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The Case for Action on Living Wages

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Living wages are key to reduce inequality, build back better from Covid and achieve key SDGs

Inequality takes many forms, showing up through vast disparities in income and wealth, opportunity and outcomes, and frequently intersecting with gender-based, racial and other forms of historical discrimination and disadvantage. Income inequality can be particularly catalytic in its effects, with poverty wages locking many families into generations of social and economic disadvantage, while, conversely, decent wages can open up much-needed avenues towards opportunity and well-being.

The statistics on income and wealth inequality are striking. According to the 2022 World Inequality Report, the richest 10 % of the global population currently takes 52 % of global income and owns 76 % of all wealth, while the poorest half of the population earns just 8.5 % of global income and holds 2 % of wealth.[1] The ILO estimates that 327 million workers globally are paid at their countries' minimum wage or below. This represents about 19 % of the world's wage earners, and includes 152 million women.[2] Meanwhile, legal minimum wages overwhelmingly fall below the level of a living wage.[3]

Globally, the 'labor share' (the proportion of national income allocated to wages) has been in decline for three decades. Wage incomes for workers reflect a long-term global trend of increasing disparity, and a continuous decline in the wage share, even in emerging economies with rapid growth. These trends appear to reflect a disconnect between productivity and wages. Constrained returns to labor and unequal income distribution have led to the growing phenomenon of working poverty.[4]

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The Covid-19 pandemic has exacerbated these already unsustainable levels of income inequality. The World Bank estimates that Covid-19 has pushed around 100 million people into extreme poverty.[5] Oxfam reports that a new billionaire has been created every day since the pandemic began, while inequality-related issues are killing one person every four seconds.[6] The poorest workers have been disproportionately impacted by the pandemic, and the consequences of these impacts on their health and well-being have ricocheted across value chains, with supply chain resilience suffering as a result.[7]

Reversing this dynamic is essential if we are to achieve key Sustainable Development Goals by their 2030 deadline. SDG 8 on Decent Work and Economic Growth highlights the eradication of forced labor and child labor – both of which are sustained and exacerbated when working adults cannot earn a living wage.[8] The first target under SDG 10 on Reduced Inequalities calls specifically for the world to achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average. SDG 1 on No Poverty and SDG 5, which addresses gender equality, will also require progress on living wages if they are to be met.

Business has both a key role and responsibility in delivering change

Notwithstanding the critical role of governments in addressing inequality, including through the provision of adequate social safety nets, the scale of the challenge faced by the global community today cannot be tackled by governments alone. Not only do we need businesses to step up to help close the income gaps, but there are powerful reasons why it is in their best interests to do so. Indeed, addressing inequality should be a business priority: it constrains economic growth and business performance, erodes social cohesion, diminishes trust in key institutions, undermines the resilience of supply chains, fuels civil and political conflict, threatens business' license to operate, and hinders the capacity of society to tackle other critical challenges. Inequality, human rights and business are inextricably intertwined.

The Business Commission to Tackle Inequality has observed that business bears its share of responsibility for the inequality we face today, since pressure to increase profits and maximize shareholder returns has led many companies to adopt business practices that have widened social and economic gaps. The Commission concludes that "business can – and must – play its part in closing these gaps," and that "inequality is now one of the most pressing challenges facing our societies today, on a par with the climate emergency, and it must be addressed with the same level of urgency".[9]

The provision of living wages is only one component of what is needed to address this challenge. Yet it is a central component, and one that can be instrumental in reducing inequalities of opportunity and outcome as well as reducing racial and gender-based disadvantage. The right of workers to earn a living wage is recognized as a human right as far back as the Universal Declaration of Human Rights.[10] It sets a critical threshold: one above which workers and their families can achieve a minimum decent standard of living and below which they simply cannot.

As such, ensuring that workers in their operations and value chains are earning a living wage is part of the responsibility of all companies to respect human rights, as set out in the UN Guiding Principles on Business and Human Rights.[11] It is an issue that should be in scope for any company's human rights due diligence process, to identify whether and where workers earn less than a living wage and take steps, individually and through collaboration with others, to close the gap.

Yet the scale of the challenge should not be underestimated. Assumptions that this is only an issue in companies' overseas supply chains prove repeatedly to be false, with the issue surfacing frequently in relation to their direct employees,[12] to temporary workers engaged through third parties,[13] as well as in companies' domestic supply chains.[14] Given that minimum wages in most countries fall below the level of a living wage as measured by recognized benchmarks, we need to move beyond simple critiques of companies that rely on workers earning excessively low wages. It is important to recognize the entrenched practices and market incentives that have driven this reality, and to build the systems and resources needed to support and incentivize action that can reverse the trend.

The fact is that we now have a broad array of evidence both that it is feasible for companies to drive real and measurable progress toward living wages for workers in their workforce and supply chains, and that doing so is ultimately beneficial for business.

The evidence shows that real progress is now more possible than ever

Over recent years, an increasing focus on living wages has spawned a growing number of practical initiatives aimed at addressing the issue. While these have taken a variety of approaches to implementation, there is now a growing consensus around what is needed for companies to make concrete advances towards living wages, both in their own operations and in their supply chains.

Leading benchmark providers WageIndicator, the Anker Research Institute and the Fair Wage Network are providing increasingly robust and credible living wage estimates that companies can use across multiple countries and sub-regions. Growing demand from users for better alignment between benchmark methodologies and their resulting estimates is driving further progress towards consistency and accessibility. Many of the leading living wage initiatives are already discussing how to better align on critical steps, including how to measure wages.

As well as improved prospects for convergence between methodologies, there is now a greater understanding of the responsibility companies have towards workers in their supply chains, and how they can make progress towards living wages when they do not employ the workers themselves and cannot directly set wages. Practical tools have been developed by organizations including the Fair Labor Association (FLA) and the sustainable trade initiative IDH, to assist companies in obtaining wage data from suppliers and calculating the gap between current wages and a living wage.

Several initiatives now have programs that focus on the commercial relationship between buyers and suppliers. For example, company members of the initiative ACT on Living Wages have made commitments to change their purchasing practices where these impede progress towards living wages. Collective bargaining can also play a central role in ensuring that wage increases progress in a sustainable way that is acceptable to both workers and employers. ACT ties purchasing practice reform to industry collective bargaining to help make sure that the benefits that flow to suppliers from improved commercial terms with their customers are passed onto workers in the form of higher wages.

Consistency of approach is essential – particularly in industries where multiple companies source from the same suppliers. As a result, many companies are joining industry-focused initiatives to collaborate or share experience in advancing living wages in supply chains. In 2021, the UN Global Compact called on its 15,000 participating companies to take action to ensure a living wage as part of their commitment to respect labor rights and advance decent work for all workers. It provides support and guidance through its SDG Ambition Accelerator to assist companies in their efforts.[15] With living wage programs also offered by organizations such as the FLA, IDH, Business for Inclusive Growth (B4IG), Fair Wear, the Ethical Trading Initiative (ETI), amfori and AIM Progress among others, the opportunities for companies to get support and take action are more accessible than ever. Furthermore, accreditation schemes that enable companies to be recognized as living wage employers, such as the one operated by the Living Wage Foundation UK, are starting to spread, with Living Wage for US now up and running.

All these developments towards greater alignment and consistency are reducing the confusion that may have prevented many companies in the past from implementing living wage programs. They are also building a stronger basis for the development of reporting standards that would enable regulators, investors, consumers and workers to have insight into what progress a company is making towards living wages.

Company reporting on living wages to date has been limited and focused mostly on public commitments or activities undertaken, rather than on evidence of changes in wages earned. The **Accounting for Living Wages** initiative has convened and consulted with experts to help develop a standardized model through which companies could report on progress towards living wages in both their workforce and first tier supply chain.[16] The project will pilot the draft disclosures with companies in 2022, with a view to promoting their uptake by reporting frameworks, standards and benchmarks and scaling up the incentives for companies to engage and demonstrate progress.

Research shows that business stands to benefit from delivering on living wages

In addition to these advances in developing the tools, resources and support systems that can help companies achieve living wages and measure their progress, there has also been considerable growth in the evidence that such progress is to the benefit of companies themselves. The UK Living Wage Foundation, which has accredited more than 1,000 companies as Living Wage Employers since 2011, reports that 93 % of these companies experience benefits for their business: 86 % report improved reputation; 75 % report increased motivation and retention rates for employees; and 58 % report improved relations between managers and staff.[17]

A new report on the benefits for business of paying living wages summarizes a broad array of research and findings.[18] With regard to a company's own workforce, its authors find that living wages can lead to lower staff turnover, which reduces recruitment and training costs, and can promote a more motivated and productive workforce, by improving morale and commitment. They cite research showing that greater economic security, higher motivation, and better health contribute to employee satisfaction, improving the overall working environment and contributing to productivity; and that there are early signs of living wages improving revenues and profits. With regard to workers in companies' value chains, the same report finds evidence that living wages strengthen value chain stability, performance and resilience and offer a measurable pathway to improve supply chain transparency and social impact, while reducing the costs of managing labor issues. It notes that companies find a direct correlation between supplier performance and their treatment of workers.[19]

Growing regulation and investor interest are adding to the pressure for more action

Moreover, the case for businesses to take action on living wages is set to strengthen further. Investors are increasingly looking at the question of whether workers' pay falls below a living wage.[20] This provides insight into whether the value of human capital is being protected and increased, which is often seen to have material implications for a company's future success.[21] Platform Living Wage Financials – a coalition of 19 financial institutions with over €4.6 trillion of assets under management and advice – encourages investee companies to address the non-payment of living wages and incomes in global supply chains.[22] ShareAction's Good Work Coalition of investors similarly works to promote living wages among investee companies.[23] And Principles for Responsible Investment, whose more than 4,500 signatories represent $120 trillion in assets under management, is looking at how investors can contribute to the decent work agenda, including through support for the living wages agenda.

The growth in legislation requiring companies to conduct human rights due diligence will likely bring the issue into still sharper relief under the scrutiny of national enforcement agencies. As Platform Living Wage Financials observe, 'Though living wage will not be an explicit reporting element [in proposed EU legislation on due diligence], accurate due diligence will naturally allow for it to be assessed as a salient risk.'[24] In similar vein, the World Benchmarking Alliance has taken living wage as a foundational indicator that will be applied to all 2,000 companies that it plans to rank on sustainability issues.[25]

The remaining challenge is to take progress to scale

In sum, the societal and economic imperatives for achieving progress towards living wages are clear, as is the centrality of this to both 'building back better' from the pandemic and achieving a number of Sustainable Development Goals. At the same time the growth in initiatives advancing living wage benchmarks and collaborative action is delivering the tools and support that make it feasible and realistic for companies to tackle the challenges and make the progress necessary, with due recognition that this takes time. The evidence of the benefits for business of doing so is both increasingly abundant and compelling. And growing investor and regulatory pressures are set to make the case for companies to take action ever more salient.

However, despite all these drivers, a number of factors still stand in the way of accelerating and scaling progress on wages at the rate we need to see. They include continuing assumptions in many quarters, including some investors and governments, that increasing wages is simply a net cost for companies and should be discouraged. This perpetuates arguments from some companies' financial and legal departments that pressure to increase wages should be resisted, often overriding other internal voices making the case for action. In addition, arguments that there is no single agreed living wage figure for each country and sub-region are too readily deployed to suggest that it is too hard to get started.

Three key developments could help break past these barriers to progress: further convergence and scale in living wage benchmarks and a means to make them publicly available; a call to action based on a clear, high-level living wage target; and the integration into reporting standards of a meaningful, standardized way for companies to report publicly on progress towards living wages.

1. Convergence and scale of living wage benchmarks

The current trend in convergence around the criteria that should underpin any credible living wage benchmark is to be welcomed and should be further fostered and strengthened. The research that goes into developing benchmarks is extensive, has to be constantly updated in light of inflation, and needs to be adequately resourced. As a result, the business models available to those doing this work are challenging. More independent funding is needed and a means should be found for the resulting benchmarks to be gathered in a public database. This will ensure that no company faces a cost barrier to accessing the information they require in order to assess the adequacy of wages.

2. A call to action based on a living wage target

The growth in initiatives and resources supporting action on living wages has been both a result and a cause of engagement by ever more companies in the practical work of making progress. Yet the numbers stepping forward remain too small. And their task is significantly harder when peer companies that use the same service providers or source from the same suppliers are not creating the same incentives for wage increases – or, indeed, act in ways the maintain a downward pressure on wages. Progress will be severely constrained until action is taken at much greater scale. Just as the Net Zero 2050 target has had a political and practical galvanizing effect on climate action, a target on living wages – logically tied to the 2030 deadline of the SDGs – could serve the same purpose in scaling up action on this critical component of inequality.

3. A meaningful way for companies to report on progress

In any scenario, progress has to be measurable. Markets, regulators and civil society actors cannot recognize and reward those doing the right thing and demand more from those that are not, without meaningful, comparable, public information on the extent to which companies are making a real difference in the wages of the lowest-paid workers. At a time when sustainability reporting standards are expanding at both regional and international levels, and there is recognition of the need for higher quality 'social' indicators in the broader ESG (environmental, social and governance) analysis of corporate performance, reporting standards need to integrate robust indicators of companies' progress towards living wages in both their workforce and supply chain.

With progress on these three fronts, the achievement of living wages around the world can become a reality. It would mark a step-change in reducing inequality, ensuring a better life for the most at-risk workers in a post-Covid world, and moving us substantially closer to a range of SDG targets.

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To learn more about Shift, visit
shiftproject.org

Endnotes

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