

Why living wages should be considered a driver of human capital value, not a cost



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Key points

- After a decade of poverty reduction, COVID-19 and post-pandemic inflation have combined to erode real wages. Minimum wages now fail to reflect this reality
- Paying decent wages is a powerful tool in reducing poverty and a key pillar of the Universal Declaration of Human Rights. Living wages are also a bedrock for numerous UN Sustainable Development Goals
- Salaries can be considered as a cost but at the same time as an investment in human capital and social development
- Investors should consider the risks of structurally decreasing performance, costly strikes and potential financial losses as they engage with companies to promote living wages policies

“Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.” Article 23 of the United Nations Universal Declaration of Human Rights.¹

On the face of it, salaries and bonuses are a business cost – that’s how they appear on the income statement – and companies tend to want to reduce costs. But investors should note that ‘living wages’ which fairly value employees are best seen as investments in human capital that can help build resilience into supply chains, and the wider economy.

By following the fundamental principle of fair compensation, companies can ensure workers receive pay that is sufficient to meet their basic needs and lead a decent life. Fair wages can foster a sense of respect, empowerment, and loyalty in a workforce which, in turn, can translate into increased productivity, reduced turnover rates, and improved overall job satisfaction – which can potentially be beneficial for the bottom line, and for

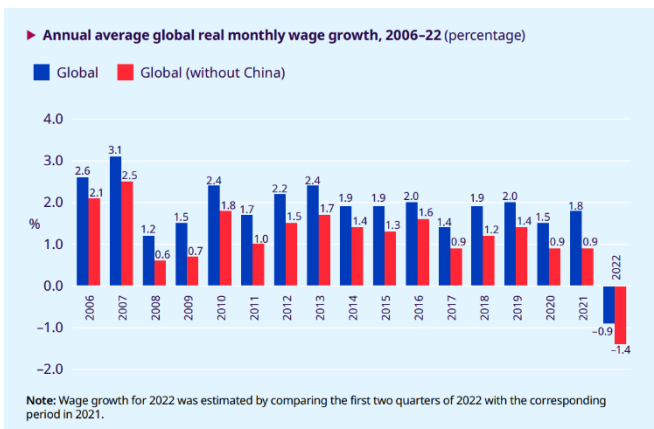
investors. Beyond the creation of a positive work environment, living wages have been shown to alleviate poverty, reduce income inequality, and enhance social mobility.²

This combination of effects can then foster economic growth, as financially secure individuals are better able to participate in consumer markets, stimulate local economies, and invest in their own personal and professional development.

Why minimum wages are not living wages

After a decade of poverty reduction worldwide,³ the COVID-19 pandemic and the inflationary environment that has followed have combined to erode real wages. It has become more difficult to find decent work and wages for lower-paid workers. Global monthly wages fell in real terms by 0.9% in the first half of 2022 – the first negative global wage growth recorded since the first edition of the Global Wage Report produced by the International Labour Organization (ILO) in 2008.⁴

Turnaround in real wage growth



Source: *ILO Global Wage Report 2022-23*. The ILO estimates are based on official national sources as recorded in ILOSTAT and the ILO Global Wage Database

The global labour market is highly unequal. Some two billion people are informal workers and about 214 million workers are in extreme poverty, classed as earning less than \$1.90 per day.⁵

Perhaps the starkest datapoint is the fact that the bottom 50% of workers earn only 8% of global labour income. The lowest income earners can be in a very fragile position with the potential to fall into extreme poverty, sometimes due to the most minor accident or incident in their lives.

Fundamentally, we believe companies that want to access capital markets have a responsibility to address these issues in their own workforce and those of their suppliers.

A decent wage is the bedrock for numerous UN Sustainable Development Goals



Source: *The Human Rights Opportunity*, Shift Project, July 2018

The positive effect of minimum wages on inequalities

Minimum wages provide a floor for worker pay – underpinned by the force of law. In the US, minimum wages are cited as one of the most important improvements for worker conditions, but even so have always attracted criticism.⁶ US President Theodore Roosevelt addressed those opponents in one of his fireside radio chats the night before signing the Fair Labor Standards Act in 1938: “Do not let any calamity-howling executive with an income of \$1,000 a day... tell you... that a wage of \$11 a week is going to have a disastrous effect on all American industry.”⁷

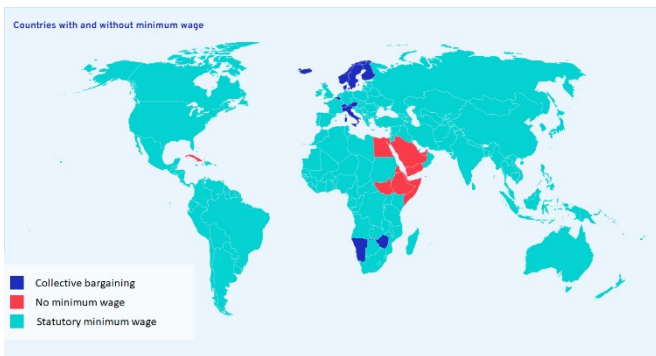
Some debate does exist among academics around possible negative effects on the employment rate,⁸ but many publications are able to demonstrate the positive correlation between the implementation of minimum wages and reduced inequalities. One US study demonstrated that increased minimum wages in the 1960s reduced inequalities with limited impact on the employment of low-wage workers.⁹

Minimum wages help to reduce inequalities between people and assist with economic development. In addition, minimum wages have been shown to contribute to higher labour productivity at both the firm and economy level.¹⁰

Minimum wages are everywhere, but most are not enough

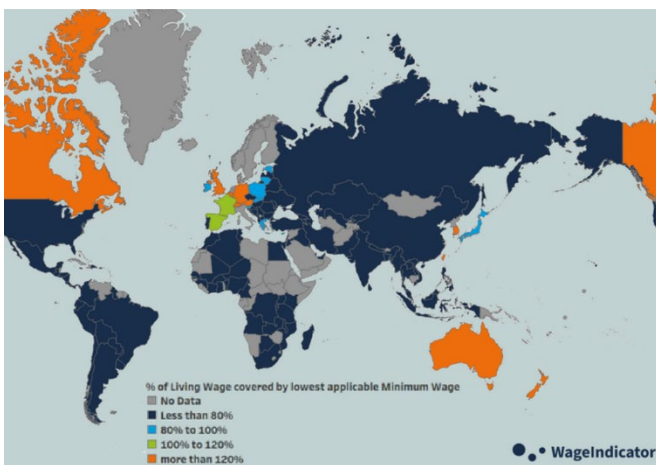
According to the ILO, 90% of countries have set statutory minimum wages, as shown in the first graphic below. However, when we put this information in the context of the cost of living, we find that minimum wages around the world are not enough to assure a decent life for all the workers, as indicated in the second map graphic from Dutch data research project WageIndicator.¹¹ Only a few countries define a minimum wage that can fully assure a decent standard of living.

ILO assessment of minimum wage coverage



Source: ILO minimum wage database, 2021

WageIndicator assessment of living wage alignment



Source: WageIndicator, August 2022

Poverty lines and living wages

The concepts of poverty and living wages are closely linked. The ‘poverty line’ is defined by the World Bank as “the inability to obtain a minimum standard of living”. In turn, a living wage is ultimately defined by its ability give workers that minimum standard of living, and overcome working poverty – where families with at least one person in paid work fall below the poverty line.

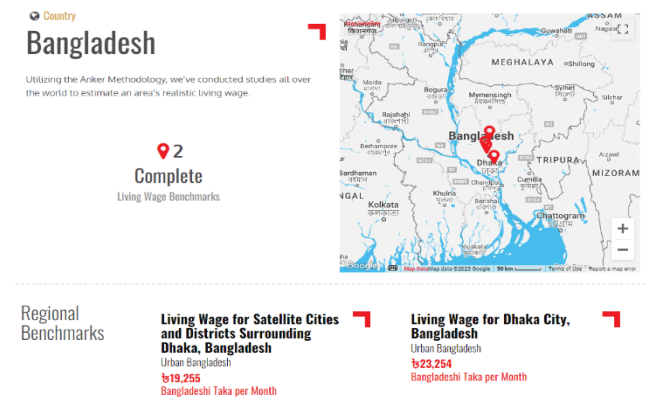
Beyond this link, there is still no wholly-agreed definition of a living wage. The closest we come is probably that set out by the Global Living Wage Coalition (GLWC) and based on the Anker Methodology devised by the academics Richard and Martha Anker.¹² In their words, a living wage is:

“Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events.”

Thanks to the Anker Methodology, corporates (and investors) have an internationally comparable methodology that uses common standards. As an example, it uses a nutrition baseline that is in line with World Health Organization recommendations.¹³ Organisations such as the Sustainable Trade Initiative (known by its Dutch acronym IDH) or the GLWC also produce benchmarks that allow for regional comparisons.¹⁴

Below, we can see a sample GLWC report for Bangladesh, defining what the living wage should be for two distinct areas.

GLWC benchmarks for Bangladesh



Source: [GLWC Living Wage Update Report: Dhaka and Satellite Cities, Bangladesh](#), retrieved and edited July 2022

Each stakeholder has a role to play

Working poverty worldwide, and the inequalities it serves to widen, are a threat both to communities and economies. Due to the complexity of supply chains, it is difficult to lay blame squarely on one single company or organisation for the lack of decent wages. It is determined by a range of factors.

Nevertheless, this should not lead to paralysis. Economic actors all have a role in tackling global poverty. For this reason, in line with the ambitions of the UN Global Compact and the ILO,^{15, 16} several companies and organisations have started to commit to living wages in their supply chains.

By way of illustration, global consumer brands group Unilever has made commitments to pay living wages, calling them an “essential stepping-stone to a world with zero poverty.”¹⁷ To do that, it has developed a roadmap in collaboration with non-governmental organisations (NGOs) such as the IDH.¹⁸ The key steps are:

- Identify the living wage – in line with the Anker Methodology
- Measure living wage gaps
- Verify calculations of living wage gaps
- Close living wage gaps
- Share learnings

Why should investors care?

The example above is important, because the potential positive outcomes for corporates from having a living wage policy in place are measurable. Campaign group the Living Wage Foundation has found that 86% of its accredited employers say having a living wage policy means their reputation has improved, 62% declared it improved relations between managers and staff and 60% said it improved recruitment of employees.¹⁹ For investors, we think this could be a material factor in corporate performance and potentially for investment returns.

The Cambridge Institute for Sustainability Leadership published a research paper in 2022 that summarised findings of several academic studies on the risks and opportunities of living wages.²⁰ It described an academic consensus on the positive effects of living wages.

The key benefits for corporates are:

- Better worker retention by attracting and keeping skilled workers, avoiding increased costs of recruitment and training

- Productivity is improved, workers are better motivated and make fewer mistakes. It reduces stress and people are healthier
- Employee satisfaction is better, and it leads to a more positive work environment with less hostile employer-employee relationships

Low wages as possible supply chain disruptors

Wages are a key element in bringing development benefits around the world – and that draws in supply chain companies. In a globalised environment, the resilience of supply chains plays a crucial role in the efficient running of businesses – major disruptions have occurred in the past and may happen again.

This was the case with strikes in South Africa in 2014 where one walkout lasted five months as tens of thousands of workers demanded a rise that would give them a living wage. One of the companies involved estimated the cost to be more than \$1bn, and firms suffered double-digit percentage drops in their share prices over the period in question.²¹

This is not just an issue for developing markets. As inflation drove up the cost of living in the UK, several British ports were blocked in 2022, including Felixstowe and Liverpool. The consequences were losses of goods, delays in deliveries and consequent impacts on businesses.²²

Reducing risks, contributing to socio-economic development

As they seek to reduce risks in portfolios, we think investors must take social risks into account. This includes corporates’ approach to wages and whether they are doing enough to empower their employees, gain reputational advantage as a sustainable employer, and limit social controversies that may lead to a consumer backlash. There will be leaders and laggards in this, as in any other area of corporate strategy, and it may be rational to favour leaders in portfolio decision-making.

How we might make those calls is improving. New market standards are helping investors gain a better picture of a complex topic. As an example, the Dow Jones Sustainability Index (DJSI), an index closely watched by the financial sector, has introduced requirements relating to the living wage.²³

More broadly, as corporates and investors take measures that support articles 23 and 25 of the Universal Declaration of Human Rights, then we will operate in a better business

environment that should help create a more prosperous society and reduce risks of social unrest.

Being an active investor

Investors have a major role to play here. Their support and encouragement can drive investee companies to commit to paying decent wages to their employees and to ensuring the same occurs through their supply chains.

We think investors should implement a six-step engagement strategy by asking companies:

- For more and better disclosure on pay practices
- To estimate the cost benefit of having a living wage policy
- To collaborate with coalitions, NGOs and other experts to calculate the living wage
- For a breakdown of the workforce paid below the living wage, including direct suppliers
- To set out the measures in place to remediate possible gaps
- To set out the actions taken to monitor the evolution of wages

Investors can be part of collaborative engagement. For example, AXA IM is an active member of the Good Work

Coalition managed by responsible investing body ShareAction, which aims to improve standards in the workplace.²⁴

Adding value, rather than a cost

Shareholder dialogue and active ownership will be key levers to seek improvements at portfolio companies. Investors have a vested interest in helping to build understanding and drive acceptance of living wages among investee companies.

Viewing living wages as a driver of human capital value challenges the conventional notion that they are merely a financial cost. By recognising the positive impact living wages have on individuals, organisations, and society as a whole, we can pave the way for a fairer, more inclusive, and prosperous future – within companies and in the wider economy.

This perspective has an ethical aspect to it – it aligns with shared goals on human rights – but it also acknowledges a strategic investment imperative. The living wage can be a means to unlock human potential that may yield long-term benefits for everyone involved.

¹ [Universal Declaration of Human Rights](#), United Nations, retrieved July 2023

² [The Living Wage: an economic impact assessment](#), Living Wage Foundation, July 2015

³ [World Employment and Social Outlook: Trends 2023](#), ILO, January 2023

⁴ [Global Wage Report 2022-23: The impact of inflation and COVID-19 on wages and purchasing power](#), ILO, November 2022

⁵ World Bank Data 2022

⁶ [A new methodology for estimating internationally comparable poverty lines and living wage rates](#), ILO, July 2005

⁷ [Fireside Chat. | The American Presidency Project \(ucsb.edu\)](#)

⁸ [Does a minimum wage help workers?](#) International Monetary Fund, March 2019

⁹ [Time-Series Minimum-Wage Studies: A Meta-analysis](#), David Card and Alan B. Krueger in *The American Economic Review*, January 1995

¹⁰ [Monitoring the effects of minimum wages: Effects on labour productivity](#), ILO Minimum Wage Policy Guide, August 2017

¹¹ [Minimum Wages meet cost of living in only a few countries worldwide](#), WageIndicator, August 2022

¹² [The Anker Methodology for Estimating a Living Wage](#), Global Living Wage Coalition, retrieved July 2023

¹³ [Living Wages Around the World: Manual for measurement](#), Richard Anker and Martha Anker, January 2017

¹⁴ [Living Wage for Bhadohi, Uttar Pradesh, India](#), GLWC, retrieved July 2023

¹⁵ [100% of employees across the organization earn a living wage](#), UN Global Compact Benchmarks, retrieved July 2023

¹⁶ [ILO Centenary Declaration for the Future of Work](#), ILO, June 2019

¹⁷ Companies named in this document are for illustrative purposes only and do not represent a recommendation to buy or sell securities.

¹⁸ [Roadmap on Living Wages](#), IDH, retrieved July 2023

¹⁹ [Twenty years of the Living Wage - The Employer Experience](#), Living Wage Foundation, 2021. The survey conducted with Cardiff Business School received more than 1,500 responses from the network of employers.

²⁰ [The case for living wages](#), University of Cambridge Institute for Sustainability Leadership, May 2022

²¹ [South Africa miners return to work after longest platinum strike](#), Reuters, June 2014

²² [Factbox: What impact will strike at Britain's busiest container port have?](#), Reuters, August 2022

²³ [S&P Global Methodology updates CSA 2021: Living wage](#), S&P Global, 2021

²⁴ [Good Work Coalition](#), ShareAction, retrieved July 2023

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