Policy recommendations

– The European Union should strive to ensure that all workers within its territory have access to living wage
– To guarantee a living wage, minimum wage rates in eastern member states should increase and the levels of minimum wage in southern states should not remain frozen for prolonged period of time
– The European Pillar of Social Rights initiative of the European Commission represents a potential step towards the right direction and can provide the much needed platform for a discussion of the minimum standard of dignified living for Europeans.

Introduction

The fight to obtain sufficient remuneration for workers to cover their living expenses has been at the top of the trade union agenda since their inception. Nonetheless, until very recently, the concept of a living wage has not played an important role in the politics of most European Union (EU) countries with the notable exception of the United Kingdom and Ireland. When it appeared in public discourse, it was mainly in connection with outsourcing manufacturing activities to developing countries and concerns about the living conditions of workers there. The Juncker Commission nonetheless brought the living wage issue to the forefront of the public debate by making it an important part of the European Pillar of Social Rights. While social policy is traditionally a domain of the individual member states, President Juncker argued that ‘there is a level of dignity we have to respect’ when it comes to remuneration. In this piece, we discuss the resurgence of interest in the living wage and present some simple arithmetic to show that the topic is indeed relevant for the EU.

Most historical approaches to the living wage base their definitions on the concept of ‘sufficient income for a worker to be able to provide for his family’. For instance, Adam Smith remarks in The Wealth of Nations that ‘they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged’ (Smith 1776: 94). In his Encyclical Rerum Novarum, which became a key document of Catholic Social Teaching, Pope Leo XII said that ‘wages [must] be sufficient to enable him (the worker) comfortably to support himself, his wife, and his children’ (Leo XIII 1891). The preamble of the International Labour Organization’s (ILO) Constitution states only that the living wage should be ‘adequate’ (ILO 1919), which, according to a later interpretation of its committee of experts, amounts to the aim ‘to ensure to workers a minimum wage that will provide a satisfactory standard of living to them and their families’ (ILO 1992).

At present there is no widely accepted conceptualisation of the living wage, beyond the notion that workers’ actual expenses should be taken into account when setting the minimum wage (Anker 2011). Arguments have been made (Brenner 2002; Glickman 1999) that the living wage should not be limited to items necessary for satisfying basic needs, such as food and housing, but should also take into account items such as culture or participation in society. Nonetheless, on this note, we understand the living wage fairly modestly and stick with the very basic needs for survival to illustrate that even when we set the bar low, the EU has still some way to go to guarantee a living wage to all its citizens.

1 All opinions presented here are those of the author alone and do not necessarily represent the position of the National Bank of Slovakia.

2 https://uk.reuters.com/article/uk-eu-labor-juncker/eu-states-should-guarantee-minimum-income-for-citizens-juncker-idUKKBN15729W
The living wage resurgence

The topic of living wages has seen a resurgence of interest in European political discourse in the second half of the 2010s. This resurgence is connected with the announcement of the European Pillar of Social Rights in the 2015 State of the Union speech by President Juncker. In the speech, the president explicitly said that such a pillar is needed to ‘serve as a renewed convergence within the euro area’. The meaning of these words is made clear by the 20 principles of the Pillar. Principle number six, specifically, states that ‘Adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and his/her family in the light of national economic and social conditions, whilst safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented.’

The Pillar reflects political developments in post-crisis EU member states. Most notably Germany, the largest European economy, introduced a statutory minimum wage in 2015. Nonetheless, the most important aspect of the Pillar is that it openly formulates a demand for adequate remuneration based on the needs of workers as a tool for achieving convergence of living standards. Thus it openly challenges systems in some countries with minimum wage legislation that set the wage floor too low, which has been known to happen for a variety of reasons, including the rise of precarious work and the segmentation of the labour market, weak collective bargaining mechanisms and race-to-the-bottom dynamics aimed at maintaining competitiveness and remaining an attractive destination for international capital (Grimshaw 2017).

Importantly, many of the reasons underlying the resurgence of the living wage debate in the ‘continental’ EU have been fuelled by intensive competition for investments, which intensified with subsequent rounds of ‘eastern’ EU enlargement in the 2000s. The enlargement round extended the size of the zone in which capital is free to move to places with drastically lower living standards vis-à-vis the traditional EU15 countries (Stefanova 2006). Additionally, the impact of the Great Recession has put disproportionate stress on the southern EU economies (Matsaganis and Leventi 2014), pushing their ability to provide welfare to their inhabitants to the limit. As a result of these dynamics, the EU now contains a substantial number of countries on its Eastern and Southern periphery that have substantially lower wage levels in comparison with the core EU countries. Consequently, there is a new need for rethinking protection of low wage workers to ensure their incomes are sufficient to provide a minimum standard of living.

When the enlarged, post-crisis EU recognised the need to address the provision of a living wage, it could build on two sources. First, there has been a tradition of advocacy for the wages of non-European workers, in particular in areas such as the garment industry. A good example of such a movement is the Dutch Clean Clothes Campaign. Second, the European living wage discourse can build on the debates that have been going on in the English-speaking world for nearly three decades. The first modern living wage campaign started in Baltimore, Maryland (United States) in 1994 through local legislation, following a proposal from a coalition including church groups, trade unions and others for a living wage for specific sectors (Luce 2004). The campaign quickly spread to other parts of the United States, as well as to other countries, such as Canada (the Living Wage for Families campaign) and Australia (the Fair Work Act). Within the EU, similar efforts in the United Kingdom and Ireland led to the institutionalisation of minimum wages at the turn of the century. Most recently, again in the United States, former president Obama fought to increase the minimum wage to provide a decent standard of living for low wage earners and Bernie Sanders’ presidential campaign demanded an increase in the minimum wage to a living-wage amount of $15 per hour.

Interestingly, however, the political actors have changed quite drastically since the outbreak of the financial crisis. In the Baltimore case and its follow-ups it was typically the government and public sector, along with NGOs that strove for living wage tools, such as legal ordinances and public procurement conditionality, against the opposition of business interests. In the contemporary United States it is often businesses that are not willing or able to compete on low wages in sectors such as fast food restaurants that are often the engine behind efforts to institutionalise the living wage as a barrier against social dumping; this also appears to be the case in the United Kingdom (Grimshaw 2017).

Calculating the living wage

Any meaningful political advocacy for the living wage has to be associated with some numerical quantification of the minimum sufficient income. Such calculations are particularly well developed in the United Kingdom, living wages for the entire country (as well as a separate London living wage) have been calculated regularly by an independent board of experts, employers, trade unions and civil society since 2001. As can be seen in Figure 1, these calculations are actually higher than the national minimum wage level, particularly in London, where the living wage is twice as high as the national minimum wage.

Unlike the United Kingdom, most countries lack high quality and consistent living wage calculations. It is thus not straightforward to tell what the gap is between needs and earnings across Europe. Predominantly in some eastern European countries, the government announces a ‘subsistence minimum’ amount, which is then used for the calculation of taxation and welfare transfers. The amounts tend to be very low; for instance in Slovakia it is just 205 euros a month. Nonetheless, mere publication of such an official figure can empower trade unions and NGOs to demand an increase in the living standards of the people who fall below even such a low threshold. Of particular interest is the situation in Hungary, where the statistical authority stopped publishing this figure in 2015. The task of making the calculation was taken over by the Hungarian Trade Union Confederation (MASZSZ), which teamed up with an independent research institution and determined that 36 per cent of the population lives on an income below even this minimal amount (Kiss and Kunert 2017). While we cannot

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5 https://cleanclothes.org
6 https://bernesanders.com/issues/a-living-wage/
causally attribute the recent minimum wage increase in Hungary to MASZSZ activities, the fact that the increased minimum wage appears finally to surpass the subsistence minimum threshold is certainly encouraging.

In order to illustrate the relevance of the living wage for the EU, we use a simple indicator based on figures provided by the Amsterdam-based WageIndicator Foundation (WI). WI surveys people in nearly 100 countries worldwide about prices of a standardised set of items (Guzi and Kahanec 2014). While the respondents to these surveys are self-selected, the prices appear roughly in line with other sources. Given the large number of observations (100,000), the calculations give us at least a good feel for how much it costs to afford a humble livelihood in different countries. The resulting figure represents a sum of average (median) costs of accommodation (an one room apartment outside of the city centre), food (1,200 calories consisting of different items according to local consumption patterns), transportation and 10 per cent extra for savings and other expenses.

The composition of the living wage calculation is roughly in line with standard methodologies applied by comparable studies (Anker 2011). Nonetheless, because it was developed as a global indicator that should be meaningful for all countries, it is much lower than comparable indicators made within the Western context, such as the UK living wage, which is currently 8.45 GBP (about 9.50 euros) per hour, while the equivalent of our calculation is just 7 euros per hour. It is therefore a very minimalistic calculation, which ignores some other potentially relevant factors (taxation, state benefits and so on) and should be seen as a rough estimate to illustrate the contemporary salience of the living wage issue in the EU.

In Figure 2 we present a comparison between WI living wages and minimum wages for 14 EU countries that have a statutory minimum wage and for which a WI calculation is available. The minimum wages are plotted on the X axis, while the calculated living wages are on the Y axis. For easier comparability, we added a 45 degree line dividing the sample between countries, in which...
the minimum wage is above our minimalistic living wage calculation (located below the line) and the ones where the minimum wage is insufficient (above the line). Four clusters are clearly visible in the chart: the Core cluster containing the north-western EU countries,\(^7\) the Southern cluster of Spain, Portugal and Greece; the tight cluster of the so-called Visegrad countries (Slovakia, Czechia, Hungary and Poland); and the final cluster consisting of Bulgaria and Romania.

We see that the core countries are expensive to live in, but the minimum wages are generous enough to cover expenses and also provide a safety cushion in case of additional expenses. That is not true in other clusters. The Southern cluster tends to be near the line, with only Greece (which under international pressure decreased its minimum wage from 877 to 684 euros in 2012 and is likely to keep it stagnant for the foreseeable future due to the high unemployment rate) providing a sufficient minimum wage. All the eastern European countries are above the line, meaning that the minimum wage is lower than the living wage. While minimum wages are slightly more generous in the Visegrad group of countries than in Romania and Bulgaria, the difference in the living wage is about the same, placing both groups at about a similar distance from the line.

The presented calculations are for individuals. Due to the ability to pool incomes and share the costs of housing in particular, families typically fare better even though we account for up to two children with needs to fulfil and no income and the need for larger accommodation. According to our calculations, only in Hungary, Bulgaria and Romania are families with one full-time minimum wage and one part-time minimum wage worker, with the national average number of children, unable to obtain the basic necessities of life. Nonetheless, given that these are very minimalistic calculations, we argue that our numbers confirm that minimum wages are simply too low to guarantee dignified living standards across nearly the entire periphery of the EU.

Conclusions and policy implications

To conclude, according to our assessment, the minimum wages in peripheral European countries are not sufficient from a living wage perspective. A European-level aim of promoting faster convergence in minimum wages between eastern and western economies is therefore quite sensible, as well as ensuring that stagnant minimum wages in the South will not keep pushing workers below the living wage level.

As a second step, there should be a broader discussion within the EU about an acceptable minimum dignified standard of living, which will go beyond the minimalistic calculations presented here. As we see from the UK living wage calculations, even the core countries might be guilty of not guaranteeing sufficient income for workers if we take a more generous living wage calculation. The European Pillar of Social Rights might be a good vehicle for determining a Europe-wide living wage threshold, reflecting contemporary European ideas about a dignified life that is achievable without threatening the competitiveness of the EU vis-à-vis the rest of the world.

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\(^7\) In our analysis, this category consists of Belgium, France, Germany, the Netherlands and the United Kingdom.

References


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