**DRAFT for Coordination Council Feedback**

**IPSP2  
Working Group on Living Wage**

**Concept and Logistics Note**

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**Introduction**

IPSP2 aspires to bring together analysts, civil society and policy makers to forge a consensus on actions to advance social progress in the face of the headwinds of the 21st century. The mode of operation is through a series of Working Groups which address the leading issues of our time. The Working Group (WG) on Living Wage takes up the question of earnings and working conditions of labor under the rubric of a living wage, in the context of rapidly changing technology, trade and organization.

Recognizing that Living Wage raises a vast array of issues, an initial approach to focus the discussion is to divide the broad vista into three (obviously interrelated) categories of consideration:

1. The conceptualization, definition and measurement of a Living Wage, it being understood that this goes beyond simply wage earnings to non-wage compensation and some of the working conditions (e.g. working hours, contract security).
2. The determinants of earnings, and non-earnings working conditions, including and especially in the informal sector.
3. Policy instruments for achieving Living Wage objectives.
4. **What is a Living Wage?**

While there are several definitions of living wages, most of the existing initiatives and methodologies refer to it as a “Wage that provide workers and their families a basic but decent standard of living, taking into account the context prevailing in a given place and time”.[[1]](#footnote-2) In practice approaches to calculate a living wage involve: a) defining the quantities of different goods and services that should be included in the consumption basked reflecting the basic but decent standard of living for an illustrative family type; b) computing 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; and finally, translating the household disposable income needed to meet that standard of living into the gross earnings to be paid as a living wage to workers, by making assumptions on the number of wage earners in the family, the income tax and social contributions paid by workers and, ideally, for the social transfers received by the family type considered. Recognising that variation exists in the parameters and specifications underpinning these various steps, the OECD has recommended to develop a **common living wage measurement framework** that would help to:

* Set and introduce living wage thresholds in close co-operation and consultation with stakeholders (workers, worker representatives, trade unions and firms), while tailoring those thresholds to specific contexts and business needs;
* Integrate considerations of social needs, prevailing norms of decency and social inclusion, while also ideally considering possible macro-economic effects (e.g. on employment and competitiveness);
* Define living wages in the context of existing social protection systems, with a clear articulation of responsibilities between the private and the public sector.

The Working Group on Living Wages will have broad discussions on these points, in the context of the current work on living wages done by the International Labour Organisation. Additional topics for consideration include a gendered-approach to living wages (ie understand whether the definition of living wages should take into account gender-specific needs or norms, both for the primary and secondary earner); the characteristics of new family arrangements and configurations (e.g. one-single parent households; divorced households; etc).

*The Working Group will also discuss the main non-earnings conditions that could be encompassed in a holistic strategy aiming to promote decent work in all of its aspects. In particular working hours and job security are some of the most crucial aspects to consider to avoid in-work poverty.*

1. **Determinants of Earnings and Non-Earnings Conditions**

There is a huge analytical literature on the determinants of wage earnings and non-wage compensation. What is less clear is the match between the latest developments and the discourse in civil society and among policy makers. Three areas that could be a focus for this working group are:

1. The differences between formal and informal sectors in the determinants of earnings and non-earnings outcomes for workers.
2. The impact of employer power (monopsony and oligopsony) in determining outcomes.
3. The impact of product market power on wage and non-wage work conditions.

It would be important to bring together analysts, civil society and policy makers to lay out the contours of agreement and disagreement in these areas.

1. **Policy Instruments for Achieving Living Wage Objectives**

Given the definition of a Living Wage in terms of its wage and non-wage components, and given an analysis of the determinants of these components, the next step is to explore policy instruments for achieving Living Wage objectives relative to observed outcomes. One could divide this topic into two categories:

1. Conventional or standard instruments which have been much debated in the analytical and policy discourse. The minimum wage would be an example of such an instrument. Another example would be interventions proposed to raise earnings in the informal sector, such as training or regulatory changes.
2. Non-conventional instruments. One example of this would be policies to encourage and support firm driven achieving of Living Wage objectives. Another example would be policies to address employer power in labor markets, or how policies to reduce product market power could increase wages and improve working conditions.

1. Balestra and all, 2023. [↑](#footnote-ref-2)