11. Provision for unexpected events and sustainability

PART I. BACKGROUND AND CONCEPTUAL FRAMEWORK

Unforeseen events and expenses can quickly throw workers living at a basic life style into poverty and debt from which it is often difficult to recover. Possibilities of such events are numerous, such as accidents, illnesses, and death/funerals. For this reason, it is common when estimating a living wage to add a small margin above the cost of the basic quality life allowed for by a living wage (Anker, 2011). This added margin helps workers to ride out costly unforeseen events. Without a margin, a living wage is not sustainable. It must not be forgotten that the living standard afforded on a living wage is basic and without frills and without a built-in cushion. It also must not be forgotten that 'Savings is not only about accumulation. It is about smoothing consumption in the face of volatile and unpredictable income, and helping to ensure the living standards of poor people whose lives are difficult and uncertain' (Deaton, 1989, p. 61).

PART II. APPROACH TO DETERMINE AMOUNT FOR SUSTAINABILITY

It is common for definitions and descriptions of living wage in corporate codes of conduct of multinational companies and NGOs to mention the need for some funds for 'savings' or 'discretionary income' or 'emergencies' (e.g. Adidas, Debenhams, John Lewis, Gap, Sainsbury, and Social Accountability International, see Anker (2011)). A 'provision for unexpected events' is included the definition of living wage agreed upon by the Global Living Wage Coalition (see Chapter 1).

There is no generally agreed margin for unexpected events to use for a living wage to help ensure sustainability. The Anker (2011) review of living wage methodologies provides some information on this. Social Accountability International as well as ourselves in earlier work used 10%. Ad hoc living wage estimates for factories in Asia with mostly young single women workers used 15% and 25% (Anker, 2011). London's living wage includes 15% 'to protect against unforeseen events' (GLA Economics, 2015). The first minimum wage law for Massachusetts in 1914 included a 2.6% 'reserve for emergencies.'

To be conservative, we recommend including 5% above the cost of the basic living style afforded by a living wage to allow for unforeseen events to help ensure sustainability. This percentage is a judgment call given the lack of consensus. We feel that 5% is consistent with the fact that our methodology uses decency standards and is fairly comprehensive in the goods and services covered. At the same time, 5% is conservative enough that it should not lead to criticism of living wage estimates as being unreasonably high.

To calculate an amount for the provision for unexpected events and sustainability, food cost, housing cost, and all other cost should be summed to get total living cost. This total living cost should then be multiplied by the 5% margin to get the amount for unexpected events and sustainability. This should be added to the living cost.