

A Policy for Spread of Living Wage in Private Sectors

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Summary

The Seoul Metropolitan Government (SMG) has implemented the living wage program for its ⁶direct employees and the workers of its affiliated organizations funded or invested by the city. Taking a step further, the SMG has extended the program to its indirect, contracted-out employees.

1. Introduction

Living wage means the amount of wage required for a person to obtain basic necessities as well as to sustain one's life at beyond a certain level of standard by working for 40 hours a week. The living wage is significant in that it stands for the appropriate value of wage practically needed to secure a decent life, weighing various costs (e.g. costs of living, education, transportation, and cultural activities) that the living wage can fully cover.

While the living wage has been adopted by many public entities, there is no such case found in the private sector yet. Unlike Korea, the United Kingdom (UK) has succeeded in propagating the living wage in the private sector. Thanks to the devotion of the British Government and other stakeholders to the Living Wage Campaign, not only those in the public sector, but also workers in the private sector

⁶ A direct employee (also called a directly-hired worker) refers to those who are directly involved in the government administration and work associated with the provision of public service to Seoul citizens. An indirect employee (also called an indirectly-hired worker), on the other hand, refers to those hired through a third party (e.g. agency) to provide contracted-out services.

are now enjoying the benefits of the living wage. This study investigates how to learn from the UK case about how to prompt private employers to support and institute the living wage program.

2. Main Findings

Living wage is being widely implemented in the public sector

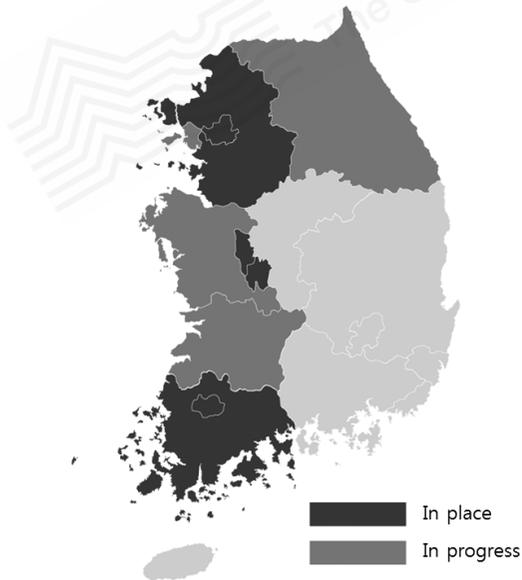
Among total 15 local governments in Korea, six have instituted living wage program (as of June, 2016) and four are planning to do so in near future. In 2015, Seoul has implemented living wage program for the first time among local governments. Participating in the quest for living wage, Gyeonggi-Do and Gwangju Metropolitan City have adopted the living wage program in 2015, whereas Sejong Metropolitan Autonomous City, Daejeon Metropolitan City, and Jeollanam-Do have done it in 2016.

It is expected that more and more local governments will implement the living wage program by 2017. For instance, Gangwon-Do has enacted the Living Wage Ordinance in 2015 and is working on the plan to institute the living wage program by 2017. In Jeollabuk-Do, the living wage program will be initiated from January, 2017. Incheon Metropolitan City also intended to adopt the living wage program from July 1st, 2016. Its plan, however, has to be postponed, for the government could not secure the budget due to its financial difficulty. In the case of Chungcheongnam-Do, the Living Wage Ordinance has been prescribed in 2015, but the ordinance does not state the specific timetable for the implementation of the living wage program.

The calculation and application criteria of living wage vary among local governments (as of 2016)

Since each local government uses their own measurement method for living wage, the amount of living wage differs across them. For example, Gwangju Metropolitan City sets the living wage at 130 percent of the minimum wage. As a result, it pays the largest living wage among all the local governments in Korea - 7,839 Won per hour (as of 2016). In contrast, Gyeonggi-Do, which takes a different approach to measure the living wage, has the smallest living wage of 7,030 Won each hour.

Seoul uses its Three-member Household Expenditure Model to determine the value of living wage. As of 2016, its living wage stands at 7,145 Won an hour. It is higher than those of Gyeonggi-Do (7,030 Won) and Daejeon Metropolitan City (7,055 Won), yet lower than Gwangju Metropolitan City (7,839 Won), Jeollanam-Do (7,248 Won), and Sejong Metropolitan Autonomous City (7,170 Won).



[Figure 1] The Current Status of Living Wage Implementation across Local Governments

Twenty three autonomous district governments in Seoul advocate the living wage

In Seoul, not only the SMG, but also the majority of autonomous district governments countenance the living wage. As of 2016, 20 out of the total 25 autonomous district governments have instituted the Living Wage program, and 23 (which excludes the ones in Gangnam-Gu and Jungnang-Gu) have or are planning to lay down the Living Wage Ordinance. Jung-Gu and Songpa-Gu offices are not currently enforcing the living wage, but they are expected to implement the program in near future provided that they have already established the Living Wage Ordinance.

The implementation of living wage by SMG has triggered the living wage campaign among its affiliated authorities, including the autonomous district governments.

Even before SMG has introduced the living wage, the autonomous district governments of Nowon-Gu and Seongbuk-Gu already have been enforcing the living wage. They were the pioneers in the development and implementation of living wage. Since the institution of the living wage by the SMG in 2015, autonomous district governments in the city have increasingly prepared themselves for the implementation of living wage by 2016, enacting the Living Wage Ordinance.

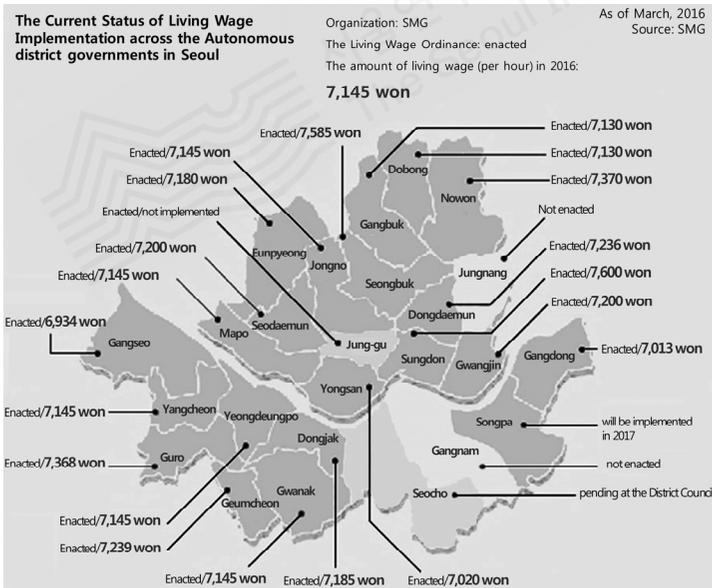
The amount of living wage paid by the autonomous district governments in Seoul vary, from the lowest 6,934 Won to the highest 7,600 Won per hour (as of 2016)

The amount of living wage is determined by weighing multiple factors. In particular, the financial status of autonomous district government, the commitment of the district chief to the living wage, and the opinions of the Living Wage Deliberation Committee are major determinants of living wage. There exist no standardized criteria as to deciding the amount of living wage. And each

autonomous district government may place emphasis on different factors in the process. For these two reasons, the amount of living wage varies among the autonomous district governments.

The vast majority of autonomous district governments in Seoul pay more than 7,000 won for the hourly living wage (as of 2016)

Nineteen of the 20 autonomous district that are currently carrying out the living wage program have their hourly living wage standing at higher than 7,000 Won. The only exception is Gangseo-Gu, which pays 6,934 Won an hour. Sungdong-Gu sits at the top, with the hourly living wage of 7,600 Won. It is followed by the Seongbuk-Gu (7,585 Won) and Nowon-Gu (7,370 Won), respectively.



Source: “The Minimum Wage is Not Enough, Increasing Trend Toward Living Wage”, Hankyoreh Newspaper (Seoul&), May 6th, 2016; edited

[Figure 2] The Current Status of Living Wage Implementation across the Autonomous district governments in Seoul

Most autonomous district governments calculate the living wage based on the Seoul's Three-member Household Expenditure Model

SMG applies the Seoul's Three-Member Household Expenditure Model to determine the amount of living wage. The autonomous district governments of Jongno-Gu, Mapo-Gu, Yangcheon-Gu, Yeongdeungpo-Gu and Gwanak-Gu also apply the same model to calculate living wage. Eleven autonomous district governments avail themselves of the model's basic framework while altering some figures to come up with their own appropriate amount of living wage. The autonomous district governments of Nowon-Gu and Seongbuk-Gu measure the living wage by referring to the wage paid to their full-time, regular employees. Those of Dongdaemun-Gu and Gangseo-Gu, on the other hand, add the amount of certain ratio to the minimum wage and pay the sum for living wage.

[Table 1] The Living Wage of each Autonomous district government

Measurement method	The same method used by SMG	The measurement based on altered Seoul's Three-member Household Model	The method used by Nowon-Gu and Seongbuk-Gu	Other
Autonomous district government (amount in won)	Jongno-Gu Mapo-Gu Yangcheon-Gu Yeongdeungpo-Gu Gwanak-Gu (all 7,145)	Yongsan-Gu (7,020) Seongdong-Gu (7,600) Gwangjin-Gu (7,200) Gangbuk-Gu (7,130) Dobong-Gu (7,130) Eunpyeong-Gu (7,180) Seodaemun-Gu (7,200) Guro-Gu (7,368) Geumcheon-Gu (7,239) Dongjak-Gu (7,185) Gangdong-Gu (7,013)	Nowon-Gu (7,370) Seongbuk-Gu (7,858)	Dongdaemun-Gu (7,236: 120% of the minimum wage) Gangseo-Gu (6,934: 115% of the minimum wage)

The public sector has been striving to prompt private employers to institute the living wage

SMG ought to first promote the living wage program in the public sector, and then gradually induce the private sector to participate in the quest for living wage. SMG has taken various approaches to encourage the private sector to adopt the living wage. For instance, it has added the article in the Seoul Living Wage Ordinance, stipulating that companies enforcing the living wage program will be given preference. Moreover, the SMG has made a wider range of workers to receive the living wage. The initial recipients of the living wage were only the direct employees of the SMG. Later in July 2016, the government has extended the program to its indirect workers and those of the organizations funded or invested by the city. SMG aims to gradually apply the living wage to 1,480 indirect, contracted-out employees by January 2017. It also strives to develop various plans and strategies to promote the living wage in the private sector through consulting the Seoul Living Wage Deliberation Committee and other experts.

The autonomous district government of Seongbuk-Gu, in particular, is committed to promote the living wage in the private sector. It has mandated the implementation of the living wage in its Living Wage Ordinance. Moreover, the office has signed the Memorandum of Understanding (MOU) regarding the living wage with Sungshin Women's University and Hansung University, which are both located in Seongbuk-Gu. The two universities have instituted the living wage programs for their workers in charge of cleaning and building security.

SMG has been working with the Seoul Metropolitan Council, Seoul Metropolitan Office of Education, and autonomous district governments to propagate the living wage in the private sector.

SMG, the Seoul Metropolitan Council, Seoul Metropolitan Office of Education,

and autonomous district governments have signed the Living Wage Agreement to make a concerted effort to promote the living wage among private employers. On October 8th, 2015, the mayor of Seoul, the chairman of the Seoul Metropolitan Council, the Superintendent of Seoul Metropolitan Office of Education, and district chiefs discussed about the ways to further develop and promote the living wage program. They also have agreed to cooperate mainly in the following areas: (1) ensure that each organization pays their employees living wage, (2) develop plans and strategies to propagate the living wage in the private sector, and (3) jointly conduct the living wage campaign.

The aforesaid agreement is expected to yield desired outcomes. It will serve as an opportunity for SMG to pass the living wage to not only the autonomous district governments, but also to other public organizations. Moreover, the agreement will have a significant influence given that the heads of each authority themselves have announced their commitment to implement living wage.

There exist limitations in propagating the living wage from the private sector

The public sector has been continuously mustering efforts to promote living wage in the private sector. Nevertheless, no private employer has implemented living wage yet. The private sector still seems neglected to adopt the program. Meanwhile, some experts argue that it is premature to expect the private sector to institute the living wage as most companies sensitively respond to increase in the minimum wage. Firms regard that living wage, which raises the amount of wage that they have to pay their employees, hurts their profitability. Not to mention, still many employers in the private sector violate minimum wage regulation today.

Besides, it is infeasible for the government to force the private sector to implement living wage. It is neither easy to admonish companies in business relationship with the public sector, such as contracted-out firms, to institute living wage. At present, the government can only add the article allowing public entities to force private organizations to adopt the living wage in the Living Wage Ordinance.

In other words, the public sector has no better option than waiting for the private sector to voluntarily take part in the quest for living wage.

There are in effect no means to force the private sector to implement the living wage. Yet, the public sector can establish necessary legal and institutional systems to extend their living wage programs to contracted-out workers. However, this way does not work with the pure private sector. Employers are likely to oppose the government forcing living wage, arguing that it would impinge on the market order. Besides, there may arise a problem if a public entity includes a compulsory provision for the living wage implementation when entering into a contract with a private organization, according to the Act on Contracts to which a local government is a party.

Still, there is potential for private employers' voluntary institution of the living wage program

A multinational company that designs and sells furniture appliances called IKEA has set up their business in Korea in December 2014. It pays its staffs at the store the hourly wage of 9,200 Won, which is higher than the present living wage set by district governments as well as city and provincial governments. It is 1,010 Won greater than 8,190 Won of living wage paid by the district government of Gwangsan-Gu in Gwangju Metropolitan City, which reportedly pays the largest living wage among local authorities (as of 2016).

Outside Korea, there are many cases in which the propagation of living wage has been successfully achieved with concerted efforts of both public and private sectors. Globally, more and more countries are implementing living wage. For instance, the UK Living Wage Campaign started off as a civil movement in London, but soon the British government took the lead. Today, an increasing number of companies are voluntarily implementing living wage program for their employees in the UK.

Korea can learn a lot from the UK case, where the living wage campaign was first initiated by members of London citizens and then widely propagated in the private sector. Besides the UK, states under the Commonwealth of Nations, such as Canada and New Zealand, have also instituted living wage in the private sector as well as the public sector. In those countries, companies that have adopted living wage actively play their roles in promoting the program to other firms. For instance, they provide financial support and engage in marketing activities.

The Korean government should develop effective policies for the propagation of living wage in the private sector by studying other countries that have successfully induced private organizations to implement living wage. The UK case will be especially useful.

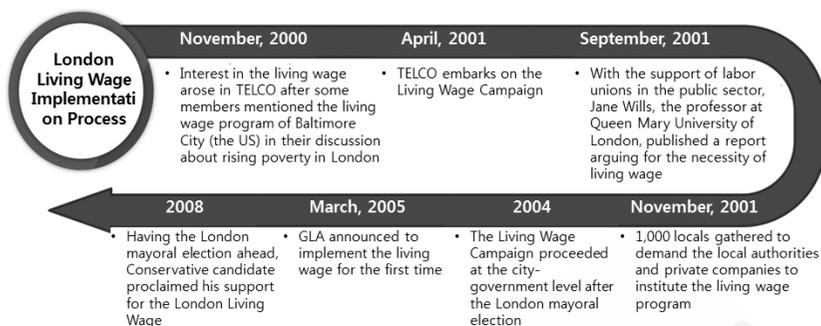
The UK Living Wage Campaign was launched by London citizens

The citizens of London initiated the UK Living Wage Campaign in 2001. Later it has grown into a national movement. Faith groups, schools, labor unions and local communities in London formed a civil group called East London Communities Organization (TELCO), through which they embarked upon the campaign. They suggested living wage as a solution to address the continuously increasing number of people suffering from poverty in the city. TELCO conducted the Living Wage Campaign and urged local communities to participate in the movement.

The 2004 London mayoral election ignited the spread of the Living Wage Campaign across the city. Ken Livingstone, who was then a mayoral candidate for the Labor Party, publicly supported living wage and then was elected as the mayor. In early 2005, the Greater London Authority (GLA)⁷ established the Living Wage Unit to calculate the London Living Wage every year. In 2008, the conservative

⁷ The Greater London Authority (GLA) is a top-tier administrative body for Greater London, England. It consists of a directly elected executive Mayor of London and an elected 25-member London Assembly with scrutiny powers.

candidate for the London mayoral election, Boris Johnson, made a public announcement that he advocates the London Living Wage. During his term as mayor, he kept the living wage system.



[Figure 3] London Living Wage Implementation Process

The UK is enforcing the living wage at the national level

The British government distinguishes London from other cities and regions and carries out the living wage program separately for the two areas. It considered various factors, including the price level and standard of living in each place, when instituting the living wage. Measurement method, persons in charge of management, and enforcement organization vary across localities. As of 2016, London pays 9.4 pound (approx. 11.70 dollar) per hour for living wage, whereas other areas pay the amount of 8.25 pound (approx. 10.30 dollar).

The UK is committed to institute living wage at the national level

In 2015, David Cameron, who was then the prime minister, proclaimed that the UK Living Wage will replace legal minimum wage by April, 2016. The UK Living Wage that the British government adopted at the national level is different in terms of application method from previously discussed programs. With the UK Living

Wage, the government planned to raise minimum wage of employees over 25 years old to 7.2 pound (about 8.95 dollar) from April, 2016, and to 9 pound (about 11.20 dollar) by 2020. It is expected that six million workers will benefit from the UK Living Wage provided that it successfully settles in. The British government also declared that it will levy a fine twice larger than on employers who violate the national living wage program and that they will be disqualified from representing their businesses for 15 years.

There are some criticisms that the UK Living Wage is just another type of minimum wage. For instance, civil groups censure that the living wage set by the British government is no more than an arbitrary figure and has not factored in the actual living conditions. Others contend that the UK Living Wage may discriminate people based on age as it only applies to those older than 25. Another criticism is that the program may seem to advocate the idea of paying less to younger workers.

Concerted efforts of related authorities are the key to the successful propagation of living wage in the private sector

Had it not been for the cooperation of the Greater London Authority (GLA), research institutes and the Living Wage Foundation, the London Living Wage Campaign would not have been successful.

The Living Wage Unit of GLA calculates the living wage every year and announces it to the citizens of London. GLA has set the propagation of living wage as one of the major objectives in its “London 2020 Vision” and has done lots of promotion activities. It also has urged the construction companies working on the business contract with GLA to adopt the living wage program. Furthermore, the mayor is devoted to teach the necessity of living wage to corporate employers and personally writes letters to more than 100 firms every year in pursuit of prompting them to adopt the living wage. Not only that, he stands before the citizens of London to declare the coming year’s living wage on the Living Wage Week in November every year.



Source: Penrose Care, Living Wage Week - Penrose Care raises home care worker wages

[Figure 4] London Mayor Announcing 2015 Living Wage

Research institutes, on the other hand, are responsible for laying down the theoretical foundation for living wage and conducting performance analysis. They have proved the essence of instituting the living wage program and established the theoretical grounds by engaging in various studies, including developing the living wage measurement model and analyzing the outcomes of the program. In particular, Queen Mary University of London has been supporting the London Living Wage Campaign from the beginning and implemented the living wage program for campus workers.

The Living Wage Foundation is the central player in the Living Wage Campaign. It was founded in 2011 based on the cooperative relationship with a civil group called Citizens UK, which has led the Living Wage Campaign, and private companies. Ever since its establishment, the foundation has continued to work with corporate employers who have taken the initiative to adopt the living wage program, the coalition of the Scottish Living Wage campaigners, and GLA. It also offers accreditation to employers that pay living wage by awarding the Living Wage Employer Mark. Furthermore, the foundation provides companies paying living wage with various types of support and consulting services, such as the living

wage implementation guidelines and legal advices. It also shares successful stories of other employers enforcing living wage. In addition, the foundation provides a Living Wage Forum for leading employers to publicly support the program and organizes the Living Wage Week events on the first week of November every year.



[Figure 5] The Figure of the UK Living Wage Foundation Office

3. Conclusions & Policy Recommendations

Take the lead in implementing living wage, and develop strategies to propagate the program in the private sector

The public sector should lead the implementation of living wage and induce private organizations to voluntarily pay living wage to their employees. Most citizens perceive that the works of contracted-out employees and workers on the government contract belong to the public sector in general. At present, the SMG has expanded the scope of beneficiaries receiving the living wage beyond its employees to workers of its affiliated organizations and contracted-out companies. It strives to ensure that service contractors can also enjoy the benefit. Furthermore, the SMG is committed to come up with a way to implement the living wage program in the

Matching Projects⁸ of SMG and autonomous district governments.

Needless to say, the very first step that the SMG should take before transmitting the living wage to the private sector is to institute a program in every area of employment in the public sector. This requires the government to continue to explore where the public sector can implement the living wage. As explained earlier, SMG, the Seoul Metropolitan Council, Seoul Metropolitan Office of Education, and autonomous district governments have signed the Living Wage Agreement to make a concerted effort to promote living wage among private employers. With the agreement, the SMG may urge, for example, schools affiliated with the Seoul Metropolitan Office of Education to pay living wage to their temporary workers.

It should also help social welfare foundations, civil groups and non-profit organizations operating under the jurisdiction of autonomous district governments adopt the living wage. Meanwhile, the SMG ought to focus on private entities whose business natures are especially public, such as legal firms, hospitals, pharmaceutical companies, and colleges.

Some private companies utilize the public resources such as national land for their business. SMG should strongly push them to pay the living wage. It should include a mandatory article in the business contract to make the counterpart company pay the living wage to its employees, providing that there is no legal issue with doing so.

Take gradual approaches to induce the voluntary participation of private employers in the implementation of living wage

The government should not force private employers to institute the living wage program. The successful propagation of living wage in the private sector builds

⁸ Matching Projects refer to the business project that the central and local governments each bears the certain ratio of cost. A large-scale construction project and welfare related project are the common examples.

upon voluntary participation of companies. Therefore, the government should persuade employers and other stakeholders to pay the living wage. For more effective persuasion, the SMG should share with them the cases of other countries in which living wage has benefited not only employees, but also employers. There is an empirical study showing that living wage has a positive effect on employees' psychological well-being and increases their quality of lives⁹. Another study has found that living wage barely affects the budget of local governments, while employers that have instituted the living wage enjoy decrease in labor cost and increase in profitability¹⁰. The living wage has more merits: Employers have reported that their contract costs went down, whereas the performance of their employees and service quality rose after they adopted the living wage¹¹. According to the research about living wage policies at the San Francisco Airport, the turnover ratio of airport security employees was previously 95 percent, but has gone down dramatically to 19 percent since implementing living wage¹².

SMG is recommended to focus on large corporations and pioneer companies of the industry that have considerable influences on other businesses. If subsidiaries of chaebol¹³ groups and leading companies of each industry institute living wage, other firms are likely to follow them, accelerating the propagation of living wage in the private sector. SMG should first target major corporations in the country that are

⁹ Flint, E., Cummins, S. and Wills, J., 2013, "Investigating the Effect of the London Living Wage on the Psychological Wellbeing of Low-wage Service Sector Employees: A Feasibility Study", *Journal of Public Health*, 5: 1~7.

¹⁰ Thompson, J. and Chapman, J., 2006, "The Economic Impact of Local Living Wages", *The Economic Policy Institute Briefing Paper*, 170.

¹¹ Wills, J. and Linneker, B., 2012, "The Costs and Benefits of the London Living Wage", *Trust for London*.

¹² Reich, M., Hall, P. and Jacobs, K., 2005, "Living Wage Policies at the San Francisco Airport", *Industrial Relations*, 44(1): 106~38.

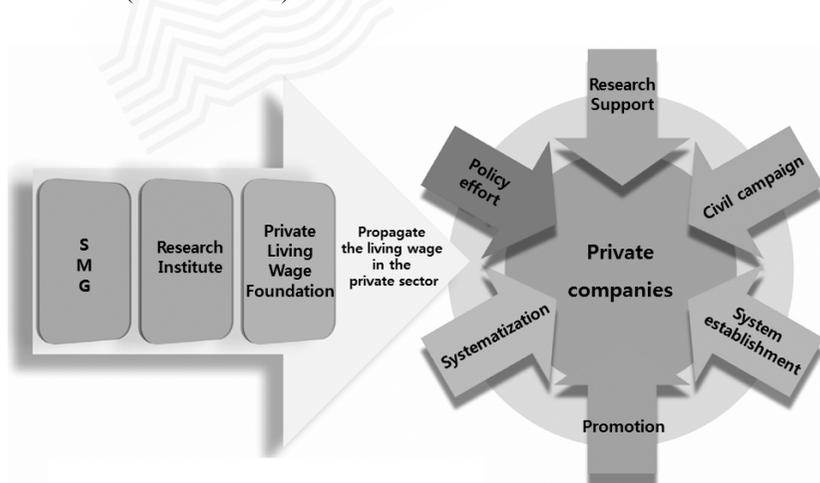
¹³ A *chaebol* refers to a South Korean form of business conglomerate, typically a family-owned one. They are generally global multinationals and own numerous international enterprises (e.g. Samsung Group, Hyundai Group).

in a close relationship with public entities, such as construction companies working for public projects.

At the same time, the SMG should induce multinational companies doing business in Korea to implement the living wage. Some of them are already paying living wage to their employees. Multinational companies would find instituting living wage less difficult than Korean firms. Not to mention, living wage would help them establish good public relation and positive brand image.

Establish an organizational system for the efficient propagation of living wage in the private sector

There exist many obstacles and limitations for the public sector to force the private sector to institute living wage. Therefore, it is appropriate to select a certain organization to assign the role and responsibility of leading the living wage campaign. Like the Living Wage Foundation in the UK, the Private Living Wage Foundation (tentative name) should be established.

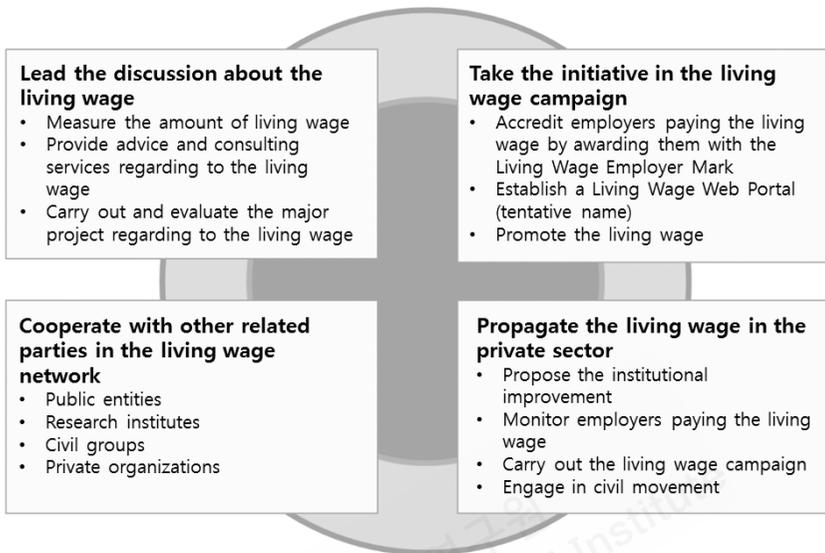


[Figure 6] The Concept Map of the Propagation of Living Wage in the Private Sector

The SMG needs to arrange the system of organic cooperation among stakeholders while assigning appropriate roles to each. SMG should focus on providing other related parties with practical and administrative support required for propagating the living wage in the private sector. Such support includes amending the related law and system, offering financial assistance, promoting the living wage to local companies, and carrying out campaigns. Surely, the SMG should organically work with related parties in other areas too. The mayor, in particular, needs to be committed to inducing private employers to institute living wage, actively participating in the endeavor of the SMG and publicly showing his interest in and devotion to the matter.

Meanwhile, research institutes should continue to carry out research about the living wage, especially its necessity, validity and effect. Moreover, they need to monitor and study the performance of companies that have instituted the living wage for their employees. This can be later used by the government when it persuades private firms to those of which have not yet adopted the living wage. Lastly, researchers ought to investigate how to advance the living wage agenda.

The Private Living Wage Foundation (tentative name) is to be established to serve the backbone of the living wage campaign. It should be in charge of managing and operating every work related to the living wage while being at the center of the network of all the related parties. In this regard, SMG ought to establish a system in which every related party can effectively work in coalition with each other. Then, it should ensure that the system operates smoothly. Furthermore, the SMG is to run the accreditation system that certifies employers paying living wage. It should also gather and keep the information regarding the living wage in a database.



[Figure 7] The roles of the Private Living Wage Foundation