

Living wages in Portugal: In search of dignity in a polarised labour market

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Abstract

Living wage (LW) is a concept that goes beyond that of national minimum wage (NMW), since it implies income adequacy to the wage earners and to his/her family members. It is coherent with the principle related to wages of the European Pillar of Social Rights (EPSR) namely the right of workers to fair wages, and the duty to ensure adequate minimum wages providing the satisfaction of the worker needs and of his/her family, which originated a proposal of the European Commission for a Directive on adequate minimum wages in the European Union. This article discusses the possibility of implementation of a LW policy in Portugal, a country with low average and median wages, a generous NMW relative to average and median wage, high earnings inequality and a polarised labour market. To be defensible, this policy should reach household income adequacy, be feasible regarding the labour and fiscal costs, and be socially acceptable regarding the change of earnings distribution. The discussion of this policy is made using EU-SILC data and data from interviews with social partners involved in the national level social dialogue. We quantify and qualify some of the trade-offs, simulating different values for core policy variables, centred on the worker as a wage earner, as a household member and as a citizen with social rights and fiscal duties, supported on an adequate normative estimation of a consensual Minimum Income Standard (MIS) for the Portuguese households.

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KEYWORDS

adequacy, feasibility, living wage (LW), minimum income standard (MIS), national minimum wage (NMW), social acceptability

1 | INTRODUCTION

Within the European Pillar of Social Rights proclaimed at the 2017 Gothenburg Summit, the principle 6 says that ‘Workers have the right to fair wages that provide for a decent standard of living’, that ‘adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and his/her family’ and that ‘all wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of social partners’ The adoption of this principle originated, in October 2020, a proposal of the European Commission for a Directive on adequate minimum wages in the European Union (EU) [COM, 2020 682 final], recently approved by the European Parliament (September 2022) and formally adopted by the EU Council (October 2022).

This principle evokes the concept of Living Wage, rooted in social movements in the USA in the 19th century. Although the idea of Living Wage (LW) is an old one, and well rooted in both ethical and economic arguments (Konigsburg, 2017; Ryan, 1912; Stabile, 2008; Waltman, 2004), only recently it appeared as an implemented ideal. After a campaign for living wage in the UK originated in Citizens UK (which became the Living Wage Foundation in 2011, a coalition of faith institutions and civil society actors that claimed for voluntary adoption of LW), it became a reality in East London in early 2000 s (Werner & Lim, 2016). The policy alternatives of voluntary vs. mandatory LW still remain as a matter of policy discussion. In the Anglo-Saxon countries, LW gained political relevance mainly as a reaction to Thatcherism and Reagenomics, maintaining its pertinence in the present context of globalisation and neo-liberal orientation of economic policies.

Although it may be confused with national minimum wage (NMW), living wage (LW) is a different concept. Indeed, while NMW is a legal threshold defined as the minimum pay to which workers are entitled in a country, LW is related to people's needs, not only those of the worker but also of the worker's family. This is, LW is an adequate minimum wage, when adequacy means that such labour income originates the minimum household disposable income required for living with human dignity.

The purpose of this article is to discuss some relevant issues in the design of a nationwide Living Wage (LW) policy in Portugal, and to identify some policy *trade-offs* involved on its implementation, using EU-SILC micro-data¹ and interviews with social partners.² This is an original contribution to the international literature considering its focus, proposed framework and the use of mixed methods. Furthermore, Portugal represents an interesting case study because in the Portuguese economy, labour market is polarised, wages are low, and, although the level of the NMW in PPS situates Portugal, in 2019, in 13th in the 21 EU countries with statutory minimum income, the NMW is generous, when related to the median wage [SWD, 2020 245 final], and wage inequality is high. Moreover, Portugal is the only EU country that respects the criteria of the EU Directive on adequate minimum wages (60% of the median and 50% of the average) (Jeffrey et al., 2021, p. 20). It is also relevant that, according to special Eurobarometer 509, in Portugal in 2020, wages were identified as one of the top areas needing the national government action to prepare the future of Europe (48%, the second highest percentage in EU countries) immediately after health care (51%). Additionally, this exploratory research has social policy relevance considering the novelty of a nationwide Living Wage policy and the fact that, apart from Ireland, there are not any operational living wage initiatives in the EU. And, for those countries with experimentation of living wage initiatives, living wages have no legal status, are voluntary and based on company accreditation (UK, Ireland, Canada, and New Zealand), or are legally enforced at the local level (USA) (Eurofound, 2018).

The design of a nationwide LW policy requires a mix of variables: gross minimum wages (which implies labour costs, and changes in earnings distribution, that should be socially acceptable) and fiscal policy variables (income

taxes and social transfers). This design should be feasible both for the firms (labour costs) and for the government (fiscal costs) and acceptable for the workers (rise of low wages and change in distribution of wages) and for the citizens (level of taxes and social transfers and change in the distribution of net income). The Living Wage (LW) should then satisfy three basic requirements: that of 'adequacy' (it should generate a minimum income standard for the household), of 'feasibility' (reasonable wage costs for the firms and fiscal costs for the government) and of 'social acceptability' (to originate a wage income distribution that is acceptable according to the prevailing social norms). If the implementation of Living Wage (LW) requires rising the gross National Minimum Wage (NMW) and/or changes in taxes and social transfers, it will imply important *trade-offs*, and its successful implementation will require negotiation among social partners (regarding wages) and with the government (regarding taxes and transfers).

The structure of the article is as follows. In the section 2 the relevance of the idea of Living Wage is presented and is introduced the analytical approach followed in this article. The section 3 presents a quantification of the low wage earners in Portugal, in the context of a polarised labour market, and Section 4 presents the method used to compute the proposed LW for Portugal as a threshold for a decent standard of living, and links wage poverty (focused on the wage earners) with household social deficit (focussed on the households) considering the adequate household income as a threshold. Section 5 presents and discusses the *trade-offs* that emerge from the simulation of different scenarios corresponding to alternative wage distributions for an adequate household income and discusses the economic feasibility and the social acceptability of such scenarios from the point of view of our interviewees from trade unions and employers confederations. Section 6 concludes the analysis.

2 | FROM WORKERS WAGE TO HOUSEHOLD MIS: THE ANALYTICAL APPROACH

The right of the worker to a LW, recognised in one of the 20 principles of the 2017 European Pillar of Social Rights (EPSR, nr. 6), lead to the European Commission recent initiative to promote Adequate Minimum Wages in the EU, justified as essential to guarantee adequate working and living conditions, as well as to build fair and resilient economies and societies in line with the United Nations 2030 Agenda for Sustainable Development and its Sustainable Development Goals [COM, 2020 682 final: 1]. In the EC initiative, this renewed interest on LW as a policy matter is justified by a rise in in-work poverty and wage inequality attributed to '(...) an increased job polarisation resulting in turn in an increasing share of low-paid and low-skilled occupations (...)', and with the important role of minimum wages during economic downturns, recognising in particular that 'COVID-19 crisis has particularly hit sectors with a higher share of low-wage workers' [COM, 2020 682 final: 1–2]. At nation level, political commitments were growing to strength wage floors to ensure adequate income for low paid workers with the economic recovery after 2013, and very much aligned to the concept of Living Wage (Eurofound, 2018).

Therefore, the calculation of LW requires a focus on worker wages, on earnings distribution and on in-work poverty (Eurofound, 2017) and and, as well, on the relation of wages with household income poverty, by looking at the household composition and the economic behaviour of their members (Filandri & Struffolino, 2019). This makes the economic costs of children an important issue (Penne et al., 2019). Some methodologies for LW calculation are already well-established (Anker & Anker, 2017; Guzi et al., 2022), with wide application all over the world. But this is not the best approach for our purpose. The above method for estimating the cost of meeting the worker and his/her family needs is a rather top-down approach (*what science says*), what is understandable due to its extensive worldwide application. There are other approaches to calculate household reference budgets and to estimate adequate household income (Deeming, 2020), namely those grounded on a social consensus (*what people think*) on minimum income standard (Davis et al., 2015). That is the case of MIS (minimum income standard) that supports the calculation of the LW in the UK (Hirsch, 2017, 2018, 2019), and a similar approach that was also used to calculate the LW in Ireland (Collins, 2014a, 2014b). This is also our approach in this article.

Living Wage for Portugal: analytical framework

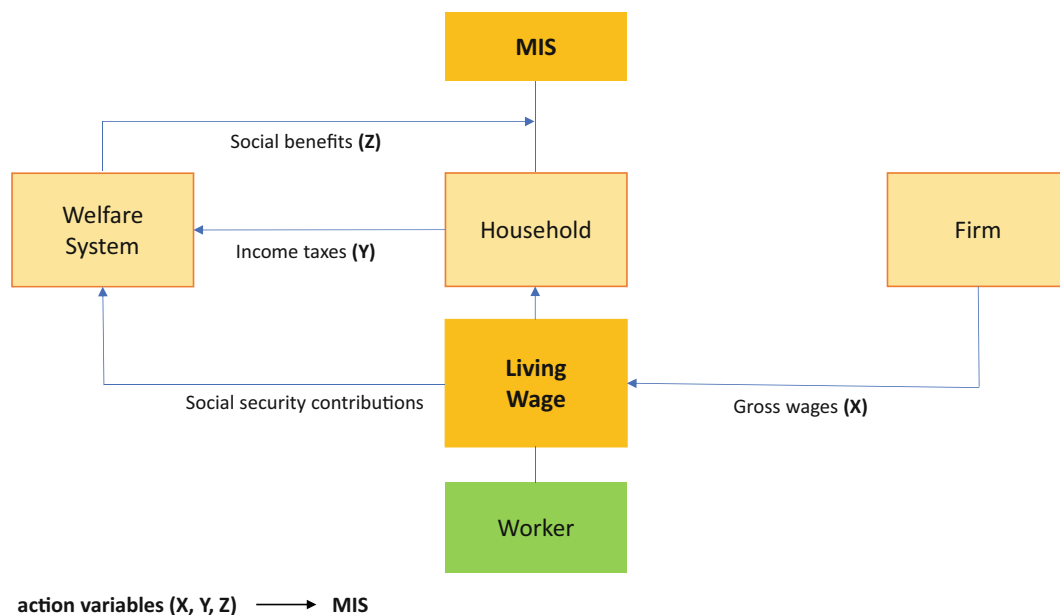


FIGURE 1 Living wage for Portugal: analytical framework [Colour figure can be viewed at [wileyonlinelibrary.com](https://onlinelibrary.wiley.com/doi/10.1111/ajol.12887)]

Figure 1 describes the analytical framework that is followed in this article, making evident the three core action variables in public policy: national minimum wage, social benefits, and income tax.

The crucial point is the link of the worker (as wage earner) to the household, whose needs are intended to be satisfied, which requires a minimum income standard (MIS). MIS is the household income that allows achieving a decent standard of living in Portugal, according to the consensual definition developed for our country (Pereirinha et al., 2020). The MIS, defined at the level of disposable income, can be reached as a combination of gross wage income, income taxes and social benefits. Both income taxes and social benefits may consider the demographic composition of the household (e.g., compensating for the costs associated to a bigger household size). These will be the variables analysed in this article to simulate several scenarios to reach the same household MIS.

All interviewees in our research study, both from trade union and employers' organisations, were against an idea of differentiation of wage paid by the firm according to the household composition of the worker, arguing that it would be against the constitutional principle of equal pay for equal work, would not be well accepted by the workers and/or could generate labour market discrimination based on the household composition of the worker. All agreed that there is here a role for the state, that could use a combination of subsidised or free public services provision, taxes and/or social transfers to guarantee a minimum adequate household income. According to them, these tools could be used to promote different aims: fighting poverty, namely in-work poverty, reducing economic inequalities, promoting social justice and encourage a higher birth rate.

A second important issue is the household configuration considered in the calculation of the living wage. Should the base value of the living wage consider the amount needed to support a family of two working adults and two children or one working adult living alone, or any other configuration? The approach followed in this article departs from the minimum adequate income needed for a full-time working age adult living alone. Nevertheless, we recognise there can be good reasons to use alternative approaches (see Anker & Anker, 2017). In Portugal, one of the trade unions federations (CGTP) uses, as reference for claiming an increase in minimum wage, the minimum

adequate income needed for a couple with two working age adults and two children, estimated by Pereirinha et al. (2020). Our option in this article may be considered conservative, because the level of wage per se does not allow an adult worker to support any children. Furthermore, the minimum adequate income is estimated for a non-atypical municipality of Portugal, and we did not take into account its possible geographic variation.³

Finally, our approach is focussed on the distributional impact of a Living Wage policy, by designing some simulations for alternative scenarios of change in the above policy action variables. One hardly can find literature on evaluation of living wage initiatives, although there is relevant research on the distributional impact of minimum wage policy. Some previous research studies focus on the effect of minimum wage policies on the reduction of household income inequality and poverty, either of the creation of a minimum wage, as is the case of Germany in 2015 (*ex-ante* evaluation in Müller & Steiner, 2009, and *ex-post* evaluation in Backhaus & Müller, 2019 and Boll et al., 2015), or of updating its amount (as is the case of the USA, in Johnson and Browning (1983) and Zipperer et al. (2021), or Indonesia, in Bird and Manning (2008)). Considering the potential effects of minimum wage in reducing poverty and household income inequality, these previous studies generally conclude for its little effectiveness.

Our research article does not intend to be an *ex-ante* evaluation of a living wage policy in Portugal, what should lead us to quantify the effects of such policy changes (mostly the wage increases, but also on taxation rules and social benefits) on employment, wage inequality, in-work poverty, gender pay gap and, as well, their effect on the public budget balance. This kind of analysis is made in Grünberger et al. (2021) for all EU countries, using EUROMOD simulations of alternative increases of the statutory minimum wages, but not considering the full implications of implementing a living wage policy, that may require a combination of minimum wage levels, income taxes and social transfers to guarantee income adequacy for different types of households to which the workers may belong to. The originality of the exploratory research presented in this article is that we focus on the main economic and social constraints faced by the design of a feasible and socially acceptable wage policy aimed at minimum adequate living conditions for the workers and their families and, like in other research studies (Hodgetts et al., 2022), single out the positions of the major social partners regarding such topics. The quantification of the impact of alternative scenarios on employment, budgetary costs, household income distribution and gender pay gap are, then, out of the scope at this stage of the research.

3 | LOW WAGE EARNERS IN A POLARISED LABOUR MARKET

The Portuguese labour market is rather polarised, what is quite relevant both to understand labour income poverty and earnings inequality, and for the potential employment effects of an economic policy of raising minimum wages. By job polarisation is meant a pattern of employment growth with rising relative demand of employment in high skilled (and well paid) jobs and in low skilled (and low paid) jobs and falling relative demand in the middle jobs (Goos & Manning, 2007). Recent research has concluded that polarisation is a characteristic of the Portuguese labour market (Centeno & Novo, 2014; Fonseca et al., 2018), being technological progress a crucial factor, since it promotes labour substitution, but differently according to its task in the production process: the so-called ALM hypothesis used to describe such changes, making a distinction between abstract, routine, and manual tasks (Autor et al., 2003).

In research conducted on European labour markets, Maarek and Moiteaux (2018) concluded that the minimum wage level plays a crucial role on employment and in the shape of wage distribution in polarised labour markets. This is a relevant issue for economic policy when dealing with minimum wages policy in an economy with a polarised labour market. This means that the impact on employment should be added to the above criteria to design a LW policy in Portugal (adequacy, feasibility, and social acceptability). This is out of the scope of this article. However, to contextualise the quantification of low wage earners in Portugal, we present evidence for task categories. For that purpose, we have classified the ISCO occupational categories, present in the EU-SILC 2020⁴ for Portugal, into five different task categories used in previous studies (Araújo, 2019; Fonseca et al., 2018) as shown in Table 1.

TABLE 1 Mean annual labour income by tasks (2019): Full-time and part-time employees

	Total employees		Full-time employees			
	Nr.	Mean annual monetary wage (euros)	Nr	Mean annual monetary wage (euros)	Median annual monetary wage (euros)	% Full-time employees
Manual	1068759	7083.2	559,000	12481.1	11016.1	52.3
Non routine cognitive abstract	716504	19465.4	523,712	25002.2	20679.5	73.1
Non routine cognitive interpersonal	1899924	13861.0	1,175,832	20879.0	15086.2	61.9
Routine cognitive	1440996	10408.9	856,323	16749.3	13895.8	59.4
Routine manual	1715647	4925.8	648,966	11209.0	9549.0	37.8
Total	6841830	10421.5	3,763,834	17598.6	12745.2	55.0

Source: INE-EU SILC 2020.

Low household labour income is due to two major reasons: reduced proportion of wage earners in the household and/or low labour income earned by the workers in the household. Two main factors explain such worker labour income: to be (or not) a full-time worker and the amount of the wage earned in case of being a full-time worker. If we want to compare recorded labour income⁵ in the EU-SILC with the national minimum wage⁶ or any other reference wage, only full-time workers should be considered. We assumed as full-time (FT) workers those who declared, in the EU-SILC, to have spent 12 months at full-time work as employee in the income reference period (question PL073) which is, in this case, the year 2019.

Considering our definition of FT, they account for 55% of total workers (employees) in Portugal in 2019.⁷ But they account differently among task categories (Table 1). This means that the low level of average wages observed for manual and routine manual tasks in Portugal is also explained by shorter working time, more frequent in the cases of those less skilled workers more involved in these kinds of tasks. The main reason for working less than full time⁸ is the fact that such workers cannot find such a FT job (for 45.2% survey respondents), that is involuntary part-time work, and this is more evident in manual task workers. Table 1 also evidence that the estimated Kaitz index (ratio of the NMW to the mean or median monetary wage of the FT employees) is 47.7% (in relation to the mean) or 65.9% (in relation to the median).⁹

We are also in face of rather distinctive labour income distributions among these five categories of the Portuguese labour market. Assuming as low pay a wage below 2/3 of the median wage, and high pay wages as 1.5 times the median wage,¹⁰ Table 2 evidence in 2019 an incidence of low pay in the FT Portuguese employees of 12.7%, what means 7.0% of the total Portuguese employees. But the incidence of low pay differs among task categories.

We may then consider as low labour income earners two categories of employees¹¹: (a) The *involuntary under-employed*, those who work less than full time because the conditions of the labour market. We assume to be in such situation those employees who declared to work less than 30 hours a week because cannot find a FT job. The EU-SILC survey respondents who declared to be in such situation accounts for 0.8% of total employees¹²; (b) The *low wage full time employees*, those FT employees who declared to earn less than 2/3 the median national monetary wage. The EU-SILC survey respondents who are in such situation accounts for 12.7% of FT employees, which means 7.0% of total employees. This means that the size of the sample of low labour income employees, according to the

TABLE 2 Distribution of full-time employees by monetary wage levels (2019)

	Less than 2/3 median national monetary wage (%)	Higher than 2/3 and less than 1.5 times the median national monetary wage (%)	Higher than 1.5 times the median national monetary wage (%)	Total (%)
Manual	15.8	75.1	9.1	100.0
Non routine cognitive abstract	6.2	36.6	57.3	100.0
Non routine cognitive interpersonal	11.5	47.3	41.2	100.0
Routine cognitive	7.9	65.1	27.0	100.0
Routine manual	23.5	69.4	7.0	100.0
Total	12.7	57.8	29.6	100.0

Source: INE, EU-SILC PT 2020.

definition adopted, which is very strict, corresponds to 7.8% of total employees (0.8% are involuntary underemployed and 7.0% are full-time low wage employees).

4 | HOUSEHOLD INCOME POVERTY AND LOW WAGES: FROM MIS TO LW

Two changes need to be made from now in the orientation of the analysis. First, the economic conditions of the worker will now be analysed considering the link of the workers with the *household*, and the worker will be also considered as a *consumer* (needs satisfaction) and as a *citizen* (with human and social rights and with fiscal duties). Second, the income level to be considered for reference of the analysis should be the amount needed to achieve a decent standard of living, that is, an adequate disposable income. If the only income source is work, the estimated value of this adequate disposable income (which may include tax credits and monetary transfers) will determine the minimum value of wage that may originate such living standard. This is the concept of living wage (LW).

The analysis will be conducted considering several types of households to which employees may belong to, with some diversity of sociodemographic characteristics relevant for the identification of household needs and the computation of the adequate level of disposable income. The analysis will be made only for those households, single person, or couple, where adults are all at the working age (18–64 years old), without or with dependent children (considering the cases of one or two children). This is a simplification that excludes, in this article, other household configurations.

Regarding the adequate disposable income, the only recent study that provide estimates of income levels that may originate a decent standard of living, is that published in Pereirinha et al. (2020). The method used combined the consensual method of budgetary standards (which reflects what the *population thinks*, supported in discussion groups) with the normative approach of experts (which reflects what *science teaches us*) to calculate reference budgets and to estimate the corresponding adequate levels of income, replicating, with some adaptations to the Portuguese reality, the methodology for determining a minimum standard income (MIS) used in the United Kingdom (Davis et al., 2015). This method allowed the calculation of the adequate income for the year 2014 for several household types, updated for 2019, by applying, separately by consumer goods groups (COICOP classification), the values of the Consumer Price Index. The use of two distinctive criteria for poverty analysis (at-risk-of-poverty threshold by EUROSTAT and MIS for Portugal) originate the classification of three groups of households: (a) households in *relative*

poverty, those with equivalized monetary disposable income below the at-risk-of-poverty (AROP) threshold, considering the modified OECD equivalence scale; (b) the households that we name as in *social deficit*, those with total (monetary plus non-monetary) disposable income below the MIS adequate income, with its implicit *consensual* equivalence scale calculated with the reference budget that originated the adequate income; (c) the households in a *grey zone*, with disposable equivalized monetary income above the AROP poverty threshold (and so cannot be considered as poor) and with a total disposable household income below the adequate income (and then cannot assure decent living conditions).

These results have relevant consequences to the design of a Living Wage policy in Portugal, with special attention to be devoted to households with children. A preliminary approach to this issue is done in Table 3, by assessing the adequacy of the national minimum wage, considering as reference the adequate income (MIS for Portugal). We consider the five household types we are assuming in this analysis. These five types of households are distinct in size, the number of adult equivalent persons (according to the equivalence scale considered) and, as well, on the assumption that we can make regarding the number of wage earners. We assume, in this analysis that all adult population is a wage earner and that all earn the national minimum wage (NMW). These assumptions allow to compare the situation of these five household types that result from earning NMW and then, its degree of adequacy.

A distinction is made in Table 3 regarding two concepts of monthly NMW: the gross NMW (what the firm pays monthly to the worker multiplied by 14 and divided by 12) and the net NMW (what the workers really earns, that is the monthly gross wage less contributions to social security plus the family allowances for children and youth that the household is entitled to, considering its level of income and composition). Comparing gross and net NMW for the different household configuration, it is evident the very small role played by family allowances in rising income for those households with children.

The adequacy of the national minimum wage is higher for the households with no children (78.9% for single persons and 94.5% for couple with no children) when compared with the households with children: less than 50% for single parents and close to 70%, or less, for couples with children, decreasing with the number of children. This reflects a very low level of children costs compensation in Portuguese welfare state, a result observed in other European welfare states (Penne et al., 2019).

We now turn to the wage earners as household members by looking at their contribution to the household income (Table 4). First, household income poverty and social deficit are related to the lower proportion of wage earners in the household: on average for all the households, the number of workers per household member is 0.66, while it is lower (0.52) in the case of relative poor households. Second, household income poverty and social deficit are related to involuntary underemployment: for the income poor households this happens for 3.3% of the employees in the household, much above the national average (0.8%). Third, full-time working poverty is more severe in the income poor households: 14.6% of the employees in the household are full-time low wage workers, and it reduces to 7.0% for the national average.

5 | A SKETCH OF SIMULATION ANALYSES AND POLICY TRADE-OFFS

The implementation of a living wage policy, if such living wage is above the national minimum wage, will originate the rise of labour costs for the firms and a change in tax receipts and government expenditure. Its economic feasibility is then a crucial issue in the policy design and the well-known trade-offs between economic feasibility and wage adequacy is a matter of economic policy that requires negotiation among social partners (trade unions and employers) and the government. On another hand, the rise of wages may originate a change in the distribution of wage income, that may be or not socially accepted, either by the workers or by the firms.

From the above analysis we get support to assume, as an objective, that the net value of the legal minimum wage should be the amount of the disposable adequate income, the MIS that was estimated as 790 € in 2019 (see Table 3). This would be the amount of the household income of a single person with no children. It could be argued

TABLE 3 Adequacy of the national minimum wage (NMW) in Portugal (2019)

	Single person, working age (18–64), no children	Single person, working age (18–64), 1 child (12 yrs.)	Couple, working age (18–64), no children	Couple, working age (18–64), 1 child (12 yrs.)	Couple, working age (18–64), 2 children (2 & 12 yrs.)
Nr. of persons	1	2	2	3	4
Nr. adult-equiv (OECD mod)	1	1.50	1.30	1.80	2.10
Nr. adult-equiv (consensual scale)	1	1.79	1.67	2.33	2.92
Nr. of wage earners	1	1	2	2	2
Legal monthly gross NMW (euros)	600	600	1200	1200	1200
Legal annual gross NMW (euros)	8400	8400	16,800	16,800	16,800
Monthly gross NMW (euros)	700	700	1400	1400	1400
Monthly net NMW (euros) plus child benefit	623	665	1246	1274	1415
Distribut net minus gross (euros/month)	-77.0	-35.2	-154.0	-126.0	15.4
Distribut net minus gross (%)	-11.0	-5.0	-11.0	-9.0	1.1
Net NMW/gross NMW (%)	89.0	95.0	89.0	91.0	101.1
MIS (euros/month)	790	1388	1319	1814	2294
Degree of adequacy (NMW/MIS) (%)	78.9	47.9	94.5	70.2	61.7

Source: Pereirinha et al. (2020: 263–266).

TABLE 4 Internal composition of the households with relation to low wage workers

	Relative poor households	Grey Zone households	Social deficit households	Total households
Low wage employees (in % of total employees)	17.9	12.6	14.1	7.8
Involuntary underemployed employees (in % of total employees)	3.3	1.6	2.0	0.8
Full-time low wage employees (in % of total employees)	14.6	11.1	12.0	7.0
Nr of employees per person	0.52	0.59	0.57	0.66

Source: INE EU-SILC PT 2020.

that in the case of a couple of workers with no children the net amount would be 1319 €, the MIS income estimated for this type of household (Table 3), considering the consensual equivalence scale for this type of household, which means 261 € less than twice one legal minimum wage proposed above ($1319 = 2 \times 790 - 261$). Nevertheless, this is a pure arithmetic calculation, implying a mandatory less beneficial treatment of incomes when in a couple, difficult to support in the Portuguese context, raising other important questions of feasibility and acceptability of a solution like this. So, another alternative, more in line with the present Portuguese tax system, would be to exempt income from taxes up to a minimum level of income and enable the same treatment of the income when in a couple or in a single household (in this case the couple would be able to keep the net value of 1.580 €).

But these amounts are a starting point for negotiation. Indeed, we should consider that the amount of net value of the legal minimum wage would imply that its gross value, assuming the same rate as in Table 3, should be 888 € ($790/0.89 = 888$). Considering that the monthly gross minimum wage in Portugal was 700 € ($= 600 \times 14/12$) in 2019, this would correspond of a rise of 27% of the legal (gross) minimum wage, what would imply a great increase of the firms costs. This value (27%) is our estimation of the wage deficit for this category of workers in these families. At this stage we would get positive effects on wage earners and on the government accounts (the rise of social security contributions).

Despite the successive increases in minimum wage until 2022,¹³ in general, all our interviewees considered that the minimum wage in Portugal is still low and insufficient to meet workers (and their family's) needs, although stressing that the problem in Portugal is not only at the level of minimum wage but of wages in general (low average and median wage). All considered that the existence of a minimum wage at a sufficient level (living wage) is important, but, as a main priority for the organisation, it was mainly stressed by trade union confederations. In fact, one of our interviewees from employers' confederation considered that, in the context of social dialogue, the discussion on minimum wage from the employers side has been mainly centred on 'the needs of the economic functioning and not on the needs of the persons'. Even so, two of our interviewees from employers' confederation guaranteed that from the employers' side there was openness to incorporate workers needs in the discussion of minimum wage levels, if these worker needs could be translated into quantified objective measures of what is enough. Importantly, one of the issues raised by 4 of our 5 interviewees was the lack of an adequate objective reference for this, contrary to the other three criteria that our interviewees identified as used in discussions in social dialogue: economic growth, productivity, and inflation.

Furthermore, all our interviewees considered that fulfilling workers needs is (also or mainly) a government responsibility, as well as fighting in-work poverty, an issue raised by all our interviewees. Indeed, when talking about the idea of living wage, one common theme that emerged in its advocacy was the social unacceptability of situations of in-work poverty, well-illustrated by this excerpt: 'no worker, working full time, should be receiving a wage that leads him in the end of the month to a situation of poverty or inability to have a minimally dignified life'.¹⁴

The economic feasibility of the needed increase in NMW was framed in a consensual diagnosis of a low wage economy composed mostly of micro, small and medium-size enterprises, operating in a country with high contextual and other production costs besides wages (e.g., red tape and energy), with average low qualification both of workers and managers/employers, and low margins. In this context, employers' organisation suggested that by increasing NMW without due consideration of these issues or implementing other compensatory measures, the government is transferring his responsibility of fighting in-work poverty to the employers. Overall, our interviews, from employers and trade union organisations, agreed that meeting workers needs and fighting poverty is a shared responsibility that cannot be achieved only at the level of wages.

The second step of this simulation exercise relates to households with children, either single parents or couples with children. It was evident from the above analyses that when we compare households with children with households without children there is a clear distinction regarding the adequacy of the 2019 minimum wages for these two groups of households (Table 3): for the households with children, the minimum wage adequacy is much lower (70.2% for couple with 1 child, 61.7% for couple with 2 children and only 47.9% for single parents with 1 child) in comparison with those with no children (78.9% for a single person household and 94.5% for a couple with no children). So, additional fiscal costs come to accommodate minimum wages to the household needs (Table 5). For a couple with one child, we assume that both in the couple earn minimum wage and then, their minimum wage income ($2 \times 790 \text{ €} = 1580 \text{ €}$) is less than the adequate (MIS) income for these households (1814 €). This would then require one mix of fiscal deductions and social benefits that would rise wage income by 15%. For a couple with two children, the MIS adequate income (2294 €) is much higher (47% higher) than their net wage income ($2 \times 790 = 1580 \text{ €}$), what would require a similar mix of tax and social security policies to reach this objective. The bigger fiscal effort is required to the single parent households with one child, for whom the difference between MIS (1388 €) and the net wage income (790 €) is larger (76%) and then, the mix of fiscal policies requires a bigger fiscal cost.¹⁵

TABLE 5 From MIS to LW: Preliminary simulation exercise

	Single person, working age (18–64), no children	Single person, working age (18–64), 1 child (12 yrs.)	Couple, working age (18–64), no children	Couple, working age (18–64), 1 child (12 yrs.)	Couple, working age (18–64), 2 children (2 & 12 yrs.)
Adequate income (euros/month)	790	1388	1319	1814	2294
Required net national minimum wage (euros/ month)	790	790	1580	1580	1580
Redistributive transfers (euros/ month) ^a	0	598	–261	234	714
Transfer (+)/tax (–) rate (% of required net NMW)	0.00	0.76	–0.17	0.15	0.45

Source: Table 3.

^aContributions to Social Security are not part of these redistributive transfers because the required net NMW was calculated after the deduction of such contributions.

As already pointed out, all our interviewees agreed that it is the role of the state to account for differences in household configuration to guarantee a minimum adequate income at the household level, using a combination of subsidised or free public services provision, taxes and/or social transfers. The advocacy for this state intervention was framed within different aims: fighting poverty, in particular in-work poverty, reducing economic inequalities, promoting social justice and encourage a higher birth rate. However, there are important issues related to the design of these redistributive measures. Furthermore, considering the impact that those changes (in social transfers, but also in the taxes needed to finance it) would have in the distribution of net income, these raise questions of social acceptability by citizens in general, and particularly the taxpayers, of a specific policy design.

The third step of our simulation exercise is related to the impact of such changes on wage income distribution. This exercise, that is presented in Table 6,¹⁶ consisted of starting from the wage income distribution in 2019 considering, in a very aggregative form, the number of full-time workers by brackets: three income brackets of similar size that consider the amount of the adequate minimum wage as calculated above (888€) and the assumed threshold that identify the high wages that was used in the Table 2. This wage income distribution is in column [3] of Table 6.

This simulation consisted of keeping the distribution as it is defined but considering three scenarios only changing the variation rate of the monetary wages. The scenario 1 is the most progressive (it is a Rawlsian alternative), only changing the first income bracket (the low wage earners), the scenario 2 is moderately progressive, and assumes that the wages above the adequate minimum wage rises at a rate that is ½ of that wage rate (that is, 14.8%) and, finally, the scenario 3 assumes that all workers rise their wages at the same rate (29.6%), that is, a 'proportional' alternative. It should be noted that the scenario 3 keeps the relative wage inequality unchanged (all wages rise at the same rate) but originating a great change in the firm costs (about 30%), while the scenario 1 reduces very much the wage income inequality, and originating a modest variation on the firm costs, but rising the Portuguese Kaitz index (ratio of the minimum wage in relation to the mean), which is already one of the highest in the EU.

Our interviewees considered scenario 1 the least desirable, consistent with their positioning of the wage problem in Portugal not only at the level of minimum wage but of wages in general (low average and median wage). In fact, scenario 1 is the most closely related to what has happened in the last years in Portugal. According to our interviewees, this evolution has produced a compression in the bottom half of the wage distribution, making some categories of the bottom wage scale disappear, with negative effects for both a segment of workers, those that feel unfairly treated and dissatisfied with their relative wage level, and firms, that have difficulties in valuing (differently)

TABLE 6 Alternative changes on wage income distribution

Income brackets [1]		FT employees				
		% FT employees 2019 [2]	Average monthly wage (euros)			
			2019 [3]	Scenario 1 ^a [4]	Scenario 2 ^b [5]	Scenario 3 ^c [6]
Low wage earners	< adequate minimum wage (gross) (= 888€)	32.6	685	888	888	888
Middle wage earners	[adequate minimum wage (gross) (= 888€) - 1.5 median wage]	37.5	1144	1144	1313	1483
Top wage earners	> 1.5 median wage	29.9	2742	2742	3148	3554
Monthly average wage (€)			1472	1538	1723	1908
average wage change relative to the base (%)				4.5	17.0	29.6

^aOnly rise (29.6%) of wages of low wage earners.

^bThe wages of the low wage earners rise 29.6%, all the others size 14.8%.

^cAll wages rise at the same rate (29.6%).

these workers according to their skills, qualifications, and experience. In this context, our interviewees, both from the trade unions and employers' side, stressed the importance of the idea of fair wages, a concept that goes beyond the notion of a minimum wage enabling needs satisfaction and includes the fair remuneration of work according to its quality (e.g., qualification and experience of the worker). This idea is well-illustrated by this excerpt: 'The wage has to be dignifying whatever its level, or minimum or others'.

In terms of its 'redistributive principle', Scenario 2 is the closest to what is proposed (and claimed) by trade unions confederations and considered acceptable by employers' confederations. Nevertheless, according to employers, the increase in costs that it represents would be unfeasible for the firms in short term within the present situation. One of the questions raised by the employers' side was the impact in unemployment of minimum income raises not linked to productivity. From the employers side, the government strategy, followed in the last years, of raising minimum wage well above the objective criteria of productivity, economic growth, and inflation, did not made unemployment raise only because it was done in a context of economic growth with the contention of all other wages (for some firms increases in the wage bill were mostly absorbed by increases in minimum wages).

Finally, we presented to our interviewees a scenario like Scenario 2 in the two first income bands, but where the wages in the higher income band would decrease. Both our interviewees from trade unions confederations rejected this scenario arguing that they represent all workers and that a decrease in wages would be unacceptable. The maximum trade-off that one of them seemed willing to accept was to maintain those very high-top wages unchanged. From the employers' side the issue was framed in moral and ethical terms, illustrated by this extract: 'I consider that some of the (high-top) wages known are in fact absurd, exaggerated, obscene even, if we want to use a harsher expression, when compared with the wage scales'. However, from the employer's side, our interviewees considered that decreasing these wages or imposing proportional ceilings (considering the minimum wage level), although desirable or defensible in ethical terms, would be either politically unfeasible or ineffective.

6 | CONCLUSIVE REMARKS

The known LW initiatives are generally voluntary firm decisions (Werner, 2021) or locally based policy experiences, and little literature exists focussed on the design of a nationwide LW policy. This contrasts with the case of nationwide statutory minimum wage policy, recently upgraded to the EU level with the approval of the Directive on adequate minimum wages, that nevertheless can be considered a step towards the operationalization of the principle 6 of the European Pillar of Social Rights. This is the purpose of this article, to focus on the design and implementation of a nationwide LW policy for a country (Portugal) with characteristics that makes it an important case study.

In Portugal, taking as a normative point of departure that the wage received by a full-time working adult living alone should be enough to achieve the level of adequate income, a LW policy intending to guarantee decent living standards for the workers and their families requires an increase in the national minimum wage. But the 'generosity' of the NMW in Portugal, related to compressed wage distribution in the bottom, with the second highest Kaitz index in Europe (due to low mean and median wage), makes such increase not socially acceptable, unless there is a general rise in wages. This may be not economically feasible, due to the weakness of the Portuguese economic structure where small firms with low labour productivity predominate, facing serious constraints to competitiveness. It is evident that, in Portugal, wage adequacy may be not economically feasible, and such conflicts of objectives (adequacy and economic feasibility) is aggravated in face of a high Kaitz index, which requires wage increases beyond the lowest ones intending to originate socially acceptable wage distribution. The article was intended to illustrate such policy *trade-offs*, supported on statistical data and, as well, on interviews with social partners.

The estimation of the amount of the LW is a crucial issue, and the reference budget consensual approach was argued as an adequate way to do it, considering the several family configurations in the society, what means that distinct amounts are required to meet needs for such different configurations. This implies that, additionally to minimum gross wage, direct taxation rules, combined with family allowances, are needed as policy variables in the design

of a LW policy to guarantee household income adequacy, and to fulfil the principle 6 of the European Pillar of Social Rights. This article, although not estimating the corresponding fiscal costs, identifies situations that require such fiscal policies, and the income gaps that they are intended to fill, and the type of policies adequate to such an aim. One important finding of this exploratory research is that there is a considerable consensus between representatives of social partners on different important aspects of the design of a nationwide LW policy.

There are three additional issues that raise the complexity of such a LW policy, when designed for the whole country, for all firms and for all employees. One is the fact that the geographical differentiation on prices (like housing) and the distinct municipal provision of free or low-cost services (like transportation, education, nurses, etc.) originates geographic differences on the amount of the adequate income, which may require a geographic differentiation of the level of gross (living) wage and/or redistributive income taxes and social benefits that account for such differences. Another one is the fact that part of the in-work poverty is due to involuntary underemployment (less than desired number of working hours), while this article was strictly focussed on full-time workers. Although the voluntary underemployment justifies the decision on the calculation of hourly living wage, the involuntary underemployment is a matter of unemployment protection, being the amount of living wage the reference income for the calculation of the unemployment benefits. Finally, this article is focussed on the distributional dimensions of a LW policy, an often-neglected issue in the assessment of minimum income policies, so that its potential impact on employment, of high relevance in a polarised labour market, was not investigated.

DATA AVAILABILITY STATEMENT

Data from EU-SILC for Portugal are available from request to INE (Statistics Portugal), and were provided under a Data Transfer Protocol for Scientific Purposes. The interviews with the social partners were recorded with their consent to be used for analytical purpose, and were not transcribed.

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ENDNOTES

- ¹ EU-SILC data were provided by INE (Statistics Portugal) under a Data Transfer Protocol for Scientific Purposes.
- ² We have contacted the heads of the six social partners represented in the Social Concertation Standing Committee of the Portuguese Economic and Social Council (the constitutional body for consultation and social concertation). Five accepted to participate in our research: the two Trade Unions Confederations (the CGTP—*Confederação Geral dos Trabalhadores Portugueses*, left-wing oriented unions confederation close to the Communist Party, and the UGT—*União Geral dos Trabalhadores*, a centre-left oriented unions confederation close to the Socialist Party) and three Employers Confederations (the CIP—*Confederação Empresarial de Portugal*, for industry, the CCP—*Confederação do Comércio e Serviços de Portugal*, for commerce and services, and the CTP—*Confederação do Turismo de Portugal*, for tourism). A brief explanation of the research aims and the interview guide were sent in advance. The interview was based in four main topics: the concept/idea of living wage, the minimum wage policy in Portugal, the links between the minimum wage policy in Portugal, living wage and adequate income, and the feasibility and acceptability of different scenarios to achieve minimum wage adequacy. The five interviews were conducted between 26th January and 7th March 2022 and each lasted around 90 min. The interviews were recorded with the consent of the interviewees.
- ³ We acknowledge geographic variation of living costs and thus of the minimum adequate income in Portugal, a fact also recognised by our interviewees. Nevertheless, most of them were sceptic or even against its translation to a geographical variation on minimum (living) wages, besides those already implemented for the insular autonomous regions of Portugal.
- ⁴ All the analyses supported in the EU-SILC were made using weighted sample data.
- ⁵ Using gross employee cash or near cash income (PY010G). This refers to the monetary component of the compensation of employees in cash payable by an employer to an employee. It includes the value of any social contributions and income taxes payable by an employee or by the employer on behalf of the employee to social insurance schemes or tax authorities.

- ⁶ The monthly national minimum wage (NMW) was decided (Dec-Law 117/2018, 27.12.2018) to be, for the whole year 2019, of 600 euros as gross income, so that its conversion into annual wage is $600 \times 14 = 8400$ euros.
- ⁷ Our definition is not comparable to a measurement of full-time or part-time workers in a specific point in time, because it excludes as full-time workers those that for instance were unemployed for some period in the reference year. If we use labour census data *Quadros de Pessoal*, in 2019 the number of reported part-time workers are 7.5% of total workers (GEP, 2019a).
- ⁸ The question PL120 of the EU-SILC survey, that supports this statement, refers to working weekly less than 30 h in the current period, which means the year 2020.
- ⁹ The monthly NMW was fixed as 600 € for the full year 2019 (Dec. Law 117/2018, 27.12.2022), what means an annual NMW of $600 \text{ €} \times 14 \text{ months} = 8400 \text{ €}$. In a report of the Portuguese Ministry of Labour, the Kaitz index (ratio of the NMW in relation to the mean or the median wage) in Portugal was 43% (in relation to the mean) and 61% (in relation to the median), above the general European pattern (GEP, 2019b, p. 21). According to the data published by the Ministry of Labour using the Ministry of Labour Survey of Earnings and Labour Duration, the number of employees who earned the NMW were 25.7% in April 2017 and 21.6% in October 2017 (GEP, 2019b, p. 29).
- ¹⁰ According to OECD (2022), 'Wage levels are divided by low pay and high pay. The incidence of low pay refers to the share of workers earning less than two-thirds of median earnings. The incidence of high pay refers to the share of workers earning more than one-and-a-half time median earnings. Data refer to full-time employees. This indicator is measured in percentages'.
- ¹¹ There is another category that was not considered: the case of workers who were unemployed during sometime in 2019. We decided to focus our research on employed workers in that reference year and to identify only the above two main reasons for low wage income.
- ¹² This is a very strict delimitation of involuntary underemployment, which may underestimate the number of involuntary part-time workers when compared to other Ministry of Labour data (see footnote 11).
- ¹³ It is important to stress that in 2022 the NMW was already set at 822.5 euros ($=705 \times 14/12$), a rise of 17.5% of the legal (gross) minimum wage when compared to its 2019 value.
- ¹⁴ In 2020, the at risk of poverty rate of the employed in Portugal was 11.2%.
- ¹⁵ It should be noted that in case of divorce, civil law establishes the principle of parent sharing of expenses of children costs, what will reduce such financial burden. So, as far as the cost of children (529 euros) could be equally shared between the two parents, the needed increase in income would be 33% to reach 1.055 euros.
- ¹⁶ It should be noted that not all labour costs were considered: the rise of social security tax paid by the firms were not included in this exercise.

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