

The 'Living Wage': The right answer to low pay?

by Fran Bennett and Ruth Lister

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Introduction

This briefing discusses the ‘living wage’, an idea with a long history in the UK which is currently enjoying a renaissance. It draws attention to some concerns about the concept of the ‘living wage’ and its potential implications for who is identified as low paid and what is to be done about low pay.

The briefing does not question the undoubted recent successes of living wage campaigns in raising the wage levels of some of the UK’s lowest paid workers, or their successful mobilisation of groups that trades unions have traditionally found it difficult to organise. And it recognises the potential, and success to date, of focusing on the supply (contracting) chain¹ to persuade large and well-known employers to take responsibility for their contractors’ pay rates as well as their own.

But it discusses several issues which arise if the problem of low pay is conceptualised primarily as the failure to pay a ‘living wage’. These include the framing of low pay in terms of poverty, rather than unequal rewards in the labour market; and the assumption that, as long as a worker in a family is earning enough, the financial dependence of another adult on the wage-earner is not a problem. In addition, calls for a ‘living wage’ may potentially downgrade demands for a ‘social wage’ (public benefits and services outside the wage relationship) from the government, in favour of calls for employers to meet the needs of workers and their families instead. More technically, the number of assumptions that need to be made in order to translate a wage – an hourly rate of gross pay for an individual worker – into a weekly rate of net (disposable) income for an individual or family, in order to arrive at a ‘living wage’ figure, mean that the resulting amount will be unlikely to match any individual worker’s actual circumstances.

This briefing presents and discusses arguments both for and against the concept of the ‘living wage’ as the basis for sustained and successful action on low pay. Whilst we as authors have clear concerns about its rationale, and the logic behind it, we acknowledge the power which it seems to have to motivate people and to shame employers, and the gains which have been made for low-paid people in practice. We do not want to undermine those in any way. But we do want to explore whether this is the most coherent way to think about who low-paid workers are; to identify the key problems of low pay; and to sustain a successful strategy against low pay in the longer term.

This briefing does not set out to examine the economic or other arguments for (or against) higher pay levels for the low paid in general terms; that is not the issue here. This means that:

- we do not discuss the negative arguments about the potential impact of higher wages on affordability, competitiveness, unemployment etc., as they apply to other strategies to improve low pay levels as much as they do to campaigns for a living wage;

- we do not discuss the claims for the positive effects of achieving living wage levels of pay (e.g. on self-esteem for employees, and productivity, recruitment and retention etc. for employers), as these could also apply to other strategies to improve low pay levels as much as they do to campaigns for a living wage.

Instead, the briefing is intended to provide material for debates about the advantages and disadvantages of conceptualising a key part of the solution to low pay in terms of the achievement of a 'living wage'. Because this is a briefing, it first sets out the history of the 'living wage' and what it is before discussing some of the main issues.

The structure of the rest of the briefing is as follows :

- the next section describes living wage campaigns, especially in the UK;
- we then describe the demands for a living wage by campaigners;
- the following section looks at different ideas about what wages are for;
- the make-up of the low-paid workforce is discussed;
- we then examine the relationship between low pay and family needs;
- the next section discusses the relative roles of employers and government;
- the issue of geographical variation in 'living wage' figures is explored; and
- the final section draws some conclusions.

Sources of further information are listed at the end of the briefing.

The 'living wage': campaigns

Several international human rights conventions include clauses which could be seen as referring implicitly to a 'living wage':

- Article 23 (3) of the UN Declaration of Human Rights (1948) says that everyone who works has a right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection; and
- Articles 7 (a) (ii) and 11 of the International Covenant of Economic, Social and Cultural Rights (1966) refer to providing all workers with an adequate standard of living.

On the other hand, the Community Charter of Fundamental Social Rights (1989) instead refers to 'a decent wage', and argues for all employment to be 'fairly remunerated' (Clause 8).

The 'living wage' has a long history in the UK (eg see Snowden and Spender, 1912),² and was supported by different political parties in the past. Recent interest in the 'living wage' seems, however, to have been sparked by local campaigns in the United States (US) which have succeeded in particular in achieving higher wages for employees of companies subcontracted to work for public authorities. These authorities have been called upon to ensure that all those working in their supply (contract) chains were earning a 'living wage', which is much higher than the US minimum wage level. The typical family used in the arguments for a living wage is a two-parent, two-child family (ACORN, 2003). The campaigns are often grassroots, with many including churches and other faith groups, and have frequently involved the mobilisation of local communities as well as groups of low-paid workers themselves.

In the UK, the London Living Wage Campaign started in 2001 (then organised by TELCO),³ with a figure for an hourly living wage based on the 'low cost but acceptable' income standard developed by the Family Budget Unit.⁴ Following key successes with banks and NHS trusts, it succeeded in persuading the mayor of London to promote the 'London living wage'. The Greater London Authority set up the Living Wage Unit, which now researches and produces a recommended figure for a London living wage each year.

Campaigns in other areas have started more recently, though none is yet as developed as that in London; the Fair Pay Network website (<http://www.fairpaynetwork.org>) has information on these. Some national bodies have also undertaken to pay their staff at least at a 'living wage' level; these include some of the churches, some NGOs and other organisations, and most recently the Department for Children, Schools and Families.

The London Citizens' living wage campaign describes its goal as a situation in which 'everyone in work is paid enough to provide adequately for themselves

and their family. The Living Wage campaign aims to make poverty wages history’.

Living wage campaigns also often include in their concept of a ‘living wage’ not just an hourly wage level but also improvements in terms and conditions, such as pensions, sick pay and holidays, and access to bargaining (trade union representation). ‘Living’ is being used here in a way which means something broader than just income.

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The 'living wage': focus

Living wage supporters may focus on different demands :

- Some focus on the Government, and call (as in a petition on the 10 Downing Street website)⁵ for the national minimum wage to be raised to the level of a 'living wage' - though in this example, producing official regional living wage figures (as called for in the petition) would presumably result in different levels of statutory minimum wage in each region, rather than a national minimum wage.
- Others, such as the London Living Wage Campaign, do not call for changes in government policy on the national minimum wage. Instead, they focus on the role of employers – including the Government, but also private sector companies – and aim to hold them accountable for payment of wages above a certain threshold by the employers in their supply (contract) chain as well as themselves. (This is similar to the Ethical Trading Initiative's (ETI's) actions in terms of supply chains in developing countries; a clause in the ETI's 'base code' calls on companies to pay a 'living wage'.)

However, the phrase 'living wage' is also widely used in a looser way :

- In general, it is probably understood by many people as just a slogan calling for higher pay levels for the low paid. The 'living wage' idea, it is argued, can shame employers and motivate the public in a way which demands for 'fair pay' or a 'decent wage' have been unable to do.
- The Archbishop of York, John Sentamu, also called in 2007 for a 'living wage' for people who stay at home to bring up children.

But though they may be different, all these demands (except the last) are premised on arguments for higher pay on the basis that workers cannot reach a certain income level (at a minimum income standard level, and/or a poverty threshold, or above) on current wage levels. That is, these approaches conceptualise low pay as '... pay that is too low to allow a worker and their dependents to be free of poverty [and some would add] without means-tested support' (Howarth and Kenway, 2004, p 2).

This is very different from the idea of low pay as remuneration rates which are too low in relation to the pay of other workers, which is another common alternative conceptualisation of low pay, and is more likely to be expressed as pay below a certain proportion of the average, or median, pay level.

There may in practice be different figures for the living wage demanded :

- Some supporters believe that (full-time) workers should be able to earn sufficient to support themselves and their families without recourse to (means-tested) in-work benefits and tax credits, although they do take into account the effect of tax allowances and child benefit on the level of resources needed (e.g. Church Action on Poverty, UNISON, and originally TELCO in 2001).

- Others, when calculating the hourly wage necessary to meet the 'living wage' level, assume that the individual/family takes up any in-work benefits and tax credits to which they are entitled (e.g. GLA Economics for the London Living Wage Campaign). Grover (2008) argues that this means that what is being demanded is in fact a 'living income' rather than a 'living wage'.

These two approaches produce different hourly figures for the 'living wage', because of the different calculations being used.

Different kinds of family unit, containing different numbers of earners, may also be used to support the 'living wage' calculation, and will also produce different living wage figures :

- Seebohm Rowntree in 1918 called for a wage sufficient to support a one-earner couple and three children. Some supporters now use a 'typical' or 'average' family composed of a couple and two children, usually assuming one full-time earner; this is similar to the 'family wage' model which was used for wage bargaining in some cases by trades unions in the UK (see below).
- Some use a single person: for example, Church Action on Poverty has cited the figure calculated by researchers for the Joseph Rowntree Foundation (Bradshaw et al., 2008) as the wage level needed by a single person renting and working full-time (37.5 hours) to meet a 'minimum income standard'.
- In 2001, TELCO used a couple with two young children, with one full-time and one part-time earner, as the model.
- GLA Economics, which calculates the London living wage, uses a formula which takes a variety of family types, with different assumptions about number of earners and working hours (38.5 hours for full-time workers and 17 for part-time), and then weights the results according to the proportion of such families in the population.
- GLA Economics also used to calculate a young person's living wage, which was at a lower level than the adult living wage, but no longer does so now.
- The Ethical Trading Initiative says ideas of 'the family' vary in different developing countries - and that often, if a family becomes entitled to additional resources, the number of people considered to be part of the family for the purposes of sharing those resources may in fact expand.

A series of steps is necessary in order to move from a weekly disposable income for an individual/family/household to a calculation of the amount of gross hourly pay an individual would need to earn to achieve that income. At each

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stage, various assumptions must be made – about, for example,

- who someone lives with (or not),
- how many hours they work,
- what their housing costs are,
- whether they have to pay childcare costs (and if so how much) etc. -
- as well as how many earners there are in the family, and how many hours they each work.

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What are wages for?

Debates about a 'living wage' raise issues about the purpose(s) of wages. It has been suggested that, instead of others deciding for them, low-paid people themselves should be asked what they think wages are for. Figart et al. (2002) argue that three ideas about wages are present in wage bargaining:

- wages as a living (as in the idea of a 'living wage') – what someone needs to live on;
- wages as a contribution to production (i.e. a price) – e.g. Howarth and Kenway (2004) argue that in the long term, a job cannot be paid more than the value of what it produces; and
- wages as reflecting class, gender and race – in other words, translating social values and prejudices into differential rewards.

Each of these functions is present in the determination of wage levels, and each may come to the fore at different periods or in different situations.

Wages as subsistence, or a living, has been a common theme underlying bargaining for workers over time - although the 'living wage' idea moved from applying to skilled workers originally to being used by and on behalf of those at the bottom of the labour market instead. But wages as a price for the value of someone's work has also often been influential (in attempts by trades unions and others to achieve 'equal pay for equal work', the 'rate for the job' etc.).

It could be argued that campaigns to increase wages for low-paid workers have also often challenged traditional ideas of wages as an indicator of social inequalities, in (for example) arguing that everyone should be paid at least half or two-thirds of the median wage. Sometimes the median male wage was used, rather than the median of men's and women's wages, in order not to reflect the traditional under-valuing of women's work. These targets have often been put forward by trades unions. The Council of Europe also uses a percentage of median earnings as a 'decency threshold'. These are targets based on relative rewards in the labour market, which focus on inequality of wages, rather than on subsistence incomes or household poverty.⁶

Who are the low-paid workers?

As noted earlier, debates about the 'living wage' raise issues about

- who low-paid workers are;
- the reasons why they are low paid; and
- what should be done about it.

'In-work poverty' is often used to describe a situation in which a family/household is living in poverty and also contains one or more earners.⁷ This does not necessarily imply that such a household contains a worker who is low paid on an hourly basis - or that all such low-paid workers live in households in poverty. There is some overlap between low pay and household poverty; and Millar and Gardiner (2004) conclude that the overlap grew significantly between the 1970s/80s and 2000/01, from 3-4 to 14 per cent of employees. But Cooke and Lawton (2008) argue that the overlap had decreased again by 2004/05, to an estimated 7.2 per cent;⁸ they suggest that (as well as the possible impact of using a different data source) this reduction may be due to changes in policy since 2000/01. Both studies use the household as the unit of analysis. A household may just be an individual or a nuclear family; but it may also be wider (e.g. young people living with their parents). This assumes (as they note) that household resources, including pay, are shared equally, which may not always be the case.

Hourly low-paid workers are more likely to be: working part time, rather than full time; women, rather than men; and young, rather than older. Their wage may not be the main source of income coming into the household. Having a low wage significantly increases the chance of living in a poor family / household; but it is arguably also important because of the risk of poverty for individuals over the lifetime. For example, low pay now may mean that someone is not earning substantial rights to national insurance benefits, especially state retirement pension; and they may be at risk of poverty if their relationship breaks down and they have no assets or savings of their own. This is more likely to be true of women than men. And it may be true not just for low-paid people in households living on incomes below the poverty line, but also for some of those in households living above this level.

On the other hand, living wage campaigners could argue that it is also the case that many low-paid workers are migrants, who may look as though they are single and/or childless, but may have families abroad whom they are supporting financially out of their wages – and who, because of their immigration status, may have limited or no access to state benefits. And Coats (2007) cites sources pointing out that the national minimum wage does benefit households in the bottom 30 per cent of the income distribution of working age households, and of those in which at least one person was in work. However, 'There is not a straightforward relationship between earning a low wage and living in poverty. This is because different family types need different amounts of money to enjoy a similar standard of living and because an individual's own wages are only one source of income on which a household can draw to escape poverty' (Cooke and Lawton, 2008, p. 42).

What is the relationship between low pay and family needs?

The argument for a 'living wage' is that wages of a sufficient amount are needed in order for a worker to support themselves and their family at a minimum income standard, or above the poverty level. Earlier, we showed how the various families used to prove this have often differed. But when this case was argued in the 1920s, Eleanor Rathbone (1924) pointed out that the family model used by Seebohm Rowntree in 1918 (a man, wife and three children) meant that, even if such a 'living wage' were achieved, it would still leave larger families unable to meet their needs, whilst providing for millions of 'phantom children' who did not exist. This was the basis of her argument for family allowances (now child benefit) to be paid outside the wages system.

The problem is not solved by using a variety of family models and averaging out the amounts arrived at. Unless wages vary to meet the needs of different kinds of families, calling for a living wage based on average family needs is always going to mean that some workers will find it insufficient to meet their own and their family's needs; some workers will not in practice receive a 'living wage', whatever the level that is achieved⁹. As Grover (2008) argues :

'The problem with this is that it is at odds with the idea that the GLA's approach is responsive to need, for there are some household types with particular working patterns whose needs, even if they are claiming the available tax credits, will not be met according to the GLA's figures.' (p 77)

The living wage campaign recognises this, but argues that, whilst there will never be a perfect figure,

- the campaign needs to have a wage level that it can broadly defend;
- employers do not tend to query it; and
- the key imperative is to improve wages for all.

But the problem of averaging out family needs was one of the reasons why the Ethical Trading Initiative decided that, instead of supporting a formulaic approach to the calculation of a living wage, it was preferable that the level should be negotiated locally by the workers affected.

The GLA formula averages out family needs using several different family types to arrive at a living wage. But the living wage is in practice a 'family wage' in some other formulations, i.e. based on a couple (usually with children) but with only one full-time earner. (And, whether in the GLA or family wage formulation, the dependent adult in a couple seems never to be assumed to have any alternative income of their own, such as maternity allowance, incapacity benefit or pension etc.)

The struggle against the ‘family wage’ by feminists in and outside trades unions in the 1980s was based on the idea that, even though in theory the ‘family wage’ was gender-neutral, in practice it was based on a ‘male breadwinner’ model. So, if the main earner had a wage that was seen as sufficient to maintain their family, it would be acceptable either for the other adult to be out of the labour market, without an independent income of their own, or for them to be paid ‘pin money’ if they did have a job. Grover (2005) argues that the idea of need in connection with the living wage is problematic because of the association with the family wage (i.e. the male breadwinner model) – although he also argues that the hourly pay that women get could be substantially boosted if a living wage were achieved in practice.

The family wage approach to wage bargaining did not treat the economic dependence of one adult on another as problematic, or ask whether it was better for that adult to have access to independent income of their own in particular situations (parental leave etc.), rather than having to depend on their partner’s wage. And this approach also laid itself open to attack by employers, who only had to show that none of their workers was a male breadwinner, but that instead they were virtually all part-time married women, for the efficacy of the family wage formula to be successfully undermined. So basing wage demands on family responsibilities did not help certain groups successfully to raise their pay. Figart et al. (2002) argue that there is now a widespread acceptance that women as well as men support dependents, so that the living wage demand is for a gender-neutral family-sustaining wage – but this still does not seem to deal adequately with the issue of dependence within the family.

If a living wage figure aiming for independence from means-tested top-ups is used, it currently works out at over £9 per hour. Many living wage campaigners find this an unrealistic target, and therefore instead use a formula which assumes that families take up any means-tested benefits and tax credits they are entitled to (and, implicitly at least, agree that this is acceptable). Using the GLA Economics calculation, the people who then emerge as requiring the highest hourly pay levels tend in fact to be those without as many family responsibilities. This is because they do not qualify for as much money in in-work benefits and tax credits provided by the government.

Living wage campaigners might in turn argue that this demonstrates that the living wage is not about family dependence. However, in fact, using the GLA Economics formula, the highest hourly wage figure is for the couple with no children but only one earner, with the other adult dependent on the wage earner.

Whose responsibility?

Another focus of debate is the use of the 'living wage' to suggest that employers have a responsibility to maintain workers' families. This is in part about the respective responsibilities of governments and employers (see below). But in addition, it could be argued that, even if employers should bear some responsibility, it would be more appropriate to lobby them for (e.g.) better-paid maternity leave, and/or more flexible working patterns, help with childcare costs etc.. In other words, instead of employers being called on to help all workers with their family needs, averaged across a variety of different situations via the payment of a 'living wage', they should be lobbied to support those of their workers who do have specific family responsibilities.

Regardless of arguments about what should be the responsibility of employers, the amount of the living wage will in fact inevitably be affected by government action. If income tax is reduced, and/or benefits and tax credits are increased, the level of the living wage required to attain a certain level of income will decrease¹⁰. If wages are seen as being about subsistence, rather than relative labour market rewards, this of course makes sense. But it could be argued that this has several potentially problematic effects :

- making it more difficult to achieve an increase in income for those at the bottom of the income distribution (because any improvement resulting from government action will be counter-balanced, because of the formula used, by a lower level of living wage);
- making it more difficult to campaign for increases in the 'social wage' (benefits and services outside the paypacket), or reductions in costs of childcare or transport etc., since the answer to the lack of an adequate income for families is seen to rest with employers rather than with the Government. The social wage is often particularly important for women (Land, 1992). (Living wage campaigners could argue that it is possible to push for a living wage from employers and an adequate social wage from the government at the same time, because calculations for the living wage demonstrate 'where the shoe pinches', and therefore where action should be taken on excessive costs; and in addition that higher wages are particularly important for low-paid migrant workers with limited or no access to the social wage in the UK);
- making it more difficult to sustain a long-term and coherent pay strategy for low paid workers (as the hourly pay rate demanded by negotiators is vulnerable to changes in taxation and benefits policy, rather than being seen in relation to the structure of labour market rewards as a whole).

What about geography?

The living wage campaign has to date been particularly effective in London. This may be in part a result of there being no element of 'London weighting'¹¹ attached to the national minimum wage, even though there is a broad consensus that housing and childcare costs are higher in London. This reinforced the case for a London living wage. (The costs taken into account by GLA Economics in calculating a London living wage, in addition to a basket of goods, are council tax, transport, childcare and housing costs.) Now that living wage campaigns are being taken up outside London, it is becoming clear what levels of living wage will be put forward in other areas. But it is proving quite difficult for others to replicate the sophisticated and complex calculations done by GLA Economics for other areas in the UK.

In addition, trades unionists may be concerned about the impact of different regional levels of living wage on nationally agreed pay levels. London weighting of course has created an exception to the principle of pay rates which do not vary across the country. But it is not clear whether varying regional pay rates for the same jobs would be seen as acceptable.

And in theory, if taken to its logical conclusion, the living wage approach to low pay could mean different pay rates in each city, town or village, not just each region or country in the UK. Yet in practice variations in local costs outside London may be much less than differences in needs faced by families of different composition, living in different circumstances, and with different numbers of earners etc.

Living wage campaigners would be likely to argue that local level action is more empowering for participants. In addition, the current more fragmented nature of the labour market could be seen as more suited to local level activity. And employers can be 'named and shamed' more effectively at a local level, where they may not want to be labelled as causing poverty in their local community by the wage rates that they pay. The Ethical Trading Initiative would go further than this, as it sees the way in which GLA Economics currently calculates the London living wage as a rather 'top-down' approach – another reason why the ETI suggests that living wage levels should be negotiated locally by those affected by low pay themselves, rather than derived from such formulae.

Conclusions

Campaigners for the living wage see it as an idea which resonates widely with the public and with employers - indeed, currently 'the only game in town', which appears to be enthusing supporters and gaining some victories. Some people believe instead that its main function could be seen as more limited - i.e. attempting to guarantee that contractors in the supply chain pay at least a minimum amount (the effect that Fair Wage Resolutions aimed to have for nearly a century up to the 1980s) (see Metcalf, 2007, and Coats, 2007).

Some people argue that instead of a living wage approach, campaigns to tackle low pay should be based on arguing for a 'fair wage' or 'decent pay', and on challenging unequal labour market rewards. Living wage supporters argue that fairness is no less contested an idea than the living wage - and that if strategies to tackle low pay were based on fairness, or on tackling inequalities in labour market rewards, it would be much more difficult to mobilise supporters or to challenge employers; the idea of 'poverty pay' is more emotive.

Metcalf concludes that 'essentially ... the living wage is best viewed as a rallying cry to boost the pay of those towards the bottom of the wage league table' (2007, p. 50).

There is ample evidence that in recent years in the UK it has been highly successful in performing this function.

But some points outlined above suggest that connecting low pay with family subsistence, and with employers' responsibilities to maintain a worker's family, may not provide a strategy which is either dynamic or sustainable. In particular, seeing low pay through the lens of household poverty - whether defined as a minimum income standard, or a relative poverty threshold - can only ever provide a partial solution, because it does not place inadequate wage levels in the context of the unequal structure of labour market rewards and the persistent under-valuation of certain forms of paid (and unpaid) work.

Endnotes

1. This means the way in which some companies have contracted out parts of their operation to others (eg different elements of a production process, cleaning and catering services etc.).

2. Hilary Land (Emeritus Professor, University of Bristol) delivered an account of the history of the idea of the 'living wage' in the UK at the seminar on the living wage in 2007.

3. The East London Communities Organisation, part of London Citizens, which practises 'broad-based community organising'.

4. The Family Budget Unit, comprising academics and others, was founded in 1987 to carry out and publicise research into family budgets.

5. This was the catalyst for the seminar on the living wage. It called for the national minimum wage to be replaced with 'a living wage based on the level of pay and conditions that enables a full-time worker to make ends meet for themselves and their family', and for official regional living wage figures to be announced. The wording of the petition raised some concerns for Ruth Lister and Fran Bennett, who therefore organised the seminar to discuss these.

6. GLA Economics in its 2006 report on the London living wage states that the poverty threshold, with a 15 per cent addition as a margin, is slightly below a level of two-thirds of median earnings in London, thus bringing the two approaches to low pay targets together.

7. The European Commission includes a breakdown of its 'at risk of poverty' indicator which measures the 'work intensity' of the working age adults in a household (see Bardone and Guio, 2005, for detail); this seeks to convey how much (paid) work is being carried out in a household which is living below 60 per cent of median equivalent disposable household income, and is a step on the way to investigating 'in-work poverty' in more detail.

8. Cooke and Lawton (2008) use incomes before housing costs, as did Millar and Gardiner (2004) - but note that housing costs can be a significant variable in explaining the relationship between low pay and household poverty.

9. GLA Economics, for example, does not include any families with more than two children, or those with older children. If they did so, the average living wage amounts would be different.

10. Although in the formulation above which disregards what can be claimed via in-work means-tested benefits and tax credits, only the level of income tax would be relevant.

11. Additional amounts often added to pay rates to reflect the higher cost of living in London.

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