

*WAGES IN THE APPAREL INDUSTRY; WHAT CONSTITUTES A DECENT STANDARD?*¹

Introduction

The debate over what constitutes a “fair and decent” wage and how it can be provided to workers is an old one, going back to the Middle Ages and featured in the earliest works on economic theory. Social scientists and policy-makers and moral theologians have all made decent wages an explicit goal since the turn of 20th century.² However, notwithstanding the variety of International Labor Organization (ILO) documents that call for governments to “take account of the necessity of enabling the workers concerned to maintain a suitable standard of living,”³ there remains a debate around both the best way to determine “fair and decent” wages as well as the effects increased wages may have on employment levels, degrees of informality, and poverty alleviation..

How should a “fair and decent” wage be defined and calculated? What is the best way to achieve this goal? How should it be enforced? There exists no consensus over any of these dimensions of the issue. For example, one significant cleavage in the debate over decent wages is whether “**fairness**” or “**livability**” is the best criterion to evaluate wage levels. The former criterion relies on a **relative** understanding of decency and the implicit notion that workers are entitled to a certain share of the fruits of their labor. In contrast, standards that

¹ This memo was prepared by Gustavo Setrini under the supervision of Professor Richard Locke of MIT. This memo is not a comprehensive review of the literature on “fair and decent” wages. Rather, it is intended as a background paper for the Jo-In/MIT meeting on “Exploring common approaches to Corporate Accountability and Workers’ Rights” to be held at the Massachusetts Institute of Technology, July 10-11, 2005. I wish to thank Dana Brown and Mathew Amengual for their helpful comments.

²U.S. Department of Labor (USDOL), Bureau of International Labor Affairs. “Wages, Benefits, Poverty Line, and Meeting Workers’ Needs in the Apparel and Footwear Industries of Selected Countries.” February 2000, <<http://www.dol.gov/ilab/media/reports/oiea/wagestudy/main.htm>> 6/29/05, I 2-3. One of the earliest and most famous moral arguments for a living wage is found Pope Leo XIII 1891 Encyclical *Rerum Novarum*.

³ “Minimum Wage-Fixing Machinery Convention” and “Minimum Wage-Fixing Recommendation.” International Labor Organization. Geneva, 1928. <<http://www.ilo.org/ilolex/english/convdisp2.htm>>, 6/29/05.

determine decent wages according to their “livability” rely on an **absolute** definition, implying that workers are entitled to wages that are at or above a particular level (usually the level that will meet their needs and the needs of their dependents). In addition, the competing approaches make all sorts of (differing) assumptions about the number wage earners per household, the number of dependents that must be supported by the primary wage earner, and the various components that should be taken into consideration when calculating fair wages (i.e., caloric intake, housing, health care costs, etc.). This memo seeks to lay out the three key approaches aimed at providing a “fair and decent” wage for workers in the global apparel industry. The three approaches, based upon: 1) legally mandated minimum wages; 2) prevailing industry wages; and 3) efforts to promote a living wage will be reviewed, highlighting the strengths and weaknesses of each approach. The purpose of this memo is not to advocate for any particular approach but rather to highlight the differences among them so as to inform our discussions. Table 1 summarizes the key dimensions of these three alternative approaches.

Table 1			
Alternative Wage Standards Summarized			
Standard	Pros	Cons	Base of Comparison for “Decency” of Wage
Minimum Wage	<p>Provides Clearest standard.</p> <p>Legally Established by host country.</p> <p>Legally Enforceable in host country.</p>	<p>Level of protection granted to workers by minimum wages varies a great deal across countries.</p> <p>Countries may set and/or adjust minimum wages with other criteria than workers' needs (i.e. attracting investment).</p> <p>Are set too low to prevent poverty in most cases.</p>	<p>Defines decent wages using an absolute measure (the legal minimum wage); this level may or may not be related to "livability" depending on how national legislation is determined.</p>
Prevailing Wage	<p>Generally much higher than minimum wage.</p> <p>Employers should be willing to pay without reducing employment levels or hurting competitiveness.</p>	<p>Measurement can be unreliable or costly.</p> <p>May vary considerably across regions and subindustries within a country, and with regard to the level of nonwage benefits.</p> <p>Is too low in most cases to prevent poverty.</p>	<p>Defines decent wages using a relative measure (the prevailing industry wage); considers fairness rather than "livability" as the main criterion of decency.</p>
Living Wage	<p>Guarantees that wages meet workers' needs.</p> <p>Can raise productivity of work.</p> <p>Relieves poverty.</p> <p>Sends strongest message to consumers.</p>	<p>No consensus on definition or best methodology for calculation.</p> <p>Potentially difficult or costly to calculate.</p> <p>May set wages at an unrealistic or impossible level in some cases.</p> <p>May reduce level of employment or competitiveness of suppliers.</p>	<p>Defines decent wages using an absolute measure (a calculated "living wage") and explicitly considers "livability" as a criterion of decency.</p>

Minimum Wage

Minimum wage legislation has long been the dominant mechanism for protecting low-wage workers from unfair pay. The modern practice originated in Australia and New Zealand at the turn of the last century, and spread to Britain, the U.S. and the rest of the world.⁴ The ILO's 1928 convention on minimum wage fixing was supplemented in 1970 by Convention No. 131 and Recommendation No. 135 which specifically address wage setting in developing countries. These documents suggest criteria for minimum wage fixing and reference the obligation to consider “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;” as well as “economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.” As one can see, these documents recognize the multiple goals and inherent conflicts associated with minimum wage legislation. On the one hand, the ILO argues that minimum wages should protect those low-wage workers who are considered to be in an especially vulnerable position in the labor market. On the other hand, these same documents recognize that minimum wages can potentially conflict with broader national goals like economic growth and job creation.⁵

In fact, in the debates over minimum wages, some point to the possible unintended consequences such as reducing the overall level of employment, increasing the size of the economy's informal sector, and increasing the level of noncompliance with labor law, while others suggest that minimum wage legislation can encourage increased participation in the

⁴ USDOL, I-2.

⁵ Ibid., I-7.

labor force and induce productivity gains through increased commitment and lower turnover, better nutrition and health for workers, and better worker training, leading to increased labor demand and contributing to positive outcomes for workers and employers.

Although the evidence is inconclusive, an ILO assessment of the effectiveness of minimum wage policy as a poverty alleviation tool finds a negative correlation between minimum wage level and national poverty rates.⁶ This means that a country with a higher minimum wage is more likely to have a smaller proportion of its population below its poverty line, controlling for average wage, per capita GDP, and geographical effects. In addition, the study did not find any significant relationship between increases in the minimum wage as a proportion of average wages and the proportion of informal economic activity or the overall level of employment in a set of developing countries.⁷

Minimum wages exist in all but five of the 36 largest apparel exporting countries, and according to the criteria laid out by the ILO they should supply a workable standard to ensure just compensation for workers in these industries. By definition, minimum wages should approximate “living wages,” but are more often a compromise between what has been deemed necessary to meet workers needs and what business is willing and able to pay. Furthermore, the value of minimum wages has been highly unstable in response to inflation and, according to ILO, “the stated goal of providing low-paid workers with decent living conditions is not systematically reflected in the process of adjusting minimum wages” once they have been fixed.⁸ Rather than seeking to meet the basic needs of workers, governments have often adjusted minimum wages in response to a variety of factors, including changes in

⁶ Catherine Saget. “Is the Minimum Wage an Effective Tool to Promote Decent work and Reduce Poverty? The experience of Selected Developing Countries.” (Geneva: ILO, 2001), <http://www.ilo.org/public/english/employment/strat/publ/ep01-13.htm>, 6/29/05, 17.

⁷ Ibid, 16.

⁸ Saget, 11.

labor productivity, growth in employment and GDP, attempts to control inflation, and various political pressures placed on the legislature. In particular, the desire to attract foreign investment to stimulate economic development and employment growth may lead governments to set minimum wages below subsistence levels. As a result, the level of protection provided by minimum wages varies widely from country to country.

U.S. Department of Labor (USDOL) data on the 36 largest exporters of apparel and footwear, demonstrate that the legal minimum wages set for workers in these countries are woefully inadequate. In 22 of the 31 countries surveyed by the USDOL that actually enforced minimum wages, the legal minimum wage does not provide enough income to maintain a family of four above the nationally defined poverty level (see Table 2). In 14 of these countries, even a household of four with two breadwinners cannot surpass the nationally defined poverty level by earning the legal minimum wage.

Evidence of the inadequacy of minimum wages is also presented in a report on excessive overtime in China by non-profit labor standards auditor, Verité.⁹ They report that minimum wages for garment manufacturers lie far below average regional wages and can be inadequate to cover basic needs. For example, in Guangdong province, the minimum wage is set at one fourth (25%) the region's average wage, in violation of national directives requiring it to be set at between 40% and 60% the value of the locality's average wage. Notwithstanding that "legal minimum wage rates are often too low to cover basic needs," a majority of the factories studied used minimum wages laws to set basic wages. Moreover, Verité found that as inadequate as minimum wages were, they were not universally respected by employers. "Of 142 Chinese factories audited in 2002 and 2003, auditors reported that

⁹ Verité. "Excessive Overtime in Chinese Supplier Factories: Causes, Impacts, and Recommendations for Action." (Amherst, MA: Verité, 2004)
<<http://www.verite.org/aboutus/Excessive%20Overtime%20in%20Chinese%20Factories.pdf>>, 6/29/05, 16.

Table 2					
Wage Data for Major Apparel Exporters					
Country	Minimum Wage for workers in footwear and Apparel	Poverty Line	Prevailing Apparel Industry Wage	Minimum wage below poverty line for family of four (or as specified)	Industry wage below national poverty line for family of 4 (or as specified)
Bangladesh	\$12.35-76.00/month	\$11.32/cap/month	\$36.51-42.51/month	X	X
Brazil	\$81/month	\$25/cap/month	\$160-270/month	X	
Cambodia	\$40/month	\$13.38-20.08/cap/month	\$40-70/month	X	X
China	\$12-39	\$20.50-26.50/cap/month	114.67-190.97/month	X	
Colombia	\$132.23/month	\$364.76/hld/month	\$194-216/month	X	X
Costa Rica	\$266/month	\$100/hld of 5/month	\$262-299/month		
Egypt	\$408/year	\$929-1231/cap/year	\$1312/year	X	X
Guatemala	\$3.16/day	\$11.07/hld of 5.38/day	\$6.11/day	X	X
India	\$6.26-54.51/month	\$5.41-6.24/cap/month	\$18.52-\$92.58/month	X	X
Indonesia	\$15.12-33.72/month	\$4.84-6.11/cap/month	\$15.12-42.06/month	X	X
Jamaica	\$1,377.20/year	\$3567/hld of 5/year	\$1800-5000/year	X	X
Mauritius	\$55.60/month	\$250/month	\$258-368/month	X	X
Mexico	\$3.02-3.24/day	\$3.71/cap/day	\$6.72-8.24/day	X	X
Nicaragua *(1)	\$52/month	\$400/hld/month	\$228/month	X	X
Pakistan	\$38/month	\$6.39/month	\$63/month		
Peru	\$100/month	\$47/month	\$100/month	X	X
Sri Lanka *(1)	\$21.70-37.30/month	\$14.50/hld/month	\$64.68/month		
South Korea	\$264.97/month	\$182/month	\$727-932/month		
Taiwan	\$476/month	\$213.66/cap/month	\$689.45-741.53/month		X
Turkey	\$291/month	\$820/hld of 4/month	\$522-528/month	X	X
United States	\$10,300/year	\$16,655/hld of 4/year	\$17,040-17,860	X	

*(1) prevailing wage is for all manufacturing and is likely to significantly overstate wages in apparel and garment industries

regular wages of at least some workers were illegally low at 64 factories (45% of those audited) based on either worker reports or on factory production, timecard and/or payroll records.

Most often, auditors reported that it was piece-rate workers (especially new and relatively-unskilled piece-rate workers) whose pay fell below legal minimum wages.”¹⁰ While stricter and more efficient enforcement of the minimum wage laws defined by each particular nation could go a ways toward improving the pay of apparel workers, it is clearly an unreliable basis for codes of conduct if their objective is to ensure that workers are paid fair wages.

Prevailing Wage

A second approach to promote “fair and decent” wages centers around the concept of a “prevailing industry wage,” or what can be understood as the “going rate” for workers in specific occupations for a particular area or country. This may mean the average level of wages or, in some cases, the level established by collective bargaining between employers and trade unions. Average wages for a particular industry can be measured by using survey data on wages or by using administrative (payroll) records, but both approaches can suffer from measurement problems.

First, the quality of the survey instrument is important for establishing an accurate average, and may vary greatly from country to country. Second, data that are aggregated at the national level or for broad industry categories may conceal significant wage variation across regions and specific trades. In some instances, these issues may make the use of prevailing wages a blunter tool for ensuring fair compensation to workers. Further complicating the matter, determining the extent that non-wage benefits are provided is

¹⁰ Ibid.

important when establishing the average remuneration received by workers in a given industry and region.

In any event, available data indicate that industry wages in footwear and apparel manufacturing are typically higher than the minimum wages but lower than prevailing wages other industrial activities.¹¹ Prevailing wages exhibit wide variation across countries and even within particular countries, and in several major apparel exporters prevailing wages are equal to or, in the case of Turkey, inferior to legal minimum wages. In India, for example, prevailing monthly wages range from \$18.52 to \$92.58; in Jamaica, they range from \$150 to \$416. This large variance persists even when wages are adjusted for purchasing power, ranging from \$69.90 a month in Indonesia to \$1166.66 in South Korea and \$1419.72 in the U.S. (Table 3). While this gives only a very rough estimate of the real value of wages in these countries, the difference is staggering. Even assuming large differences in productivity, such wage differentials are difficult to explain; the fact that poorest paid Indonesian garment workers receive only 4.72 percent of the wages of their American counterparts cannot be explained by productivity alone.

Ver Beek's study of workers in Honduran Maquiladoras confirms that prevailing industry wages in that country are well above minimum wages, concluding that "maquiladora employees are earning about 50% [more] than minimum wage and 50% more than [first time] applicants did in their previous jobs."¹² However, Ver Beek also finds that the wages provided by maquiladoras are not enough to lift a family out of poverty and that, on average "it would take 1.3 maquiladora salaries to meet only the food needs of a family of five and

¹¹ USDOL, I-12.

¹² Kurt Alen Ver Beek. "Maquiladoras: Exploitation or Emancipation? An overview of the Situation of Maquiladora Workers in Honduras." *World Development*, 29: 9, September 2001, 1558.

3.1 maquiladora salaries to cover their basic needs,” according to official Honduran poverty statistics.

Indeed in most of the major apparel exporting countries, prevailing wages are no guarantee that workers can cover living expenses. In 16 of the 36 countries covered in the ILO study, prevailing industry wages leave a family of four below the nationally defined poverty level. In three of these countries, (Cambodia, Egypt, and Mexico) this is true even if two wage earners are assumed in a household of four. Meanwhile, India and Indonesia present the most extreme cases of poor remuneration and illustrate the potential inadequacy of regulations demanding the prevailing industry wage. In these countries a family of four with a single bread winner earning the lower bound of prevailing apparel industry wages would fall below the international extreme poverty line, surviving on a per capita income of less than \$1 a day (1993 dollars adjusted for purchasing power). This is despite the fact that in both cases, the lower bound of prevailing wages in the garment and footwear industry meets or exceeds the countries’ minimum wage laws.

Clearly in these cases, neither the legal minimum wage nor the prevailing industry wage is an adequate standard for ensuring fair compensation. Thus, while mandating that prevailing industry wages be paid to apparel workers is a vast improvement upon minimum wages, and in some cases appears to grant workers adequate standards of living, there are

Table 3			
Wages Purchasing Power Parity (1993 Dollars)			
Country	Monthly Minimum Wage PPP adjusted	Poverty line PPP adjusted for hld of 4 or as specified per month	Prevailing monthly industry wages, ppp adjusted *(2)
Bangladesh	\$50.51	\$203.24	\$165.73
Brazil	\$139.44	\$219.19	\$365.32
Cambodia	\$248.96	\$288.96	\$232.17
China	\$50.08	\$440.71	\$194.56
Colombia	\$281.67	\$913.29	\$470.43
Costa Rica	\$421.48	no data	\$521.24
Egypt	\$75.61	\$417.95	\$260.55
El Salvador	\$274.15	\$670.91	\$414.46
Guatemala	\$151.58	\$552.30	\$286.38
India	\$39.75	\$126.33	\$93.28
Indonesia	\$55.14	\$112.85	\$69.90
Jamaica	\$113.76	\$377.56	no data
Mauritius	\$133.30	\$646.21	\$694.89
Mexico	\$113.53	\$252.49	\$353.88
Nicaragua *(1)	\$138.72	\$657.03	\$1,491.46
Pakistan	\$151.15	\$160.60	\$233.65
Peru	\$233.11	\$425.27	\$233.63
South Korea	\$429.39	\$1,166.20	\$1,166.66
Sri Lanka *(1)	\$64.05	\$53.38	\$201.53
Taiwan	No data	no data	no data
Turkey	\$1,505.86	\$1,306.24	\$841.14
United States	\$852.11	\$1,388.47	\$1,419.72

*(1) prevailing wage is for all manufacturing and is likely to significantly overstate wages in apparel and garment industries

*(3) Assumes 26 work days a month and 8-hour days when data were presented in weekly or daily format

clearly cases in which the prevailing wage is not sufficient. In the worst cases, prevailing industry wages are so low that workers and their families remain in extreme poverty, and using prevailing industry wages as a benchmark does not protect the most vulnerable workers from such extreme, if rare, circumstances.

Living Wage

The final approach to promote “fair and decent” wages is to insist that employers pay a “living wage” to workers. A living wage is generally defined as the level of income which allows workers to meet their basic needs. The problem is that there exists no consensus over how to calculate a “living wage”, what kinds of data to use when calculating it, and what assumptions about family size, household expenses, etc. should be included in these calculations. See Table 4 for a summary of the various approaches employed to calculate a living wage.

For example, in order to determine what constitutes a living wage it is necessary to establish the meaning of “basic needs” and also to choose values for two potentially controversial parameters: the size of a typical household and the number of wage earners in a typical household. The narrowness or expansiveness with which “basic needs” are defined has a very large effect on the ultimate level of wages required to meet them. For some, basic needs amount to little more than mere physical subsistence, based on the minimum caloric intake required for survival. For others, the term may include a nutritious diet, safe drinking water, suitable

Table 4				
Living Wage Methodologies				
Method	Description	Pros	Cons	Example
Market Basket	Uses surveys to price all the essential goods for a household	Provides very accurate estimate of living costs and living wage	Requires costly surveys to collect price and expenditure data	Berkeley Living wage Conference: $LW = 1.10 \times [\text{Basic Needs Basket} \times \text{Household Size} + \text{Housing Cost}] / \text{Number of wage Earners}$
PPI	Uses surveys to price all the essential goods for a household in terms of minutes of work	Provides accurate estimate of living costs that can easily and accurately compared across countries and over time	Requires costly surveys to collect price and expenditure data	CREA: $LW = \text{wage that will grant workers enough "minutes of purchasing power" to afford basic needs.}$
Extrapolated Market Basket	Uses surveys to price essential food basket and extrapolates the cost of other goods based on average household expenditure ratios	Provides accurate estimate of living costs without having to collect as much price data	Potentially less accurate than full market basket approach	SAI 8000:
			requires accurate survey of average expenditures that account for regional variation	$LW = (\text{Basic Food Basket}) \times (1/\text{Percent of Average Household Income Spent on Food}) \times (\text{Household Size}/\text{Number of Wage Earners}) \times 1.10$
National Poverty Line	Sets living wage at or above national poverty levels however defined	Allows living wages to be set without collecting any data	National poverty lines vary a great deal and do not provide a consistent level of protection to workers across countries	$LW = 110\% \times \text{National Poverty Level}$

Table 4 (cont.)

Living Wage Methodologies

Method	Description	Pros	Cons	Example
International Poverty Line	Sets living wage above international poverty level of 2\$/capita/day	Allows living wages to be set without collecting any data according to an internationally excepted standard for poverty	Does not account for the subjective or relativistic nature of poverty perceptions across countries (i.e. 2\$/cap/day may still be inadequate in many countries)	LW= 2\$ (purchasing power parity) x Average Household size/Number of wage earners
Relative Income	Sets living wages at a certain level of median or average income (usually 50%)	Allows living wages to be set without collecting any data at a level commensurate with many national poverty lines	Does not provide for an absolute minimum, below which wages should not fall	Israel:
		Accounts for subjective and relativistic understanding of poverty across countries		LW= 50% x median national income
		Avoids any unintended consequences of administratively set wages		

housing, energy, transportation, clothing, health care, child care, education, savings for long term purchases and emergencies, and some discretionary income.

The size of a typical household, its demographic composition (e.g. one adult, one adult female and three children), and the number of wage earners also have a large effect on the level of wages necessary to meet a household's basic needs. Traditionally, poverty levels have been calculated assuming that a typical household consists of one—presumably male—wage earner, supporting a wife and between two and three children. These assumptions offer the most straightforward way to calculate a minimum wage, and additionally, if the household is assumed to consist of two adults and two children, the assumption coincides with a widely held development goal of replacement level fertility. However, such assumptions neither reflect the true size of households which earnings must support, which may be much larger and include more than two generations in extended families, nor the fact that apparel industry workers are overwhelmingly women who may or may not be the sole or primary breadwinners in their households.

One effort to define a Global Living Wage, undertaken by Mark Brenner for the *Global Labor Standards and Living Wages Conference* at the University of Massachusetts-Amherst in April 2002, suggests using the most prevalent family type in determining living wages and reserving at least one third of the typical household's adult labor for domestic purposes. Thus if a typical household had two adults, it could be assumed to have no more than 1.33 wage-earners and the living costs of that household could be divided at most by 1.33 when calculating the level of wages necessary to sustain that household.¹³

Little work has been done to actually characterize the household of a typical garment worker, and it is likely to vary a lot by country and by region. Exceptions include Ver

¹³ Mark Brenner. "Defining and Measuring a Global Living Wage: Theoretical and Conceptual Issues" 2002, .

Beek's study that found that Honduran maquiladora workers' households had a higher number of wage earners on average than first time applicants to maquiladoras (2.6 versus 2 for an average household size in the range of 4.9-5.8), and that "maquiladora employees of both genders are much more likely than applicants to consider themselves the head of the household."¹⁴ In contrast, Vertité reported that Chinese workers are often migrants whose earnings are sent as remittances to support extended families far away. While prevailing industry wages may be well above the legal minimum wage, their low levels relative to the needs of workers' families create a situation where employees are vulnerable to excessive overtime with its consequent health problems and increased risk of injury.¹⁵

Once these parameters have been established, a method for calculating the cost of "basic needs", however defined, must be determined. One option is simply to rely on national poverty levels which are available for many countries and have incorporated definitions of basic need, family size, and a methodology for determining what level of income is too little. This memo relies on such data to demonstrate how minimum wages and sometimes prevailing are too low to support necessary household consumption, and how codes of conduct could define living wages as those that will allow a typical family to escape poverty, however defined in the host country. The obvious advantage of using national poverty lines to define a living wage is that the work is already done. Additionally, one might expect national governments to be best equipped to define the subjective dimensions of "basic need." However, similar to minimum wages, nationally defined poverty levels vary widely, illustrating just how subjective and relative perceptions of poverty may be, and making international comparison of wellbeing very difficult.

¹⁴ Ver Beek, 1558.

¹⁵ Vertité, 18-20.

In the garment exporting countries studied by USDOL, poverty thresholds for a family of four range from income levels of \$14.5 a month in Sri Lanka or \$19.26 a month in Indonesia to \$1,387.92 per month for a family of four in the U.S. Earning a “poverty level wage” clearly has a different significance in the former countries than in a developed country like the U.S. Adjusting for purchasing power, the average poverty level for the apparel exporting countries that appear in Table 2 and 3 (excluding the U.S.) is \$473.20 (1993 dollars), however, the levels range in value from \$53-\$1,306.24. As a result, poverty levels may be set too low to be a reliable metric for calculating a living wage. For example, Sri Lanka’s monthly minimum wage of \$21.70 is in fact sufficient to keep a family of four above the country’s poverty level, and the actual prevailing industry wage of \$64.68 [in this case the average wage for *all* manufacturing activities] is more than three times that amount. However, this does not amount to much in a country where the poverty level is set at \$14.50 per household of four, or a mere \$53.38 (1993 dollars) per month when adjusted for purchasing power.¹⁶

One solution to this dilemma is for living wages to be calculated independently of host governments’ assessments of the poverty line by industry or monitoring groups. These calculations may use approaches similar to ones employed by governments to establish national poverty lines, such as the “full market basket approach,” the “extrapolated market basket approach,” or some alternative methodology. We will address each of these options below.

¹⁶Adjusting for purchasing power, as we have done here, presents its own problems, as the Purchasing Power Parity index has been calculated to compare national account data rather than the consumption patterns of low-wage earners across countries, and can give only a rough estimate of the value of wages.

In the **full market basket approach** a complete basket of required goods is chosen and price data are collected to determine what wages are required to meet them for the specified family size and number of wage earners. There is general agreement that the basket should provide food for a 2,250-3,000 calorie diet per person per day, but beyond that the level of housing and expenditures on health, education, child care, and transportation must either be determined through surveys of average consumption behavior or left as a matter of discretion. This approach can provide a very accurate estimate of living costs and necessary living wages. However, it requires a large amount of consumption and price data to be collected for each country and conducting the necessary surveys could be very costly.

This approach to calculating living wages was adopted at the Living Wage Working Summit in Berkeley, California: Living Wage (LW) equals cost of a basic needs basket for an individual (BN) multiplied by average family size (FS), adjusted for the number of adult wage earners (W), plus housing and energy costs (H) adjusted for the number of adult wage earners (W) plus additional 10 percent for savings; i.e. $LW = 1.10 \times [(BN \times FS) + H] / W$. Other organizations propose a variation of this formula for calculating a living wage. Jobs for Justice, for instance, estimates expenditures for food, housing, day care costs, transportation, clothing, and personal expenses from a variety of official sources to calculate the costs of the basic market basket. Wider Opportunities for Women (WOW) prices each item individually using data from official sources. WOW proposed a market basket that includes housing, child care, food, transportation, health care, miscellaneous expenses, and taxes.

A variation of the full market basket approach is the **Purchasing Power Index (PPI)** approach used by the Center for Reflection, Education and Action (CREA) to calculate living wages in Mexico, Haiti, and Indonesia. CREA's Mexico PPI program calculates living wages

for 15 different cities in three regions of Mexico and gives an idea of the difference between prevailing wages and estimated living wages in that country.¹⁷ Their methodology involves pricing a market basket that includes food, nonfood necessities, clothing, housing, and education, in terms of the number of minutes work required to purchase each item at legal minimum wage. A “sustainable living wage standard . . . that reflects the needs of workers, a dignified living standard, and the ability to move beyond only immediate necessity to planning for the future,” is then calculated as the daily wage necessary to provide the market basket within a standard work day (8 Hours). CREA assumes one breadwinner per family of two adults and two children, and collected price data through interviews and in businesses where Mexican maquiladora workers actually purchase goods, including supermarkets, small stores, open-air markets and street vendors. The main advantage of this approach is that the value of wages can be compared internationally without the distortion that results by converting to dollars.

The results of the study show that the minimum wages in three regions of Mexico provided only 19.4, 17.4, and 25.6 per cent of the value of a sustainable living wage, which were determined to be 191.00, 201.29, and 127.86 pesos per day for the three regions, compared to the existing minimum wages of 37.90, 35.10, and 32.70 pesos per day. Living wages should therefore be set between four and six times the minimum wage to meet CREA’s definition, or between 37.2 to 229 percent greater than the upper bounds of prevailing industry wages determined by the researchers through interviews.¹⁸ If the living wages are compared instead to USDOL data on prevailing wages in the apparel industry in

¹⁷ Center for Reflection, Education and Action. *Making the Invisible Visible*. 2000. <http://www.crea-inc.org/pdf_files/ppi_reports/Mexico%20PPI%202000-English.pdf>, 6/29/01.

¹⁸ They found a wide range in take home pay both within and across the three regions ranging from the lowest paid workers in region C, receiving 278.20 a week to a high of 651.50 pesos in region A.

Mexico, wages would need to be set at between 2.0 and 3.2 times the upper bound of the USDOL-reported prevailing wage for Mexican apparel and footwear workers.

This is by any account a very large increase in wages and one that is likely to significantly affect the level of employment. One of the main contributing factors for this proposed increase in wages is the inclusion of the adequate housing costs in the market basket. CREA found that the vast majority of workers (>95%) they interviewed did not pay rent and spoke of owning their own homes. However, in many of these cases the homes were precarious dwellings in squatter settlements whose owners did not have secure property rights and that lacked basic utilities (water, electricity). While such housing conditions allow workers to subsist on low wages, they were not considered by the authors of the study to comprise “adequate housing” and the costs of more secure housing was included in the market basket. Yet the lack of available low-income housing in Mexico or other countries could also be seen as a public-goods issue that would be better addressed through public investment rather than increases in wages.

A second methodology for calculating living wages is the **extrapolated market basket approach**, which calculates costs of a minimal household food basket just as with the full market basket approach, but extrapolates from its cost to determine the required level of expenditure for all other goods, using the expenditures of the average consumer as a basis. For example, if the average consumer spends 25 percent of her income on food, a living wage must be equal to four times the cost of *basic* food basket. This approach is used in the Social Accountability 8000 Standard which calculates a living wage as the cost of basic food basket for an individual divided by the percent of average household income spent on food and multiplied by the household size and divided by the number of wage earners per

household; ten percent of this amount is then added for discretionary spending to determine the final living wage. SA 8000 calculates the average percentage household income spent on food using statistics from ILO and other UN agencies. In addition, the U.S. poverty line was originally set at three times the cost of food basket in the 1960s, based the ratio of food to total expenditures of an average family in the 1950s. The U.S. poverty line has since been adjusted only for inflation.

Other possible approaches for calculating living wages involve using national economic statistics to calculate the level of income required to meet workers basic needs. One such approach is to use **relative income measures**. As part of their efforts to establish statistical indicators for measuring the provision of “decent work,” the ILO suggest that jobs must provide at least the median income to qualify as providing “adequate pay” .¹⁹ Israel is the only country that currently defines its minimum wages using relative income shares, setting the minimum wage at 45.5 percent of the average gross monthly wage and the poverty line at 50 percent of medium income (adjusted for family size).²⁰ The benefit of such a measure is that it is very easy to calculate and it captures the subjectivity and relativity of poverty perceptions across countries. The results do in fact coincide with the level at which many nations have set their poverty lines by other means. The drawback is that when living wages are calculated in this way, they are not guaranteed to meet any minimum or absolute standard.

For this reason, the ILO suggests it be supplemented by an additional method that makes use of the international poverty line of \$2 per day per capita as an absolute minimum

¹⁹ Richard Anker, Igor Chernyshev, Philippe Egger, Farhad Mehran and Joseph Ritter. “Measuring Decent Work with Statistical Indicators.” International Labour Office, (Geneva: ILO, 2002) 24.

²⁰USDOL, I-37.

when the relative income measures yield unacceptably low wages.²¹ According to an ILO study on “decent work indicators” decent pay must be enough to allow a worker to support at least one dependent at the \$2 per day level, and assuming 8 hour days, and 50 weeks per year, the wage comes out to \$0.65 per hour, but must be adjusted for purchasing power. As mentioned earlier, workers with three dependents earning the lower bound of prevailing wages in India and Indonesia fall below the extreme poverty line of \$1 per capita per day. If the \$2 per day level is utilized instead, apparel workers in six additional countries must be considered as receiving inadequate wages.

Concluding Considerations: Meeting Workers Needs

This memo has presented a variety of different approaches used to define and calculate a “fair and decent” wage apparel exporting countries. Abiding by minimum wage laws is the most straightforward standard available but in most cases does not come close to providing the level of income required to provide workers’ basic needs. The prevailing industry wage of most countries would provide a much better standard than the minimum wages. However, measurement may be difficult and the experience in some countries shows that this standard would not be 100 percent effective in protecting workers from inadequate pay. Finally, living wage standards go the furthest toward ensuring that workers receive decent pay. Yet, as CREA’s Mexico study revealed, paying living wages could involve wages as much as two or three times as high as those that currently prevail, potentially reducing by a significant amount the number of jobs available and threatening the competitiveness of local industries.

²¹ Anker et al, 25.

Seeking out the conditions that allow such wages to be paid without driving producers out of business is a logical next step in the discussion of wage standards. Among the organizations active in monitoring labor standards, there is no consensus on whether minimum wages, prevailing wages, or living wages are the most appropriate standard in apparel factories. The diversity of approaches is represented in Table 5, which compares the codes of conduct of major NGOs and multi-stakeholder initiatives active in monitoring labor standards in the apparel industry. Although most of these organizations do in fact advocate paying workers living wages, most codes of conduct do not specify what the term “basic needs” is meant to include, or identify which methodology for calculating living wages is best, what data should be used, or what sort of household the “living wage” is meant to support. Without greater specificity and consensus on these questions, provisions calling for a living wage may prove very difficult to enforce and ultimately be ineffective in protecting workers from inadequate compensation and satisfying the demands of concerned consumers.

Finally, it should be noted that choice of a wage standard cannot be made in isolation of other organizational strategies and practices, including working hours, level of technology employed, and processes for adjusting wages over time in relationship to changes in productivity, cost of living, and other underlying economic factors. How this combination of factors is managed will in the end determine both the viability of a business enterprise and the level and trajectory of the standards of living of its workforce. Thus, choosing a standard for setting wages is only one component of a more complete compensation policy and business strategy.

Table 5**Codes of Conduct Wage Provisions Compared**

Organization	Standard	Standard Description	"Basic Needs"	Household Size, No. Wage Earners
Draft Common Code	Living Wage	Workers shall have the right to a living wage. Wages and benefits paid shall always comply with all applicable laws, regulations and minimum standards and shall be sufficient to meet basic needs of workers and their families and provide some discretionary income.	includes discretionary income	
WRAP	Minimum Wage	At least the minimum total compensation required by local law, including all mandated wages, allowances and benefits.		
FLA	Higher of Minimum or Prevailing	At least the minimum wage required by local law or the prevailing industry wage, whichever is higher, and shall provide legally mandated benefits.		
WRC	Living Wage	Wages and benefits that comply with applicable laws and regulations, which provide for essential needs and establish a dignified living wage for workers and their families	housing, energy, nutrition, clothing, health care, education, potable water, childcare, transportation and savings	Average Family divided by average number of wage earners per family in garment sector
SAI 8000	Living Wage	Wages paid for a standard work week must meet the legal and industry standards and be sufficient to meet the basic need of workers and their families; no disciplinary deductions	Basic food basket plus average additional expenditures and discretionary income	Not specified
Ethical Trade Initiative	Living Wage	Living wage; minimum of national legal standards or industry benchmark standards, whichever is higher. Wages should always be enough to meet basic needs and to provide some discretionary income	includes discretionary income	Not specified

Table 5 (cont.)				
Codes of Conduct Wage Provisions Compared				
Organization	Standard	Standard Description	"Basic Needs"	Household Size, No. Wage Earners
Clean Clothes Campaign	Living Wage	Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income.	includes discretionary income	Not specified
Fair Wear Foundation	Living Wage	Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income.	includes discretionary income	Not specified
ILO Convention 131	Living Wage	Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income.	includes discretionary income	Not specified
ILO Tripartite Declaration of Principles Concerning Multinational Enterprises	Prevailing	Offer wages, benefits and conditions of work not less favourable to the workers than those offered by comparable employers in the country concerned		
OECD Guidelines for Multinational Enterprises	Prevailing	Observe standards of employment not less favourable than those observed by comparable employers in host country		

Bibliography

Anker, Richard, Igor Chernyshev, Philippe Egger, Farhad Mehran and Joseph Ritter. “Measuring Decent Work with Statistical Indicators.” International Labour Office, (Geneva: ILO) 2002.

Brenner, Mark. “Defining and Measuring a Global Living Wage: Theoretical and Conceptual Issues” 2002.

Center for Reflection, Education and Action. *Making the Invisible Visible*. 2000. <http://www.crea-inc.org/pdf_files/ppi_reports/Mexico%20PPI%202000-English.pdf>, 6/29/01.

Fair Labor Association. *FLA Monitoring Guidance and Compliance Benchmarks* <<http://www.fairlabor.org/all/monitor/compliance.html>>, 6/29/05.

Fear Wear Foundation *FWF Audit Manual*. May 2005. <<http://en.fairwear.nl/tmp/Audit%20manual%20final%20may%202005-EN.pdf>>, 6/29/05.

Godfrey, Martin. “Employment dimensions of Decent Work: Trade-offs and complementarities.” International Institute for Labour Studies. (Geneva: ILO, 2003), <<http://www.ilo.org/public/english/bureau/inst/download/dp14803.pdf>>, 6/29/05.

“Minimum Wage-Fixing Machinery Convention” and “Minimum Wage-Fixing Recommendation.” International Labor Organization. Geneva, 1928. <<http://www.ilo.org/ilolex/english/convdisp2.htm>>, 6/29/05.

Saget, Catherine. “Is the Minimum Wage an Effective Tool to Promote Decent work and Reduce Poverty? The experience of Selected Developing Countries.” (Geneva: ILO, 2001), <<http://www.ilo.org/public/english/employment/strat/publ/ep01-13.htm>>, 6/29/05.

U.S. Department of Labor (USDOL), Bureau of International Labor Affairs. “Wages, Benefits, Poverty Line, and Meeting Workers’ Needs in the Apparel and Footwear Industries of Selected Countries.” February 2000, <<http://www.dol.gov/ilab/media/reports/oiea/wagestudy/main.htm>> 6/29/05, I 2-3.

Ver Beek, Kurt Alen. “Maquiladoras: Exploitation or Emancipation? An overview of the Situation of Maquiladora Workers in Honduras.” *World Development*, 29: 9, September 2001.

Verité. “*Excessive Overtime in Chinese Supplier Factories: Causes, Impacts, and Recommendations for Action*.” (Amherst, MA: Verité, 2004) <<http://www.verite.org/aboutus/Excessive%20Overtime%20in%20Chinese%20Factories.pdf>>, 6/29/05.