



# Introduction to the Living Wage

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# Presentation

- Why such a growing interest in ‘Living wages’?
- How to define a living wage?
- What policy action to take?

# What does explain the growing interest in 'Living wages'?

- The Global context
- The Institutional deficit
- Wage practices at the end of global supply chains

# The global context

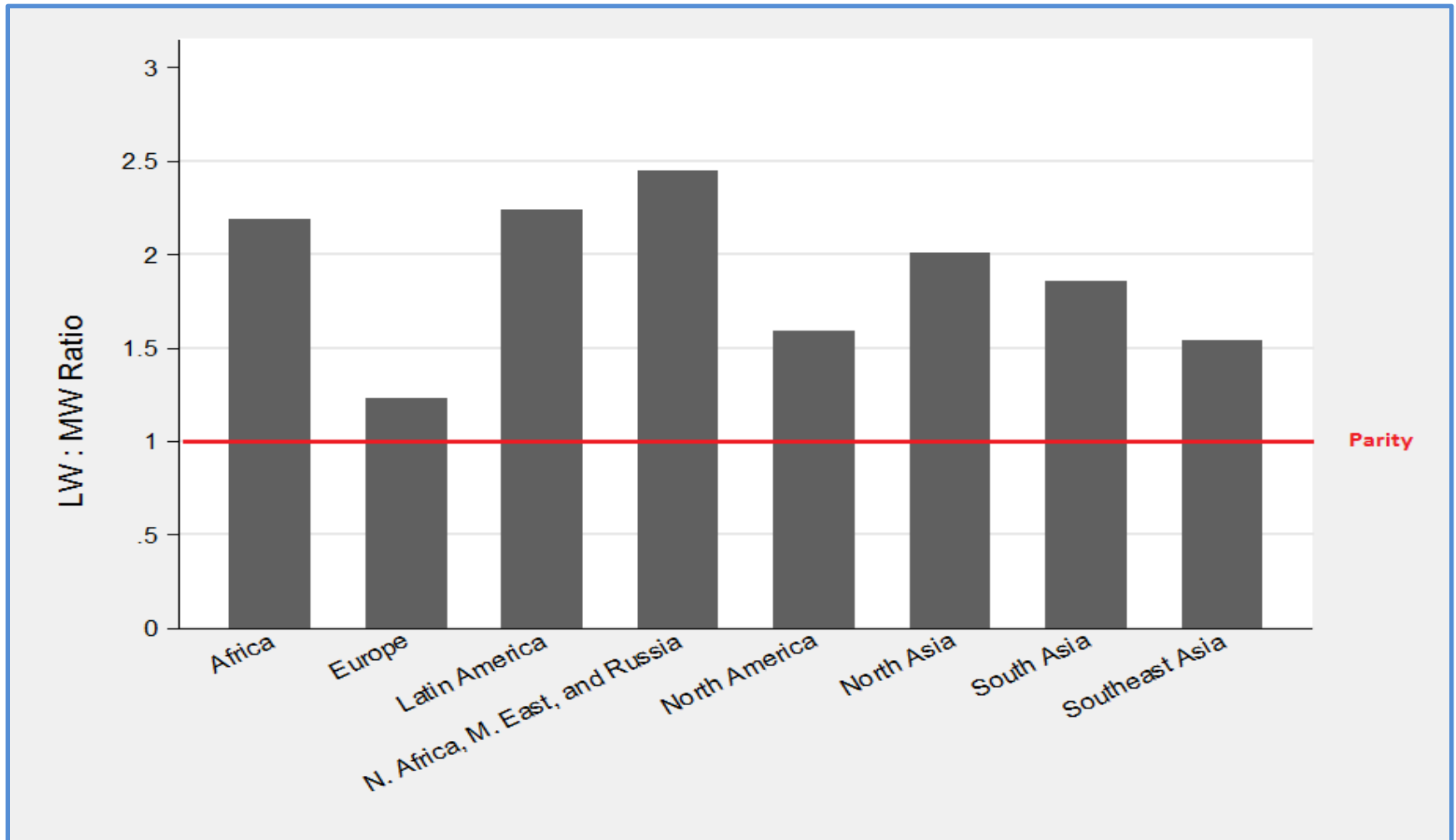
- Catching up process in wages and living standards
- But wage moderation worldwide
- Unequal growth redistribution: Wage share decline
- Growing wage inequality between top half and bottom half of the distribution
- Low pay workers

# The institutional deficit

- On **minimum wage** first because according to ILO convention 131 on the minimum wage, it should take into account the need to provide decent living standards to individual workers and their families
- On **collective bargaining** since it is aimed at allowing some negotiated wage increases above the wage floor that the minimum wage should represent
- On **labour inspection mechanisms** then since we saw so many cases on non legal compliance on important aspects like the payment of overtime hours and even of the minimum wage
- On **pay systems** finally with often totally dis-balanced pay schemes among suppliers, either totally dependent on piece rates, or not allowing wages to reflect different skills, education backgrounds and individual professional experiences
- Also a **lack of mechanisms to link wages to productivity** at enterprise level, which explains of course declining wage share at global level

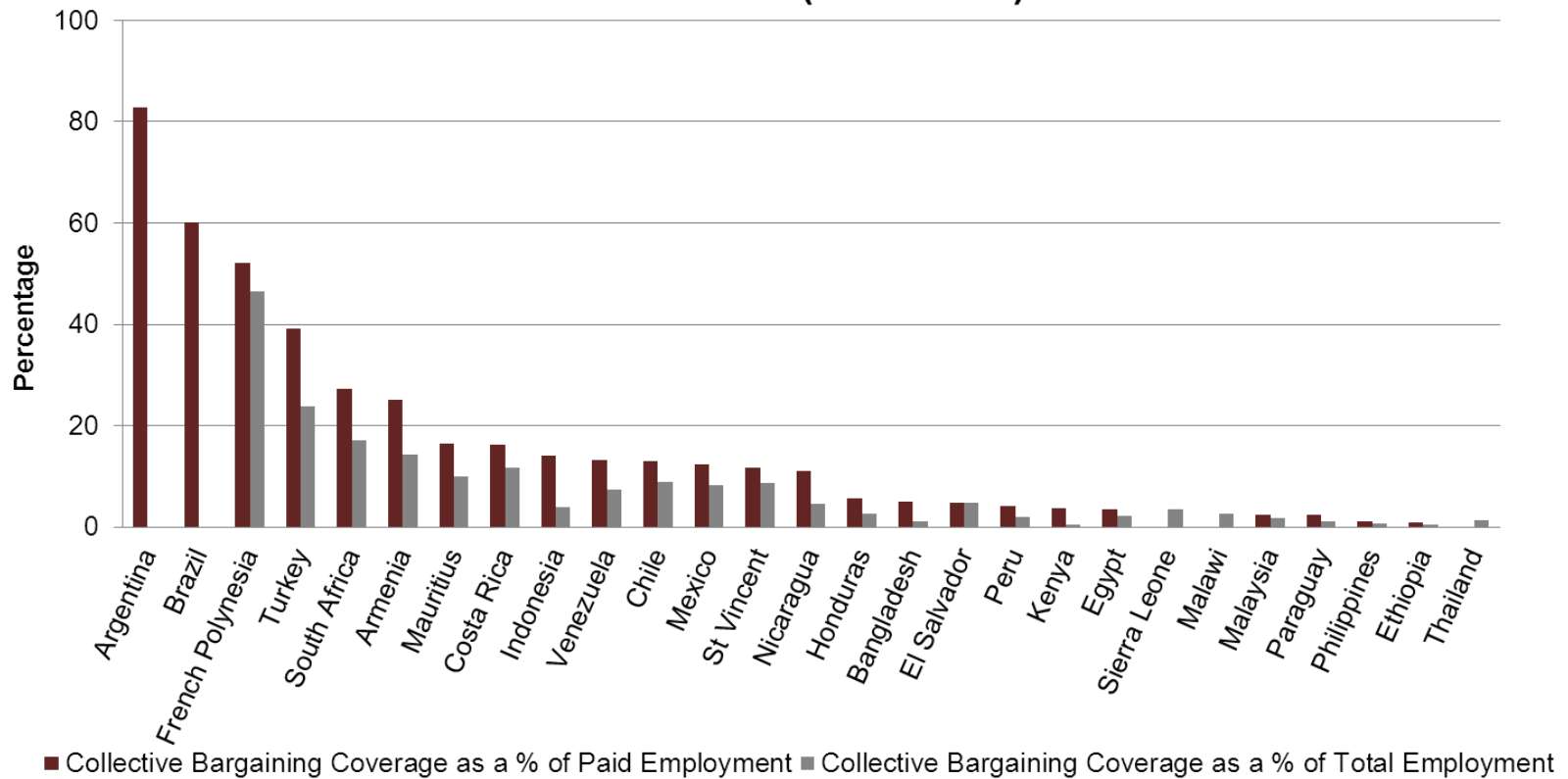
# Low minimum wage

Mean Living Wage-to-Minimum Wage Ratios ( $LW_{it} : MW_{it}$ ) by Cluster, 714 obs.



# Low collective bargaining

**Figure 6: Collective bargaining coverage in developing countries (circa 2010)**



Source: Hayter and Stoevska, 2011 and Yearbook of Labour Statistics 2011 (provisional)

# Wage practices at the end of global supply chains

- Double even triple records
- Problems of legal compliance on overtime payments
- often also non compliance of minimum wage payment despite the low minimum wage
- Rudimentary pay systems like piece rates
- Lack of social dialogue and sometimes even no acceptance of trade unions



# A sustainability issue

- These general global trends are not sustainable at global and at country level
- Enterprise wage developments especially along supply chain are not sustainable either
- Need to look at the Living wage debate within the sustainability logic
- Sustainability requires institutions, changing mentalities and practices, and responsibilities of different actors

# How to define a living wage?

- ILO (references in Constitution and Declaration of Philadelphia): minimum wage should serve to guarantee workers at least “a basic minimum standard of living which is **compatible with human dignity**”. UN: “everyone who works has the right to just and favourable remuneration **ensuring for himself and his family an existence worthy of human dignity**”. OECD: ‘adequate to satisfy basic needs of the **workers and their families**’
- Very similar and general definitions but how to calculate such a living minimum wage? There is no generally accepted definition of how a living wage should be measured.
- The ILO commissioned studies on the living wage to define the necessary conditions to be taken into account in the calculation of such a living wage but there is clearly a **methodological issue** since there is a high degree of “**subjectivity**” and no universal benchmark; moreover difficult to keep up to date such measures along price increases. **No universally accepted formula.**

# Some basic conditions to define the living wage

- If labour market institutions are too weak, the definition of a living wage may be a useful benchmark for companies that have the capacity to pay (such as MNCs).
- At the same time, the definition of a living wage should take into account local conditions
- Its adjustments should be made regularly and involve social partners and local stakeholders
- But “living wages” should not be seen as substitutes for collective bargaining and minimum wage setting.
- It should be sustainable and not imposed to suppliers by brands that should modify accordingly their purchasing practices

# What policy action to take?

- The ILO stands for the strengthening of labour market institutions as the most sustainable, inclusive, and legitimate way to ensure that economic growth translates into wage increases.
- Within the context of its cooperation on minimum wage setting, the ILO is actively supporting Member States and constituents in the definition of “living wages” – including to develop indicators and statistics – which needs to be used as one criteria in determining the level of the minimum wage; the other one being economic factors.
- The ILO can only regard “living wages” as complement rather than substitute for collective bargaining and minimum wages.
- Will further explore these issues in its ILC discussion in 2016

# This conference

- Excellent initiative: shows governments have a role to play together with all the actors in this room, brands, suppliers, NGOs, International organizations
- Governments federators of multi-stakeholders' interests and initiatives