

**National Assembly for Wales**  
Research paper

# The Living Wage: Questions and Answers

November 2013

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Enquiry no: 13/3051

Paper number: 13/075

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## **The Living Wage: Questions and Answers**

November 2013

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The Living Wage is intended to reflect the amount of money an individual needs to earn to live a decent life. As opposed to the National Minimum Wage, it is a voluntary measure that employers choose to sign up to, rather than enforceable by law. Though many agree with the Living Wage in principle, commentators differ on the extent to which its uptake could, or should, be broadened. This paper answers key questions people may have about the Living Wage, including how it is calculated, who pays it, and what people have done to try and encourage its uptake among employers.

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# The Living Wage: Questions and Answers

## 1. Introduction

The Living Wage is intended to reflect the amount of money an individual needs to earn to live a decent life. As opposed to the National Minimum Wage, it is a voluntary measure that employers choose to sign up to, rather than something that is enforceable by law. Supporters of the Living Wage differ in their opinion as to how it should be more broadly implemented – whether it should be left entirely voluntary, or employers should receive more forcible encouragement (for example, using the public procurement system) to encourage them to pay workers the Living Wage. Some commentators, including business representatives, have argued that paying staff the Living Wage could limit employment, due to additional costs involved in paying staff, or that it is simply not viable in the currently weak economic climate. Others argue that the depression of annual income per head since 2008 (due to the combined effect of the recession, high unemployment, stagnating wage levels and high inflation) makes the Living Wage of particular contemporary importance.

## 2. What is the Living Wage?

The concept of a “living wage” has been around since at least the late 19<sup>th</sup> century. In 1912, CC Cotterill stated in his book *A Living Wage: A National Necessity* that “A living wage is that which is sufficient to enable those who receive it and those dependent on them to lead vigorous, full human lives”.

In the 21<sup>st</sup> century the concept has been taken up by the alliance of community organising groups, [Citizens UK](#), which established the [Living Wage Foundation](#) in 2011. The UK Living Wage is calculated annually by academics at Loughborough University and **currently stands at £7.65 per hour**. The Living Wage Foundation encourages organisations to pay their staff the Living Wage and accredits those that do.

The **National Minimum Wage is currently £6.31**.<sup>1</sup> Changes to the Minimum Wage are recommended by the [Low Pay Commission](#).

There is a separate **London Living Wage**, reflecting the higher living costs in the UK’s capital. It is set annually by the [Greater London Authority](#) and covers all boroughs in Greater London. **The London Living Wage currently stands at £8.80 per hour**.

These Living Wage rates (both in London and the rest of the UK) were set in November 2013, and are generally amended in November every year.

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<sup>1</sup> UK Department for Work and Pensions, [National Minimum Wage rates](#) [Accessed 21 October 2013]



### 3. How is the Living Wage calculated?

The UK Living Wage is calculated annually by the Centre for Research in Social Policy (CRSP) at Loughborough University (the London Living Wage is set separately by the Greater London Authority).

The calculation is based on the Minimum Income Standard for the United Kingdom, the product of research by CRSP, funded by the Joseph Rowntree Foundation.<sup>2</sup> The research looks in detail at what households need in order to have a minimum acceptable standard of living. Decisions about what to include in this standard are made by groups comprised of members of the public.

The uprating of the Living Wage figure each year takes account of rises in living costs and any changes in what people define as a 'minimum' acceptable standard. It also takes some account of what is happening to wages generally, to prevent a situation where Living Wage employers are required to give pay rises that are too far out of line with general pay trends.

As a result of this restriction, the 2013 Living Wage is set at £7.65 (the maximum possible increase, under the method used by CRSP, from last year's figure of £7.45), despite the CRSP's calculation that an £9.08 wage is required to meet actual minimum living costs. The main reason for this discrepancy is that the UK is going through a lengthy period of average wage increases falling behind the increase in living costs.

A detailed account of how the Living Wage is set is available in the CRSP document [Uprating the out of London Living Wage 2013](#) .

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<sup>2</sup> Centre for Research in Social Policy, [Minimum Income Standard reports](#) [Accessed 9 October 2013]

#### 4. Who pays the Living Wage in Wales?

Employers paying the Living Wage who are accredited by the Living Wage Foundation are listed on the Living Wage Foundation [website](#). Accredited Welsh employers listed are:

- Barod Community Interest Group
- Nu Instruments Limited
- Castell Homes Limited
- Cardiff and Vale CAB
- Taff Housing Association
- Oxford Scientific Films
- Cambria Maintenance Services Limited
- Cynnal Cymru - Sustain Wales
- Cambrian Training Company Ltd
- Cardiff Community Housing
- Wales & West Housing
- National Assembly for Wales
- Ecigarette Direct: The Smoker's Angel
- Caerphilly County Borough Council
- Chwarae Teg / Fairplay Workforce
- ACE -Action in Caerau & Ely

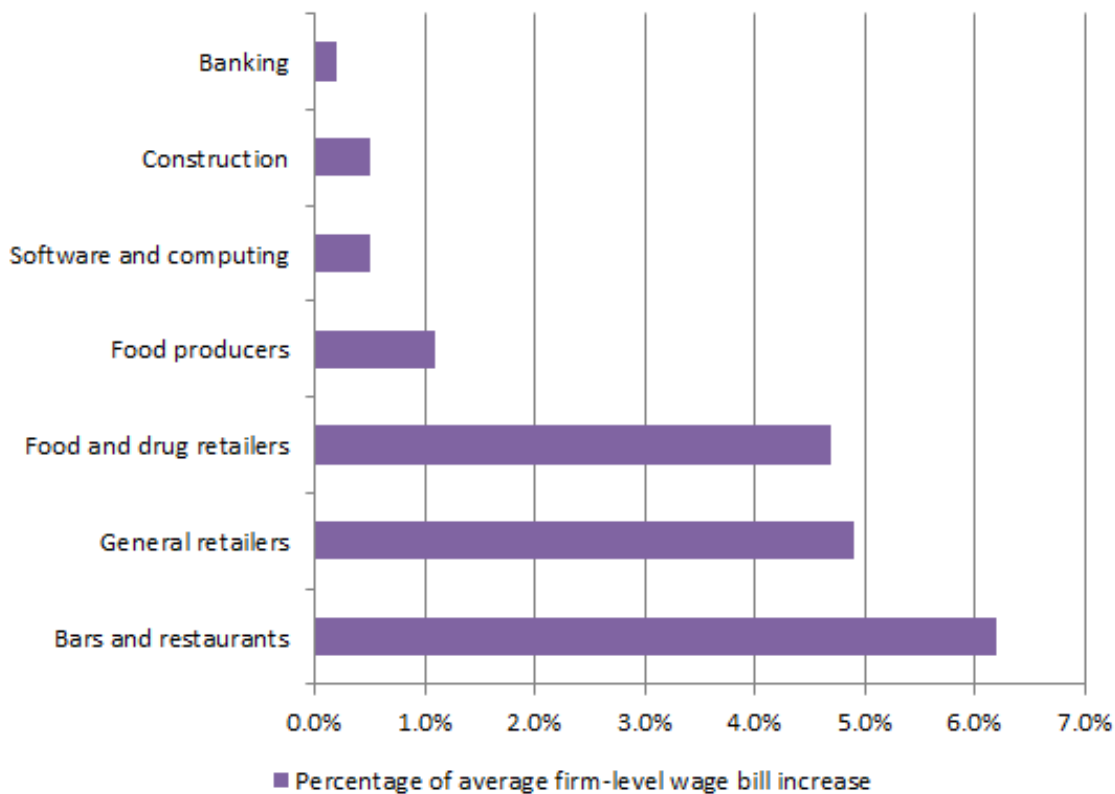
Though Cardiff Council announced its intention to **become a Living Wage employer** in July 2012 it is yet to be accredited as a Living Wage employer by the Living Wage Foundation.

The Living Wage Foundation website also includes analysis of what proportions of those accredited as Living Wage employers are from which sectors and industries.

## 5. How much can employers expect their wage bill to rise if they sign up to the Living Wage?

The extent to which a company's wage bill will change if they introduce the Living Wage will obviously depend upon the number of staff it currently pays less than the Living Wage. The report *What price a Living Wage?*, published jointly by the think tanks Resolution Foundation and IPPR in May 2012, analyses how introducing the Living Wage would be expected to affect different employer types.

**Figure 1: Average firm-level wage bill increase by industrial sector if firms were to introduce the Living Wage**



Source: An analysis of UK-incorporated firms listed on the London Stock Exchange, Resolution Foundation and IPPR, *What price a Living Wage?*

This chart demonstrates that the impact of adopting the Living Wage on a firm's average wage-bill can be expected to vary dramatically depending on the sector to which the firm belongs. Firms in the bars and restaurant sector can expect their wage bills to increase 6.2 per cent, whereas firms in the banking sector can expect just a 0.2 per cent wage-bill increase if they introduce the Living Wage.

## 6. How many people are paid less than the Living Wage in Wales?

In 2013 KPMG published some research looking into current employment patterns and the Living Wage.<sup>3</sup> This research included an analysis of the proportion of workers in different regions of the UK that were paid less than the Living Wage.

**Wales was the region with the second largest proportion of workers receiving less than the Living Wage, at 25 per cent** (Northern Ireland had the largest, at 26 per-cent). This is 2 percentage points higher than last year's figure of 23 per cent.

**Table 1: Regions by number and proportion of earners below Living Wage**

| Region                   | Number of earners (000s) | Median hourly wage (£) | Mean hourly wage (£) | Number earning below Living Wage (000s) | % earning below Living Wage |
|--------------------------|--------------------------|------------------------|----------------------|---|-----------------------------|
| Northern Ireland         | 769                      | 10.08                  | 12.98                | 197                                     | 26                          |
| <b>Wales</b>             | <b>1,086</b>             | <b>10.08</b>           | <b>12.77</b>         | <b>266</b>                              | <b>25</b>                   |
| East Midlands            | 1,707                    | 10.24                  | 13.26                | 409                                     | 24                          |
| Yorkshire and the Humber | 2,009                    | 10.37                  | 13.34                | 477                                     | 24                          |
| West Midlands            | 2,146                    | 10.45                  | 13.47                | 502                                     | 23                          |
| North East               | 946                      | 10.36                  | 13.17                | 221                                     | 23                          |
| South West               | 2,100                    | 10.42                  | 13.42                | 479                                     | 23                          |
| North West               | 2,630                    | 10.51                  | 13.59                | 600                                     | 23                          |
| Eastern England          | 2,250                    | 10.85                  | 13.98                | 497                                     | 22                          |
| Scotland                 | 2,176                    | 11.13                  | 14.22                | 435                                     | 20                          |
| South East               | 3,238                    | 12.10                  | 15.67                | 567                                     | 18                          |
| London                   | 3,532                    | 15.74                  | 20.36                | 586                                     | 17                          |
| Total: UK                | 24,588                   | 11.26                  | 14.82                | 5,237                                   | 21                          |

Source: KPMG, [Living Wage research for KPMG 2013 Report](#), using estimates produced by Markit Economics Limited, November 2013

<sup>3</sup> KPMG, Number of workers paid less than the Living Wage passes 5 million , November 2013 [Accessed 13 November 2013]

## 7. How much could paying the Living Wage save the Treasury?

Think-tanks the Resolution Foundation and IPPR have published research suggesting **that if the Living Wage was universally applied the Treasury could save £2.2 billion a year**. This would be as a result of higher income tax payments and national insurance contributions and lower spending on benefits and tax credits, after taking into account the increased costs of wages for public sector workers currently paid less than the Living Wage.<sup>4</sup> It should be noted that this represents an upper estimate, as the methodology used does not take into account possible effects on employment, profits or prices.

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<sup>4</sup> Resolution Foundation and IPPR, [Beyond the bottom line: The challenges and opportunities of a living wage, January 2013](#) [Accessed 12 November 2013]

## 8. What benefits are there to being a Living Wage employer?

It has been argued that, though paying the Living Wage normally brings with it a higher wage bill, it also brings a variety of additional benefits to the employer. In 2009 London Economics undertook an assessment of the impact of employers paying the London Living Wage. Some of the benefits that were said to accrue for employers included:

- Lower staff turnover (therefore reducing recruitment and induction training costs);
- A reduction in worker absenteeism and sick leave rates;
- An increase in worker effort and productivity;
- Positive reputational benefits.

Furthermore, there were said to be no significant impact on business performance or disemployment effects (i.e. reduced employment due to increased average wage bills).

However, it should be noted that this study was based on a relatively small sample of employers and employees. A useful summary of studies looking at the impact of Living Wage policies – both in the UK and elsewhere (primarily the US) – is available in a document produced by Swansea University for the Welsh Government, [Living Wage in Wales: Exploratory Study](#) (2010).

## 9. How have stakeholders responded to the Living Wage debate?

**Representatives of business** (such as British Chambers of Commerce, Confederation of British Industry and Federation of Small Business) have welcomed the fact that some businesses choose to pay the Living Wage, but stated that such a decision should not be forced upon companies. The British Chamber of Commerce stated “if you coerce or even nudge businesses to pay above market rates, you end up with a less competitive economy”.<sup>5</sup> FSB noted the external constraints – such as the weak economic demand – on companies paying staff more.<sup>6</sup>

**Trade unions** (such as UNISON and the Trade Union Congress) have supported the Living Wage movement, calling for more employers to sign up. TUC stated that more employers should pay the Living Wage, and that “it is simply not good enough for large companies to plead poverty at a time when their cash reserves are increasing.”

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<sup>5</sup> Financial Times, [Business chiefs warn over Living Wage costs](#), 5 November 2012 [Accessed 9 October 2013]

<sup>6</sup> FSB, [Living Wage Week press release](#), 5 November 2013 [Accessed 9 October 2013]

## 10. What is the Welsh Government's position on the Living Wage?

In its 2011 manifesto, Welsh Labour pledged to:

Work with trade unions, employers and other stakeholders to explore ways of ensuring a living wage for every worker in Wales, given that low pay is a significant problem for many families and the challenges of in work poverty remain.<sup>7</sup>

This is included as a Government commitment in the annex to the update on the Programme for Government published in June 2013.<sup>8</sup>

In a November 2012 Cabinet Statement the Welsh Government stated its **“aspiration to remain a Living Wage employer and its commitment to leading and encouraging other employers in the public, third and private sectors to consider becoming a Living Wage employer”** (though the Welsh Government is not currently on the list of accredited Living Wage employers on the Living Wage Foundation's website; accreditation requires the employer to follow further processes and make further commitments than simply paying the Living Wage)<sup>9</sup>.

In May 2012 the then Minister for Local Government and Communities announced the convening of a group – including the CBI, the Joseph Rowntree Foundation, the Wales TUC and Save the Children – to explore the issue of a Living Wage in Wales.<sup>10</sup> This group subsequently informed the November 2012 Cabinet Statement (mentioned above), issued during 2012 Living Wage Week.

The Assembly's Petitions Committee is currently considering a petition from Save the Children Cymru calling on the Welsh Government to “to stand by their promise to work towards a living wage for every worker in Wales and tell us when and how they will make it happen”. In September 2013 the Minister for Local Government and Government Business provided an update to the Committee.<sup>11</sup> This letter noted that “following a recent Cabinet discussion the First Minister has now placed the subject of the Living Wage within the remit of the Workforce Partnership Council (*a forum of representatives of the devolved public service employers and trade unions*)”.

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<sup>7</sup> Welsh Labour, Policies and Campaigns, [Standing up for Wales](#) [Accessed 29 October 2013]

<sup>8</sup> Welsh Government, [Programme for Government](#), Complete annex, June 2013 [Accessed 23 October 2013]

<sup>9</sup> Welsh Government, Cabinet Statement, [Written Statement - The UK Living Wage in Wales](#), 8 November 2012 [Accessed 1 October 2013]

<sup>10</sup> Welsh Government, Cabinet Statement, [Written Statement on the Living Wage in the Devolved Welsh Public Services](#), 30 May 2012 [Accessed 10 October 2013]

<sup>11</sup> National Assembly for Wales, Petitions Committee, [P-04-397 Living Wage - meetings](#), 16.08.2013 Correspondence - Minister for Local Government & Government Business to the Chair, 24 September 2013 [Accessed 10 October 2013]



## 11. What powers does the National Assembly have to legislate regarding the Living Wage?

Employment law – including a legally enforceable wage-floor, such as the Minimum Wage – is not one of the subjects devolved to the National Assembly for Wales. The Assembly could therefore not introduce any general legislation compelling employers in Wales to pay the Living Wage.

However, subjects that are devolved to Wales include “education and training”, “local government” and “health and health services”. This begs the question as to whether the Assembly could legislate with regards to enforcing a Living Wage for people employed in education services, local government and the NHS in Wales.

This matter would depend upon whether any Assembly Bill was felt – by both the Assembly and the UK Government – to be primarily related to the operation of devolved services, or a reserved matter, such as employment law. Fundamentally, if the two bodies failed to agree on whether such a Bill was within the Assembly’s competence, this could be a matter for the Supreme Court to decide.

This matter may be clarified when the Supreme Court reaches a decision as to whether the *Agricultural Sector (Wales) Bill*, which it is currently considering (and concerns itself with the wages of agricultural workers), falls within the Assembly’s competence or not.

For an explanation of where the Assembly can make laws, see the Research Service publication [Legislative Powers of the Assembly](#).

## 12. What is the history of the Living Wage in the Assembly?

As part of their 2007 election manifesto, coalition partners Plaid Cymru made a commitment to “create a National Living Wage, set by an independent Welsh Pay Commission, with which all contractors for publicly-funded contracts in Wales will be asked to comply”.

In October 2008, Christine Chapman, Labour AM for Cynon Valley tabled a Statement of Opinion stating that “This Assembly welcomes the significant contribution a Living Wage can make to the reduction of poverty across Wales and calls on the Welsh Assembly Government to promote a Living Wage in all its policies.” This was sponsored by 32 of the 60 Assembly Members.

More recently, on 15 May 2013 a written opinion was tabled by Mike Hedges AM and Mick Antoniw AM entitled “Living Wage – A fair day’s pay for a fair day’s work”. This opinion was subscribed to by 13 other AMs.<sup>12</sup>

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<sup>12</sup> National Assembly for Wales, Statements of Opinion, [OPIN-2013-0169 Living Wage - A fair day’s pay for a fair day’s work](#), 14 May 2013 [Accessed 10 October 2013]

### 13. What is the situation in Scotland?

The Scottish Government has stated that all employees working in parts of the public sector under the Government's pay policy will receive at least the Living Wage (although the Scottish Government does not appear on the Living Wage Foundation's list of accredited employers), and urged employers in the private, public and third sectors to follow suit.<sup>13</sup>

The Scottish Government has control over wage levels for most civil servants in central government and employees of government agencies, non-departmental public bodies (NDPBs) and the NHS in Scotland.

In August 2012, John Park MSP proposed a Member's Bill that intended to either:

- (a) require private sector employees working on public sector contracts to be paid the Living Wage; and/or
- (b) require the Scottish Ministers to prepare and report to the Parliament on a strategic plan to promote the Living Wage.<sup>14</sup>

This proposal, however, was withdrawn in December 2012.

The Scottish Government has stated elsewhere that, in correspondence, the European Commission has confirmed that any requirement on contractors to pay their employees a living wage set higher than the UK's National Minimum Wage is unlikely to be compatible with the Treaty on the Functioning of the European Union.<sup>15</sup>

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<sup>13</sup> Scottish Government, [Government commits to £7.45 Scottish Living Wage](#), 5 November 2012 [Accessed 8 October 2013]

<sup>14</sup> Scottish Parliament, [Proposed Living Wage \(Scotland\) Bill](#)

<sup>15</sup> Scottish Government, [Annex A to consultation on the Procurement Reform Bill](#), August 2012 [Accessed 8 October 2013]

## 14. What have Westminster politicians said about the Living Wage?

### *14.1. UK Government position*

In May 2010, David Cameron MP said that the Living Wage was “an idea whose time has come”. However, since then, the UK Coalition Government has stressed that the Living Wage should remain a voluntary concept, leaving individual employers the discretion to sign up or not as they see fit.

On 10 June 2013, Bob Ainsworth MP asked whether the UK Government had assessed the effect of introducing a National Living Wage. Jo Swinson MP (Parliamentary Under-Secretary of State for Employment Relations, Consumer and Postal Affairs and for Women and Equalities) stated “There is no recognised definition of a national living wage” and “Therefore, we have made no such assessment”.

Furthermore, she stated that “The Government supports businesses who choose to pay a living wage however the decision on what wages to set are for workers and employers.” She also warned that though uprating the National Minimum Wage significantly “might reduce the take up of in-work benefits if the hourly increase led to an increase in weekly wages, [it] is also likely to have an adverse effect on employment and consequently the overall welfare bill”.<sup>16</sup>

### *14.2. Opposition position*

In a speech delivered in November 2012 as part of Living Wage Week, Ed Miliband MP sketched out his views on the importance of the Living Wage and steps that could be taken to broaden its implementation in the UK.<sup>17</sup> These included:

- Creating “Living Wage Zones”, where employers in a given area would be encouraged to pay the Living Wage by local councils, using financial incentives provided by central government (which would itself make a saving from reduced benefit spend on Living Wage workers);
- Use central government procurement to encourage contractors to pay staff the Living Wage;
- Encourage large firms to publish the number of employees paid less than the living wage (as proposed by the Resolution Foundation).

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<sup>16</sup> [HC Deb 10 Jun 2013 c211W](#)

<sup>17</sup> Labour.org, [Ed Miliband speech on the Living Wage](#), 5 November 2012 [Accessed 9 October 2013]

During Living Wage Week 2013, Ed Miliband proposed the introduction of “make work pay” contracts to encourage uptake of the Living Wage. Under this proposal, for every low-paid worker whose earnings were lifted to the Living Wage, firms would receive up to £1,000 (or an average of £445) for each individual, for 12 months, in the form of a tax rebate.<sup>18</sup>

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<sup>18</sup> Independent, [Labour would give tax rebates to firms that pay living wage](#), 3 November 2013 [Accessed 13 November 2013]

## 15. What is happening in York?

In July 2011, the Archbishop of York (Dr John Sentamu) sponsored a new independent advisory body to examine matters of social justice in York.<sup>19</sup> “The Fairness Commission” was tasked to prepare a report that would help inform the City of York Council on issues of fairness in preparation of the Council’s spending priorities review for 2012-2014.

One of the recommendations made in the subsequent report was to “Make York a Living Wage City and inspire Yorkshire to become a Living Wage Region”.

A subsequent press report states “City of York council has also begun paying the living wage, as has insurance company Aviva, which has offices in York. The universities are planning to follow suit.”<sup>20</sup>

The Archbishop of Canterbury’s views on the Living Wage can be read in **an article** he wrote for the Observer newspaper in July 2013.

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<sup>19</sup> Archbishop of York, [Fairness and Living Wage](#) [Accessed 17 October 2013]

<sup>20</sup> Guardian, [Welcome to York, the city that wants to launch a living wage](#), 20 July 2013 [Accessed 17 October 2013]

## 16. Can public procurement policy be used to encourage take-up of the Living Wage?

As mentioned above, a number of politicians – such as Ed Miliband MP and John Park MSP – have suggested that public procurement should be used to encourage uptake of the Living Wage. However, the European Commission – at least as interpreted by the Scottish Government – has stated that a requirement on contractors to pay their employees a living wage set higher than the UK's National Minimum Wage is unlikely to be compatible with EU procurement policy.

This does not mean, though, that public bodies cannot use procurement policy to encourage contractors to pay their staff the Living Wage. Newcastle City Council has produced guidance on this matter, available in the document [A Living Wage for Newcastle](#).

This document describes the approach taken by other local authorities who are seeking to promote a living wage through their procurement policy. It describes the approach used by Greater London Authority bodies, which involves asking bidders whether they would be willing to pay staff the London Living Wage, and if the successful bidder says it would, seeking to build appropriate terms into the subsequent contract.

The subject of [The Living Wage and EU procurement](#) was discussed in an article on the Local Government Lawyer website, written by the Head of Procurement at Dickinson Dees law firm. Among other things, this article draws attention to an answer provided by the European Commission in 2009 which stated:

Living-wage conditions may be included in the contract performance clauses of a public procurement contract 'provided they are not directly or indirectly discriminatory and are indicated in the contract notice or in the contract documents'. In addition, they must be related to the execution of the contract. In order to comply with this last condition, contract performance clauses including living-wage conditions must concern only the employees involved in the execution of the relevant contract, and may not be extended to the other employees of the contractor.<sup>21</sup>

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<sup>21</sup> European Parliament, [Answer given by Mr McCreevy on behalf of the Commission](#), March 2009 [Accessed 8 October 2013]

## 17. What is the situation in the US?

In a number of US states a Living Wage is effected by local state law (with Baltimore being the first to pass one, in 1994). These can differ considerably in the form they take, as explained in a publication by North American think-tank, the Economic Policy Institute, in its 2006 report, [The economic impact of local living wages](#):

Despite having common goals, living wage laws vary considerably in practice. Most cover employees working under municipal contracts. Some also cover municipal employees, employees of businesses receiving public economic development dollars, or employees of businesses located in districts that have benefited from significant public investment. Wage levels vary from one dollar above the federal minimum wage to over twice the minimum. Some exempt nonprofit organizations, while others primarily affect human service providers.

As the Living Wage movement in North America seems to be more established than its modern incarnation in the UK, studies of the impact of North American living wage policies may be useful for those interested in the effect of similar policies in the UK.