Minimum And Living Wages In Times Of Cuts

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A few years ago, Richard Anker, a former ILO official, wrote an important paper on the historical evolution of the notion of 'living wages' and different ways of measuring them. This paper is one example of a growing realization that mandated minimum wages, however effectively enforced, can diverge significantly from 'living wages' that can sustain a worker and his/her family. Not surprisingly, the notion of the 'living wage' is embedded in the ILO's normative framework. The 2008 Declaration refers to a 'minimum living wage'. The 1970 convention on minimum wages demonstrates flexibility and pragmatism by suggesting that a policy on minimum wages should strike the right balance between the need to meet the living expenses of workers and their families and national goals pertaining to employment and economic development.

The harsh reality is that even in rich countries minimum wages can be well below the living wage. In New York City, USA, for example, the hourly minimum wage is $ 7.25, but the living wage for a single person is $12.75, while for a worker with a family of four, it is $ 26.12. In London, the minimum hourly living wage is £8.80 while the national minimum wage is £6.31 (as of 2013). Furthermore, this gap has increased significantly between 2003 and 2013.

The chasm between the decrees of governments and the needs of workers epitomizes the problem of low pay in wealthy societies that pre-dates the last global recession. Andrew Watt laments the fact that in Germany '(t)he 2000s were a lost decade for wage earners…(R)eal wages …declined by 4% during the last ten-year period'. In the post-recession era, workers in the UK are more than £3000 worse-off on an annual basis relative to the pre-recession peak.

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Not surprisingly, a 'living wage movement' has taken root and gained salience in recent years in the developed world, especially in light of stagnant living standards in the post-crisis era. What is important to emphasize is that the adverse impact of paying living wages on business operations is considered to be relatively modest. One evaluation shows that if Wal-Mart in the USA pays living wages, '…the average Wal-Mart shopper would spend an additional $9.70 per year', while low wage workers will benefit disproportionately.

Paying living wages is also a fiscally smart strategy as it reduces the fiscal support that the state has to provide to its low wage workers to bring them above the poverty line. For example, one estimate by a UK think-tank suggests that, if every low-paid worker in the UK (currently around 5 million) was moved to a living wage, the government would save on average £232 in lower social security expenditure and £445 in higher tax receipts. What is perhaps noteworthy is more than 800 British employers have voluntarily agreed to pay living wages to its low-paid workers in line with the calculations and recommendations of the Living Wage Foundation.

Of course, there are influential critics of the living wage movement. A good example is *The Economist.* Reflecting on contemporary UK experience, *The Economist* argues that '…large cuts in real wages help explain why the jobs market has hummed along in an otherwise sluggish economy… Brits, it seems, much prefer the hardship of low wages to the misery of no wages'. *The Economist*, it seems, has displayed its predilection: any job, however ill-paid, is better than no job. This is a re-statement of the influential view that there is a wage-employment trade-off.

The state-of-the-art evidence, on the other hand, is much more equivocal suggesting that the impact of paying higher minimum wages on employment is, in statistical terms, rather negligible. This is in line with the finding noted above that a major retailer, such as Wal-Mart, can readily

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absorb the payment of living wages without hurting customers in any significant way while helping low-paid workers. This result can be explained, at least partially, by the fact that costs of higher wages can be offset by a number of factors. Higher wages reduce turnover costs and thus reduce hiring expenses. Higher wages can boost morale and productivity that are best interpreted as payment of 'efficiency wages'.

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Despite the benign evidence on the wage-employment trade-off and the move by some employers to act as distinguished exemplars, the living wage movement is likely to face onerous obstacles, at least in the European Union (EU). There was a time when the '…European Parliament repeatedly expressed its concern about low pay and minimum wage levels in Europe'. Such concerns were, in turn, complemented by explicit proposals to link minimum wage levels to certain desirable benchmarks (such as 60 per cent of median wages) that would align them with the poverty and social exclusion dimensions of the Europe 2020 strategy.

Alas, times have changed. The prevailing view is that the current economic crisis in the European Union (EU) can be resolved through wage moderation policies (to induce competitiveness via the vehicle of 'internal devaluation'), complementary structural reforms and fiscal consolidation. Thus, ironically, while '…treaties still exclude wages from EU competencies, the crisis has made wages… one of the central targets of EU policy-making'. How to sustain the living wage movement in light of such developments remains a central challenge.