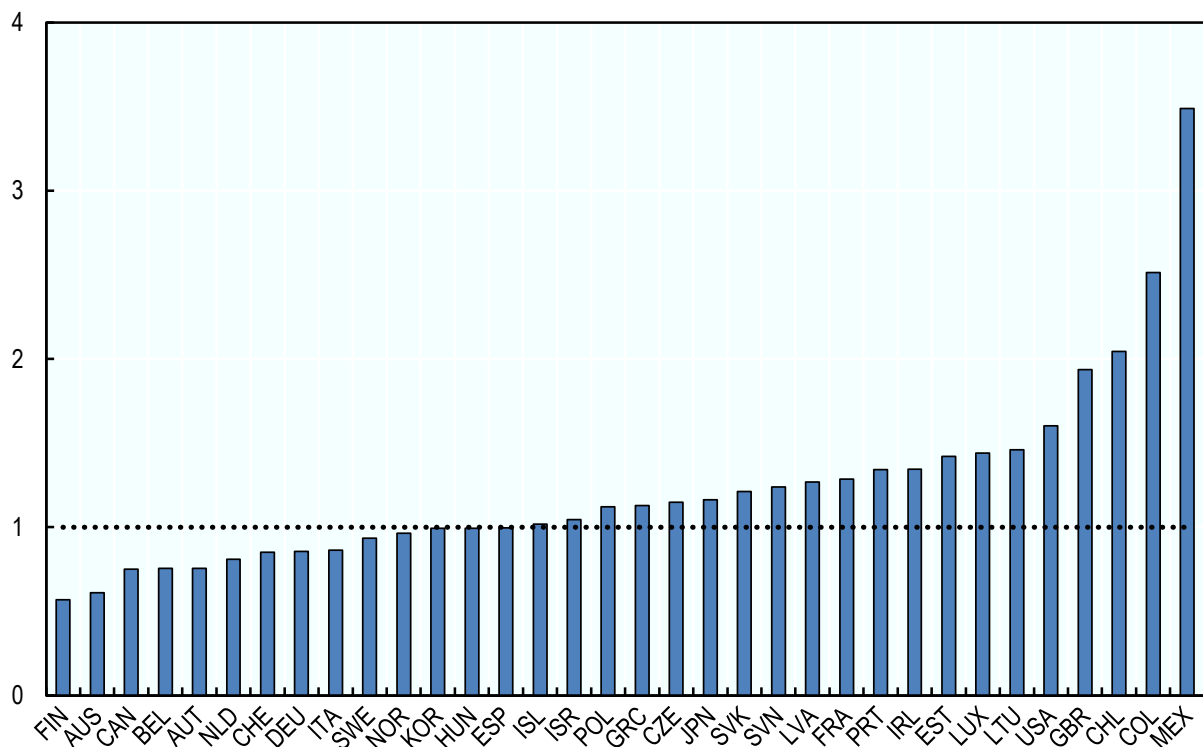
strengthen the bargaining position of workers (OECD, 2022^[2]; Vaughan-Whitehead, Ghellab and de Bustillo Llorente, 2021^[30]).⁴³

As minimum wages are set by legislation based on a number of different criteria, it is also important to assess the robustness of living wage estimates in the light of wage levels prevailing in the lower part of the distribution. The OECD uses a threshold set at two-thirds of the national median for full-time employees to identify 'low wage workers' (OECD, 2022^[31]). This definition avoids the difficulty of defining an absolute level of low pay and facilitates international comparisons.

Figure 5.3 shows that, under a single-earner scenario, the FWN estimate of the living wage would be below the OECD low pay threshold in Australia, Canada and in a small number of European countries, while it would be at least as high as the low pay benchmark in two thirds of the OECD countries displayed in the chart and more than twice as high in Latin-American countries.

Figure 5.3. FWN living wages and the OECD low pay threshold

Ratio of monthly living wage to monthly low pay levels, 2020. Single-earner family based on fertility rates.



Note: Both the FWN living wage and low pay are expressed in current prices (2020) and national currencies. The FWN living wages refer to a typical family (whose size depends on the fertility rate of the country) where only one adult is employed full-time year-round. The horizontal line at 1 represents the case where the FWN living wage is equal to the low pay threshold used by the OECD. A bar higher (lower) than 1 indicates that the FWN living wage is higher (lower) than low pay. To obtain a monthly equivalent, weekly low pay levels have been multiplied by 4.25 for Australia, Canada, the United Kingdom and the United States; while annual low pay levels have been divided by 12 for Austria and Finland. Information on low pay is not available for Costa Rica, Denmark, New Zealand and Türkiye. Data on low pay refer to 2018 for Belgium, Estonia, France, Greece, Iceland, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovenia and Spain; to 2019 for Australia, Finland and Hungary; and to 2020 for the remaining countries.

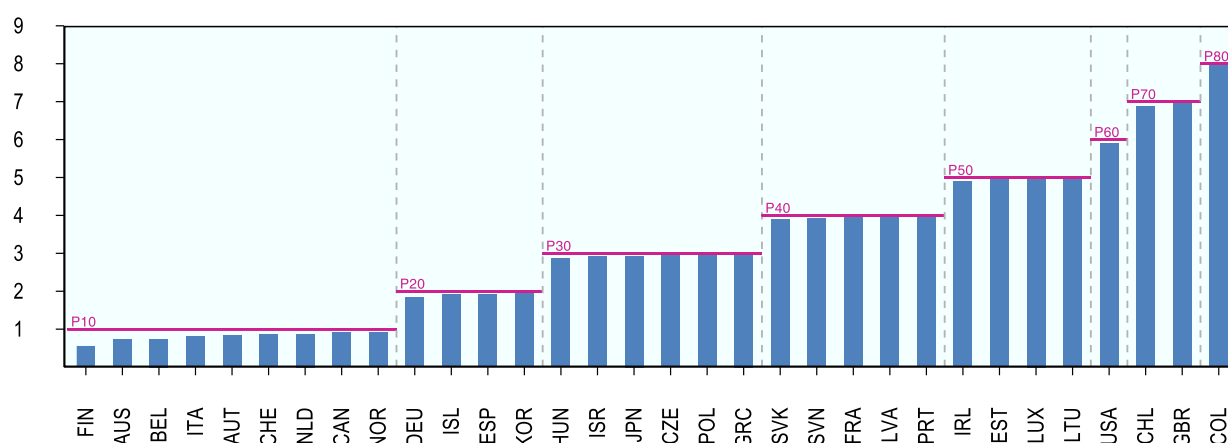
Source: OECD calculations based on the *OECD Employment and Labour Market Statistics (database)*, <https://doi.org/10.1787/data-00302-en>; and living wage estimates provided by Fair Wage Network, <https://fair-wage.com/living-wage-database/>.

How a living wage could affect the earnings distribution depends on two factors. First, on **the shape of the lower part of the distribution** – the higher the share of workers on the lowest pay rates, the higher the impact of the wage increase associated with the introduction of a living wage. Second, on **how a living wage could change earnings above that level** (the so-called *lighthouse effect*). While the impact of the latter factor is hard to assess – also due to unsystematic reporting on pay structures by living-wage employers – light on the former is provided in Figure 5.4, which shows the FWN living wage as a ratio of the upper bound of the closest decile of the earnings distribution for full-time dependent employees, represented by the horizontal lines.

There exists large cross-country variation as to where the FWN living wages sit in the national earnings distribution. For instance, in Finland, the FWN living wage level for a single-earner family is around 60% of the upper limit of the lowest earnings decile (P10), implying that very few workers (less than 10%) would potentially be affected by the introduction of a living wage as defined by the FWN. While, **in most OECD countries, the FWN estimates for a single-earner family are clustered somewhere in the bottom 40% of the distribution** (below P40), in Ireland, Estonia, Luxembourg and Lithuania, they are almost as high as the earnings of the median full-time worker. In other terms, in these countries, the generalised introduction of a living wage – as defined by the FWN – would affect almost one in two full-time workers. The proportion would be even higher in the United States (almost 60%), Chile and the United Kingdom (70%) as well as Colombia (close to 80% of full-time workers). While these findings could partly reflect factors that limit the cross-country comparability of available earnings statistics (including differences in the pay period considered, employee coverage and the definition of gross earnings, see Box 5.1), they also underscore the **importance of assessing the implications of living wage practices in terms of the number of workers potentially affected by their introduction, which requires benchmarking living wage estimates against national data on the distribution of prevailing earnings.**

Figure 5.4. FWN living wages in the distribution of earnings of full-time workers

Ratio of monthly living wage for a single-earner family based on fertility rates to the upper-bound of various deciles of the earning distribution, 2020



Note: All amounts are expressed in current prices (2020) and national currency units. The FWN living wages refer to a typical family (whose size depends on the fertility rate of the country) where only one adult is employed full-time year-round. The FWN living wages are presented in the chart as share of the upper bound of the closest decile of the earnings distribution for full-time dependent employees, represented by horizontal lines. For instance, the 'P10' horizontal line represents the upper-earnings limit of the first decile; in countries below the P10 horizontal line, the introduction of a living wage would affect less than 10% of all full-time employees. The vertical dashed lines indicate that comparisons are meaningful only amongst countries whose FWN living wages are expressed as share of the same earning decile: for instance, the ratio for Finland can be compared with that for Italy but not with Germany. For Australia, Canada, the United Kingdom and the United States, weekly earnings have been multiplied by 4.25 to get a monthly equivalent. For Austria and Finland, annual earnings have been divided by 12. Information on earnings distribution is not available for Costa Rica, Denmark, New Zealand and Türkiye. Data on the earnings distribution refer to 2018 for Belgium, Estonia, France, Greece, Iceland, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovenia and Spain; to 2019 for Australia, Finland and Hungary; and to 2020 for the remaining countries.

Source: OECD calculations based on "Earnings: Gross earnings: decile ratios", OECD Employment and Labour Market Statistics *OECD Employment and Labour Market Statistics (database)*, <https://doi.org/10.1787/data-00302-en>; and living wage estimates provided by Fair Wage Network, <https://fair-wage.com/living-wage-database/>.

Box 5.1. Measuring the distribution of earnings

The OECD database on the Distribution of Earnings of full-time dependent employees, which is part of the *OECD Employment and Labour Market Statistics*, is the main source for OECD indicators on dispersion of earnings and incidence of low-pay. These measures are regularly published in the Statistical Annex of the annual OECD Employment Outlook.

The database covers OECD countries as well as 5 non-OECD EU countries, whose data are provided by National Statistical Offices (NSO) based on national sources considered to be those best reflecting national circumstances regarding earnings dispersion and earnings among full-time employees. The concept of earnings retained in the database refers to gross earnings of full-time dependent employees in all sectors of the economy. Gross earnings are those received by employees before deductions of employee social security contributions and income taxes. Differently from the living wage concept, however, all payments in cash received by employees during the period of reference (e.g. overtime pay and supplements for hours worked, regular bonuses, tips and commissions, special one-off payments in the form of annual bonuses) are included in the data. This requirement aims at ensuring that cross-country comparisons are not impaired by differential treatment of pay components in data reporting.

While the cross-country comparability of earnings statistics has increased over time, a number of outstanding challenges will require further convergence:

Pay period: data on monthly earnings, used in

- Figure 5.3 and Figure 5.4, are available for most countries. However, earnings are reported in annual terms for Australia, Canada, the United Kingdom and the United States; and in weekly terms for Austria and Finland. As long as the number of weekly and monthly paid hours worked are a constant fraction of annual paid hours worked, weekly and annual earnings will be distributed similarly to monthly earnings, and conversion to monthly earnings can be performed by dividing annual rates by 12 and by multiplying weekly rates by 4.25. Only data on hourly earnings are available for Costa Rica, Denmark, New Zealand and Türkiye, these countries are excluded from the analysis in this section due to possible cross-country differences in weekly hours worked.
- *Employee coverage* can also vary depending on data sources. The coverage of full-time workers is comprehensive when data are sourced from household surveys, tax registers (when they do not exclude some categories of workers) and administrative sources. By contrast, establishment surveys (e.g. the European Structure of Earnings Survey) often have limited coverage of employees, as they exclude employees working in small establishments (i.e. those

with less than 5 or 10 regular employees), and in certain sectors (farm and government sectors, private household services).

- *Accuracy in the reporting of individual earnings:* the recording of earnings in establishment surveys, tax registers and administrative sources is considered to be more accurate than the earnings reported by the reference persons in household surveys. Furthermore, household surveys and tax registers collect data on earnings per worker, while establishment surveys include earnings related to all jobs captured in their pay systems (e.g. a worker may be working in two jobs at the same time – i.e. multiple jobholders – or during two distinct time periods).

A previous OECD assessment revealed that, despite the variety of data sources and earnings concepts, measures of earnings inequality from the OECD earnings database are broadly comparable across countries (OECD, 2012_[32]). Cross-country comparability could be further enhanced by collecting weekly or monthly earnings for those countries where this is not yet the case, and by extending the coverage of employer surveys to small establishments and to sectors currently excluded from the data collection.

Benchmarking FWN living wages against household-levels poverty lines

Comparing living wages estimates with official wage statistics sheds some light on their ambition and on the share of workers that could be affected by a living wage systematically applied. However, such assessment falls short of informing on the adequacy of living wages in relation to households' living standards. In order to do so, measures of income (or expenditure) adequacy, or lack thereof, need to be considered. While living wages aim to ensure a “decent” standard of living to working families, **monetary-based measures of poverty**, as routinely produced by statistical offices and analysts, **provide a natural “lower bound” to assess whether living wages are sufficient to provide a living adequate to avoid material hardship**. The term ‘poverty’ has no universally accepted meaning, and any operationalisation comes with advantages and drawbacks, implying that different approaches should be seen as complements rather than substitutes (see Box 5.2).

The analysis in this section will therefore rely on *two such approaches* to measuring poverty – absolute and relative – to shed light on different aspects of the living wage concept.⁴⁴ Under each approach, different operationalisations of the same concept of poverty exist. For instance, absolute poverty can be more or less “severe”, depending on whether it is understood as the inability to fulfil basic needs or as an impediment to social participation. Similarly, relative poverty measures can differ as to where the threshold is set (e.g. 50% or 60% of median income). The analysis below relies on *two measures* of poverty – the experimental measure of absolute poverty developed by researchers at the European Commission's Joint Research Centre for EU countries, and the OECD relative income poverty line – to illustrate the type of comparisons that could be done to assess the adequacy of living wages in relation to households' living standards. Obviously, the use of different poverty metrics would lead to different findings. Moreover, the analysis focuses on OECD and EU countries, due to the lack of comparable poverty measures for non-OECD countries; the results, hence, cannot be generalised to different contexts (e.g. developing countries).

Box 5.2. Measuring poverty

Like living wages themselves, poverty lines can be calculated in many different ways. A useful distinction is between poverty lines that represent a more or less fixed living standard or set of goods and services (absolute poverty) and those moving in line with changing standards (relative poverty):

- Similarly to the living wage concept, *absolute poverty lines* rely on consumption patterns to derive a minimum level of basic needs (for food, clothing, housing etc.). The poverty line is then computed as the net income needed to cover the aggregate cost of these goods and services. Absolute poverty lines are typically used in low-income countries, where household expenditure surveys are deemed easier to implement than income surveys. The indicator of extreme poverty used by the World Bank across countries is the number of people living on incomes below the equivalent of USD 1.90 a day in local prices. However, care should be taken when applying an absolute approach to poverty measurement in an international setting, since cross-country comparisons crucially depend on measures of Purchasing Power Parities (PPPs).
- In contrast, *relative poverty lines* are typically used in high-income countries, where poverty is more commonly understood as lacking the resources to fully participate in society (Atkinson, 2017^[33]). Relative measures are usually defined as a fraction of median income and thereby reflect changes in prevailing living standards, at least to the extent that median income is a good measure of typical living standards. Their relative nature easily allows international comparisons, because they are independent of a specific country's norms and definitions of basic needs. As opposed to living wages and absolute poverty lines based on household budgets, relative income poverty measures do not generally account for social transfers in kind, i.e. goods and services provided by government and non-profit institutions that benefit individuals but are provided for free or at subsidised prices due to the challenges in their measurement (UNECE, 2011^[34]).

A number of general considerations apply to the remainder of the analysis, regardless of the poverty metric used for comparison. First, the living wage is an individual concept (i.e. how much must a reference full-time worker earn to support themselves and their families?), whereas poverty typically refers to the household, with household income defined as the sum of earnings of all members plus other items such as pensions, rents or transfers.^{45,46} Second, a living wage is usually defined as *pre-tax earnings*, while income poverty measures rely on the concept of *net (or disposable) income*, i.e. the market income received (gross earnings, self-employment income, capital income), plus current cash transfers received, less income and wealth taxes and social security contributions paid by workers.

In order to translate gross (pre-tax) individual earnings into household net income, the analysis in this section relies on the *OECD Tax-Benefit Calculator (TaxBEN)*, which computes how taxes and social benefits in OECD and EU countries affect incomes of people in and out of work. The calculator takes into account legal rules regarding who is entitled to different public benefits and who should pay how much tax in different countries. The output depends on assumptions on a number of parameters that can be adjusted according to research needs. In particular, the calculator allows selecting the number of full-time/part-time workers in the family, the number of their dependants and their age, and the type of benefits included (see Box 5.3 for an explanation of how the calculator works).

For this exercise, the target family is a 40-year old couple with two children aged 4 and 6.⁴⁷ The first adult is assumed to be working full-time (100% of full-time work), while the second adult is assumed to be out of work and not eligible for unemployment benefits but meeting any other requirement needed to make the family eligible to other social benefits.⁴⁸ TaxBEN allows to move from the living wage paid by firms to the worker (*'living wage gross'*) to measures of standards of living that account for the role of taxes and social benefits. In the baseline scenario (*'living wage after taxes'*), the target family is assumed to live on the net income generated by the living wage, without receiving cash benefits from the government;⁴⁹ in the alternative scenario (*'living wage after taxes and cash benefits'*), the worker's household income is supplemented with in-work, family and other benefits to which the family is entitled.^{50,51}

Box 5.3. The OECD Tax-Benefit calculator

The OECD's *interactive Tax Benefit (TaxBEN) Calculator* allows users to assess how income taxes and social benefits affect incomes of different individuals in and out of work in 29 OECD countries. The calculator takes into account all legal rules governing entitlement to benefits as well as tax obligations in different countries. The model covers insurance benefits, social assistance and universal benefits, including unemployment, minimum-income, housing and in-work benefits, as well as cash family support. On the tax side, TaxBEN reflects prevailing personal income taxes as well as mandatory social contributions, non-tax compulsory payments and payroll taxes. The most important policy areas that are currently outside the scope of the model are direct taxes on wealth (e.g. taxes on immovable and movable property, including council tax at a local level), indirect taxes (e.g. VAT), early-retirement and retirement benefits, and in-kind transfers (e.g. subsidised housing, transport and healthcare).

Tax liabilities and benefit entitlements in most countries depend on more than just household composition and earnings levels: other factors such as housing costs, tax-deductible expenditures, social security contributory records, participation in employment activation programmes, unearned income and assets held often also play a role. Presenting results that vary along each of these dimensions would rapidly become intractable. For this reason, the OECD Tax-Benefit Calculator relies on a series of standard assumptions in all these (and other) areas, so as to keep the number of outputs and the related analysis manageable.

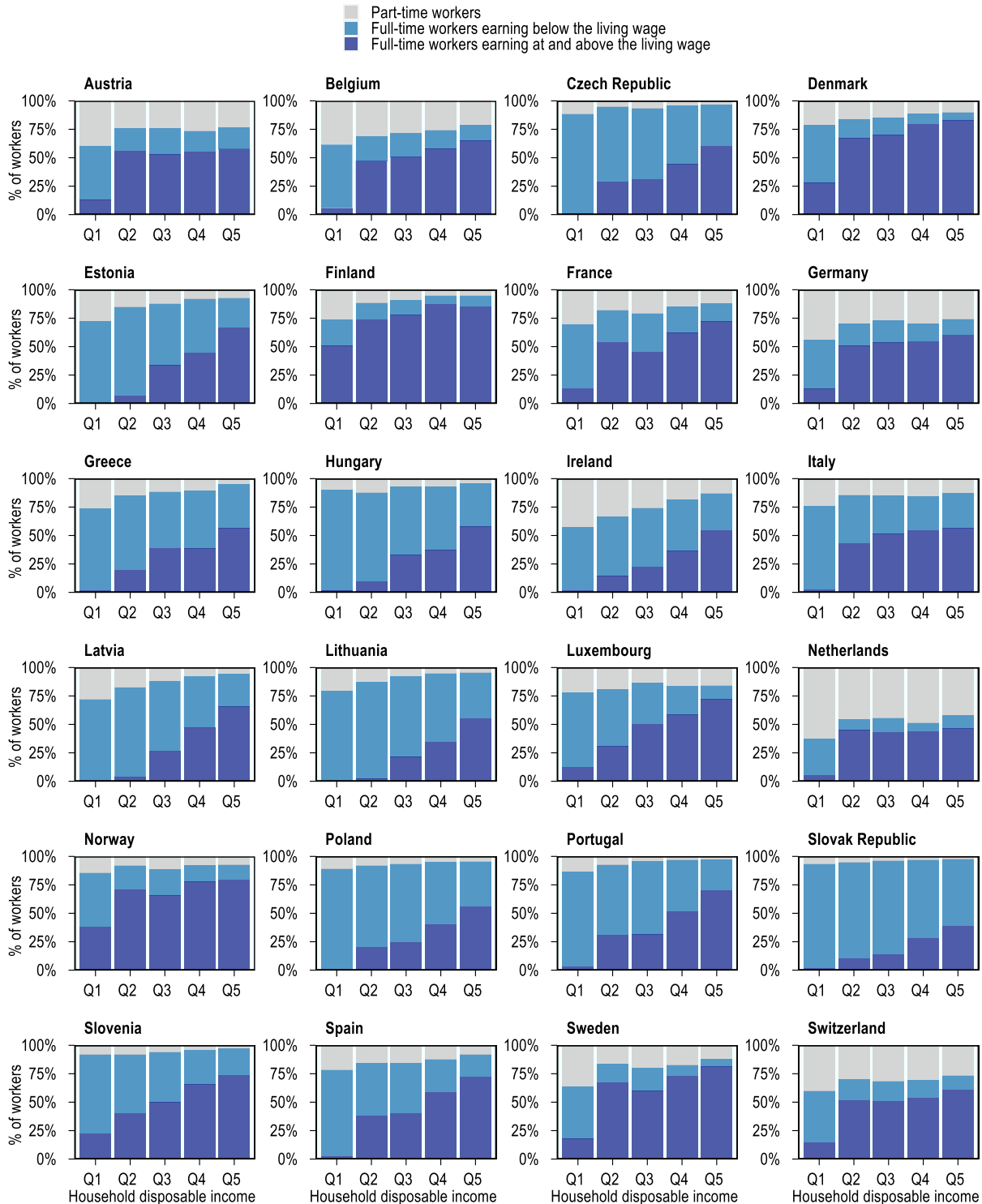
TaxBEN follows a “hypothetical family” approach, i.e. it calculates tax liabilities and benefit entitlements for a broad set of stylised families (sometimes referred to as “vignettes”) whose characteristics are relevant from a policy perspective. Different sets of characteristics can be of interest depending on the specific use of the model, and model users can select most of them, e.g. on the economic activity status of adult family members, the age and number of children, the earnings level and hours of work for those who are in paid employment, or the unemployment duration and previous earnings for those who are out of work. The hypothetical family approach does not require the use of survey or administrative microdata, which are typically available only with significant time lags or are difficult to access. The focus on stylised households enables broad country coverage, timely results and model use by a broad range of users without requiring access to household micro-data.⁵²

While these simplifying assumptions are needed to operationalise the link between pre-tax individual earnings and post-tax household income, **whether a living wage prevents in-work poverty depends on a range of additional factors**, such as working hours, the number of household members to be supported, and the availability of household income from sources other than wages (Horton and Wills, 2019^[6]).⁵³ Thus, **not every worker who is paid below a living wage is necessarily poor, and the ability of a living wage to avoid in-work poverty depends crucially on the extent to which low pay and low household income overlap** (Hirsch, 2017^[35]). Figure 5.5 shows that, **in OECD-EU countries with available information, the overlap between low (individual) pay** – measured as earnings falling below the FWN living wage – **and low (household) income is significant but not perfect**. Although a positive cross-country correlation exists, full-time workers earning less than the FWN living wage (light blue bar) are found not only near the bottom of the income distribution, but often also around the middle.⁵⁴ Nevertheless, in most OECD-EU countries, almost all full-time workers who fall into the bottom quintile of the income distribution are paid below the FWN living wage.

Figure 5.5 illustrates the importance of fair wage levels as a tool to secure economic self-sufficiency; full-time workers earning less than the FWN measure of the living wage would predominantly be clustered in the bottom quintile of the income distribution. However, **the living wage is not the silver bullet to prevent in-work poverty. Short part-time work and/or short employment spells over the year are a major problem for most working poor**. According to previous OECD research, among all adults living in a poor household, only slightly more than 20% have a full-time job, and almost 70% work on average six months or less over the year. In contrast, slightly more than 50% of adults in non-poor households work full-time, and only 25% of them work on average six months or less over the year (OECD, 2009^[36]).

This finding underscores the importance of taking **a comprehensive approach to the living wage**, by acknowledging that low paid work has become more insecure and precarious, and that **new forms of employment and types of contracts** have emerged. This **challenges the living wage assumption of full-time, year-round jobs**. Against this background, **the living wage should be seen as a component of a more holistic strategy aiming to promote decent work in all of its aspects**. The choice of a wage standard should not be made in isolation of other organisational strategies and practices, including working hours and job security.⁵⁵

Figure 5.5. Household income level of workers by work and pay status



Note: All underlying amounts are expressed in current prices (2020) and national currencies. The FWN living wages refer to a single-earner couple with two children.

Source: OECD calculations based on the *European Union Statistics on Income and Living Conditions* (EU-SILC) (database), <https://ec.europa.eu/eurostat/web/income-and-living-conditions>; the OECD tax-benefit model, TaxBEN version 2.4.0, <http://oe.cd/taxben>; and living wage estimates provided by Fair Wage Network, <https://fair-wage.com/living-wage-database/>.

The poverty construct that comes closest to the living wage concept is that of absolute poverty, where thresholds are based on the cost of a basket of essential goods and services. However, while approaches to the living wage and absolute poverty share common features, they differ in the population of interest. While living wage rates refer to a typical or standard working family, the measurement of absolute poverty typically requires full population coverage, which means deriving thresholds also for household types different from the living wage target or reference family.

Official absolute poverty metrics are seldom used in high-income countries, where the focus is less on the achievement of a minimum living standard and more on inclusion and a household's relative position (see Box 5.2). Italy and the United States are the only OECD countries that use an absolute threshold as their *official* headline poverty measure, although absolute thresholds are used in several other countries on a supplementary basis or to assess income adequacy for administrative purposes (e.g. to identify the beneficiaries of income support programmes).^{56,57}

The main standard of international poverty measurement is the International Poverty Line (IPL) developed by the World Bank to monitor global *extreme* poverty and set at 1.90 US dollar per day (in PPP-adjusted terms).⁵⁸ This very low threshold fails to adequately reflect the economic situation of most of the population in high-income countries, which is why the World Bank recently developed country-group variants of the IPL as complementary indicators, corresponding to USD 5.50 per person per day (in 2011 PPP terms) in upper-middle income countries. Unsurprisingly, the monthly poverty line for a family of four corresponding to USD 5.50 per person per day is well below the FWN living wage levels considered in this section. However, the IPL has been criticised on the grounds of the national thresholds used for its calculation, which typically refer to different living standards, use different methods and rely on non-comparable data sources (Atkinson, 2017^[33]). In an international setting, an appropriate measurement of absolute poverty requires the development of cross-country comparable reference budgets, as those recently produced by the Joint Research Centre (JRC) of the European Commission as part of a project aiming to explore the technical, methodological, and data requirements of developing a cross-country comparable metrics of absolute poverty for EU-wide use (Box 5.4). While these absolute poverty lines are not “official statistics”, they have been published in a European Commission's report (see Menyhért et al. (2021^[37])).

Box 5.4. Defining absolute poverty lines in the European Union

In 2018, the European Commission launched the “*Measuring and monitoring absolute poverty (ABSPO)*” project, aiming to develop household-specific poverty thresholds based on adequately priced consumption bundles associated with minimum living standards. Similarly to most living wage initiatives, the targeted living standard is defined as an adequate participation in society. There is also substantial overlap in the definition of basic needs, with the ABSPO project covering food, housing, healthcare, transport and a residual category that is further divided into clothing, personal care, rest and leisure, safe childhood and social relations, or is combined with all other non-food categories, depending on the approach used for measuring absolute poverty.

With a view to scaling the exercise up for regular EU-wide analysis, the JRC explored three different modelling strategies, each referring to the same targeted living standards and minimum needs, and all mixing in different proportions of reference-budget practices and survey-based statistical techniques, to identify and measure individuals' and households' minimum needs:

- the *reference budget-based approach*, building directly on available cross-country comparable reference budgets for the modelling of food *and* residual expenditures, as available for a handful of EU countries (Belgium, Finland, Hungary and Italy);

- the *survey-based approach*, making use of newly-developed nutritional food reference baskets, supplemented with survey-based statistical methods for modelling non-food minimum needs by expenditure category;
- the *food-based approach*, relying on the same nutritional food reference baskets as the survey-based approach, but – rather than calculating minimum thresholds individually by expenditure category – using households' observed expenditure patterns to determine the non-food and overall poverty lines as multiples of the food budget.

Depending on the modelling strategy, basic food and housing needs are derived through external reference points (e.g. nutrition-based international guidelines, dietary values or consumption habits, legal housing regulations, experts' inputs) or from people's prevailing subjective views on minimum requirements. The expenditure-based approach, relying on expenditure data, is used for healthcare, transport and the residual category. Hand-collected and small-scale price collection, national consumer price statistics, household scanner data or internationally harmonised aggregate price data are used for the monetisation of reference baskets.

Interestingly, despite the numerical differences in ABSPO poverty lines across the three modelling strategies, the cross-sectional and longitudinal patterns of poverty between and within Member States are broadly similar across all approaches. Moreover, at the EU level, the overall incidence of absolute poverty is similar to the one based on relative poverty rate (15.2% and 16.8%, respectively, in 2018) -- with the latter being defined as the share of population with an equivalised net income below 60% of the national median. However, the incidence of absolute poverty is considerably more uneven across countries than the one highlighted by relative poverty rates – being significantly higher than relative poverty in most Central and Eastern European but substantially lower in most EU15 Member States – while also exhibiting a more cyclical behaviour over time.

Source: Authors' adaptation from Menyhért et al. (2021^[37]).

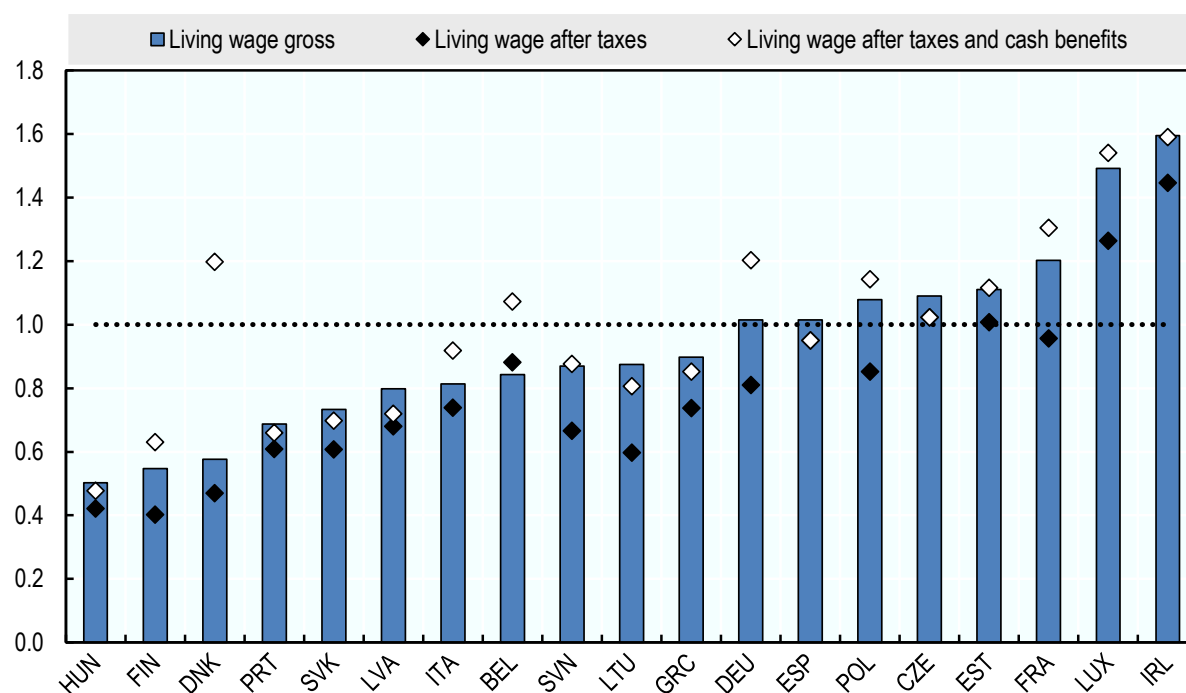
Figure 5.6 shows the FWN living wage of a single-earner family (*'living wage gross'*, blue bars), the household income net of income taxes and social security contributions of the family receiving this labour income (*'living wage after taxes'*, black diamonds) as well as the household income of the same family also receiving all public cash benefits they are entitled to (*'living wage after taxes and cash benefits'*, white diamonds), each as share of the experimental absolute poverty lines derived by the JRC for EU countries. The latter two measures were computed by the authors based on the OECD Tax-Benefit Calculator, while the former corresponds to the estimates provided by the Fair Wage Network. In about 40% of cases the FWN living wage estimate (*living wage gross*) would be above the JRC experimental absolute poverty line. In nearly 20% of the cases where it would be below, it would be below by less than 10%, and for nearly 30% of such cases it would be below 20% (blue bars).

Figure 5.6 also considers the impact of income taxes, social security contributions and public cash benefits on the standard of living of the living-wage worker and their family. In the first scenario (*living wage after taxes*, black diamonds), it is assumed that the reference family lives only on the living wage, on which income taxes and social contributions are paid, without further top-ups from public cash benefits. The second scenario (*living wage after taxes and cash benefits*, white diamonds) rests instead on the assumption that the same family also receives in-work family and other benefits they may be entitled to (white diamonds) and which add up to the post-tax income defined in the first scenario to derive a measure of household net income. **In a number of countries, the counteracting effects of taxes and social benefits would balance out, so that the net household income would be close to the FWN gross living wage** (e.g. Slovenia, Estonia and Portugal). **In other countries, benefits and government programmes would play a key role in boosting household net income of living wage workers to a level above the FWN (gross) living wage and sometimes above the JRC absolute poverty line.** The

impact of government cash benefits would be strongest in Denmark, where the household income net of income taxes and social contributions generated by the FWN living wage ('living wage after taxes' scenario) is less than 50% of the JRC absolute poverty line. In Southern Europe, Finland and a number of Eastern-European countries, government transfers would not suffice to push the income of a worker being paid the FWN living wage above the JRC absolute poverty line.⁵⁹

Figure 5.6. FWN living wages and JRC absolute poverty lines

Ratio of the living wage of a single-earner family to the monthly absolute poverty line, OECD-EU countries in 2020



Note: All amounts are expressed in current prices (2020) and national currencies; and they refer to a single-earner couple with two children. The horizontal line at 1 represents the case where the FWN gross living wage (household income) of the single-earner family is equal to a country's absolute poverty line as derived by the JRC. A bar (diamond) higher (lower) than 1 indicates that the FWN gross living wage (household income) of the single-earner family is higher (lower) than the JRC absolute poverty line. Absolute poverty lines are derived under a survey-based approach (see Box 5.4).

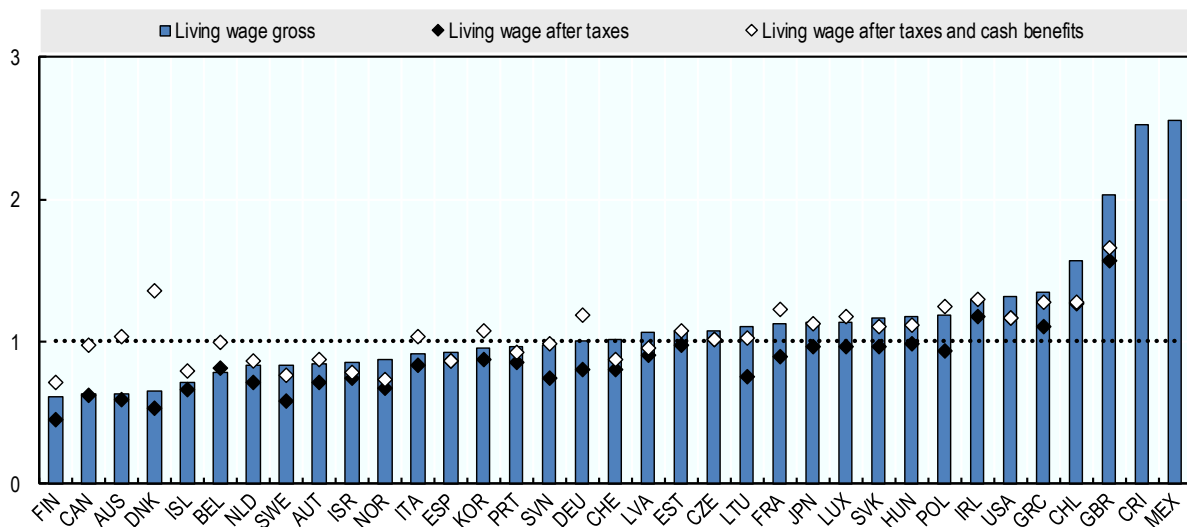
Source: OECD calculations based on Menyhért et al. (2021^[37]); the OECD tax-benefit model, TaxBEN version 2.4.0, <http://oe.cd/taxben>; and living wage estimates provided by Fair Wage Network, <https://fair-wage.com/living-wage-database/>.

One of the limits of absolute poverty measures is that they ignore relative deprivation, shame, and social exclusion (Ravallion, 2020^[38]). If the ultimate goal of a living wage is that workers and their families have not only the financial resources to meet basic needs but also to live a dignified life, then a more relevant benchmark is represented by **relative income poverty**.^{60,61} Figure 5.7 shows the FWN (gross) living wage (blue bars), the household income after taxes and social security contributions of the worker's family (black diamonds) as well as the household net income, derived by adding to the income net of taxes and social security contributions public cash transfers available to a family with this earnings level (white diamonds). Each of these measures is shown in the chart as share of the OECD relative poverty line, sourced from the *OECD Income Distribution Database*⁶² and set at half of the median household equivalised net income of the total population.⁶³ The FWN (gross) living wage would be above the OECD relative income poverty line in about half of the countries displayed in the chart. Where it would be below, it would be below by less than 10% in a quarter of cases and by less than 20% in nearly half. **The FWN gross living wage would**

generate a household net income for the couple and their two children (white diamonds) that is close to or above the OECD relative poverty line in about two thirds of OECD countries. In a number of countries (e.g. Canada, Australia, Denmark, Belgium, Italy), the role of social benefits supplementing the FWN living wage would remain crucial in reaching an adequate standard of living, as defined by the OECD relative poverty line. In some European countries (e.g. Finland, Iceland), government top-ups would improve the standards of living of workers receiving the FWN living wage (white diamonds above blue bars) but would still fail to lift those workers and their families out of poverty (white diamonds below the horizontal line in Figure 5.7).⁶⁴ In other cases (e.g. Sweden, Norway), the combination of income taxes, social security contributions and public cash benefits would produce a household net income below the FWN gross living wage (white diamonds below blue bars) in Figure 5.7).⁶⁵

Figure 5.7. FWN living wages and OECD relative poverty lines

Ratio of the annual living wage of a single-earner family to the annual relative poverty line, 2020



Note: All amounts are expressed in current prices (2020) and national currencies and they refer to a single-earner couple with two children. The horizontal line at 1 represents the case where the FWN gross living wage (household income) of the single-earner family is equal to a country's relative poverty line as defined by the OECD. A bar (diamond) higher (lower) than 1 indicates that the FWN gross living wage (household income) of the single-earner family is higher (lower) than a country's relative poverty line defined by the OECD. The OECD relative poverty line is set at 50% of the median household net income of the total population. Household incomes are divided by the square root of household size, to account for economies of scale in household needs. Data on post-tax and net living wages are not available for Costa Rica and Mexico.

Source: OECD calculations based on the *OECD Income Distribution Database*, <https://stats.oecd.org/Index.aspx?DataSetCode=IDD>; the OECD tax-benefit model, TaxBEN version 2.4.0, <http://oe.cd/taxben>; and living wage estimates provided by Fair Wage Network, <https://fair-wage.com/living-wage-database/>.

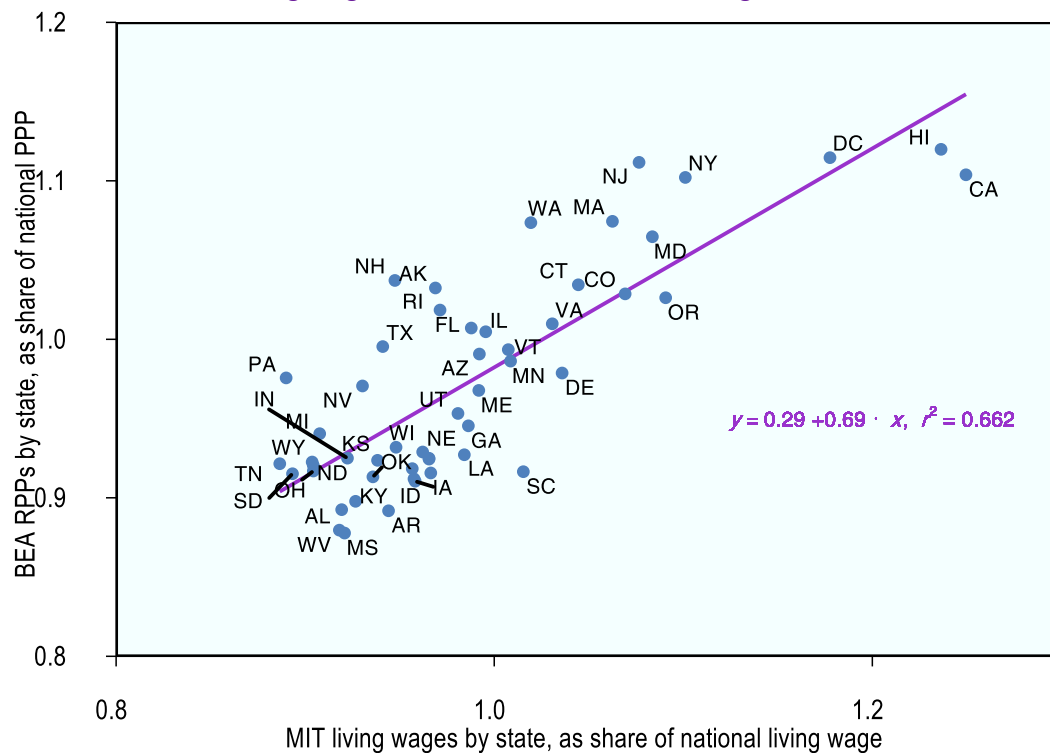
Living wages at the sub-national level

The analysis above is limited to national living wage estimates, due to the lack of up-to-date and comparable benchmarks at the sub-national level. However, as noted in Section 3, most living wage initiatives produce estimates at a lower geographical level to account for territorial differences in prices and to ensure that the living wage secures a decent standard of living regardless of where the worker lives within the country. While important, this is, however, **a step that raises a number of methodological challenges (e.g. as to how to aggregate local estimates to derive a national living wage rate)**, and very little is known about the quality of the resulting estimates.

One suitable external benchmark for assessing differences in living wage estimates across sub-national jurisdictions is provided by measures of regional price parities (RPPs). As in the case of purchasing power parities (PPPs) across countries, RPPs are rates of currency conversion that eliminate the differences in price levels between regions within countries. While PPPs take into account differences in price levels between countries, only rarely they account for differences in price levels across regions belonging to the same country.

Despite the importance of regional price indices at the international level, no homogeneous methodology has been developed for all OECD countries, and national initiatives remain sparse.⁶⁶ One exception is provided by the measures of state-level Regional Price Parities (RPPs) produced by the Bureau of Economic Analysis for the United States. Figure 5.8, which compares these RPPs to living wage estimates across states in the United States, produced by the MIT, highlights a strong correlation between the two sets of measures. This result is not surprising, since the same household survey is used by both institutions to derive their own sub-national estimates. However, **this also underscores the importance for statistical offices in other OECD countries to collect data of regional price differences** similar to those produced by the BEA for the United States and that could feed sub-national living wage estimates.⁶⁷

Figure 5.8. US state-level living wages and official measures of Regional Price Levels, 2020



Note: State-level living wages are expressed as share of the national living wage rate. Regional Price Parities are expressed as share of the overall national price level.

Source: OECD calculation based on Regional Price Parities developed by the Bureau of Economic Analysis (BEA), <https://www.bea.gov/>; and on living wage estimates from the MIT Living Wage Calculator, <https://livingwage.mit.edu/>.

Main takeaways

Taken together, the evidence presented in this section suggests that:

- **The living wage is more than a number.** On the one hand, setting it too low may not produce the desired improvements in living standard it is designed for; on the other hand, setting it too high may be counterproductive, as employers (and especially small businesses) may find it too costly to implement. It would also be important to locate the living wage within the earnings distribution of various countries in order to understand how many workers may benefit from it, as well as the possible impacts on the rest of the workforce.
- **While conceptually and legally distinct, living wages are not independent from wage institutions like the legal minimum wage and collective bargaining.** The gap between the living wage and the minimum wage is lower in countries where the minimum wage is adjusted on a regular basis and/or where there is high collective bargaining coverage. Similarly, effective wages are higher compared to the living wage in countries that benefit from a high collective bargaining coverage and/or from different levels of collective bargaining that allow social partners to negotiate – at the national, sectoral and/or enterprise level – wage increases on the top of the legal minimum wage. This sheds light on **the important role that trade unions and employers’ representatives must play in developing wage adjustment mechanisms that effectively reflect changing circumstances** – as witnessed by the rapidly price increases since the beginning of 2022.
- **Living wage thresholds and conventionally used poverty lines are of a different nature but also complementary.** Living wage benchmarks are typically calculated on the basis of surveys in the field to capture differences in local living costs, while the OECD thresholds of relative poverty are based on median household income and are higher than the FWN living wages in a number of high-income countries. The poverty construct that comes closest to the living wage concept is that of absolute poverty, where thresholds are based on the cost of a basket of essential goods and services. However, absolute poverty lines are available for only half of the OECD countries covered by FWN estimates.
- Finally, **the adequacy of the living wage to provide a “decent” standard of living cannot be assessed irrespectively of government policies.** First, governments directly influence living costs and standards (and hence the level at which the living wage should be set), for instance, by subsidising certain services (e.g. housing) and by providing other services free of charge (e.g. education or healthcare), or by mandating a maximum allowable price for essential goods or by setting working times – which is an aspect considered in living wage calculations. Second, governments also provide cash benefits to working families, which in turn pay taxes and social security contribution. The evidence presented above shows that, in a number of cases, a living wage may provide a minimum living standard to *the reference family* only in combination with government top-ups. Hence, **a living wage should be conceived of as a complement to government interventions, rather than as an alternative to them.** Further, **the extent to which additional earnings translate into additional household income depends on the interaction with tax and benefit systems.** For instance, a number of OECD countries have been relying on in-work benefits that help low-earning families make ends meet through a state transfer that decline as earnings rise. While this offers protection against very low income, it also means that any pay rise is partially offset by lower benefits (Hirsch, 2017^[35]).

6 Conclusions and ways forward

Living wage initiatives, prompted by civil society's efforts and supported by businesses' voluntary undertaking, have emerged in a context characterised by wide wage inequalities and large numbers of working-poor families. These initiatives are a response to situations where existing labour market institutions (e.g. legal minimum wages and collective bargaining) are not sufficiently developed and where new forms of employment are jeopardising the capacity of work to provide a decent standard of living for workers at the bottom of the earnings distribution. They hence hold the promise of reducing in-work poverty and "make work pay" for low-paid workers, including in countries with minimum wage legislation and notably thanks to the role played by social partners to effectively reflect cost of living considerations in wage negotiations. More generally speaking, living wages are fully effective when they are used as inputs to the broader wage-setting negotiations and discussions that social partners carry out. The informational value of living wages must be contextualised and encompass considerations regarding the environment in which businesses operate; social partners – in particular collective bargaining institutions – can provide the most relevant platform to translate this contextualised information into effective wage practices at company level.

When effectively implemented and scaled up along businesses' supply chains, living wage initiatives could also reshape globalisation by avoiding a race to the bottom in business practices and workers conditions. While raising a range of complex issues – from their impacts on wages above the "living wage" floor to their implications for employment and firms' profitability, from their relationship with government tax and transfers programmes to their implications for businesses' purchasing practices – the promise of the "living wage" movement is high. For that promise to bear fruits, a range of steps should be considered by the different actors involved – i.e. data providers, businesses, social partners and national statistical offices – to ensure that the concept remains true to its ambition and delivers to its full potential.

A common living wage framework?

The paper stressed the need for increased transparency on data, methods and approaches used for computing living wage estimates. In particular, assumptions on family size or number of wage earners in the family lead to different living wage thresholds and thus influence the whole living wage outcomes.

A common framework could be developed, based on a shared set of assumptions for the calculation of the living wage. These assumptions would be chosen based on evidence-based analysis and consultations with stakeholders. As concerns the former, the right balance should be found between the following elements:

- Tailoring living wages calculations to specific contexts and business needs and establishing global guidelines that would allow companies to implement consistent living wages policies across markets and time;
- Setting and introducing living wage thresholds in close co-operation and consultation with stakeholders (workers, worker representatives, trade unions and firms);

- Integrating considerations of social needs, prevailing norms of decency and social inclusion, while also considering possible macro-economic effects (e.g. on employment and competitiveness);
- Setting living wages in the context of existing social protection systems, with a clear articulation of responsibilities between the private and the public sector.

Finally, this common framework could define the key basic steps of a living wage journey, and ensure the basic conditions for the optimal implementation of a living wage payment in terms of how to carry out an analysis of the gap between living and prevailing wages, how to fill such a gap, how to communicate internally and externally etc. This framework would have the merit of providing transparency around the living wage journey that companies plan to undertake and helping different stakeholders drive their living wage programmes within commonly agreed principles.

Data providers

Several data providers have played an important role in providing business and campaigners with living wage estimates, typically available at the local level. This has allowed the implementation of a living wage strategy by an increasing number of brands. While all these estimates are based on a relatively similar approach, data providers make specific methodological choices (e.g. on what is included in the basket of goods and services, which family type the living wage should adequately support, etc.) and collect their own data (e.g. on local prices) to translate such choices into monetary estimates. This variety of approaches allows collecting an increasing number of data points and tailoring the general approach to specific conditions that companies face in any given local market. However, it also risks undermining the credibility of these estimates when the assumptions that underlie each step of the calculations are not fully transparent. Increased transparency – which is one of the aims of this paper – could also provide the opportunity to improve international practice over time, and to identify how to best combine reliability and scalability of approaches. Transparency could be enhanced through several steps aiming to:

- **Clearly communicate the criteria, assumptions and data sources used to set living wages**, by providing detailed documentation on:
 - *How needs under each spending category are set and measured*, e.g. whether, within each spending category, needs are assessed based on expert judgments, observed expenditure patterns, deliberative approaches or a combination of them; when guidelines and expert judgements are used, and different options (e.g. nutritional requirements) exist, which has been selected and why;
 - *How needs are priced*: for each spending category, information provided to users and analysts should include: *i)* the estimate of the monetary costs needed to ensure a decent standard of living; and *ii)* whether estimates are based on the least expensive option available on a local market or on different reference points, e.g. the median, the average, or a given percentile;
 - *The size and characteristics of the reference family* (e.g. whether a single person or a couple, with or without children, the number of children) *and the working patterns prevailing in the family* (e.g. the number of wage earners in the family, and the full- or part-time status of each worker);
 - *How estimates are updated for inflation and to reflect changes in social norms and consumption behaviours*;
 - *Which wage components are included in the comparison with the living wage*, e.g. whether the comparison is made with basic wage or whether regular bonuses (e.g. for a thirteen month), payments for overtime, cash benefits paid by firms and by governments, as well as deductions for the income taxes and social security contributions paid by workers are also considered.

For each of these elements, providers should indicate clearly which sources (i.e. primary or secondary) are used, and (when relying on primary sources) provide information on fieldwork and sampling of their own data collections, to allow assessing whether these meet minimum statistical requirements.

- **Integrate people’s views on adequate living standards into the calculations of living wage rates.** Consulting citizens, workers and their representatives on what needs to be included in the living wage budget should be considered for those spending categories where expert advice or technical recommendations are not available (e.g. healthcare, transport, etc.). This would enhance the credibility of living wage estimates by presenting them as socially agreed standards, while continuing relying on technical expertise.
- **Strike the right balance between the aspiration to provide geographically precise living wages and the need to compare these estimates with external benchmarks.** While local estimates are important to reflect differences in costs of living and consumption patterns across different parts of the country, they must be put into context through comparisons with wage benchmarks and other indicators that may be available only at the national level. When national estimates of living wages are produced, data providers should document how these national averages are derived (e.g. as a simple or weighted average of local estimates; how weights are set) and which jurisdictions enter the computation.
- **Make living wage estimates available to different stakeholders, such as workers’ representatives, consumers, civil society organisations and researchers.** Living wage estimates, for instance, could feed collective bargaining and wage negotiations with data on evolving living costs. Beyond relevant documentation, data providers should explore the viability of releasing their own estimates and the breakdown of expenses (e.g. food, healthcare or transportation) included in the living wage basket.

National Statistical Offices

Computing living wage estimates is data-intensive and resource-demanding, requiring information on household needs and prices that is timely and context-specific. 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.** This should include the development and regular update of sub-national measures of living costs (as already done by some OECD countries) to account for variation in prices and standards of living across geographical areas within a country.
- **Improving the harmonisation of surveys on household budgets and expenditures.** Such surveys provide important information to “locate” the measure of living costs underpinning living wage estimates within the distribution of household expenditures. Increased harmonisation would require developing international standards (none currently exists), as well as including questions on household financial situation and economic strain, which could help ensure that the living wage basket fully embeds the concept of ‘decency’. These improvements would allow more extensive comparisons with existing living wage thresholds and other external indicators in a greater number of countries.
- **Enhancing the cross-country comparability of earning statistics,** by promoting further alignment in terms of coverage of employees (e.g. removing scope exclusions based on forms size of sectors of activity), elements of the compensation package included (e.g. wage supplements and bonuses) and type of earnings reported (e.g. annual or monthly). Inserting questions on both earnings and working arrangements in household income surveys (e.g. as part of a dedicated ad

hoc module) would allow better disentangling the nexus between the living wage and the working environment.

Businesses

Implementing a living wage in the workplace requires a number of operational decisions by businesses, as well as considering how the living wage will affect the pay structure and business' own purchasing practices towards its suppliers.⁶⁸ To increase the credibility of their commitments in this field, businesses may want to take steps aiming to:

- **Publicise their commitment to paying the living wage externally**, by indicating on their website and/or in their reporting tools: *i) which living wage benchmark they are using; ii) the type of family and working patterns considered by such estimates; iii) the categories of workers covered by the commitment, e.g. the company's own employees, core contractors, non-core contractors (e.g. cleaning, security catering staff on company premises), workers in the first-tier supply chain, etc.; and iv) the elements of the remuneration package (e.g. guaranteed bonuses, overtime, regular in-kind benefits, net or gross etc.) included in the comparison with the living wage.* Such information would raise awareness among the public, particularly potential customers and investors, motivate 'laggards' and promote sector-wide change.
- **Hold themselves accountable for closing the gap between actual wages and living wages.** This could require roadmaps with clear milestones and timelines, the choice of a reliable and recognised methodology, as well as regular reporting on the share of workers who are still paid below the living wage, those who have already transitioned above the threshold, as well as other contextual indicators on payroll composition, key pay ratios and collective bargaining. This should also be an opportunity to monitor the costs (e.g. pay differentials) and benefits (e.g. retention rates) of adopting a living wage.
- **Embed the living wage as part of their organisational strategy.** Committing to a living wage should be part of 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. All different departments of the brands should be part of the process to translate a living wage commitment into reality.

Importantly, businesses must be aware that all these steps will entail costs (including in terms of reporting, verification, etc), especially when developing living wage policies across the supply chain. Therefore, before embarking in any 'living wage journey', businesses should carefully balance the costs and benefits of such policies.

Social partners

Social partners have an important role to play in ensuring that living wage considerations are embedded in collective bargaining and wage negotiations and in monitoring the effective enforcement of living wage practices. As shown in this paper, the living wage target cannot be reached without the strengthening of traditional wage institutions, such as the legal minimum wage and collective bargaining. Social partners could consider:

- **Raising workers' awareness of their working conditions and rights, which is indispensable for initiating a process of change.** In particular, workers in the lower tiers of global supply chains may have a distorted view of the value of their work, not be aware of the existence of a wage floor and of its value, or not know whether they are entitled to it.

- **Engaging with those businesses that committed themselves to introducing a living wage to ensure that the commitment is respected through adequate verification.** This is particularly important when implementing a living wage requires organisational changes affecting the workforce. Monitoring should go beyond wage levels and cover issues such as the correct and timely payment of wages, the number of working hours considered when comparing prevailing wages to the living wage, the predictability of working hours so that workers and their households have adequate financial security, as well as the link with non-wage benefits such as access to social security.
- **Ensuring 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. When businesses' living wage commitments extend to their suppliers, their purchasing practices should be reviewed to make such living wage payments possible. Adequacy and fairness of living wage estimates should be assessed against wage metrics and poverty lines developed by National Statistical Offices, using instruments such as the OECD TaxBEN Calculator to move from gross (pre-tax) individual wages to net (post-tax and benefits) household income, while keeping in mind the limits of these external measures.
- **Embedding living wage considerations in collective bargaining and wage negotiations.** This is key to avoiding perceptions among some more skilled staff (already paid a living wage) that the implementation of a living wage will make them 'worse off' than before, due to a flattening of the pay structure (compared to low skilled workers who saw their remuneration increase up to the living wage level) or to lower wage differentials. Involving workers' representatives through social dialogue can also help handle expectations over bridging gaps between current wage levels and living wages, by balancing short-term steps to improve wages with the perspective of future and continuous increases.

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Notes

¹ In recent decades, the world of work has experienced several transformations that have taken a heavy toll on low-paid workers. Driven by globalised markets and deregulation, structured and secure employment contracts have been increasingly replaced by flexible and unstructured forms of employment (Eurofound, 2020^[40]). The widespread adoption of digital technologies has exposed many low-skilled and low-paid workers to an increasing risk of unemployment or displacement (Vaughan-Whitehead, Ghellab and de Bustillo Llorente, 2021^[30]; Nedelkoska and Quintini, 2018^[54]). Collective bargaining, when based on mutual trust between social partners, 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 (OECD, 2019^[28]).

² While there is no generally agreed definition of a living wage, there is a broad consensus that it is a wage that allows the worker and their family to afford a “*basic, but decent, life style that is considered acceptable by society at its current level of economic development. Workers and their families should be able to live above the poverty level, and be able to participate in social and cultural life*” (Anker, 2011, p. 5^[9]).

³ Data from the 2019 Corporate Human Rights Benchmark show that 10% of the world's largest companies in sectors such as agriculture, extractives, apparel, or ICT, have living wage commitments in either their own operations or supply chain. Whilst this is still relatively low, it is growing quickly as large businesses have made public commitments recently, including some to their extended supply chains as well as their direct employees (OECD, forthcoming^[10]).

⁴ In the late 19th century, living wage campaigns drew attention to industrial exploitation. A key concern in the early 21st century has been the weak position of service workers in insecure employment. At the same time, as the global North has outsourced the production of many manufactured goods to the South, the wages and conditions of workers in those industries, influenced by global supply chains, have become an important issue for living wage movements.

⁵ Franklin D. Roosevelt described the federal wage as a “living wage” when first introducing it in 1933. Roosevelt had a clear-cut understanding that the minimum wage should be set at a level allowing a decent living standard and not just subsistence; however, the failure to underpin this with any formula for maintaining its value over time led to a long period of decline in its real level from the 1960s onwards (Hirsch and Valadez-Martinez, 2017^[4]).

⁶ The remainder of this section is based on publicly available information. For each methodology or initiative, references are provided in [Annex A](#). Information was collected through desk research, and the review reflects variations in the level of detail of the available documentation. Thus, this section should not be interpreted as a comprehensive assessment of each approach, but as an overview of key similarities and dissimilarities in the computation of the living wage across initiatives.

⁷ Out of the initiatives reviewed here, Finnwatch provides detailed guidelines on the living wage estimation rather than developing estimates for a particular jurisdiction.

⁸ These initiatives often rely on the Minimum Income Standard (MIS) methodology developed by the Centre for Research in Social Policy (CRSP) at Loughborough University, which aims to produce budgets for different household types, based on what members of the public think you need for a minimum acceptable standard of living.

⁹ Some initiatives (e.g. the Fair Wage Network and the Living Wage Technical Group Ireland) additionally estimate a living wage for a single-adult family.

¹⁰ The living wage definition underlying of each of the initiatives is provided in [Annex A](#).

¹¹ The alternative, so-called *fairness* approach, relies on a “relative” understanding of decency and the implicit notion that workers should be entitled to a certain share of the fruits of their labour.

¹² For a more detailed discussion of each of these elements, see Anker and Anker (2017_[16]).

¹³ In the tables in this section as well as in [Annex A](#), initiatives are grouped and ranked according to their geographical scope or relevance: international, regional/continental, and national/sub-national. Within each group, initiatives are ordered alphabetically. Both the tables and the Annex are based on the latest information available at the time of writing (primarily in spring 2022) and may not reflect methodological updates that have occurred since then.

¹⁴ Both the Asia Floor Wage Alliance and the Clean Clothes Campaign, while only distinguishing between food and non-food components, include in the latter goods and services such as clothing, healthcare, childcare, household costs, personal care etc. The same holds true for the Global Living Wage Coalition (Full-Fledged Anker Methodology).

¹⁵ Differences in the number of spending categories can also be observed for national initiatives focusing on developed countries. Hence, beyond data availability issues, some initiatives might choose not to include more narrowly defined spending categories either because they are not considered as relevant (in the sense that their inclusion does not lead to additional insights) or because they can be accounted for through other categories in a more suitable way.

¹⁶ A detailed discussion on the approaches to basket pricing is given further below in this section.

¹⁷ Even in cases where international guidelines do exist, as in the case of food, several decency standards may be available, and which one is used can affect significantly the value of the reference basket. For instance, Robert Allen’s estimates of global absolute poverty tested different model diets, ranging from a ‘least cost’ diet based only on calorie intake to a full-course diet that also satisfies a variety of nutritional requirements. Allen estimated that in high-income OECD countries the food expenditure that satisfied the latter diet standard was almost 40% higher than the former (Allen, 2017_[42]). For the sake of transparency, providers of living wage estimates should clearly communicate which standards they use in their calculations for each expenditure category.

¹⁸ This is the approach that Orshansky used in the early 1960s to establish the official absolute poverty line for the United States. After calculating the proportion of after-tax expenditures the average family dedicates to food (33 percent), Orshansky multiplied the cost of an economy food plan by three to derive poverty thresholds for a variety of family types. This method has been criticised for having remained largely unchanged and for failing to account for the structural changes in the U.S. economy and demographic

shifts in the population that took place since then (for further detail on the criticism that this method raised see footnote 57).

¹⁹ A more detailed discussion of this approach is given in the sub-section on pricing further below.

²⁰ Initiatives that focus on local and area-specific Minimum Income Standard (MIS) estimates for regions within the United Kingdom base their selection of goods and services mostly on the lists obtained by the MIS UK research. Discussion groups reassess these lists and adjust them where necessary. New lists are only developed for certain categories of basket items (e.g. healthcare, transport, social and cultural participation).

²¹ The Canadian Centre for Policy Alternatives relies on the same method to price the spending category “other household expenses”.

²² Employers may include in their remuneration packages elements that are reflective of the worker’s family composition. It is unknown, however, whether these practices are widespread and to which extent employers consider variation in family needs.

²³ For instance, both the Asia Floor Wage Alliance and the Clean Clothes Campaign assume the needs of a couple with two children are equivalent to that of a single parent of three children. This assumption (that “household economies of scale” depend only on the number of household members and not on their age) is the same used in OECD analysis of income inequalities.

²⁴ However, Anker and Anker (2017_[16]) warn that a standard family size of four is too small for many countries and locations where women have significantly more than two children, such as many African countries. At the same time, the standard family size is well above fertility rates for a number of OECD countries, such as Korea and Southern European countries.

²⁵ For example, in France, where according to the latest World Bank estimates the national fertility rate is 1.85, the size of the typical family would be 3.85.

²⁶ The decision to use the single worker without dependants as the reference category in Ireland was also driven by strategic considerations, including the need to set the number “sufficiently low as to offer a reasonable target in terms of upward negotiating pressure on the national minimum wage” (Eurofound, 2018_[18]). However, the Living Wage Technical Group also provides budget estimates for various family types, which could be the basis of separate living wage calculations for larger households.

²⁷ This was based on the finding from a stakeholder consultation by the body advising the Commission that employers and employees would find a living wage less credible if it was calculated based only on the needs of one group of workers (D’Arcy and Finch, 2019_[43]).

²⁸ Feminist economists have argued that the assumption of one full-time wage earner in a couple is problematic because of the association with the male breadwinner model, while also acknowledging that the wage of female workers could be substantially boosted if a living wage were achieved in practice (Bennett, 2013_[7]).

²⁹ See Anker and Anker (2017_[16]) for an example of how the number of full-time equivalent workers per family can be computed based on employment statistics.

³⁰ As opposed to Section 5, this section presents evidence for both OECD countries and selected non-OECD middle-income countries.

³¹ To account for economies of scale in consumption, National Statistical Offices and international organisations typically “adjust” household measures of economic well-being by a parameter (*equivalence elasticity*) that can take a value between zero – under the assumption that needs and resources do not change as household size increases – and one – when per-capita welfare metrics are considered. The equivalence elasticity reflected in the FWN living wage estimates shown in Panel B of

Figure 4.1 is close to 1, which represents the per-capita scenario.

³² In this context, a good strategy for brands (advised, for instance, by Fair Wage Network) could be to follow a multi-step approach starting from a more reachable target, e.g. to implement a living wage of a family along the fertility rate and average number of income earners – that could be called a basic living wage – and then, once this first basic threshold is reached, set a more ambitious target that would ensure the coverage of basic family needs whatever the family employment situation. A number of organisations (e.g. Shift-Capital) have advised using the second threshold to minimise social risks within households.

³³ While living wages aim to ensure a “decent” standard of living to workers and their family, poverty thresholds provide a natural “lower bound” benchmark to assess adequacy, i.e. living wages below these thresholds are surely inadequate to provide a decent life.

³⁴ The latter approach, which is described in detail in Anker and Anker (2017_[16]), first computes that proportion of full-time equivalent work per working age adult (25-59 year old) as the average adult labour force participation rate \times (1 – unemployment rate) \times (1 – [part-time employment rate \div 2]). The number of full-time equivalent workers per family is then derived as 1 plus the share of full-time work per working age adult calculated as above.

³⁵ For instance, the recent Directive of the European Parliament and of the Council on adequate minimum wages in the European Union aims to “ensure that the workers in the Union are protected by adequate minimum wages allowing for a decent living wherever they work” (European Commission, 2020, p. 2_[52]). Considering the different national contexts, the European Commission’s proposal does not provide a single definition of an adequate minimum wage but instead calls on Member States with statutory minimum wages to take into account at least four aspects, including “the purchasing power of statutory minimum wages, taking into account the cost of living and the contribution of taxes and social benefits” (p. 24_[52]).

³⁶ In some countries, the minimum wage expressed as a percentage of median earnings might be very high, but their level be insufficient to cover the costs of a decent living. This is true in particular in countries where a large share of workers earns very low wages, typically in the informal economy, such as Türkiye, Costa Rica, Chile and Colombia, where the minimum wage corresponds to more than 70% of the median wage.

³⁷ In the eight OECD countries that do not have a statutory minimum (Nordic countries, Austria, Italy and Switzerland), a large part of the workforce is covered by sector-level collective agreements and the wage floors they specify. These countries are not covered by the analysis that follows.

³⁸ This is in line with the results provided in Nadeau and Glesmeier (2019_[44]).

³⁹ The comparisons in Figure 5.1 rely on national minima, although in a number of countries, legal wage floors can also be set at sub-national level, leaving provinces (Canada), prefectures (Japan) or states (the United States) the option of applying a higher minimum wage in their territory. Sub-national minimum wages can be higher than the national minima shown in Figure 5.1; for instance, in the state of California the minimum wage in 2020 was set at a level 80% higher than the rate shown in Figure 5.1. This level is close to the FWN national living wage in a dual-earner scenario and 67% of the same rate derived under the assumption that both parents work.

⁴⁰ Several reasons may explain the gap between living and minimum wages and the cross-country variation observed in Figure 5.1, including how and where the minimum wage is set. For instance, in Australia, where under the single-earner scenario the FWN living wage is lower than the minimum wage, the national minimum wage is one of the highest among high-income countries (Parker et al., 2016^[45]).

⁴¹ This latter metric is the reverse of the ratio presented in Figure 5.1, where the living wage is expressed as share of the minimum wage.

⁴² In Australia, the high FWN living wage estimate reflects less of its collective bargaining coverage but more of its rather unique annual minimum wage review ran by the Fair Work Commission (FWC); this review leads to thousands of minimum wages on the top of the national minimum wages, which vary along industry, age, skill level, qualifications and location of an employee. This explains why Australian minimum wages are higher than in other countries – which also pushes upward average wages (Leigh, 2007^[46]).

⁴³ The EU Directive on adequate minimum wages in the European Union goes in this direction by aiming to increase the collective bargaining coverage in the European Union and urging Member States where collective bargaining coverage does not reach at least 80% of the workers “*to take action to promote the capacity of social partners to engage in collective bargaining on wage setting, and to encourage constructive, meaningful and informed negotiations on wages*” (European Commission, 2020, p. 12^[52]).

⁴⁴ The multifaceted nature of poverty is acknowledged in the 2030 Agenda for Sustainable Development, where the SDGs include indicators of absolute poverty (Indicator 1.2.1: “*The proportion of the population living below the national poverty line, by sex and age*”), relative income poverty (Indicator 10.2.1: “*The proportion of people living below 50 per cent of median income, by age, sex and persons with disabilities*”), non-income poverty (Indicator 6.2.1: “*The proportion of the population using safely managed sanitation services, including a hand- washing facility with soap and water*”), as well as multidimensional poverty (Indicator 1.2.2: “*The proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions*”).

⁴⁵ Living wage estimates rely on the concept of *family* – worker, spouse or partner, and children – while the *household* is the observation unit underlying poverty statistics. A household is an individual person or a group of persons who live together under the same housing arrangement and who combine to provide themselves with food and possibly other essentials of living (UNECE, 2011^[34]). Hence, the two concepts do not necessarily coincide.

⁴⁶ The measurement of poverty at the household level assumes that resources are shared equitably among all members of the household. In reality, however, there may be an unequal distribution between men and women or between different generations within the household (see, for instance, Ponthieux (2013^[48])).

⁴⁷ This implies moving from the typical family, used above for comparisons with wage metrics, to the standard family of two parents and two children.

⁴⁸ In TaxBEN full-time employment corresponds to 40 hours of work per week and per worker.

⁴⁹ Living wage campaigners have often argued that many low-paid workers may have limited or no access to benefits (e.g. migrants).

⁵⁰ As in previous OECD analyses (OECD, 2021^[1]), temporary in-work benefits and housing benefits are not included (since the former are temporary, and the take-up of housing benefits is low among low-income households).

⁵¹ While findings have also been derived under the alternative scenario of a dual-earner family (and are available from the authors upon request), they are not discussed below since they are similar to those derived under the baseline scenario of a single-earner couple.

⁵² For more detail regarding the methodology underlying TaxBEN and its standard output, see the OECD 2020 Manual at <https://www.oecd.org/social/benefits-and-wages/OECD-TaxBEN-methodology-and-manual.pdf>. Detailed descriptions of the main tax and benefit rules for each country are available from the project website, at <https://www.oecd.org/social/benefits-and-wages/>.

⁵³ Evidence from the United Kingdom shows that earning a living wage reduces the risk of poverty notably for single earners and lone parents who are likely to be most dependent on their own earned income (Swaffield et al., 2018^[5]).

⁵⁴ Mapping the overlap between income and living wage levels is not straightforward, due to the lack of detailed information on hourly wage rates within household income surveys. In Figure 5.5, earnings of full-time workers are used as a proxy for hourly wages.

⁵⁵ The living wage is only one of the twelve dimensions that covers the spectrum of wage indicators according to the Fair Wage Network Method (Fair Wage Network, 2022^[50]). Moving beyond monetary aspects, the UK Living Wage Foundation has recently developed a new accreditation standard for those employers that want to provide security of hours alongside a real living wage. The standard includes the right to decent notice periods for shifts; the right to a contract that reflects accurate hours worked; and a guaranteed minimum of 16 hours a week, unless the worker requests otherwise (Living Wage Foundation, 2022^[49]).

⁵⁶ The Italian National Institute of Statistics (ISTAT) produces and annually updates a measure of absolute poverty based on a basket of goods and services considered necessary for a household to avoid extreme social exclusion. The basket is made up of three components: *i) food and beverage*, based on the calories individuals need to carry out normal daily activities, derived from a nutritional model defined by the National Nutritional Institute and priced according to the lowest consumer prices available for each household in Italy; *ii) housing*, which includes both accommodation and utilities; and *iii) a residual lump-sum component* that is due to cover additional household needs (e.g. health, education, transport, and clothing expenses) that cannot be adequately quantified (i.e. how many and what kind of clothes do an individual need?), and it is therefore calculated as a percentage of expenditure on food and beverages. While the ISTAT's approach assumes that basic needs are the same all over the country, the baskets' monetary value (and hence the poverty threshold) vary by geographical area and municipality size (UNECE, 2011).

⁵⁷ The United States uses an official measure of absolute poverty that dates from the early 1960s, when it was developed and derived from the cost of a food reference budget based on regular dietary considerations multiplied by a factor to reflect the costs of other needs such as housing and clothing. Based on evidence from a household food consumption survey conducted in 1955 showing that low-income households of three or more persons spent about one third of their after-tax income on food, the overall poverty lines were fixed at three times the cost of the relevant minimum food budget, with the aim of producing a set of robust, reasonable and easy-to-monitor thresholds acceptable to both policymakers and the general public. Except for relatively small changes, the approach to official poverty measurement has not been changed since 1965. The US measure has been criticised for not taking into account the real growth of consumption of non-food items and for not reflecting how the typical proportion of total spending on food has changed from one third of income to something closer to one sixth. To address this criticism, the Supplemental Poverty Measure (SPM) has recently been introduced, which incorporates additional items such as tax payments and work expenses and uses thresholds computed on expenditure data on basic necessities (food, shelter, clothing and utilities) that are adjusted for geographic differences in the cost of housing. The SPM does not replace the official poverty measure but is intended to provide a deeper understanding of economic conditions and policy effects (Ploeg and Citro, 2008^[41]).

⁵⁸ An absolute poverty line refers to the approach used to establish a deprivation threshold, while “extreme” or “severe” refers to how low the line is set. Therefore, not all absolute poverty lines necessarily refer to “extreme” poverty.

⁵⁹ It should be noted that the ratios of the living wage to the absolute poverty line showed in Figure 5.6 may partly reflect methodological differences in the two constructs, including the computational strategy used to identify and pricing the reference baskets and the equivalence scales used. The absolute poverty line developed in Menyhért et al. (2021^[37]) relies on the OECD-modified equivalence scale, which assigns a value of 1 to the first adult, of 0.5 to each additional adult member and of 0.3 to each child.

⁶⁰ Relative poverty focuses on people lacking the resources to “*participate in the activities and have the living conditions and the amenities which are customary, or at least widely encouraged or approved in the societies to which they belong. Their resources are so seriously below those commanded by the average family that they are in effect excluded from the ordinary living patterns, customs, and activities*” (Townsend, 1979, p. 31^[39]).

⁶¹ However, in more than half of the OECD-EU countries where the JRC absolute poverty lines are available, these are above the OECD relative poverty lines, implying that some households could be considered as non-poor (based on the OECD threshold) while still having income below the JRC absolute poverty lines.

⁶² All the indicators available through the *OECD Income Distribution Database* (IDD) are based on the concept of household (or net) disposable income, i.e. the market income received by all household members (gross earnings, self-employment income, capital income), plus current cash transfers received, net of income and wealth taxes and social security contributions paid by workers, and net of current transfers paid to other households. Household disposable income is “adjusted” by an equivalence scale that divides household income by the square root of household size, to account for economies of scale in household needs (i.e. the notion that any additional household member needs less than a proportionate increase of household income in order to maintain the same level of welfare). For more detail regarding the methodology underlying the OECD IDD refer to: <https://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf>

⁶³ Alternative parameters can be used to define relative poverty lines. Eurostat, for instance, uses a higher threshold (60% of median income) and a different equivalence scale (see footnote 59). Different equivalence scales can have a strong impact on measured poverty across different family types. Single parent households and larger coupled households are more sensitive to these changes. However, differences in equivalence scales have only a limited effect on country ranking (Buhmann et al. (1988^[51])).

⁶⁴ The set of countries where the household net income generated by the living wage is below the OECD relative poverty line only partly overlaps with that shown in Figure 5.6, where the assessment is based on absolute poverty lines derived by the JRC. In a number of continental (Belgium, France, Germany, Denmark) and Eastern-European countries (Czech Republic, Estonia, Poland), the household net income of a full-time worker earning the FWN living wage is consistently above both the JRC absolute poverty line and the OECD relative poverty line. At the other end of the spectrum, in a few countries the net income corresponding to the FWN living wage is below both poverty thresholds – with the gap being particularly large for Finland. In Greece and Hungary, the net income of a worker paid the FWN living wage is above the relative poverty line but well below the absolute line – a similar pattern, although less pronounced, is found in Italy, Lithuania and the Slovak Republic. While this evidence may be partly driven by methodological differences in the way absolute and relative poverty thresholds are derived, it is also confirmed by Menyhért et al. (2021^[37]), who report that absolute poverty lines are comparatively higher than relative ones in EU countries with lower income levels.

⁶⁵ Relative poverty lines reflect the level of economic development of a country and the national income distribution. Differences between FWN thresholds and relative poverty lines would be higher in developing countries.

⁶⁶ Costa et al. (2019^[47]) provide estimates of regional PPPs (at TL2 level) for 34 OECD countries over the period 2000-2016 based on sub-national statistics of nominal income and GDP. This (indirect) approach is less data demanding than the direct approach used by some NSOs and relying on official data on consumer prices and expenditures. The resulting estimates are close to those based on the direct approach (in countries where these are available).

⁶⁷ When comparing macroeconomic data (such as GDP) across regions, the use of an average national price deflator will lead to an artificial increase of the macroeconomic indicator in the better developed regions and a decrease in the lagging regions (Costa et al., 2019^[47]).

⁶⁸ On the latter aspect, see recent evidence in Vaughan-Whitehead (2022^[53]).