

The Living Wage: Concepts & Calculations



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Understanding Wages

- Three types of wage standards:
 - Minimum wage – set by national law
 - Industry wage – prevailing wage in the region for type of work
 - Living Wage – calculated to ensure workers' remuneration for a regular work week is sufficient to cover a standard basket of goods for them and their dependents

Presentation Outline

- I. Concepts and Context
- II. Normative References
- III. Advocacy Arguments
- IV. How to Assess and Calculate a Living Wage?

The Living Wage – The Back Story


- The concept pre-dates the Industrial Revolution, but the growth of wage labor gave it more relevance
- Social Justice -- debates between capitalism and communism
- Religious leaders advocated and called for state protection and state regulation
- Turn of the century -- saw the first campaigns and emerging discourse

Living Wage

- I. Concepts and Context

Early Living Wage Definitions


- In 1906 Father John Ryan published a book entitled *A Living Wage; It's Ethical and Economic Aspects* in which he argued for a "living wage" that allowed "a decent livelihood for the adult male laborer."
- Ryan proposed that a living wage "would allow an income for not only food, clothing and a five room dwelling but also education for four or five children, periodicals, recreation, labor union dues, church contributions, and savings for sickness and old age."
 - John Ryan, *A Living Wage* (pp. 134-136).



Defining a Living Wage Today

- A living wage can be defined as the wage that workers and their families need for a decent standard of living in the region(s) where they live.
- Workers should be able to afford for themselves and their dependents: a standard level of nutrition, housing, transportation, energy, healthcare, childcare, education and savings within regulated working hours (e.g without overtime hours).
- Question: how to calculate income earned by spouses or other adults in the household?


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Living Wage and Minimum Wage

- ILO Convention 131: Minimum Wage Fixing Machinery
- Article 3: The elements to be taken into consideration in determining the level of minimum wages shall...include--
 - (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
 - (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.


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The Living Wage as a Human Right

- II. Normative References

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Minimum Wage Fixing: Emphasis on Process

- Article 4
- 1. Each Member which ratifies this Convention shall create and/or maintain machinery adapted to national conditions and requirements whereby minimum wages for groups of wage earners covered in pursuance of Article 1 thereof can be fixed and adjusted from time to time.
- 2. Provision shall be made, in connection with the establishment, operation and modification of such machinery, for full consultation with representative organisations of employers and workers concerned or, where no such organisations exist, representatives of employers and workers concerned.


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Human Rights Instruments

- Universal Declaration of Human Rights
- Covenant on Economic, Social and Cultural Rights
- International Labour Organisation's Charter – the Declaration of Philadelphia


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Living Wages and Collective Bargaining

- Conv. 131 defers to collective bargaining
- A living wage is best determined through a functioning bargaining process
 - Workers often know what they need to earn and what is too much to ask of employers.
 - Workers may collectively agree to a lower wage in the near term, provided there is worker-management agreement to address productivity and look for market stability
 - Where employers consistently don't share increasing gains (in income or productivity), trade unions will be less likely compromise.


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Living Wage

- III. Advocacy Arguments


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Why International Advocacy Has Grown?

- Governments have failed to set decent minimum wage levels or make necessary cost of living adjustments
- Low unionization has meant weak collective bargaining
- Gender discrimination and high % of women workers lead to lower wages
- Weak enforcement of min wage and other labor regulation facilitates employers cheating workers

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Why Advocate for a Living Wage?

- Human Development: Do jobs bring benefits if workers do not earn enough to better their lives and that of their children?
- Studies show that consumer satisfaction increases when workers are treated decently.
- Weakness of the 'justification arguments' for below poverty wages; e.g. "Even a poverty-wage job is better than no job."
 - Short-sighted
 - Status quo assumption


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The Need for Voluntary Regulation

- Brands & retailers have significant (often disproportionate) influence on global production and trade
- De-regulation and flexibilization of export-led policies have left many workforces without protection
- Mobile capital has contributed to widening the gap between rich and poor – both within and between countries – and resulted in a low road path to development


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Wage Regulations vs. Social Safety Nets

- Economists argue that wage regulations may raise unemployment
 - Basic supply-demand curve argument: by raising the price for labor, the living wage will decrease the demand for labor.
- They also argue regulations create economic inefficiencies
- Other mechanisms to deliver income to the poor, include: the US [Earned Income Tax Credit](#), the UK [Working Tax Credit](#) or a [negative income tax](#).
- Advocates argue: these benefits can be 'credited' or taken into account in the living wage calculations.

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Recent Campaigns – The Asia Floor Wage:

- “[A]n industrial level collective bargaining strategy, targeting the garment global supply chain and combating the threat of relocation.”
 - Ashim Roy, Secretary General of the New Trade Union Initiative, India
- The AFW says it is ‘a way to establish a floor on the race to the bottom and prevent wage competition between Asian garment-exporting countries.’
- For everyone, the AFW represents a renewed momentum behind the living wage movement

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Three Strategic Pillars:

<p>AFW Core Strategies:</p> <ul style="list-style-type: none"> ■ Building a regional collective bargaining strategy against capital mobility ■ Promoting wage-led growth and economic development ■ Pushing for a redistributive corporate accountability agenda 	<p>SAI Agrees:</p> <ul style="list-style-type: none"> ■ Collective bargaining rights need support ■ Wage-led growth is better than low road development ■ Social stds (SA8000) should lead to more fair distribution of resources
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Remuneration Guiding Principles

- People must earn enough during the regular work week to live on and support dependents
- Services provided to employees for a fee such as dormitories, food plans and medicine shall be provided at cost
- Companies can choose to pay by the hour or for performance
- Wages must be:
 - Understood by workers
 - Paid in a convenient manner
 - Paid in a timely and regular fashion
 - Accurately calculated
 - Paid in accordance with contract

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The Technical

- IV. How to Assess and Calculate a Living Wage?
 - Three approaches: SA8000, Asia Floor Wage Campaign, Living Wage Calculator

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Pre Auditing Preparation

- Before auditor arrives for the audit, he/she MUST have a Basic Needs Wage Calculation (BNW)
- Key issues:
 - Is BNW level earned without overtime included?
 - Does prevailing wage meet BNW wage levels?

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SA8000 Remuneration Standard


- Wages should be sufficient to meet basic needs and provide discretionary income
- Deductions shall not be made for disciplinary purposes except where allowable by national law and collective bargaining agreement
- All wages and benefits shall be clearly written and detailed for all workers
- All overtime shall be paid at a premium rate as defined by national law or collective bargaining agreement, or if none in place, at prevailing industry standard
- Labor-only contracting arrangements, consecutive short-term contracts and false apprenticeship schemes shall not be used to avoid remuneration obligations

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How to Calculate It?

- Assess Workers' Expenses
- Assess the average family size in the area
- Analyze typical number of wage earners per family (usually this is not more than 1.6).
- Analyze government statistics on poverty levels
- Poverty level analysis will indicate the cost of living above the poverty line.
- Workers' income should at least enable him/her to support him/herself and 2 dependents above the poverty line with some discretionary income.


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First Analyze Income

- Wages for full-time work
- Minus any mandatory deductions for taxes, etc.
- “Benefits” should be counted only if they are valued at cost or at competitive market value and only if these ‘benefits’ are optional for workers [beware of gouging/over-pricing by employers]

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Consider Challenges: Common Non-Conformities

- Overtime not paid at premium rate either hourly or by piece
- Workers do not understand how their wages are calculated
- Employers alternate wage calculation from hourly to piece rate for overtime or vice-versa to reduce overall wage
- Excessive deductions for room, board to offset wages paid
- Workers’ basic needs wage does not include taxes, union dues and health insurance
- Regional costs are not factored into BNW calculation using formula
- Quotas set too high to assure consistent attainment by workers
- Failure to guarantee minimum or industry wage per day.


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Remuneration: Verification Resources

- Data Verification Sources
 - Offices of World Health Organization
 - Desk study of prices and wages from country’s Ministry of Labor
 - Data from ILO, local government, internet
 - Data confirmation from local unions and NGOs
 - Annual stats published by ILO on food prices
- Review production records
 - Compare with quota
 - Line quotas vs personal quotas
 - 100% quota equals at least minimum or industry wage
 - Production orders and output are equal
 - Time cards vs. payroll records
 - Verify in interviews
 - Check on overtime hours


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Other Approaches

- Asia Floor Wage Campaign
- Living Wage Calculator:
www.livingwage.geog.psu.edu


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Remuneration: Verification Resources 2

- Payroll records
 - Sample worker payments for accuracy
 - Concentrate on bonus, overtime and deductions
 - Payment of social insurance (migrant workers, worker-employer agreements)
 - Bonus systems (team and individual)
- Consult with NGOs and Trade Unions
 - Any dispute with the wage calculation should be substantiated with analysis or alternative data sources
- Worker Interviews
 - Worker interviews is the most essential part of cross-checking the adequacy of wages.
- Cross-check Full Compliance with SA8000
 - Where free association and collective bargaining are effective, unions may be able to verify that the wage meets basic needs

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Asia Floor Wage Campaign

Make a Calculation Based on Local Data

- Local groups collect information on a daily food basket of 3,000 calories (local data collection annually makes it time and place sensitive)
- Multiply this by 3 ‘consumption units’ (2 adults at 3,000 calories each + 2 children at 1,500 calories each)
- Multiply this by 30 days for the month
- Double it to cover non-food costs

B) Then Make it Regional

- Convert to dollars using currency exchange
- PPP conversion to reflect a ‘more comparable’ figure
- Negotiate among AFW partners to come up with a common floor wage: \$475 PPP dollars
- Use PPP to convert back to local currency

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AFW DATA: Compared to Minimum Wages

Country	Currency	Legal Min.	AFW Basic Needs Basket	Regionalized AFW
Bangladesh	Taka	1,663	9,450	10,754
China	Yuan	687	1,158	1,639
India	Rupee	4,238	7,695	6,968
Indonesia	Rupiah	972,604	2,335,200	1,868,650
Sri Lanka	Rupee	6,750	15,000	16,706
Thailand	Bath	4,368	7,567	7,567

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Monthly Expenses	One Adult	One Adult, One Child	Two Adults	Two Adults, One Child	Two Adults, Two Children
Food	\$232	\$378	\$448	\$594	\$740
Child Care	\$0	\$572	\$0	\$572	\$1,012
Medical	\$76	\$151	\$152	\$227	\$302
Housing	\$1,185	\$1,318	\$1,185	\$1,318	\$1,318
Transportation	\$232	\$397	\$464	\$629	\$794
Other	\$188	\$369	\$376	\$557	\$738
Monthly After-Tax Income That's Required	\$1,913	\$3,185	\$2,625	\$3,897	\$4,904
Annual After-Tax Income That's Required	\$22,956	\$38,220	\$31,500	\$46,764	\$58,853

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Living Wage Ordinances; Living Wage Calculator

- The living wage shown is the hourly rate that an individual must earn to support their family, if they are the sole provider and are working full-time (2080 hours per year). The state minimum wage is the same for all individuals, regardless of how many dependents they may have. The poverty rate is typically quoted as gross annual income. We have converted it to an hourly wage for the sake of comparison. Wages that are less than the living wage are shown in red.

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Other Cities

- Monroe County, PA -- 2 hours from Queens
 - Hourly wage to support 2 adults and 2 children: \$24.64/hour
 - Annual expenses to support 2 adults and 2 children: \$49,639
- Rios Arriba County, NM
 - Hourly wage to support 2 adults and 2 children: \$22.97/hour
 - Annual expenses to support 2 adults and 2 children: \$45,463

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Living Wage Calculator – Queens County, NY

Hourly Wages	One Adult	One Adult, One Child	Two Adults	Two Adults, One Child	Two Adults, Two Children
Living Wage	\$11.86	\$19.66	\$16.29	\$24.10	\$30.30
Poverty Wage	\$5.04	\$6.68	\$6.49	\$7.81	\$9.83
Minimum Wage	\$7.25	\$7.25	\$7.25	\$7.25	\$7.25

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