

## Conditions of Work and Employment Programme

### ***Estimating a living wage: A methodological review***

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## **Preface**

Back in 1919, the ILO Constitution recognized the need for workers to earn a living wage. Almost a century later, the question of affording workers wages that enable them to meet their needs and those of their families has gained renewed momentum, internationally and nationally. The declining wage share worldwide, the widening wage and income inequalities coupled, in many instances, with a rise in the incidence of low-paid work, and the troublesome disconnect between wages and labour productivity, have concurred to the revival of the living wage debate in many quarters.

At present, however, there is neither a generally accepted definition of what a living wage is, nor is there a generally agreed methodology on how to measure it. This explains, in part, the relatively limited progress in practice of the living wage discussion to date.

This paper is not concerned with arguments about whether or not a living wage is desirable or unwelcome, nor does it deal either with the political and governance dimensions of setting and implementing a living wage. The purpose of this study is rather to identify what a living wage could encompass and how should it be measured.

The paper embarks on a comprehensive and critical review of the definitions and measurement methods of a living wage that have been used across the world by a range of institutions – from international organizations to cities, NGOs and companies – in the past decade. For each methodology, the corresponding assumptions and parameters are critically appraised. Based on this review, suggestions are put forward about possible ways to improve the estimation of a living wage and come up with a standard methodology.

The focus of living wages on worker needs offers valuable insights for the setting of minimum wages, a policy instrument which has gained considerable impetus on the national and international development agendas in recent years. According to the ILO's Convention concerning Minimum Wage Fixing, with Special Reference to Developing Countries, 1970 (No. 131), in fact workers' needs and those of their families constitute one key criterion to be taken into account when fixing minimum wages – whether by law or through collective bargaining.

This is the first time that a comprehensive review of this nature has been conducted. It is hoped that this paper will stimulate further debate on how the measurement of worker needs and living wages can be improved so that policy-makers are better informed.

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## 1. Introduction

Living wage has a long and distinguished pedigree. A recent book traces living wage back to Plato and Aristotle in ancient Greece, St. Thomas Aquinas in the 13<sup>th</sup> century, Adam Smith in the 18<sup>th</sup> century, and Popes since 1890 (Stabile, 2008). The United Nations' Universal Declaration of Human Rights (UN, 1948) recognizes the need for workers to earn a living wage as does the ILO Constitution (ILO, 1919). According to the ILO Committee of Experts (1992), the “ultimate objective [of ILO minimum wage Conventions] is to ensure to workers a minimum wage that will provide a satisfactory standard of living to them and their families”.

Now at the beginning of the 21<sup>st</sup> century, there has been a rebirth in interest in living wages. Over 100 municipalities and universities in the United States have passed living wage ordinances (Reynolds and Kern, 2003). As part of a rebirth of interest in corporate social responsibility (Hopkins, 2003), a number of NGOs and multinational companies have adopted corporate codes of social responsibility that include a living wage (e.g. SAI, 2008; ETI, 2010; Novartis, 2010).

Despite widespread recognition of the need for a living wage, acceptance is more often in principle than in practice. Statements of desirability are much more common than action, which affects wages of large numbers of workers. American municipal living wage ordinances, for example, apply to a very small per cent of the labour force (Luce, 2004). Not many corporations in developing countries actually pay a living wage, even those that accept the principle that they should (see Section 4). And when legal minimum wages are set by governments, possible negative effects of higher wages on employment and economic development are considered along with worker need for a decent income. This contrasts with how minimum wages were set in the earliest minimum wage laws when worker needs were paramount (see Section 8).

An important reason why living wage is not more widely applied is that there is neither a generally accepted definition of what a living wage is, nor is there a generally agreed methodology on how to measure a living wage. Partly because of this, many companies do not attempt to pay their workers a living wage and many governments do not seriously consider worker needs when they set legal minimum wages. As two large multinational corporations and one NGO concerned with monitoring CSR put it:

*“We do not feel that we have all the information we need to be able to responsibly implement and enforce a living wage requirement in our Code of Conduct. As a matter of policy, we will not add provisions to our Terms Of Engagement that we cannot adequately enforce” (Levi-Straus, quoted in Labour Behind the Label, 2009).*

*“We do not endorse artificial wage targets or increases based on arbitrary living wage definitions” (Nike, 2006).*

*“The main problem is how to define the living wage in a consistent way and making sure that it is auditable” (Fair Labor Association, quoted in Chhabara, 2009).*

Although many companies, governments and NGOs use the lack of an agreed definition and measurement methodology as an excuse for avoiding action, many other companies and governments interested in paying a living wage are perplexed by the lack of an accepted definition and measurement methodology. This means that governments, international organizations, NGOs and companies genuinely interested in a living wage are at a distinct disadvantage. So are unions during wage negotiations when they argue the need for higher wages without the benefit of a solid and defensible living wage estimate.

This paper is written in light of the situation just described – acceptance in principle of a living wage, relatively little use, and lack of an agreed definition and estimation

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methodology. The main objective of this paper is to bring together as much evidence as the author could find on how living wages and worker needs have been described and measured. This includes an extensive review of how living wages have been described, defined and measured by companies, notable persons, researchers, research institutions, NGOs, governments, international organizations and the Catholic Church. Based on this review, conclusions are drawn about where there is a consensus on how to (i) define a living wage, and (ii) measure a living wage. In this way, it is hoped that the influence of the living wage concept will be increased when corporate codes of conduct are set and implemented, NGO codes of corporate social responsibility are developed and implemented, legal minimum wages are set, and worker-employer wage negotiations are conducted.

The remainder of this paper is structured as follows. Section 2 discusses and provides evidence that a living wage is seen as akin to a human right. Section 3 provides a brief description of a living wage in graphical form and therefore what elements need to be measured to estimate a living wage. Section 4 discusses how it is common for companies to accept the principle of paying a living wage, but not attempt to pay a living wage in practice. Because one of the reasons for not paying a living wage in practice is that subjectivity is required to estimate a living wage, Section 5 discusses why subjectivity is not a fatal problem for estimating a living wage. Section 6 reviews how living wages have been described in words by a wide variety of actors and stakeholders. The reason for starting with descriptions rather than detailed methodologies is that most institutions, researchers and governments describe a living wage in words rather than set out a precise definition or formula. In this way, it is possible to obtain views and descriptions of living wage for a wide range of persons and institutions, and consequently makes it possible to draw more general conclusions than would be possible based on a review of the relatively few examples of specific definitions and formulas that have been used to measure a living wage. Section 7 reviews methodologies that have been used to measure a living wage in high-income countries. Section 8 discusses and analyzes methodologies used in the United States in the early part of the 20<sup>th</sup> century when living standards would have been similar to those in many developing countries today. Section 9 discusses and analyzes methodologies that have recently been used in developing countries. Section 10 provides conclusions and a brief summary. Appendix A includes tables with all of the descriptions, definitions and methodologies of living wages I was able to find. Appendix B contains a detailed discussion of methodologies that measure a basic acceptable living standard for Canada.

It is important to point out that this paper is not concerned with arguments about whether or not a living wage is a good thing (e.g. reduces poverty, improves income distribution, increases efficiency, reduces social costs) or a bad thing (e.g. increases unemployment, reduces competitiveness). There are many papers and books concerned with these issues, whereas to the best of my knowledge no paper has systematically and critically reviewed the definition and measurement of a living wage. It is my feeling that a comprehensive review is a necessary (although far from a sufficient) step for living wages to be used more widely and workers' needs to receive greater consideration when legal minimum wages are set and collectively bargained wages are determined.



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## 2. International community and living wage as a human right

The international community clearly considers living wage as a human right (Table 1). The following international conventions and declarations recognize the need for workers to receive a living wage: United Nations Declaration of Human Rights (1948), American Declaration on the Rights and Duties of Man (Organization of American States, 1948), European Charter (Council of Europe, 1961), United Nations International Covenant on Economic and Social Cultural Rights (1966) and American Convention on Human Rights in the Area of Economic, Social and Cultural Rights, Additional Protocol (Organization of American States, 1988). According to Article 23 of the United Nations Universal Declaration of Human Rights (1948):

*“Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity”.*

It is worth noting that inclusion of a living wage in international human rights declarations is probably traceable to President Franklin D. Roosevelt’s proposal for a Second Bill of Rights of economic security in his State of the Union Message to Congress in 1944. Because “necessitous men are not free men”, President Roosevelt felt that liberty requires economic rights such as “right to earn enough to provide adequate food, clothing and recreation” as well as “useful and remunerative job; decent living for farmers; fair competition for businessmen; decent home; adequate medical care; protection from old age sickness, accident and unemployment; good education”.

*“We have come to a clear realization that true individual freedom cannot exist without economic security and that ‘necessitous men are not free men’. People who are hungry and out of a job are the stuff of which dictatorships are made. In our day these economic truths have become self-evident. We have accepted, so to speak, a Second Bill of Rights of economic security. Among these are: ... the right to earn enough to provide adequate food, clothing and recreation.”*

Although Roosevelt’s Second Bill of Rights for economic security was never enacted into law in the United States, it has had a profound effect on the world. It significantly influenced the United Nations Universal Declaration of Human Rights, for example (perhaps, partly, because his wife, Eleanor Roosevelt, was very influential in its drafting). Many of the economic rights he proposed have become accepted in practice in most of the world (Sunstein, 2004). For example, education for children and medical care are akin to human rights around the world, while protection from old age, accident, unemployment and sickness is akin to a human right in higher income countries.

[Table 1: Living wage and international human rights conventions]

### 2.1 National constitutions

At least four national constitutions recognize the need for workers to earn a living wage (Table 2).

The Mexican Constitution states:

*“the general minimum wage must be sufficient to satisfy the normal necessities of a head of family in the material, social and cultural order and to provide for the mandatory education of his children”.*

Directive Principle No. 43 of State Policy in the Indian Constitution includes:

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*“Living wage, etc. for workers - - The State shall endeavor to secure, by suitable legislation or economic organisation or in any other way, to all workers ... a living wage ...”.*

Article 95 in Principles of State Policy in the Namibian Constitution includes:

*“Ensurance that workers are paid a living wage adequate for the maintenance of a decent standard of living and enjoyment of social and cultural activities”.*

The Brazilian Constitution stipulates:

*“national minimum wage be capable of satisfying their basic living needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation and social security, with periodical adjustments to maintain its purchasing power”.*

[Table 2: Living wage descriptions in national constitutions]

## 2.2 ILO and living wage as a human right

The ILO also considers a living wage as a human right in the sense that living wage is included in ILO major Declarations that take on the weight of rights (Table 3). Living wage is mentioned in the 1919 ILO Constitution, the 1944 ILO Philadelphia Declaration Concerning the Aims and Purposes of the International Labor Organisation, and the 2008 ILO Declaration on Social Justice for a Fair Globalization. Living wage is also included in the 2006 ILO Declaration on Principles concerning Multinational Enterprises and Social Policy. The Preamble to the ILO’s Constitution goes so far as to say that better working conditions that include a living wage are required to ensure “universal and lasting peace”.

*“Whereas universal and lasting peace can be established only if it is based upon social justice;*

*And whereas conditions of labour exist involving such injustice hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperiled; and an improvement of those conditions is urgently required; as, for example, by ... the provision of an adequate living wage.”*

It is interesting that, whereas the ILO Constitution in 1919 refers to the need for “an adequate living wage”, major ILO Declarations in 1944 and 2008 refer to the need for “a minimum living wage”. This change in wording cannot have been accidental and perhaps was done to take into account ILO Conventions on minimum wage passed in 1928 and 1970. These descriptions of a living wage in ILO major documents are somewhat ambiguous. One interpretation (which I think is the most logical) is that the word “minimum” in “minimum living wage” is an adjective that qualifies the meaning of “living wage”. According to this interpretation, a “minimum” living wage is required; that is, a living wage which is able to support a basic living standard. This interpretation is consistent with use of the phrase “adequate living wage” in ILO’s Constitution. Another interpretation I have heard is that “minimum living wage” refers to a type of minimum wage. This difference in interpretations has important practical implications, because minimum wages take into consideration possible negative effects on employment and economic development when they are set.

[Table 3: Living wage-related descriptions in ILO major documents]

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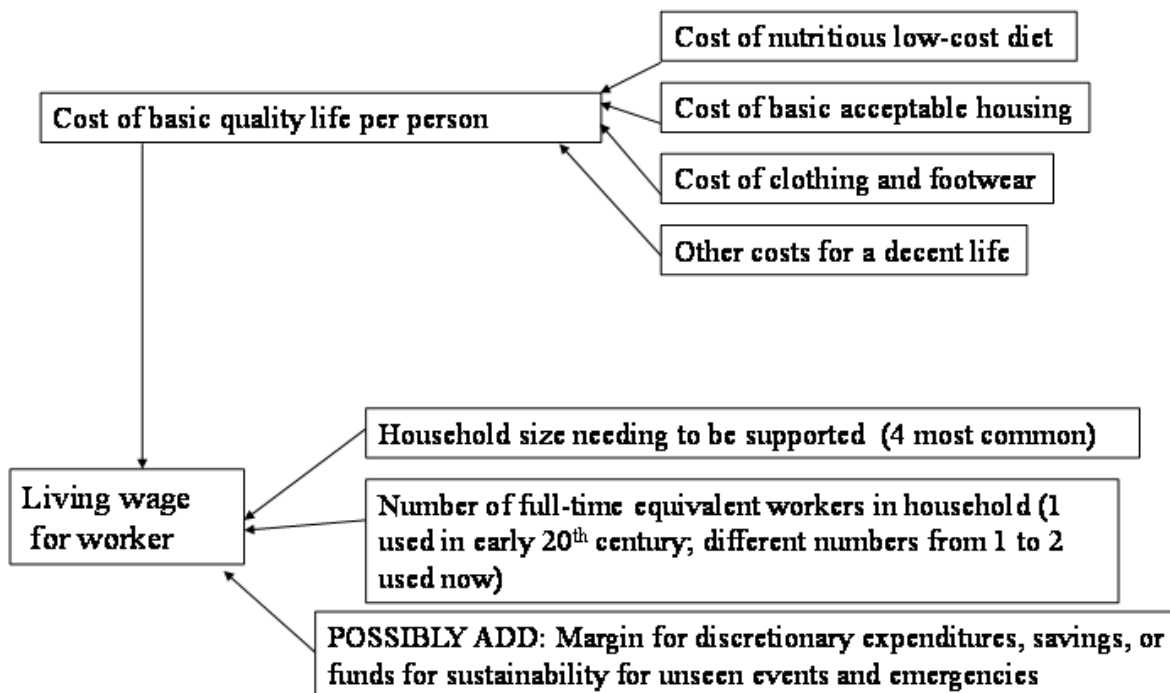
### 3. Brief description of how a living wage is usually measured

The idea of a living wage is that workers and their families should be able to afford a basic, but decent, life style that is considered acceptable by society at its current level of economic development. Workers and their families should be able to live above the poverty level, and be able to participate in social and cultural life.

The flow chart in Figure 1 indicates how a living wage is typically estimated. Several estimates or assumptions are required. First, it is necessary to estimate the per capita cost of a basic, but decent, quality life style that is acceptable for the society and times (first left-hand box). The cost for this basic quality life style is typically estimated by adding up (1) cost of basic necessities such as (i) a nutritious low-cost diet that is appropriate for the country in terms of the types of food items included; (ii) basic housing in the location with an acceptable standard generally defined in terms of size, number of rooms, structure's materials, and availability of amenities such as indoor toilet and electricity; and (iii) adequate clothing and footwear (sometimes with specific numbers of shirts, pants, shoes, etc., indicated); and (2) cost of other needs, such as transportation, children's education, health care, child care, household furnishings and equipment, recreation and cultural activities, communications, and personal care and services. Sometimes a small margin above the total cost already estimated for a frugal and basic life style is added to help provide for unforeseen events, such as illnesses and accidents, so that common unforeseen events do not easily throw workers into a poverty trap that they may never be able to get out of. The total estimated cost per capita of a basic living standard is then scaled up to arrive at cost for a household using an assumption on the household size that needs to be supported. Finally, total cost for a household is defrayed over the number of full-time equivalent workers assumed to be working in a household.

It is important to point out that what is considered an acceptable basic quality life is time- and place-specific. It differs across development levels and improves over time as a country develops. It is also important to point out that assumptions for household size needing to be supported and number of persons in the household expected to work are, by their nature, somewhat subjective. On the other hand, as will be shown later in this paper, while these assumptions and estimates of basic living costs necessary involve some subjectivity, it is possible to make defensible and reasonable living wage estimates with judicious use of information about workers, households and typical household expenditures.

Figure 1: Flow chart on how to estimate a living wage



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## 4. Acceptance of living wage in principle and rejection in practice in developing countries

There is widespread acceptance of the principle of living wage – the idea that full-time workers and their families should earn enough to afford a basic acceptable living standard and so not have to live in poverty. Unfortunately, this principle is not implemented by many companies or NGOs, even those that accept the principle of a living wage. Measurement and definitional problems of living wages are often cited to explain why a living wage is not paid. This implies, in my opinion, that unless measurement issues are addressed, achievement of a living wage for many workers in developing countries will remain a hard sell.

Table 4 juxtaposes statements on living wages from 19 major corporations, three important NGOs concerned with corporate social responsibility, and the United States Supreme Court. Statements of acceptance of living wage in principle are reproduced in Column 2. Statements of why living wages are not paid in practice are reproduced in Column 3. Column 4 provides comments. Most statements in Table 4 are from reports by Labour Behind the Label (2006, 2009), which “wrote to all the major high street retailers [in the United Kingdom] and all members of the Ethical Trading Initiative (ETI)” asking questions about living wages and freedom of association. When responses from a company were felt to be insufficiently clear or forthcoming, follow-up correspondence was undertaken. I supplemented information for 17 corporations from Labour Behind the Label reports with information from two other major corporations, three NGOs concerned with corporate social responsibility (CSR), and the United States Supreme Court.

[Table 4: Acceptance of living wage in principle]

### ***Multi-national corporations***

1. “No brand or retailer is paying its workers a living wage or has put together a systematic program of work that is likely to raise wages to an acceptable level in the near future”, according to Labour Behind the Label (2009). Skeptics might not be surprised by this, since higher wage payments might affect profitability (unless productivity increases when workers receive higher wages). On the other hand, Labour Behind the Label was corresponding with corporations that accept the principle that they should pay a living wage, partly because most are members of ETI, which includes living wage in its base code.<sup>1</sup>
2. Companies proffer various reasons why they do not pay a living wage in practice. A common reason, and perhaps excuse, for not paying a living wage relates to difficulties in measuring a living wage – such as lack of a universally accepted definition, lack of an accepted formula and subjectivity. For example:

*“There is no clear universal definition of the living wage and therefore the ETI Base Code cannot be applied.” (asda/Walmart)*

*“Debenhams does not audit against a ‘Living Wage’ calculation as we are not aware of an agreed formula that can be applied across the countries we source from.” (Debenhams)*

<sup>1</sup> ETI’s base code says that “Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income”.

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*“Achieving compliance to the living wage within our supply base is one of our biggest challenges. At this point in time it is still very difficult to understand the calculation of the living wage in different regions, countries and sectors.” (Next Retail)*

*“The lack of a commonly-understood definition means we don’t find it practicable to use the term in day-to-day work.” (Tesco)*

*“The difficulty continues to be how to measure it [living wage]. Until there is a universally agreed alternative, we rely on a solid benchmark specified by the ILO convention, and that is the minimum wage set by law in the appropriate country, or local industry benchmark standards.” (Arcadia)*

*“We do not endorse artificial wage targets or increases based on arbitrary living wage definitions.” (Nike)*

*“We do not feel that we have all the information we need to be able to responsibly implement and enforce a living wage requirement in our Code of Conduct. As a matter of policy, we will not add provisions to our Terms Of Engagement that we cannot adequately enforce.” (Levi Strauss)*

*Some companies feel that a living wage is an aspirational standard and not a practical measure, but are interested in further work to help identify practical ways to define and measure a living wage.*

*“We recognise that our code [on living wage] sets an aspirational standard and we are keen to work with our suppliers and other stakeholders to identify practical ways of implementing it in the future.” (John Lewis)*

*“We support further work on defining what is a living wage, but at the moment we don’t want to include something aspirational in our code.” (Levi Strauss)*

3. Several companies point out that they pay the legal minimum wage as a substitute for a living wage. They say that it is the *responsibility of government (and in some instances workers’ groups)* to ensure that the legal minimum wage is set at a living wage level. This implies that *these companies would support an increase in the minimum wage*, as this would help workers without putting companies that comply with minimum wage legal laws at a competitive disadvantage. For example:

*“Governments should set their minimum wage at levels that are linked to the country’s cost of living and local requirements.” (asda/Walmart)*

*“The minimum wage is not a living wage in any country. However in many countries it is subject to a tri-partite negotiation between employers, trade unions and government and we need to respect this process.” (Pentland)*

*“Levi Strauss & Co. believes in the principle that wages and benefits for a standard work week should be sufficient to meet workers’ basic needs and provide some discretionary income. Markets set wage rates. Where wages fail to keep workers above the poverty line, governments should set minimum wages consistent with the cost of living, in consultation with representatives of workers and employers.”*

4. It is common for companies to say that they *would like to learn how to measure a living wage*, with some ETI members looking to ETI for help in this.

*“We continue to work with ETI to determine what is meant by ‘basic needs’.” (Gap)*

*“We think that we should address this [calculating a living wage] together with our partners in the ETI, believing that a combined approach and effort will be by far the most effective.” (Next Retail)*

*“The key point is that we have to work collaboratively on such issues. Through the ETI we feel we can tackle situations such as this far more effectively than acting unilaterally.” (Sainsbury’s)*

5. It is common for companies to say that they *have undertaken or are undertaking pilot projects and research to determine how to measure living wage*, and figure

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out how to pay and afford a living wage possibly through increased productivity. This is reported by Arcadia, Gap, Laura Ashley, Marks and Spenser, New Look, and Next Retail (see Table 4). For example:

*“We are now trying to determine [through research] what the gap between these earnings and the living wage should be, and what the implications to our business are.” (Laura Ashley)*

### **NGOs concerned with living wage**

1. Even respected NGO advocates of living wages in CSR for developing countries have problems with *measurement of living wage*. This is understandable, given the current situation as regards measurement of living wages in developing countries (see Section 9). For example:

*“We’ve [ETI] picked all the low-hanging fruit now. It’s time to get radical. ... Practical workshops will stimulate discussion of thorny issues such as how to make a ‘living wage’ a reality for workers.” (Dan Rees, ETI Director at time). [Note that living wage is included in ETI’s base corporate code of conduct.]*

*“It [living wage] is a thorny problem.” (Craig Moss, Director of Corporate Programs and Training at SAI). [Note that living wage is included in SAI’s SA8000 corporate code of conduct.]*

2. Given difficulties with measurement of living wage, it is perhaps not surprising that even NGOs genuinely concerned with living wages are worried about getting bogged down with precise calculations, especially when prevailing wages are very low. For example:

*“Don’t get bogged down in living wage calculations. Don’t let the challenge of how to calculate a living wage in your sourcing countries distract you from the task of making progress in increasing wages. Remember that in many countries, the minimum wage falls way below any living wage estimations, so there’s usually little danger that workers will be paid too much!” (Dan Rees, ETI Director at time)*

*“The important thing is to not fixate on getting it down to one universal number, or to get overwhelmed by the difficulties of calculating it – the key is to start a dialogue about it, involving all stakeholders.” (Craig Moss, Director of Corporate Programs and Training at SAI)*

3. It is also perhaps not surprising given doubts about measuring living wage that some committed NGOs *accept payment of the legal minimum wage as best practice*. For example:

*“The main problem is how to define the living wage in a consistent way and making sure that it is auditable. ... FLA decided to recognize [in 1999 when it started] the minimum wage rather than living wage until a definition and auditing method was found [for a living wage] – effectively kicking the issue into the long grass. Ten years later, it is still there.” (Auret van Heerden, chief executive of Fair Labor Association)*

This section has demonstrated that companies often use the lack of a generally agreed definition and methodology for measuring living wage as justification for not paying a living wage. Since there is some validity to this argument, it is my feeling that providing solid information on how to measure a living wage is a necessary condition to its wider acceptance in developing countries. This is the main objective of this paper.





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## 5. Subjectivity and living wage measurement

One oft-mentioned criticism of living wage is its subjectivity. Indeed, there is no such thing as a definitive estimate for a living wage in a particular location or country, because reasonable people can honestly differ about what living standard they think a living wage should be able to support, the number of persons in a household they think a living wage should support, and the number people in a household they think should work. This point about subjectivity is illustrated by the majority opinion of the United States Supreme Court, when it rejected the legality of a minimum wage in 1923 before accepting its legality in 1937:

*“The standard furnished by the statute for guidance to the board is so vague as to be impossible of practical application with any reasonable degree of accuracy. What is sufficient to supply the necessary cost of living for a woman worker and maintain her good health and protect her morals is obviously not a precise or unvarying sum - not even approximately so.”*  
(United States Supreme Court, *Adkins v. Children’s Hospital* majority opinion, 1923)

*“The exploitation of a class of workers who are in an unequal position with respect to bargaining power, and are thus relatively defenseless against the denial of a living wage, is not only detrimental to their health and wellbeing, but casts a direct burden for their support upon the community. What these workers lose in wages, the taxpayers are called upon to pay. The bare cost of living must be met. ... The community is not bound to provide what is, in effect, a subsidy for unconscionable employers.”* (United States Supreme Court, *West Coast Hotel v. Parish* majority opinion, 1937)

I think that it is important for those interested in living wages to recognize and admit that it is somewhat subjective and so there is not one specific number which represents the “real” living wage. Proponents of a living wage should be upfront and unapologetic about this; well-documented and researched methodologies are. The Economic Policy Institute in the United States, for example, is clear in its documentation that its living wage estimates involve subjectivity:

*“Basic family budgets use a market basket approach. First they identify budget items necessary for a working family to maintain a safe and decent standard of living, then determine how much it costs to provide each item at an adequate level. This straight forward approach may not be as straight forward as it sounds, however. Are transportation costs based on public transit, car travel or both? How many bedrooms does a four-person family need? Does the lowest cost child care meet basic needs? Is television a basic necessity, or savings for emergencies? In other words, the selection and costing of items raises a lot of conceptual and methodological issues which are discussed in this study.”* (Bernstein, Brocht and Spade-Aguilar, 2000)

By being clear about subjectivity, dialogue becomes easier. Governments, unions, companies and NGOs need to discuss which assumptions are appropriate for their time and society, based on information on typical costs and living conditions.

The fact that estimating a living wage is partly subjective does not in any way make it impossible to agree on a definition or on how to measure it. As John Ryan said in 1906 (bold added for emphasis):

*“The question naturally arises, what precisely does this [living wage] imply in terms of goods and money? Unless an attempt is made to answer it, the whole discussion of wage-rights and obligations remains too abstract, too vague to be of practical value. ... **Evidently the question before us cannot be answered with absolute precision.** ... **There remains the supreme difficulty of translating ‘reasonable comfort’ into more concrete terms.** In all probability the individual estimates of no body of men no matter how competent and well-meaning, would be in entire agreement. And no prudent person would assert that a slight deduction from the amount that he regards as certainly sufficient for a decent livelihood would render the remainder certainly insufficient. ...*

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*Nevertheless, the question [what is a living wage] can be answered with sufficient definiteness to safeguard the human dignity of the laborer and his family, and that is all that anyone cares to know. We can distinguish twilight from darkness, although we cannot identify the precise moment when one merges into the other. Though we cannot say just when artificial light become more effective than that of the waning day, we usually call it into service before the approaching darkness proves inconvenient. Thus it is with the living wage. Some rates of remuneration we know to be certainly adequate and others to be no less certainly inadequate. While we may not be able to put our finger on the precise point of the descending scale at which the rate ceases to be sufficient, we can approximate it in such a way that the resulting inaccuracy will not produce notable inconvenience. **We can, at least produce a limit below which it is wrong to go, while not committing ourselves to the conclusion that the limit is sufficiently high.**"*

There are many subjective concepts that are widely accepted and used. This includes poverty, unemployment and national income. Poverty reduction is arguably the most important objective of most governments and the United Nations Millennium Development Goals. Yet poverty is a subjective concept that is time- and place-specific. Similar to living wage, people can honestly disagree on what living standard constitutes poverty. As Statistics Canada (2009) says, "Decisions on what defines poverty are subjective and ultimately arbitrary". In the United States, despite general agreement that the official government poverty line is significantly underestimated (e.g. Citro and Michael, 1995), it is nonetheless used to set eligibility for government programs and help determine the level of living wages in municipal living wage laws (see Section 6). Unemployment is another widely accepted and used subjective concept. A person is considered to be unemployed according to the ILO definition only if sh/e is not economically active (according to a United Nations' definition of what constitutes economic activity which is itself subjective) and answers positively survey questions about whether sh/e were "available for work" and were "actively looked for work" in the past week. Someone who would like to work but stopped actively looking for work because the job market was very poor, would not be considered to be unemployed; sh/e would be a so-called discouraged worker who had exited the labour force. Despite this subjectivity, changes in unemployment rates move financial markets and topple governments. In a third example, national living standards are typically measured by Gross Domestic Product (GDP) which is the sum of the value of all goods and services produced by "economic" activity in a country. But deciding which activities to include and which to exclude is subjective. Unpaid work on a family farm is included, but unpaid housework, child care, elder care and voluntary work are excluded. It has been estimated that unpaid household work is worth close to one-half of measured GDP (Goldschmidt-Clermont, 1982 and 1987). It is not obvious why only some types of unpaid work are included in GDP and other types of unpaid work are not included, unless one uses a male-oriented view of work. In addition in a strange twist, GDP is increased by pollution and other "bads", even though they reduce welfare.

The above examples demonstrate that subjectivity is not a definitive obstacle to acceptance and measurement of a concept such as living wage. At the same time, these examples imply that serious effort needs to be put into measuring living wage so that a consensus in a particular setting can be reached. After all, although the above examples involved considerable subjectivity, all have accepted rigorous definitions and measurement methodologies. In addition, discussions and decisions on estimating a living wage are much more fruitful when they are based on solid empirical work and not on declarative statements for or against a living wage. This should include clearly presented and transparent research and reports. This approach is being followed, for the most part, in high-income countries but not in developing countries (see Sections 7 to 9).

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## 6. Descriptions of living wages in words

Although there is not a generally agreed definition of a living wage, many individuals and organizations have described it. Tables 1 to 3, 5, 6, 8, 9, and 11 to 12 in Appendix A provide many such descriptions. Discussion in this section draws on these descriptions to see if it is possible to draw conclusions about possible common elements and consensuses. There are separate discussions for notable historical figures, the Catholic Church, human rights declarations, the ILO (including a discussion about minimum wage setting), national constitutions, early minimum wage laws, high-income countries, NGOs and multinational companies. There is a brief summary discussion at the end of Section 6.

### 6a. Notable persons from the 18<sup>th</sup> to 20<sup>th</sup> centuries (Table 5)

Table 5 provides statements related to living wages from five notable persons, starting with Adam Smith in 1776.

1. There is general agreement that wages should be able to support workers at a decent living standard that provides for more than mere necessities of basic food, shelter and clothing. Marshall mentions “education” and “fashionable dress”. Ryan mentions “develop one’s personality”. Rockefeller mentions “opportunity to play, learn, worship and love”. Roosevelt says “a living which gives man not only enough to live by but enough to live for”.
2. Several descriptions in Table 5 mention the important role societal standards or norms should play in determining the acceptable standard of living supported by wages. They believe that a living wage should be time- and place-specific. It should differ across countries and cities within countries as well as change over time. Adam Smith expressed well the need to take into consideration societal norms in a dynamic way:

*“These necessaries and conveniences are not only commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. The Greeks and Romans lived, I suppose, very comfortably, though they had no linen. But in the present time trough the greater part of Europe, a credible day-laborer would be ashamed to appear in publick without a linen shirt.”*

3. Several mention that wages should be able to support the worker and his or her family.
4. Two (Marshall and Ryan) feel that only one person in a family should work. They adhere to the male breadwinner model of the household in order, as Marshall says, to allow “sufficient freedom for his wife from other work to enable her to perform properly her maternal and her household duties”. While both Marshall and Ryan are reflecting the view of the Catholic Church on this (see Section 6b below), there are a number of persons and organizations that estimate a living wage using an assumption of one earner in a family that do not accept that this earner must be male (see Sections 7 to 9).

[Table 5: Living wage-related descriptions from notable persons]

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## 6b. The Catholic Church and living wages (Table 6)

The Catholic Church has been influential in promoting a living wage in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. Pope Leo XIII's Encyclical on the Conditions of Labour (1891) was a major event in the promotion of a living wage.

*“Remuneration must be enough to support the wage earner in reasonable and frugal comfort. If through necessity, or fear of a worse evil, the workman accepts harder conditions because an employer or contractor will give him no better, he is the victim of fraud and injustice.”*

This endorsement of a living wage has been reaffirmed by Pope John XXIII, Pope Paul VI and Pope John Paul II.

Table 6 includes quotes from Papal declarations from 1891 to 1981. General agreements include:

1. A living wage is viewed as a right. It should be “just”, a view which is traceable to the concept of a “just wage” proposed by St. Thomas Aquinas in the 13<sup>th</sup> century, based on the golden rule “do unto others as you would have them do unto you”. Pope John XXIII mentions “just wage”. Pope Paul II mentions “just remuneration”. Pope John XXIII says in *Mater and Magistra* (1961): “remuneration of work is not something that can be left to the laws of the marketplace; nor should it be a decision left to the will of the more powerful. It must be determined in accordance with justice and equity; which means that workers must be paid a wage which allows them to live a truly human life and to fulfill their family obligations in a worthy manner”.
2. Living standard supported by a living wage should be more than at a subsistence level. Pope Leo XIII's *Rerum Novarum* encyclical on conditions of work (1891) mentions “reasonable and frugal comfort”. Pope Paul VI (1965) refers to the need for workers to “cultivate worthily their material, social, cultural and spiritual life”. Pope John XXIII (1961) says that remuneration should allow for “a truly human life”, and Pope John Paul II in *Laborem Exercens* (1981) says that workers need to provide for “security in the future”.
3. A living wage should be able to support a family. All Papal statements mention this. Pope John Paul II goes so far as to mention “a family wage”.
4. Popes agree that a living wage should be sufficient for a single earner in the family to be able to support his family. Pope John Paul II says “a family wage – that is a single salary given to head of the family for his work, sufficient for needs of the family without the other spouse having to take up gainful employment outside the home”. The Catholic Church supports what it considers appropriate gender roles, where husbands go out to work to earn income and wives stay home to take care of the home and children.
5. Popes recognize the reality that many workers are not able to earn a living wage, because prevailing wages are too low. This does not justify unacceptably low wages. When this occurs, the State is supposed to help; for example, Pope Leo XIII in 1891 mentions the “State being appealed to, should circumstances require”, and Pope John Paul II in 1981 mentions “other measures such as family allowances”.
6. Recent Popes indicate that the remuneration should be conditioned by economic circumstances. This seems contradictory to the need for a just wage and a living wage (see above), but it does mimic how minimum wages are set in ILO minimum wage conventions. Pope Paul VI (1965) says that remuneration should be set “in

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view of the functions and productiveness of each one, the conditions of the factory or workshop, and the common good". Pope John XXIII (1961) says that "Other factors too enter into the assessment of a just wage: namely, the effective contribution which each individual makes to the economic effort, the financial state of the company for which he works, the requirements of the general good of the particular country – having regard especially to the repercussions on the overall employment of the working force in the country as a whole – and finally the requirements of the common good of the universal family of nations of every kind, both large and small".

[Table 6: Living wage descriptions from the Catholic Church, 1891-1981]

### **6c. International human rights declarations that include living wage (Table 1)**

Living wage is part of several international declarations on human rights. Five such declarations are included in Table 1.

1. Human rights declarations are vague as regards the standard of living which a living wage should be able to support. Two refer to "decent". Others refer to "dignified and decent", "existence worthy of human dignity" and "suitable standard of living". Although the words are vague, the impression is that the standard of living supported by a living wage should be above mere necessities. It is worth noting, however, that the United Nations Universal Declaration of Human Rights allows for the possibility for a living wage to be less than required if other means of social protection are provided, presumably by the state.
2. Human rights declarations agree that remuneration should be sufficient to support a family. All mention this.

### **6d. National constitutions that include living wage (Table 2)**

Table 2 includes quotes from four national constitutions that include living wage. Two are from Latin America (Mexico and Brazil), one is from Africa (Namibia), and one is from Asia (India). There are undoubtedly more. As these examples are from three continents and span seven decades, this again demonstrates that living wage is not an unusual or radical idea.

1. National constitutions are vague regarding the standard of living which a living wage or general minimum wage should be able to support. Indian and Namibian Constitutions mention a "decent standard of living", and the Mexican Constitution mentions "normal necessities". The Brazilian Constitution is more explicit, mentioning "housing, food, education, health, leisure, clothing, hygiene, transportation and social security".
2. The intention, however, is clear that a living wage should provide for more than only necessities. The Indian Constitution mentions "full enjoyment of leisure and social and cultural opportunities". The Namibian Constitution mentions "enjoyment of social and cultural activities". The Mexican Constitution mentions "social and cultural order ... and mandatory education of his children". The Brazilian Constitution mentions a list of needs (see above).

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3. Only the Mexican and Brazilian Constitutions explicitly mention families. Mexico says “support normal necessities of a head of household” which includes, among other responsibilities, “mandatory education of his children”. Brazil says “satisfying their basic living needs and those of their families”.

## 6e. ILO (Tables 3 and 7)

### *ILO Constitution and major documents*

The Preamble to ILO’s 1919 Constitution says that “peace and harmony in the world requires the provision of an adequate living wage”. Major ILO Declarations in 1944 and 2008, which are similar in legal status to ILO’s Constitution, call for policies to “ensure a just share of the fruits of progress to all, and a minimum living wage to all employed”. See Section 2.2 for further discussion on how living wage is described in ILO’s Constitution and major follow-up Declarations.

What is an adequate living wage according to the ILO? Rules for the ILO Constitution adopted in 1921 provide some indication, as does the more recent Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, adopted in 1977 and amended in 2000 and 2006 (Table 3). It is “payment adequate to maintain a reasonable standard of living that is understood in their time and country” according to rules for the ILO Constitution, and “at least adequate to satisfy the basic needs of the workers and their families” according to the recent multinational enterprises Declaration. While these clarifications are vague, they do provide useful information. An adequate living wage according to the ILO should:

1. provide for more than subsistence, as it should “maintain a reasonable standard of life” and “at least satisfy basic needs”; and
2. be determined in part by societal standards as “understood in their time and country” and therefore should change over time and differ across countries (presumably with economic development).

### *ILO minimum wage Conventions*

ILO Conventions and Recommendations on minimum wage setting also provide useful information on how the ILO sees a living wage, since these Conventions are concerned with the needs of workers. Purpose 1 of ILO Recommendation No. 135 on minimum wage fixing (1970) says that minimum wages “should constitute one element in a policy designed to overcome poverty and to ensure the satisfaction of the needs of all workers and their families”.

Article 3 of Convention No. 131 (1970) states that two elements should “be taken into consideration in determining the level of minimum wages”:

*“(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.”*

A report of the ILO Committee of Experts for the International Labour Conference in 1992 goes so far as to say “the fundamental and **ultimate objective** of the instruments in question [is] to ensure to workers a minimum wage that will **provide a satisfactory standard of living** to them and their families” (bold added for emphasis).

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The latest ILO Minimum Wage Setting Convention (No. 131, 1970), and Recommendation (No. 135, 1970) provide additional clarification regarding what to include in worker needs. Workers' needs should:

1. provide for more than subsistence needs as a minimum wage should be sufficient "to overcome poverty" and include "social security benefits";
2. be based in part on societal standards as a minimum wage should take into consideration "living standards of other social groups" and be "appropriate in relation to national practices and conditions"; and
3. be sufficient to support a family and not just a worker.

Information collected by an ILO Committee of Experts in 1992 indicates the extent to which countries take into consideration needs of workers and their families when setting the minimum wage: 26 out of 99 countries providing information to the Committee indicated that they considered the social and economic needs of workers and their family when setting their minimum wage (first three rows of Table 7). More countries (43), although still less than half, indicated that they used some element of needs and costs mentioned in ILO Convention No. 131 when setting minimum wage, usually cost of living. Taking into consideration worker needs is common in Latin America but not in other regions. Also interesting is that the Committee of Experts found that "the information provided by governments does not always specify whether the needs of the workers' entire family are taken into consideration".

[Table 7: Whether workers' needs considered in national minimum wage setting]

## **6f. Living wages and early minimum wage laws in the 19<sup>th</sup> and 20<sup>th</sup> centuries (Table 8)**

It is informative to look at early minimum wage laws in currently high-income countries because material standard of living then was similar to that in many developing countries today. Table 8 includes the first minimum wage law in the world (Australia, 1894), the first minimum wage laws in the United States (1912 and seven others which quickly followed in 1913), and first the federal minimum wage law in the United States (1938).

1. The main objective of early minimum wage laws was to ensure that wages are sufficient to support workers. The 1894 Australian minimum wage law talks about meeting "normal needs of human beings in a civilized society". The first state minimum wage law in the United States (Massachusetts) in 1912 says that income should be sufficient "to maintain the worker in health" which "means something in addition to necessary cost of existence". Massachusetts Wage Boards, which set the minimum wage level, interpreted necessary costs to include "recreation, vacation, self-improvement, health, and reserve for emergencies in addition to food, lodging, clothing and various incidentals". The second state minimum wage law in the United States (Wisconsin, 1913) says that a minimum wage should be sufficient for "reasonable comfort, reasonable physical well-being and moral well-being". Oregon's minimum wage law in the same year mentions the need for "provisions for recreation, care of health and self-improvement". Minnesota's minimum wage law in 1913 mentions "health and necessary comforts and conditions of reasonable life". The Fair Labor Standards Act (FLSA), which established the first national minimum wage in the United States, mentions that it is against "labor conditions detrimental to maintenance of

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the minimum standard of living necessary for the health, efficiency, and general well-being of workers”.

2. Although descriptions are vague, early minimum wage laws were especially concerned with providing for more than basic necessities. Australia mentions “normal needs of human beings in a civilized society”. Massachusetts mentions “recreation, vacation, self-improvement, health, and reserve for emergencies”. Oregon talks about “recreation, health and self-improvement”. California mentions “maintain health and welfare”. The FLSA talks about “general well-being”.
3. How needs of workers were estimated and taken into consideration when setting the level of the minimum wage is informative. In Massachusetts, each year new wage boards estimated cost of living for workers in different industries: for example, it was the brush industry and candy makers industry in 1914, and women’s clothing industry and paper box industry in 1920. Boards did this by estimating necessary costs for a wide range of items (see Table 15). It is worth noting that the basics of food, housing, and clothing tended to account for around 80 per cent of total costs, which indicates that living standards then would have been similar to urban areas of many developing countries presently, since somewhere around 50 per cent of total expenditures are for food according to the Asian Floor Wage Alliance (Merk, 2009). Especially pertinent for this paper is that minimum wages were set by boards in Massachusetts at a level similar to their estimate of necessary living costs. Minimum wage was equal to 90 per cent of estimated necessary costs on average between 1914 and 1918, and 98 percent of estimated necessary costs on average between 1919 and 1927, with 13 of 19 industry minimum wages in this later period equal to estimated necessary costs (National Industrial Conference Board, 1927).
4. These earliest minimum wage laws did not consider family needs. They were concerned with the health and morals of women workers and minors, who were felt to especially exploited and vulnerable, and this sometimes forced women into prostitution to supplement their meager earnings.
5. Some early minimum wage laws were concerned with possible negative effects on employment and earnings. Colorado and Nebraska indicate that minimum wage should be set “in view of financial conditions of business [and occupation] and the probable effect therein of an increase of the minimum wage”. One reason why concern for possible negative effects on employment and earnings of workers was not paramount in early minimum wage laws in the United States is that they only applied to women and children whose wages were especially low compared to those of men. The 1938 federal minimum wage law, which applies to all workers, mentions the need to avoid “curtaining employment or earning power”.

[Table 8: Descriptions of worker needs in early minimum wage laws in 19<sup>th</sup> and 20<sup>th</sup> centuries]

## 6g. High-income countries (Table 9)

Table 9 includes 12 descriptions of a living wage in high-income countries. Five are from the United States, three are from Canada, and four are from the United Kingdom.

1. Descriptions for the United States and Canada convey the idea that a living wage should provide for a basic or at most a modest standard of living. Three descriptions refer specifically to overcoming poverty (EPI, bill submitted to Congress, and Scotland). As Pollin and Luce (1998) say: “The basic premise of



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the *living wage* campaign is ‘that anyone in this country who works for a living should not have to raise a family in poverty’”, and the Canadian Center for Policy Alternatives (CCPA) (Richards et al., 2008) says a living wage is “based on the principle that full-time work should provide families with a basic level of economic security, not keep them in poverty”. Four others in Table 9 from the United States and Canada refer to meeting basic needs: for example, “How much income is needed for a family of a certain composition in a given place to adequately meet their basic needs?” (CWW, 2010). Only EPI (2003) in the United States does not mention poverty or basic needs, saying “income required to maintain a safe but modest standard of living”. This emphasis on avoiding poverty and providing for basic needs is consistent with the fact that many living wage laws in the United States are set in reference to the government’s poverty line (see next sub-section). Of course a poverty or basic needs living standard in high-income countries is at a different level than in developing countries (see Sections 7 and 9).

2. Almost all of the descriptions in Table 9 indicate that a living wage should be sufficient to support a family, and it is probable that those that do not mention family is due to omission in the short descriptions in Table 9.
3. Organizations in high-income countries differ in how they treat taxes and tax credits. Most add taxes and some subtract tax credits, since workers and their families should be able to live on their take-home pay. This is not always apparent from short descriptions of living wage in Table 9. Ottawa, Minimum Income Organization FBU, Scotland, London and Universal Living Wage, for example, add taxes, even though this is not indicated in Table 9 (see Table 13).
4. Only three entries in Table 9 provide for “savings” or “contingencies” (Ottawa, Calgary, London). Perhaps, basic needs are felt to be defined at a sufficiently high level that additional funds for savings or discretionary spending are not felt to be necessary. Or perhaps, organizations want to ensure that their living wage estimates are less open to criticism as being too generous.

[Table 9: Living wage descriptions for high-income countries]

## 6h. United States living wage laws (Table 10)

Over 140 living wage laws have been passed by municipalities in the United States (Reynolds and Kern, 2003; Luce, 2004). There have also been living wage bills introduced into the United States Congress, although they have not gotten to a vote.

Table 10 indicates typical characteristics of living wage laws in the United States. Note that percentages in Table 10 indicating which characteristics tend to be important in these laws are underestimates. The table in Reynolds Kern (2003), from which Table 10 is drawn, provides only very brief descriptions of each law and so is far from complete.

1. The most common basis for estimating living costs of workers is the United States official poverty line. “The most common benchmark [for living costs] has been the poverty guideline [of United States government] for a family of four” (Reynolds and Kern, 2003). At least 29 per cent of living wage laws in the United States used this benchmark.
2. Living wage is typically adjusted upward when an employer does not provide health care insurance for workers. Around \$1.50 per hour is common.

3. The most common household size used is four persons. Note that a specific household size has to be specified when the United States poverty line is used as the basis for living costs because the United States poverty line is calculated for many different family sizes.
4. A number of living wage laws stipulate that some paid time-off is required for vacation and/or sickness.
5. Living wage laws are typically indexed for inflation so that they keep their real value over time.

At the end of the day though, the level at which a living wage is set, and therefore the characteristics used to set it, are political decisions determined by how much is thought to be acceptable to local employers, workers and government. It is similar in this regard to how minimum wages are set, which have to balance workers' needs with possibly negative effects on employment and economic growth (see Section 6e). One difference between how municipal living wages and national or state minimum wages are set in the United States is that workers' needs is a more important element when municipal living wages are set. Activist and worker groups pushing for a municipal living wage have a greater say at the local level than they do when minimum wages are set for the country or a state, in part because the stakes for business are much lower with municipal wage laws that apply to a very small percentage of the local labour force. The political nature of how municipal living wages are set in the United States is clearly indicated in an ACORN guide for activists interested in promoting a living wage in their community.<sup>2</sup> On the other hand, it is worth noting that municipalities have solid and reputable benchmarks for living costs to rely on, such as government poverty lines and research institution living wage rate estimates.

*“Ultimately, the Living Wage amount is a question of politics and organizing strength, rather than a technical one. Ideally, campaigns want to push for as high a wage as possible. In St. Louis (MO), for example, the ACORN and SEIU set their living wage level at the eligibility for food stamps for a family of three – that’s 130% of the Federal poverty line or currently \$10.28/hour. However, activists have to evaluate what level, given their political situation and local costs of living, they can justify and win. A campaign does not want to advance a Living Wage seen as being so high (given local circumstances) that it is not taken seriously by legislators or the public. On the other hand, in a place such as Fairfax, California a living wage of \$13 with health care or \$14.75 without proved perfectly reasonable.” (Reynolds and Kern, 2003)*

[Table 10: Characteristics of living wage laws in the United States, 2001]

## **6i. Multinational companies and corporate codes of conduct (Table 11)**

Table 11 includes seven corporate codes of conduct on wages that are part of corporate social responsibility (CSR). It is important to keep in mind that these

<sup>2</sup> Northampton, Massachusetts provides an interesting illustration of this point (Pearce, 2006). Northampton uses living cost estimates from the Center for Women’s Welfare (CWW) self-sufficiency standard (see Table 13) rather than the federal poverty line, because the federal poverty line is known to be too low, especially for a high-cost city such as Northampton. But to make sure that Northampton’s living wage was set at an acceptable rate, the City Councils decided to use CWW’s cost estimate for a single person without dependents who works full time (Parks, 2009). This resulted in a living wage of US\$11.90 in 2009, which is well above the Massachusetts statutory minimum wage of US\$8.00 in 2009, but not so far above as to be unacceptable.

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corporations are among the more progressive multinational corporations as regards CSR and in particular wages policy, since they have adopted a public policy on this.

1. Six of the seven statements in Table 11 indicate that wages should be sufficient to meet “basic needs”. There is a clear emphasis on basic. Although there is occasionally a reference to the need for “some discretionary income” by ETI members, this is to be expected since this is mentioned in ETI’s base code. Only Adidas mentions the need for “reasonable savings”, and only Novartis mentions the need for wages to “clearly exceed basic living needs”.
2. None of the corporate codes on wages in Table 11 mention family. This is in stark contrast to non-corporate descriptions of decent or living wages (including ETI) that generally indicate that wages should be sufficient to support workers **and** their family.
3. Only one code in Table 11 (Sainsbury’s) mentions that required wages need to be earned in a standard workweek. This contrasts with what NGOs say (see next subsection), which are concerned about misuse of overtime and so that decent wages need to be earned in a standard or normal workweek. This also contrasts with the ETI base code on wages, which mentions the need for a living wage to be earned in a standard workweek.

[Table 11: Living wage descriptions from multinational corporations for developing countries]

## **6j. NGOs and others for developing countries (Table 12)**

Table 12 includes 13 descriptions for developing countries that are mainly from NGOs.

1. All 13 descriptions mention basic needs. Most descriptions indicate that basic needs include more than the necessities of food, shelter and clothing. Nine mention other expenditures with education, health care, child care, and transportation being common.
2. Eleven of 13 descriptions mention either the need to provide for some discretionary income (six) or the need for some savings (five).
3. Twelve of the 13 descriptions in Table 12 mention family. It is clear that a living wage in developing countries should be able to support a worker and his or her family according to NGOs. Seven descriptions indicate an actual family size. There is, however, no consensus on what family size should be used. AFWA uses four persons and SweatFree uses three persons. SAI and WRC use average household size in the location. The three *ad hoc* research studies for Cambodia, Indonesia and Sri Lanka use average household size among workers in the factories under study, as does SAI.
4. Six of the 13 descriptions in Table 12 mention the number of workers in a household expected to work and provide support. There is, however, no consensus on how many. AFWA uses one worker. SAI usually uses two workers, but allows this to be adapted by auditors. WRC uses average number of workers in households of garment sector workers. The three *ad hoc* research studies use two different numbers of workers to estimate a range of living wages.
5. There is strong concern about the need for a living wage to be earned in normal working hours. Eleven of 13 descriptions in Table 12 mention this. This is different

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from other descriptions in Section 6, where working hours are infrequently mentioned. NGOs are clearly influenced by their observation of the common practice in developing countries – especially in manufacturing – for workers to work overtime, often without additional pay. NGOs want to make sure that companies realize that a living wage needs to be earned without overtime, which is often irregular and seasonal.

6. Several NGOs want corporations to realize that take-home pay should be considered when determining if a living wage is being paid. This is mentioned by five of 13 in Table 12. WRC and the Indonesia research study specifically mention take-home pay, with the former saying “a living wage is a take home or net wage”. SAI and Labour Behind the Label indicate that mandatory deductions need to be taken into consideration.
7. FWF provides an interesting way of indicating to employers and others in graphical form the relationship between wages paid in a factory and a living wage. The range of wages for different occupations are indicated in vertical bars with living wage, legal minimum wage and best practices prevailing wage indicated in horizontal lines. Engaging in a process of trying to convince employers that they should pay a living wage is important because, as seen in an earlier section, it is common for employers to say they would like to pay a living wage but not to actually pay a living wage.
8. AFWA brings up two important issues for living wage in developing countries that others do not: allowances and bonuses. These are often important parts of the pay packet in manufacturing, especially productivity bonuses. But since they vary across workers and factories as well as over the year, they are uncertain. Yet there needs to be some surety that a living wage is received each month, since it represents a minimum pay level. This means that a living wage either needs to be earned excluding bonuses, or including only bonuses that are a basically guaranteed minimum.

[Table 12: Living wage descriptions mostly from NGOs for developing countries]

## 6k. Summary and drawing together consensuses and lessons learned

A reasonably clear picture emerges from the above review of living wage descriptions in words for the three main components used to estimate a living wage: basic acceptable living standard, number of persons supported by a living wage, and number of persons in a household expected to work full time to provide support.

1. Living wage is recognized as a *right* by the international community. It is included in at least five human rights conventions and declarations, including the United Nations Universal Declaration on Human Rights. It is also included in the ILO Constitution.
2. Different people and organizations have used different words, but all have in common that a *living wage should support a basic living standard that is considered decent*. Pope Leo XIII in 1891 used “reasonable and frugal comfort”. The first minimum wage law in the United States in 1912 used “adequate to supply the necessary cost of living and to maintain the worker in health”. The Rules of the ILO Constitution in 1921 used “adequate to maintain a reasonable standard of life”. Franklin D. Roosevelt in 1933 used “decent living”. The United Nations Universal Declaration on Human Rights in 1948 used “existence worthy of human

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dignity”. The Indian Constitution in 1949 used “decent standard of life and full enjoyment of leisure and social and cultural opportunities”.

3. Descriptions for *developing countries* in recent years generally *use the term “basic needs”*.
4. While descriptions for developing countries stress that the living standard supported by a living wage should be basic, there is little doubt that it *includes more than the necessities of life: food, clothing and shelter*. In addition to basic needs, prominent NGOs in corporate social responsibility also mention “essential medicines, send children to school and to save for the future” (ETI), “provide some discretionary income” (SAI); and “healthcare, transportation, education, etc.” (AFWA). Among multinational companies, Adidas Group mentions “provide for reasonable savings”; Novartis mentions “clearly exceed what is needed to cover basic living needs”; Debenhams Retail, John Lewis, Gap and Sainsbury’s also mention “provide some discretionary income”. Almost all those concerned with developing countries mention either “discretionary spending” or “savings”. It is as if basic needs in developing countries are felt to be so low that something extra is required so that a living wage is a sustainable living wage. On the other hand, it is worth noting that virtually all methodologies used to estimate living wages in developing countries reviewed in Section 9 implicitly include many different types of household expenditures because of how they estimate non-food costs.
5. Descriptions for *high-income countries* of the standard of living that a living wage should be able to support are much *less basic than for developing countries*. Although keeping workers out of poverty is the basic premise of the living wage movement in high-income countries, poverty lines in these countries are well above subsistence. The Economic Policy Institute (EPI), for example, uses “a safe but modest standard of living”. The Greater London Authority uses “an adequate level of warmth and shelter, a healthy diet, social integration and avoidance of chronic stress”. The Human Resources and Skills Development of the Government of Canada (HRDC) says that “components of the MBM (market basket measure) basket are designed to represent a standard of consumption that is close to median standards of expenditure”. It is worth noting that methodologies used to estimate living wages in high-income countries reviewed in Section 7 generally set standards somewhere near to the situation for an average (median) household.
6. There is a general consensus that the living standard supported by a living wage should be *appropriate for the society and the times*. Although this point is generally implicit, it is sometimes explicit. Adam Smith said “whatever the custom of the country renders it indecent for credible people, even of the lowest order, to be without”. The Rules of the ILO Constitution say “standard of living understood in their time and country”. The Center for Research on Social Policy (CRSP) bases its minimum income standard on what people in Britain think. In addition, all descriptions are implicitly relativistic in the sense that basic needs and what is considered a basic standard of living is time- and place-specific. This is obvious in the review of methodologies in Sections 7 to 9, even for the necessities of life. Model diets, for example, contain less expensive foods in developing countries than in high-income countries. The housing standard for a family of four might be a small one-bedroom unit in many developing countries compared to a more spacious two- or three-bedroom unit in high-income countries.
7. Descriptions of living wages for high-income countries are often concerned with taxes. Some descriptions for developing countries are concerned with mandatory deductions. These concerns make sense, because a living wage should be able to *support a basic living standard on take-home pay*.

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8. Many descriptions for *developing countries* mention that a living wage *should be earned during normal working hours*. There is no such widespread concern about this for high-income countries. NGOs in particular are concerned about the common practice in manufacturing jobs in developing countries that require long work hours, often without additional pay, and therefore the need for companies to be aware that a living wage needs to be an assured wage and not one that depends on uncertain overtime hours. NGOs also want to ensure that working hours are fewer than the 48 hours per week allowed in ILO Conventions.
  9. There is a clear *overall consensus* that a living wage should be *sufficient to support a worker and his or her family*. The only descriptions that did not mention the need for a living wage to support a family were multinational companies, some ILO major documents (although family needs are mentioned in the ILO Conventions on minimum wages), and early minimum wage laws in the United States (as they only applied to women and minors). *A living wage is clearly a family concept*.
  10. Descriptions in Section 6 about the *family size a living wage should be able to support are ambiguous*. Only a minority of descriptions in Section 6 mention a specific family size. There are, however, some tendencies. A majority of NGOs concerned with developing countries indicate a preferred family size, but there is *no consensus on the size*. Nor is there a consensus in high-income countries, although a family size of four is clearly the most common. Also, it is typical for research institutions and government agencies to estimate separate living wages for different family sizes in both high-income and developing countries.
  11. *Not much clarity* is provided by descriptions in Section 6 about *number of workers in a household* who should provide support. Indeed, it is unusual for living wage descriptions to mention number of workers in a household. Pope John Paul II, though, does mention “a single salary given to the head of the family”, since the Catholic Church is committed to its own traditional family model where the husband works and the wife stays home.
  12. Only the Catholic Church in recent years and minimum wage laws mention that the level of a living wage should be *tempered by its possible negative effects on economic conditions*. It is clear, however, that how living wage rates are set in municipal living wage laws also take this into account (see Section 6h).

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## 7. Methodologies used to estimate a living wage in high-income countries

This section describes and analyzes methodologies that have been used in high-income countries to estimate cost of a basic acceptable living standard and living wage. Table 13 provides details for 13 methodologies: four are from the United States, four are from Canada, three are from the United Kingdom, and two are international in nature. Column 2 describes the methodology in a formula format. Column 3 provides details on how necessary expenditures are measured. Column 4 indicates assumption on household size needing to be supported by a living wage. Column 5 indicates assumption on number of workers per household providing support. Column 6 provides observations and critical comments.

The reason for starting with methodologies for high-income countries rather than for developing countries is that data availability is much less of an issue or problem in high-income countries. Required data are generally available from government agencies in high-income countries. Methodologies for developing countries, in contrast, typically rely on second-best approaches because of perceived data constraints. This means that methodologies for high-income countries provide a better starting point for observing best approaches as they are generally independent of data availability considerations. The issue for developing country methodologies in the future should be to decide which aspects of high-income country methodologies are so important that they need to be considered, regardless of perceived data problems, and so to figure out how this can be done even when needed data are not available from government or research sources.

Methodologies in Table 13 are divided into two types for heuristic purposes, although some methodologies are not purely of one type.

- Original methodologies that estimate cost of a basic acceptable living standard. Estimates are generally done for different cities/areas in a country.
- Derivative methodologies that are based on estimates from another organization's original methodology. Estimates are generally for a specific city.

[Table 13: Methodologies used in high-income countries to estimate living wage expressed as a formula]

### 7.1 Original methodologies for high-income countries used by other organizations

This section critically reviews four original methodologies for high-income countries that are widely used by other organizations. Two of these original methodologies are from the United States (EPI and CWW), one is from Canada (HRDC),<sup>3</sup> and one is from the United Kingdom (CRSP).

This section provides general conclusions and observations for the four original methodologies reviewed. Table 13 in Appendix A provides details for each original

<sup>3</sup> HRDC's MBM is concerned with living costs and is similar to a poverty line. Although it does not estimate living wages, it is included here because it is used by other organizations to estimate living wages and has a number of characteristics in common with typical estimates of living costs for high-income countries.

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methodology. Appendix B provides a detailed description of HRDC's MBM, as I feel that this recently developed methodology has several elements that are especially relevant for developing countries.

### **7.1.1 Cost of a basic acceptable living standard**

1. All four methodologies are *transparent*. They provide detailed descriptions of their methodology, assumptions and data sources. They also provide online calculators or indicate their results for many different communities.
2. Cost of an acceptable living standard is *always estimated for different cities and localities* within the country. This is important, because living costs differ greatly across locations. This is possible to do, because costs and expenditure data are available by locality in these countries. By far the largest difference in costs across communities is for housing in all four methodologies. Taxes and child care also tend to be important and are the only expenditures, along with housing, that differ between communities in CRSP, for example.
3. Cost of an acceptable living standard in all four methodologies is *always estimated based on the sum of separate cost estimates for several expenditure groups*: EPI and CWW in the United States use six expenditure groups; HRDC in Canada uses five expenditure groups; CRSP in the United Kingdom uses 15 expenditure groups. LICO – another measure of low income in Canada developed by Statistics Canada – uses three expenditure groups (see Appendix B for a description of LICO). Use of several expenditure groups reduces the size of the catchall “other” expenditure group that can become a black box (see below).
4. All four methodologies *use an “other” expenditure category* to capture costs not estimated separately. This simplifies the estimation of total cost, because it means that some expenditure do not have to be specified and estimated (e.g. HRDR includes 47 items in its “other” expenditure group). “Other” expenditures range from around 1 per cent of total household expenditure in CRSP to about 10 per cent for EPI and CWW, and around 20 per cent for HRDC (and around 37 per cent in LICO). It is important that an “other” expenditure group is not too large, since it can become a black box with unknown contents. This is a major problem for methodologies used in developing countries, where all non-food expenditures are included in one expenditure group.
5. All four methodologies *estimate food costs separately*. Food costs are always estimated by establishing an acceptable model diet and then calculating the cost of this model diet using information on food prices.
6. All four methodologies *estimate housing costs separately* based on a housing standard which is clearly indicated. For example, for a family of four, HRDC uses median rent for a two- or three- bedroom unit in the locality; EPI uses rent for a two-bedroom unit for the 40<sup>th</sup> percentile rental in the locality; CRSP uses a three-bedroom mid-terrace house.
7. All four methodologies *estimate transportation costs separately*. This is important for two reasons. First, transportation costs can differ greatly across localities. For example, in 11 Canadian cities in 1999, transportation cost was 34 per cent lower in the least expensive city compared to the most expensive city according to HRDC. Second, commute costs to work are often a major work-related expense.
8. Clothing/footwear costs are estimated separately by HRDC and CRSP<sup>^</sup>, while CWW and EPI include clothing/footwear in their “other” expenditure group.



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Although clothing/footwear is a necessity, including in an “other” expenditure group is reasonable since it is a relatively small percentage of household expenditure in the world at present. It is, for example, around 4 per cent of total household expenditure in the United States, Indonesia and South Africa; around 6 per cent in Canada and France; and around 7 to 8 per cent in Brazil and Pakistan (Anker, 2011).<sup>4, 5</sup>

9. *Health-care costs are estimated separately* by EPI, CWW and CRSP.
10. *Child-care costs are taken into consideration* in all four methodologies. EPI, CWW and CRSP estimate child-care costs separately, and HRDC considers child-care costs when determining if households are below an acceptable living standard. Child care is a major expense in high-income countries in all four methodologies. It is interesting that CRSP notes that its living wage estimates are almost identical when both parents work full time and there are child-care costs, compared to when one parent works full time and the spouse works half-time and there are no child-care costs.
11. *Taxes are taken into consideration* in all four methodologies so that workers are able to afford an acceptable living standard on their disposable income.
12. CWW and EPI take into consideration work-related tax credits (such as earned income credit, which is important for many low-income households in the United States with children) as they are interested in disposable income.
13. Most methodologies *exclude expenditures which are felt to be either undesirable or unnecessary* for a basic living standard: HRDC excludes expenditure for alcohol, tobacco, eating out, pets, jewelry and gambling; CRS excludes tobacco; EPI excludes eating out, vacations and cinema.

### **7.1.2 Differences in costs and expenditures between locations in the United States**

It is informative to look at how the level and distribution of household expenditure differ by type of expenditure and location. It is important to know which expenditures tend to differ by location and so are important to measure separately when estimating location-specific living wages. Table 14 indicates how taxes and household expenditure by location for “a safe but modest standard of living” differ for six expenditure groups in the United States according to EPI. Although Table 14 is based on information for the United States, lessons learned are relevant for other countries.

Cost for an equivalent budget for a family of four persons in 2007 varied greatly across the United States according to EPI – from approximately \$25,000 in Visalia-Portland (California) and Brownsville-Harlingen (Texas) to approximately \$60,000 in Westchester County (New York). Even within each state, there were large differences in costs. The ratio of cost in the highest cost location to the lowest cost location ranged from

<sup>4</sup> Clothing/footwear costs were a much higher percentage of household expenditure earlier in history. They were, for example, around 15 per cent of household expenditure for workmen in Massachusetts, and 18 per cent in Great Britain and Prussia in 1883 (Wright, 1889); and around 17 per cent for low-wage female workers in Massachusetts in the early 20<sup>th</sup> century (National Industrial Conference Board, 1927).

<sup>5</sup> The income elasticity of clothing /footwear is 0.8-0.9 (Seale and Regmi, 2006).

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about 1.4 in Texas to 1.8 in California. San Francisco, California was almost twice as costly as Visalia-Portland, California. These data indicate quite clearly that one living wage for the United States or each of its three largest states is not even close to being reasonable.

By far the largest difference in living costs across locations is for housing. Whereas housing is more than \$1,500 per month in San Francisco and Westchester County, it is less than \$500 per month in Brownsville-Harlingen for equivalent housing. In Texas, housing is less than \$1,000 per month, even in relatively expensive Austin-Round Rock. These data indicate that any attempt to estimate living wages within a country needs to take into consideration differences in housing costs.

There are also substantial differences in the cost of health care, taxes, other necessities and child care across locations, but these differences are much less than for housing. Health-care costs ranged from \$185 per month in California to around \$500 per month in New York State. Taxes were \$300 to \$600 higher in higher-cost areas compared to low-cost areas within each state. Other necessities differed by around \$200 per month between locations in California and New York State. Child-care costs were especially high in New York State compared to other states. There were also some differences in the cost of transportation. It was roughly \$100 higher per month in rural New York, where public transportation is not available and so families have to contend with the higher costs associated with owning and operating their own car.

Only food cost was the same for all locations, and that is because EPI did not have sufficient data to estimate food costs by location (although it is generally believed that food prices are fairly similar across the United States). It is interesting to note that, despite food cost being the same in all locations, the percentage of total expenditure spent for food varied quite a lot across locations. It ranged from less than 6 per cent in Westchester County to 15 per cent in Visalia-Portland and Brownsville-Harlingen. The reason for variation in percentage spent for food is that the same food cost is divided by a differing total cost. There is an important lesson in this for analysts who use Engel's law (i.e. proportion spent for food) to estimate all non-food costs. Percentage of food is not only determined by the cost of a model diet, it is also affected by the level of non-food expenditure such as for housing. Note that results for CRSP for the United Kingdom are similar to those for EPI in Table 14 for the United States, as costs vary across communities only from differences in costs for housing, child care and council taxes according to CRSP.

[Table 14: Basic family budgets in United States by type of expenditure and location (highest and lowest cost areas in three largest states)]

### ***7.1.3 Household size needing to be supported on a living wage***

1. All four original methodologies in Table 13 estimate living costs for a range of household sizes. EPI estimates living costs for six household sizes, CRSP for nine household sizes, HRDC for 20 household sizes, and CWW for 70 household sizes.
2. Although living wages are estimated for many different household sizes, three of the four original methodologies recommend one core household size. EPI, HRDC and CRSP recommend four persons (two adults and two children) as their core household size.
3. Use of a range of household sizes is sensible, because it is subjective judgment what is the most appropriate household size in a particular setting. Accompanying this with a recommended core household size provides users with a strong suggestion for household size. But this recommendation is appropriately a

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recommendation by the organization that developed the methodology. The decision on what household size to use should be the decision of the organization, company or government interested in applying a living wage in a particular setting.

#### **7.1.4 Number of full-time workers in household providing support**

1. All three of the original methodologies in Table 13 assume that all adults work full time (remember that HRDC is concerned with the cost of a basic acceptable living standard and not with living wage).
2. The consensus that all adults work full time is a little misleading, however, because these methodologies include child-care expenses. And child care is a major expense (e.g. child-care costs are around 20 per cent of total costs according to EPI and 33 per cent according to CRSP for a family of four persons). This means that there is a trade-off in these methodologies between child-care costs and the extent to which both parents work full time. CRSP, for example, found that their living wage estimates were almost identical when one spouse works half-time and the other spouse works full time and there are no child-care costs, compared to when both parents work full time and there are child-care costs. This has important implications for methodologies for developing countries where current methodologies do not consider child-care costs, possibly because grandparents and other relatives often provide child care for free. A legitimate question in such circumstances is whether additional expenses, such as partial support of such other care givers, should be considered.

#### **7.2 Original methodologies for high-income countries not used by others**

Two original methodologies for high-income countries are included in Table 13 that are not used by other organizations. These methodologies are discussed separately because they are more like suggestions than fully developed methodologies. In addition, they are not widely used or known. They are included in Table 13 for completeness, since this paper is intended to provide a review of as many methodologies as possible. This means that criticisms of these methodologies should not be viewed as criticisms of the organizations. Novartis, for example, should be commended for committing itself to paying its workers a living wage and trying to develop a general methodology to measure living wage.

1. Both methodologies are simple. This is their strong point. Living wage for a country can be quickly calculated using available information. Universal Living Wage's methodology only requires information on housing costs. Novartis' methodology only requires food costs for the United States (available from USDA), PPP (available from IMF and World Bank) and household size (available in country).
2. Both methodologies are unnecessarily simple. The original methodologies discussed in the previous sub-section indicate that it is not necessary to use so few expenditure groups in high-income countries. Both methodologies include only two expenditure groups and, as a result, the "other" expenditure group becomes a very large black box. "Other" includes 70 per cent of spending in the Universal Living Wage Campaign methodology and somewhere around 75 to 90 per cent of spending in the Novartis methodology.

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3. Neither methodology is well documented or transparent. Indeed, Novartis' methodology is not fully developed and so could be considered more of a suggestion.
  4. Underlying assumptions in both methodologies are questionable. Assuming, as in Universal Living Wage (2007), that housing costs represent 30 per cent of all household expenditures everywhere is quite a leap. This percentage varies by city and country. Assuming that food cost in the United States is appropriate for other countries, as in Novartis (2006), is an awfully strong assumption, as is the idea that PPPs are appropriate for converting from food costs to all costs and the idea that the reported proportion spent for food in all countries is comparable (see Section 9).
  5. Both methodologies foreshadow typical approaches for developing countries, where costs in a country are estimated using two expenditure groups – food and non-food (see Table 16) – where there is the same interest in simplicity and ease of estimation.

### **7.3 Derivative methodologies for high-income countries based on estimates from original methodologies**

There are several examples in Table 13 of organizations that base their living wage on estimates made by another organization. London uses Family Budget Unit estimates of a low-cost but acceptable budget, and Scotland uses CRSP estimates of basic living costs. Ottawa and Calgary in Canada use Statistics Canada's LICO. Vancouver/Victoria in Canada uses HRDC's MBM. Living Wage Action Coalition for campus labour campaigns uses CWW estimates of basic living costs for the United States. Many municipal living wage laws in the United States use the official federal poverty line (see Table 10 and discussion in Section 6), although some rely on estimates from EPI and CWW (e.g. Northampton Massachusetts).

#### **7.3.1 Cost of basic living standard**

1. *Cities and activist groups find it easier to use estimates of living costs already made by a reputable organization than to make their own estimates.* This makes sense on several levels. First, cities and activist groups generally do not have the time, money or expertise to make estimates that could be defended from attack by those opposed to a living wage. Second, estimates from a reputable technical organization that has put time and effort into making transparent, well-documented and defensible estimates of living costs carry an air of authority and so are relatively difficult to criticize. This is an example of leveraging, where the major cost of producing sound estimates is defrayed when they are used by many other organizations. A similar approach would be just as valuable for those interested in living wages in developing countries.
2. Most of the organizations included in Table 13 take into consideration deductions from pay. This makes sense, since workers should be able to afford a basic living standard on their take-home pay. London and Scotland consider taxes. Living Wage Action Coalition implicitly considers taxes since EPI estimates do. Ottawa considers deductions from pay. Scottish Living Wage and Living Wage Action Coalition subtract tax credits based on the same logic as for adding taxes, being interested in having sufficient income available to workers. Interestingly though, municipal living wages in the United States do not take into consideration taxes or deductions from pay.

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3. Two cities provide for contingency funds above a basic living standard: London adds 15 per cent; Vancouver/Victoria provides funds for two weeks' vacation. These additions have important implications for developing countries, where workers are often on the edge of falling into a poverty trap from which they can never recover when they borrow money from money-lenders at exorbitant interest rates.

### **7.3.2 Household size needing to be supported and number of workers per household providing support**

1. Unlike original methodologies for high-income countries discussed above that calculate living costs and living wages for a range of household sizes and numbers of workers in a household, derivative methodologies used by cities and campaigns in high-income countries choose a specific family size and number of workers per household to estimate their living wage. While London (Greater London Authority, 2009) could be considered an exception, as it estimates living wages for four different family sizes and five different numbers of workers, its methodology is in fact partly original and, in any case, it uses core assumptions for family size and number of workers.
2. Cities and campaigns *have* to choose one specific family size and one specific number of workers per household, since it is not possible in a labour market to have different living wages for every worker depending on his or her family situation. Having a range of living costs and living wage estimates from original methodologies for different family sizes and numbers of workers makes it easy for cities and organizations to estimate a living wage once they decide on family size and number of worker assumptions. This represents an excellent division of labour between technical and political organizations. Technical organizations do the detailed nitty-gritty work required to estimate a range of reasonable and defensible estimates, and political and action organizations make decisions that are in essence subjective judgments of a political/societal nature regarding family size needing to be supported by a living wage and the number of full-time workers per family expected to provide support.
3. There is no general consensus on what household size to use to estimate a living wage, although four persons is the most common assumption. This is the most common assumption in living wage laws in the United States, and is the assumption used in Table 13 by Vancouver/Victoria and Living Wage Action Coalition. On the other hand, Calgary and Ottawa in Table 13 use a household size of one and London uses as its core assumption a weighted average of four different household sizes (four, three, two and one persons), which implies a core household size of well less than four. A family size of four has a strong logic to it, as it implies approximate population replacement.
4. There is no general consensus on how many full-time workers to use to estimate a living wage. One full-time worker is the most common number used for living wage laws in the United States, and one full-time worker is used by Ottawa, Calgary and Scotland in Table 13. On the other hand, Vancouver/Victoria and Living Wage Action Coalition use two full-time workers, and London uses a weighted average of five household types (one part time, two part time, one full time, one part time and one full time, and two full time) as its core assumption, which puts this at somewhere around 1.5 full-time workers.
5. The lack of a consensus for household size and number of workers should be neither surprising nor a point of concern. These are truly judgments and therefore organizations and individuals will necessarily have different views and opinions.

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In addition, it is a fact of life that political and action organizations make decisions on these assumptions based partly on what wage rate they think would be acceptable in the community. That might mean, for example, using two full-time workers and a household size of two in order to arrive at a lower living wage than if perhaps more preferred assumptions of one full-time worker and household size of four persons were used.

6. In light of the lack of a consensus on family size or number of workers per household, it is felt that technical documentation should be developed that sets out general principles regarding appropriate approaches to choosing family size and number of full-time worker assumptions. For example, the number of full-time workers per household should be considered in conjunction with child-care costs, since there is a trade-off between extent to which both parents work full time and child-care costs. Also since a living wage should be a family wage as indicated in the review in Section 6, it would be more appropriate to use the number of children women typically have in a city or country than it would be to use average household size in a city such as London, where this average is greatly affected by the proportion of households that do not have children.

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## 8. Methodologies used to estimate a living wage in the United States in the early 20<sup>th</sup> century

Three important examples of methodologies used in the United States in the early 20<sup>th</sup> century to estimate a living wage are included in Table 15. Ryan (1906) is a path-breaking and influential book on living wage. The National Industrial Conference Board (1927) includes reports of industry wage boards established by the first state minimum wage law in the United States to set minimum wage rates based mainly on each board's estimate of basic living costs. The National Resources and Planning Board (1942) and National Emergency Council (1936) describe the largest public works programme in United States history, that provided over 7 million jobs to workers during the Great Depression at a wage intended to provide a basic maintenance income to the unemployed.

The reason for reviewing these historical examples is that living standards in the United States in the first half of the 20<sup>th</sup> century were probably similar to those found in many developing countries today. For example, the percentage of household expenditure for food was 36 per cent in Ryan (1906), 39 per cent in National Resources Planning Board (1942), and around 60 per cent for room and board in National Industrial Conference Board (1927). Similar percentages for food are found in many developing countries today (Anker, 2011). Secondly, income and expenditure surveys were not very common in the early 20<sup>th</sup> century, nor were techniques in how to conduct surveys and select representative samples. They were just being developed.<sup>6</sup> This means that representative expenditure data were not available in the United States in the early 20<sup>th</sup> century, whereas they are available in many developing countries today.

1. All three examples in Table 15 *used detailed household budgets to estimate basic living costs*. Budgets were *fully transparent*. Detailed budgets were provided along with discussion justifying expenditures for all items in the budget. This approach cannot be explained by availability of high-quality household expenditure data (as in high-income countries today). Far from it, as explained above. Massachusetts Minimum Wage Boards, which established the cost of budgets for workers in various industries, used a variety of *ad hoc* methods, such as worker questionnaires, special studies and bargaining among board members. Ryan (1906) used a detailed household budget from an 1891 survey as a starting point and adjusted it in an *ad hoc* manner.
2. One reason why Ryan (1906), the National Industrial Conference Board (1927) and the National Resources Planning Board (1942) used a detailed budget approach to estimating basic living costs appears to be that they felt that this detail was *helpful for convincing the public* about the reasonableness (even frugal nature) of their estimates. All three argued the case for each expenditure, particularly whether each expenditure was reasonable and perhaps even low.
3. Living standards were definitely *more than subsistence material needs* for food, housing and clothing. Budgets included funds for transportation, insurance, children's school, recreation, personal care, membership in organizations and reading materials. Ryan (1906) and the National Resources Planning Board (1942)

<sup>6</sup> It is interesting to note that ILO was instrumental in development of income and expenditure surveys. In the 1920s and 1930s, for example, studies based on income and expenditure surveys were published in the *International Labour Review* for Belgium, Ceylon, China, Denmark, England, Finland, Germany, India, Japan, Malaysia, Russia, South Africa, Sweden and the United States.

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considered taxes, and the National Industrial Conference Board (1927) added funds for savings. On the other hand, it is worth noting that the three basic necessities of food, housing and clothing accounted for most of these budgets (77 per cent for Ryan, around 80 per cent for the National Industrial Conference Board, and 74 per cent for the National Resources Planning Board).

4. All three were *concerned about the number of work hours*. Ryan (1906) added 8 per cent to his living wage per hour estimate to take into account the inability of most workers to find full-time work year round. Harrington (1939) adjusted the work hours it provided so that the product of wage rate per hour multiplied by number of work hours per month yielded the desired income per month. The National Industrial Conference Board (1927) recognized lack of work as important. They said: “Regularity of employment is as vital to the worker as a living wage”, and “Every industry that is not essentially seasonal should pay enough to its workers to maintain them through the slack season and through short periods of sickness”. However, adjustments were not actually made for this.
5. WPA wage rates and Massachusetts minimum wage rates *considered differences in living costs between cities and regions*. The National Resources Planning Board (1942) estimated living costs for four regions of the United States and within each region for five types of cities by population size. The National Industrial Conference Board (1927) estimated living costs by industry. Ryan (1906) discussed this issue but did not deal with it, as he did not make separate estimates for different parts of the United States, such as the South, where he noted that costs were lower.
6. Household size assumptions in the historical examples in Table 15 from early 20<sup>th</sup> century United States tend to be higher than those used for developing countries today. Ryan (1906) used five, as couples tended to have three children at the start of the 20<sup>th</sup> century in America, and the National Resources Planning Board (1942) used four as fertility fell during the Great Depression.<sup>7</sup>

In conclusion, methodologies from the early 20<sup>th</sup> century in the United States in Table 15 provide useful insights for developing countries on how to estimate basic living costs, given that living standards were not so dissimilar and availability of household expenditure data was worse in the early part of the 20<sup>th</sup> century than in many developing countries today.

- Separate living wages should be estimated for different cities and areas in developing countries, especially in large developing countries. It makes no sense to use one living wage for all cities and regions in large countries such as India, China and Brazil, for example, given the enormous cost differences within these countries. A similar conclusion was drawn in Section 7 from analysis of methodologies currently used in high-income countries.
- Living wage estimates in developing countries should take into consideration that work is often irregular, and unemployment and underemployment rates are high, just as they were in the United States in the early 20<sup>th</sup> century.
- Documentation explaining how basic acceptable living costs and living wages are estimated should be detailed, clear and straight-forward. Estimates should be as

<sup>7</sup> The National Industrial Conference Board (1927) is not relevant here, as it was concerned with unmarried female workers.



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transparent as possible as they were in the early 20<sup>th</sup> century. This *would help to convince companies, governments and others that a living wage estimate is reasonable*. The fact is that very few companies will agree to pay a living wage (even companies interested in the principle of a living wage) unless they are convinced that the suggested living wage is indeed reasonable and supports only a basic life style.

Efforts to estimate living wages from the early 20<sup>th</sup> century in the United States show what is possible with due diligence and effort, especially considering that household expenditure data and information on household budgets were not widely available back then. Indeed, such information and data are better and more widely available in developing countries today than they were in the United States in the early 20<sup>th</sup> century. This means that those interested in living wages in developing countries will need to put in more time and effort than they are currently willing to expend (see Section 9 below). Simple silver bullet methodologies do not exist, nor ever will exist in my opinion, since issues involved in estimating basic living costs and living wages are complex and subjectivity is necessarily involved.

[Table 15: Methodologies used to estimate living wage in the United States in the early 20<sup>th</sup> century]



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## 9. Methodologies used to estimate a living wage in developing countries

This section discusses and analyzes methodologies that have been used to estimate living wages for developing countries. Ten methodologies are included in Table 16. As in previous tables, column 2 describes the methodology in a formula format. Column 3 provides details on how cost of an acceptable living standard is measured. Columns 4 and 5 indicate household size and number of workers per household assumptions used to estimate living wage. The last column provides comments and explanations.

It is useful for heuristic purposes to divide methodologies in Table 16 into three types, even though some methodologies are not purely of one type. Note that all methodologies in Table 16 are original in the sense that they do not rely on estimates from another organization as the derivative methodologies in Table 13 for high-income countries did.

1. Methodology *uses country-specific data* to estimate living wage for developing countries. Living wage estimates can be for countries (Anker, 2006a), regions (Merk, 2009), or areas/cities (Social Accountability International, 2004; Vietnam, 2007<sup>8</sup>).<sup>9</sup>
2. Methodology *uses factory-specific data* to estimate living wage for a developing country. Living wage estimates are based mainly on data from workers in one or a few factories (Cambodia, 2009;<sup>10</sup> Indonesia, 2003;<sup>11</sup> Sri Lanka, 2006<sup>12</sup>).
3. Methodology *uses living costs from one country* to estimate living wages for all developing countries. Novartis (2006) uses Mexico and SweatFree (2010) uses the United States as the basis for their living wage estimates for developing countries.

[Table 16: Methodologies used for developing countries to estimate living wage]

<sup>8</sup> All citations in this report to Vietnam (2007) refer to Institute of Labour Science and Social Affairs and the World Bank: *Technical assistance program on minimum wage policy reform in Vietnam (phase 1): Project report*, unpublished report (Hanoi, 2007). This has been done for clarity.

<sup>9</sup> World of Good (2010b) also relies on country-specific data. It is not discussed in Section 9, partly because it relies on biased data based on self-reporting of living costs by unknown persons with self-interest; partly because living costs are estimated for only a truncated set of goods; partly because the methodology is not fully described (e.g. household size and number of workers per household are not indicated); and partly because the methodology and living wage estimates are intended to help sell goods, as World of Good is owned by ebay.

<sup>10</sup> All citations in this report to Cambodia (2009) refer to Chandararot and Dannet: *Living wage survey for Cambodia's garment industry*. This has been done for clarity. The complete citation is given under the section References.

<sup>11</sup> All citations in this report to Indonesia (2003) refer to Institute for Social and Economic Research, Education and Information: *Fair wage study of workers of Adidas-Salomon's business partners in Indonesia*. This has been done for clarity. The complete citation is given under the section References.

<sup>12</sup> All citations in this report to Sri Lanka (2006) refer to Prasanna and Gowthaman: *Sector specific living wage for Sri Lankan apparel industry workers*. This has been done for clarity. The complete citation is given under the section References.

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## 9.1 Estimating cost of a basic acceptable standard of living

How cost of a basic acceptable living standard is estimated is discussed in this section according to the type of data used.

### 9.1.1 Methodologies using country-specific data

Four methodologies in Table 16 use country-specific data to estimate the cost of a basic acceptable living standard. All are serious efforts. The Asian Floor Wage Alliance (Merk, 2009) is an important recent initiative that has breathed new life into interest in living wages. SA8000 from SAI (2008) is often seen as a gold standard for corporate codes of conduct. Anker (2006a) is a major research paper which develops a general methodology for estimating comparable national living wages for all countries. Vietnam (2007) is an example of well-conceived research that was an input to setting a national statutory minimum wage.

#### Total cost

1. All four methodologies in Table 16 estimate total cost of a basic acceptable living standard based on separate estimates of food costs and non-food costs. This is much simpler than typical methodologies in both high-income countries (see Section 7 and Table 13) and the United States in the early 20<sup>th</sup> century (see Section 8 and Table 15), where costs are estimated for considerably more than two expenditure groups.
2. The reason why a much simpler approach is used in developing country methodologies is a belief that the data required to estimate living costs for several expenditure groups are not available. This is not really a valid excuse for many developing countries, as income and expenditure surveys are available for many developing countries today. Also, it must not be forgotten that data availability in early 20<sup>th</sup> century America was worse than in many developing countries today, since representative household surveys were in their infancy 100 years ago.

#### Food cost

1. Food cost is estimated in the same way in all four methodologies. First, a nutritious model diet is established. Three methodologies define acceptable nutrition in terms of calories per person. Anker (2006a) goes further by making sure that model diets are acceptable in proteins, fats and carbohydrates as well as in calories. This extension can be important as it can affect food cost, because food items differ in cost-per-calorie as well as per-protein, etc. A series of USDA model diets for the United States – all of which have acceptable amounts of many vitamins and minerals as well as calories, proteins, fats and carbohydrates – illustrate this point. The USDA's Thrifty Food Plan for a family of four (parents with children 6 to 8 and 9 to 11) costs 23 per cent less than the USDA's Low-cost Food Plan, 39 per cent less than the USDA's Moderate-cost Food Plan and 50 per cent less than the USDA's Liberal Food Plan (USDA, 2009). These USDA model diets are progressively more expensive because more expensive food items are included in the more expensive model diets. Second, all four methodologies estimate food cost for their model diet using information on unit food prices. Third, food cost per household is estimated by multiplying the per person cost of a model diet by the number of persons assumed to be in a household.
2. Although the steps are the same in the four methodologies, how each step is done probably differs in the four methodologies. But it is difficult to know how they

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differ, since methodologies are not always transparent. SAI and AFWA, for example, do not indicate the principles they use to decide on which food items are included in their model diet; nor do they indicate the food items they actually include in their model diet; nor do they indicate how they determine the unit food prices used to cost their model diet. SAI (2004) has each certified auditor estimate food cost in a location/factory in an unknown way, although auditors sometimes receive oversight from SAI to help with consistency across auditors. Vietnam (2007) and Anker (2006a) are clearer about what they do. Vietnam (2007) determines its model diet based on reported food consumption from an income and expenditure survey for the household income quintile that has a sufficient number of calories per person. This is a common approach for estimating poverty lines (Ravallion, 1998). Its advantage is that it reflects actual behavior. Its disadvantage is that it does not consider whether the resulting model diet is nutritionally acceptable except in terms of calories. Anker (2006a) indicates the number of grams and specific food items included in his model diets as well as the percentage of calories that come from proteins, carbohydrates and fats. His model diets for countries change with development level in a systematic way, with the variety of foods and percentage of calories coming from proteins increasing with development.

3. Failing to indicate what foods are included in a model diet is unfortunate in my opinion. In particular, one loses the opportunity to communicate to the public, companies, governments and others what it means to live on a living wage. It is informative and powerful to be able to indicate that people can only afford to eat meat twice a week and drink at most one-half cup of milk a day on a living wage.
4. Two of the four methodologies using country-specific data in Table 16 indicate how they obtain unit food prices. The Asian Floor Wage Alliance (Merk, 2009) and SAI (2004) do not; Anker (2006a) uses food price data from ILO's October Inquiry; Vietnam (2007) uses food prices reported by respondents on a national income and expenditure survey. This is an important advantage, because food prices vary considerably for specific foods and food groups along with quality and quantity purchased. For example, bananas may be relatively inexpensive and apples relatively expensive fruits; beef may be relatively expensive and chicken relatively inexpensive; sirloin is more expensive than chuck. Anker (2006a) found that the less-expensive varieties of rice tended to be around one-third less expensive than higher quality long-grain rice in India and Bangladesh. I found a similar result in unpublished work in Vietnam in September 2010. Price per kilogram also varies with the quantity of a food item bought. For example, I found in Botswana in October 2010 that the per kilogram price for the same brand of maize meal was around P3.30 for a 2.5-kilo bag, P3.10 for a 5-kilo bag and P2.68 for a 12.5-kilo bag. I have also found in recent unpublished work on living wages in six developing countries that workers are generally quite price-conscious shoppers with regard to where they shop for food, quantities in which they buy food, and the variety/quality they buy.

#### Non-food costs

1. All four methodologies in Table 16 estimate non-food costs using Engel's law, which states that the higher a household's income, the lower the per cent it spends for food (Anker, 2011). These methodologies work off the idea that if one knows food cost from a model diet and per cent of total expenditure for food from Engel's law, it is an easy arithmetic calculation to estimate non-food costs and total cost.
2. As with food cost, while there is agreement in principle on how to measure non-food cost, there is no agreement on how to apply this in practice. The AFWA

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(Merk, 2009) assumes that households in Asia spend 50 per cent of their total expenditure for food. This assumption for all countries and locations in a region as different in terms of development as Asia is problematic, since per cent spent for food is known to decrease with economic development according to Engel's law. This means that non-food costs are likely to be overestimated for poorer countries and underestimated for higher income countries. It is worth noting, however, that the AFWA's goal is to arrive at one living wage in real terms for all garment workers in Asia to help avoid competition across countries that depresses wages in a race to the bottom. SAI (2004) leaves it up to each auditor to decide what per cent food, to use although SAI oversight tries to improve consistency across auditors in a location. This approach can be problematic, as it means that living wages can vary by factory within a location. Per cent spent for food varies with a country's development level in keeping with Engel's law in Anker (2006 ). Vietnam (2007) uses the per cent spent for food by households in the income quintile where households are observed to have the required number of calories (second quintile in Vietnam). Although this approach is often used to estimate national poverty lines (Ravaillion, 1998) and so could be considered a reasonable approach, it has significant possible problems. It depends, for example, on the accuracy and completeness of expenditure data which are often under-reported. Vietnam (2007), for example, increased reported food consumption by 20 per cent based on belief that this was underreported. In addition, actual non-food consumption may not be at an acceptable standard.

3. Using Engel's law in a mechanistic way as is typically done in living wage methodologies is problematic. A recent paper (Anker, 2011) indicates numerous ways in which national data on food and non-food expenditures are not comparable. This means that uncritical use of the percentage spent for food reported by a national statistical organization is often misleading for estimating non-food costs and living wages. This can be especially important when per cent food is relatively low and considerably less than 50 per cent, which is not unusual in a number of developing countries, as the non-food cost estimate risks becoming a large black box. Some important differences across countries in reported food share of household expenditures include:
  - a. Many countries (around one-quarter) include the cost of food eaten away from home in food expenditures. This can be as large as cost of food eaten at home in some countries and is especially important in certain regions of the developing world, such as South East Asia, East Asia and Latin America. This increases reported per cent food because food eaten away from home includes various services, such as cooking, cleaning and serving. Indeed the rule of thumb in the United States is that only around one-third of the cost of a meal in a restaurant is for the food in the meal, although this per cent is higher and often much higher in developing countries, especially in street markets.
  - b. Close to half the countries in the world collect household expenditure data for urban areas only. This has very important implications because non-food expenditure for items such as housing and transportation are much higher in urban areas than in rural areas. This means that when a country uses national data to estimate household expenditure, reported per cent food is much too high for urban areas where factories are typically located. It also means that food share differs by location within countries.
  - c. Many developing countries use outdated expenditure data. This means that reported food share is overestimated in countries which have developed in

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recent years, since per cent food falls with development in keeping with Engel's law.

- d. Mean food share of household expenditure in a country is sensitive to the distribution of household income. It is negatively related to household income inequality. Yet since the living wage is concerned with typical households, one is interested in food share of the median household or perhaps households at the 30<sup>th</sup> or 40<sup>th</sup> percentile of the income distribution. Data for urban South Africa for 2008 indicate how large the difference can be between mean (15.0 per cent) and median (32.9 per cent) food shares (Statistics South Africa, 2009).
  - e. Many countries include expenditure for alcohol and tobacco in food expenditure, which of course increases reported per cent food. This causes a serious problem for anyone estimating non-food expenditure based on Engel's law, since model diets do not include alcohol or tobacco. This also has important implications for non-food expenditure estimates when one thinks that certain "unnecessary or undesirable" expenditures should be excluded when estimating the cost of a basic living standard. In Botswana, for example, around 9 per cent of household expenditure is for alcohol (Botswana, 2009).
  - f. There is no consensus among national statistical organizations on how to estimate housing costs. Many countries impute a value to owner-occupied housing, while many other countries ignore owner-occupied housing. In addition, housing costs in rural areas of developing countries are much lower than in urban areas. Taken together this means that reported housing expenditure in many developing countries is much too low for urban areas where factories are typically located. This would cause the reported food share to be too high for urban areas.
  - g. Countries differ in the extent to which they provide or subsidize goods and services, such as health care, education and transportation. This significantly affects how much households need to spend for non-food items and therefore the per cent households spend for food and non-food items.
4. Methodologies in Table 16 differ as regards the geographic area they estimate living costs for. The AFWA (Merk, 2009) estimates one living cost in real terms for all of Asia; Anker (2006a) estimates living costs for countries; Vietnam (2007) estimates living costs for regions in Vietnam; SAI (2004) estimates living costs for locations and factories. The AFWA (Merk, 2009) and Anker (2006a) have the drawback that they do not estimate sub-national living wages, since living costs are known to differ greatly between cities (see, for example, Table 14 and discussion in Section 7 for the United States, the United Kingdom and Canada). The AFWA (Merk, 2009) has the added drawback that it uses real cost for one living standard for all of Asia, even though acceptable living standards vary greatly across Asia along with differences in economic development. On the other hand, AFWA has the advantage of reducing competition between Asian garment producers and so a possible "race to the bottom". SAI (2004) goes in the other direction, as each auditor estimates his or her own living wage, which means that it is possible to have different living wages within a location. SAI now, however, encourages auditors to work with local worker rights groups and worker groups to help establish a living wage benchmark for the locality. Vietnam (2007) comes closest to getting it right, as it estimates living costs for four regions within the country.

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5. Methodologies in Table 16 differ regarding whether they include additional funds for savings or emergencies. SAI (2004) and Anker (2006a) include 10 per cent for this purpose; AFWA (Merk, 2009) and Vietnam (2007) do not.

### **9.1.2 Methodologies using factory-specific data**

There are three examples in Table 16 of *ad hoc* research studies that used factory-specific data to estimate living costs. Sri Lanka (2006) used data for 700 workers; Indonesia (2003) used data for 1,140 workers from four factories; Cambodia (2009) used data for 343 workers (as well as data from a national income and expenditure survey). In all three studies, factory workers were mostly women who were young, unmarried and migrant. Before discussing these studies, it is important to note that they are not of the same stature as the four methodologies discussed in the previous subsection. Studies in this section are *ad hoc* research studies. They are included in this paper partly for completeness and partly because they include some interesting and useful ideas.

1. All three studies estimate living costs based on information collected from workers in the factories being studied. These studies, however, follow different approaches to estimate basic needs costs: Indonesia (2003) uses workers' expressed needs; Cambodia (2009) uses average expenditures reported by workers; Sri Lanka (2006) uses reported expenditures of workers consuming 1900 calories.
2. There are serious problems with basing estimates of living costs on information about workers from specific factories. First, basing needs on a group of low-income workers is problematic from a conceptual point of view, as their views and behavior are conditioned by their low incomes. There is every possibility that reported spending is not sufficient for an acceptable basic needs level: Sri Lanka (2006), for example, adds 10 per cent to reported expenditures for this reason. Second, living wage should be similar for factories in a geographic area. It would not be appropriate for living wages to be lower in factories with young unmarried persons compared to factories with older married workers, as this would set up perverse employment incentives for companies. Third, none of these studies provides details about what was included in their basic needs budgets. While this is probably explained by the fact that these are *ad hoc* studies, it is none-the-less unfortunate because transparency is important for communication purposes at the very least. Fourth, *ad hoc* surveys are not easy to undertake and consequently data problems are common such as underreporting of expenditures.
3. On the other hand, collecting information about workers in specific factories being studied or audited is very useful. It provides important contextual information as well as helps analysts and auditors to communicate with employers. This is especially useful in situations where information in an area is patchy or unavailable. It is just that factory-specific data should not be used as the main basis for estimating a living wage.
4. Two of the *ad hoc* research studies include additional funds above what they estimate is necessary. The Indonesian study adds 15 per cent for discretionary spending and the Sri Lankan study adds 25 per cent for consumer-durables and savings.
5. All three studies assume that workers (who are mostly young female migrants) are responsible for helping to support parents and other family members back in rural areas. They also make the reasonable assumption that living costs are much lower in rural areas. This is a worthwhile approach, since young migrant workers in developing countries typically have financial obligations to support relatives back



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“home”. This means the living wage needs to be a family wage, even when workers in developing countries are single.

### **9.1.3 Methodologies that use living costs from one country to estimate living wage in other countries**

Two methodologies in Table 16 estimate basic living costs for developing countries based on living costs in another country. Novartis (2006) is based on cost for a basic living standard in urban Mexico. SweatFree (2010) is based on the United States’ official poverty line (which is increased by 20 per cent because it is widely acknowledged to be too low for the United States). To get a living wage estimate for a particular country, Novartis multiplies its base value from Mexico by the ratio of living costs in country x to those in Mexico using World Bank purchasing power parities (PPPs). SweatFree multiplies its base value from the United State by the ratio of GDP per capita in PPP in country x compared to that in the United States.

1. Both methodologies here are simple and allow one to quickly estimate a living wage for almost all developing countries. Both are attempts to come up with what everyone would like to have: a silver bullet methodology that is simple, inexpensive and quick.
2. Unfortunately, neither methodology can be recommended. They have too many problems, despite their allure of simplicity. First and foremost, basic needs costs in one country (regardless of how well-done it is estimated) cannot be taken seriously as a basis for basic needs costs for all developing countries, even when costs are supposedly expressed in real terms.<sup>13</sup> For example, Novartis (2006) is anchored on a very good analysis of Mexican household survey data, but food expenditure was 27 per cent of household expenditure in urban Mexico. This is much lower than the 50 per cent used in AFWA (Merk, 2009) and even less than 33 per cent used to estimate the poverty line in the United States. And according to Engel’s law, percentage households spend for food varies across countries with national per capita income (Anker, 2011).
3. Novartis (2006) and SweatFree (2010) also have their own problems. Novartis, for example, lacks transparency, as Novartis local affiliates are allowed to change living wage estimates derived from the methodology in unknown and unreported ways. SweatFree uses GDP per capita for a country as a whole and therefore ignores the fact that income levels in developing countries are much higher in urban areas where factories are generally located than in rural areas. Also, some of the national estimates from the SweatFree methodology are problematic. Living wage is unrealistically low in Zimbabwe and the Democratic Republic of the Congo at 4 and 6 cents per hour (\$7 and \$10.50 per month respectively) and unrealistically high in Hong Kong at \$9.97 per hour (\$1,774 per month). Switzerland and Liechtenstein, which have similar standards of living, have living wage estimates of \$7.50 and \$21.63 per hour respectively.

<sup>13</sup> This is not the place to go into a detailed discussion of problems with using PPP to estimate differences in living costs between countries, especially for low-income people (see Anker, 2005, for discussion on this). PPP is very difficult to measure and so subject to large revisions. In 2008, for example, when the World Bank revised its PPP estimates, PPPs for China and India changed by around 40 per cent, which caused China’s and India’s GDP per capita in PPP to fall by about 40 per cent compared to previous World Bank estimates.

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4. Both methodologies estimate one living wage for a country. Yet as discussed above, it is important to be able to estimate different living wages within countries, because living costs and what are considered to be acceptable living standards differ between rural and urban areas as well as between cities within countries.

## 9.2 Household size needing to be supported by a living wage

Several aspects of assumptions in Table 16 regarding the household size needing to be supported by a living wage are worth noting.

1. There is no consensus for the household size needing to be supported by a living wage among methodologies for developing countries. This is similar to the situation for methodologies for high income countries (see Section 7).
2. Six methodologies in Table 16 use a specific household size with four the most common (four of the six use four persons); others use one and three persons. Five methodologies use observed household size (SAI, Novartis, and the three *ad hoc* research studies).<sup>14</sup>
3. One household size assumption is used by NGOs and Vietnam (2007), whereas researchers generally use two household size assumptions, although Anker (2006a) also specifies a core household size similar to what is often done in high-income country methodologies. NGOs and governments use one household size assumption because they need only one living wage estimate. Researchers, on the other hand, often use more than one household size assumption in order to estimate a range of living wage estimates, since the household size assumption is essentially subjective and without a “correct” value. Anker (2006a) uses four persons and an estimate of completed family size (average number of children born per woman by end of reproductive period plus two for the couple). Sri Lanka (2006) uses one and average household size of factory workers; Indonesia (2003) and Cambodia (2009) use different household sizes for urban and rural areas based on observed average household sizes of factory workers.
4. The three *ad hoc* research studies of specific factories assume that workers are responsible for helping to support two households: their own household in an urban area and a rural household, where parents and other family members live. Interestingly and correctly, all three assume that living costs are lower in rural areas than in urban areas.
5. Average household size assumptions used in the three *ad hoc* research studies included in Table 16 are based on data collected in an *ad hoc* survey of workers in specific factories. This creates a serious conceptual problem, as factory-specific values for household size means that living wages will necessarily vary across even nearby factories depending on the type of workers in these factories. Factories with unmarried single workers would, for example, have a lower living wage than factories with older married workers with families.

<sup>14</sup> Note that, although Novartis (2006) uses a household size of four persons, Cambodia (2009) uses a household size of four for urban, and Indonesia uses a household size of 2.5 for urban, these are based on average household size observed in these countries.

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In summary, there is no consensus as regards household size needing to be supported by a living wage in the methodologies included in Table 16 for developing countries. There are, however, sufficient similarities to be able to draw some conclusions.

- A household size of four would be a relatively easy and uncontroversial assumption to use for all countries in my opinion: this assumption is widely used; it roughly represents population replacement; and it is reasonably consistent with fertility rates found in many developing countries. Use of a household size below four would imply that a living wage would not be sufficient to ensure survival of countries over the long run, and this seems contrary to the idea of a living wage. A household size above four would imply that employers are paying for the choice people make to have more children than is necessary for population reproduction. On the other hand, in parts of the world where parents typically have more than two children (e.g. much of Africa and Middle East), it could be persuasively argued that the household size assumption should be greater than four because otherwise many workers would not earn enough for a minimum acceptable living standard for their family. Note that use of a country-specific estimate of completed family size as done in Anker (2006a) would take this into consideration. It is also worth noting that using observed average household size as done by several methodologies in Table 16 is problematic for estimating a living wage, because average household size in a location is significantly affected by the distribution of household types and sizes in the location. For example, average household size in a location is significantly reduced when there are many single-person households as is common in urban areas around the world. Yet, this has nothing to do with the typical family size of workers with children.
- One household size assumption is necessary for estimating a living wage that can be used by governments, companies and NGOs. It is for this reason that NGOs and companies use one household size assumption. Researchers and research institutions, on the other hand, often use two household assumptions in order to estimate a range of living wages because the household size assumption is essentially subjective. This is a worthwhile approach for researchers in my opinion, since it provides NGOs, governments and companies with the ability to choose the household size they feel is the most appropriate. This is the approach used by research institutions in high-income countries, and I see no reason why the same approach should not be used for developing countries. This approach would not preclude researchers and research institutions from making their own core household size suggestion and therefore own core living wage estimate.
- It is appropriate in many developing countries in my opinion to take into consideration that family responsibilities of workers often extend beyond the worker's immediate household as is done in the *ad hoc* research studies included in Table 16. Workers in developing countries often have to send money back to rural areas to parents and other relatives. When this responsibility is taken into account, it is important to use lower costs for rural areas as researchers in Table 16 do. A simplified approach that Sri Lanka (2006) and Anker (2006a) have used in unpublished living wage estimates for Botswana, Namibia and South Africa is to include in budgets a fixed amount each month for income transfers to rural areas, rather than going through the considerable difficulty of estimating costs and number of dependents in rural areas.

### **9.3 Number of workers in household providing support**

Several aspects of assumptions in Table 16 regarding the number of full-time workers providing support are worth noting.

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1. There is no consensus among developing country methodologies in the assumption to use for number of full-time workers in a household. This is similar to the lack of a consensus on this for high-income countries (see Section 7). Six methodologies in Table 16 use one full-time worker. Three methodologies use two full-time workers. Two methodologies use average number of full-time workers per household observed among specific factory workers. One methodology uses 1.33 full-time workers. One methodology uses an estimate of the average number of full-time workers per household based on data on labour force participation rates, unemployment rate and part-time employment rate. Although one full-time worker is the most common assumption, this implied consensus is misleading, as four of these six methodologies use two assumptions on household size, and a fifth (SweatFree, 2010) is a weak methodology.
  2. All three of the *ad hoc* research studies in Table 16 use two assumptions for number of full-time workers per household, thereby producing a range of living wage estimates. Researchers recognize that there is not a “correct” assumption for number of workers per household. Interestingly, all three researchers use one full-time worker per household as one of their assumptions, thereby establishing a lower limit for number of workers (and upper limit for living wage). It is worth noting that two of the three researchers use the observed average number of full-time workers per household as their second assumption, just as they used the observed average number of persons per household for household size.
  3. Only Anker (2006a) considers the possibility of non-availability of work when estimating a living wage. It is surprising that none of the other methodologies for developing countries reviewed considered this, since unemployment and underemployment are major problems in developing countries. Methodologies from the United States from around 100 years ago also considered unavailability of full-time work throughout the year. Perhaps unemployment and underemployment are ignored, because NGOs and researchers generally estimate living wages for companies and so are dealing with situations where at least one person in the household has a job. This neglect of unemployment and underemployment is unfortunate, since many workers in developing countries are not able to find full-time work year round.
  4. NGOs are concerned with overtime and the need for a living wage to be earned in normal work hours (see SAI, 2008 and Merk, 2009). This concern with overtime reflects the situation in many developing country factories, where workers are required to work long hours without additional pay. Without passing judgment on which is more important when estimating a living wage (overtime or unemployment/underemployment), both are important to take into consideration.

The following are conclusions I think can be drawn from the above discussion and Table 16.

- It is not obvious how many full-time workers to use. One full-time worker per household is unrealistically low for the 21<sup>st</sup> century. Labour force participation rates for both men and women are too high all around the world to justify this assumption. The days when it might have been appropriate to use a one-person (presumably male) household breadwinner model of the family, as in the United States in the early 20<sup>th</sup> century, are long gone – if it ever was appropriate. Assuming that both parents work full time is similarly unrealistic. In all countries, many adults do not work out of choice, many others work part time out of choice, and many are unable to find full-time work throughout the year. Furthermore, additional expenses are incurred when both parents work full time, and this implies that these costs would need to be taken into consideration when living costs are

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estimated, which is not done at present (e.g. by including additional funds for child care, transportation and clothes).

- An assumption of somewhere around 1.5 full-time workers per household would not be too bad an assumption in my opinion. It is half way between the extreme assumptions of one and two, and it is easy to describe, consisting of say one spouse who works full time and the other spouse who works half-time. It would mean that the half-time spouse could be considered responsible for child care and so it would not be necessary to consider child-care costs. Indeed, both EPI in the United States and CRSP in the United Kingdom found that the costs for households were approximately the same when both parents worked full time and they had child-care costs, compared to when one parent worked half-time and they did not have child-care costs. Use of 1.5 full-time workers per household would also allow for some consideration of unemployment and underemployment and the inability of workers to always find full-time work throughout the year. A disadvantage of using 1.5 full-time workers per household for all countries is that it ignores the fact that labour force participation rates, unemployment rates and underemployment rates differ significantly across counties and locations. Another possibility would be to estimate the average number of full-time equivalent workers per household in a country, using information on labour force participation rates, unemployment rate and part-time employment rate, as in Anker (2006a).
- Researchers and research organizations providing living wage estimates for others should use two or more assumptions on number of workers per household to provide a range of living wage estimates for NGOs, governments and companies to choose from. At the same time, researchers and research organizations should also indicate what they feel is the most appropriate assumption for number of full-time workers per household.



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## 10. Summary and conclusions

This paper has been concerned with how the living wage has been described, defined and measured. Scores of descriptions of living wage were reviewed. Twenty-six methodologies used to estimate living wage were also critically analyzed. The distinctive contribution of this paper is that, while many papers and books have been written about arguments for a living wage (such as increased efficiency and reduced poverty) and against a living wage (such as reduced employment and economic growth), there are at present no comprehensive papers that have systematically reviewed how the living wage has been described, defined and measured.

This paper began by reviewing how living wage has been described. It became abundantly clear that living wage has a long and distinguished pedigree and is a mainstream idea, as support for it comes from as unlikely a group as Adam Smith in 1776, popes since 1891, the ILO Constitution in 1919, robber baron John D. Rockefeller in 1921, and the United Nations Universal Declaration of Human Rights in 1948. Section 2 indicated that living wage is recognized as a human right in at least five international declarations on human rights, the ILO constitution, and the national constitutions of Brazil, India, Mexico and Namibia.

Section 3 and Figure 1 provided a simple definition of a living wage in graphical form. Section 4 looked at views of living wage mainly from multinational companies, where statements indicating acceptance of the principle that a living wage be paid were juxtaposed with statements from the same company or organization indicating why a living wage is not paid in practice. Reasons revolved around measurement difficulties, such as subjectivity and absence of an agreed definition or methodology to measure living wage. This situation of widespread acceptance of living wages in principle – but relatively little use in practice – implies that a necessary condition for acceptance of a living wage is improved measurement. Given this, Section 5 discussed why defining and measuring a living wage necessarily involves subjectivity, but also why this is not a definitive obstacle to acceptance and use of living wages.

Section 6 included over 60 descriptions of living wage as well as tables indicating characteristics of 86 recent municipal living wage laws in the United States and 99 national minimum wage laws from around the world. These descriptions provided a wide range of views which made it possible to draw general conclusions that would not have been possible based on the relatively few methodologies and formulas available. Readers are referred to Section 6k for a summary of conclusions with some of these repeated below.

1. Living wage is considered a right by the international community of nations.
2. Living wage should be sufficient to support a basic standard of living that is considered decent for a specific time and place. Several descriptions for developing countries mention basic needs. The acceptable basic standard, however, increases with economic development.
3. Living standard supported by a living wage should provide for more than just the necessities of life (food, shelter and clothing). Some descriptions, for example, refer to health care, education, transportation and recreation; others refer to the need for savings or some discretionary income.
4. Living wage is a family concept. A worker should be able to support a family on a living wage.

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5. Most descriptions do not mention exact numbers for number of persons a living wage should be able to support or the number of persons who should provide support.
  6. A basic living standard needs to be supported on take-home pay. Descriptions for high-income countries are generally concerned with taxes, and some descriptions for developing countries are concerned with mandatory deductions from pay.
  7. Descriptions for developing countries often mention that a living wage needs to be earned in normal work hours because of concern with overtime abuse.
  8. Living wage rates are set in municipal living wage laws in the United States in a political environment and so take into consideration possible effects on employment as well as workers' needs. This is similar to how the minimum wage rate is set by governments, although the influence of workers and activists compared to employers is generally greater at the local level than at the state or federal level in the United States. It is important to note for this paper that, while municipal living wage rates are set in a political environment in United States, they are typically based on solid estimates of living costs, such as government poverty line or estimates from reputable research institutions.

Sections 7 to 9 described and critically analyzed 26 methodologies that have been used to measure living wage in high-income countries, developing countries and United States in the early part of the 20<sup>th</sup> century, when living standards were probably similar to those in many developing countries today. Discussion was presented along the lines of Figure 1 in Section 3: (i) cost of a basic living standard; (ii) number of persons needing to be supported by a living wage; and (iii) number of full-time workers per household providing support. Some general conclusions are listed below.

1. Two types of methodologies are used in high-income countries. There are original methodologies that estimate living wages and cost of a basic acceptable living standard, and there are derivative methodologies that use estimates produced by original methodologies.
2. Original methodologies in high-income countries are well-documented and transparent. This makes them easy to use and defend. For this reason, they are used by others without the time, expertise or funds to make solid estimates. In contrast, methodologies for developing countries are generally poorly documented, often based on *ad hoc* data and decisions, and far from transparent. This is unfortunate, because companies and governments rightly need to feel that a living wage estimate is reasonable and solidly based. Poorly documented living wage estimates are not convincing, nor should they be. Developing country methodologies in the future would be well-advised to also be detailed, transparent and well-documented.
3. Developing country methodologies typically estimate living costs by summing estimates for two expenditure groups: food costs and non-food costs. High-income country methodologies, in contrast, estimate costs for more expenditure groups. For example, EPI and CWW use six expenditure groups, HRDC uses five expenditure groups, and CRSP uses 15 expenditure groups. Living wage estimates from the early 20<sup>th</sup> century in the United States used around 12 expenditure groups. Use of only two expenditure groups as in typical developing country methodologies is problematic, as it risks estimates of non-food costs becoming a large black box where errors can be important. As noted in Section 7, there are many problems with available household expenditure data and therefore with relying uncritically on Engel's law to estimate non-food costs, as is currently done in typical developing country methodologies at present. In addition, two



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expenditure groups are too few to estimate living wages for specific cities in a country (see next point).

4. Original methodologies for high-income countries estimate living costs and living wages for many locations (e.g. EPI estimates living wages for 614 communities in the United States and HRDC estimates living costs for 48 geographic areas in Canada). This is important because, as shown in Section 7, differences in living costs and living wages between locations within high-income countries are enormous. According to EPI, for example, living wage is more than twice as high in high-cost areas compared to low-cost in the United States. Living wage estimates for the United States in the early 20<sup>th</sup> century also took into consideration differences in living costs between locations. Unfortunately, methodologies for developing countries generally do not estimate city- or area-specific living wages. This is especially a problem for large developing countries where differences in living standards and living costs between large cities, small cities and rural areas may be greater than in high-income countries. In the future, developing country methodologies should estimate city-specific and/or area-specific living wages. But to do this, methodologies will need to use more than two expenditure groups, since some non-food costs vary greatly across cities and areas, especially for housing.
5. Some methodologies in high-income countries purposely exclude expenditures considered unnecessary or undesirable when estimating the cost of a basic living standard, such as for alcohol, tobacco, eating out, vacations and pets. Although it might seem petty and unnecessarily moralistic to some to exclude such expenditures, this is a good idea in my opinion because it helps deflect criticism that a living wage estimate is too high. It is something which developing country methodologies should consider in the future.
6. Three *ad hoc* research studies in Asia assumed that factory workers, who were generally young, single and female, were responsible for supporting family back “home” in a rural area, such as parents and younger siblings. For this reason, they included funds to help support family back “home” in living costs. This makes sense, as many workers in developing countries are expected to provide such support. This implies that a living wage in developing countries is a family wage, even when workers are single.
7. Researchers and auditors in developing countries sometimes base their living wage estimate on factory-specific data. This is done partly because relevant data for the city or area are not available and partly because the living wage is being estimated for a specific company. This approach has some undesirable attributes, such as inappropriateness of basing living standards and costs on behavior of persons who may live in substandard conditions as well as allowing living wages to be a function of the demographic composition of factory workers, which could set up perverse employment practices.
8. There is no consensus among methodologies regarding what family size should be supported by a living wage for either high-income countries or developing countries. On the other hand, four persons is clearly the most common family size used. A family of four has considerable intuitive appeal, as it represents approximate population reproduction.
9. There is a general consensus among researchers and research institutions that a range of household sizes (and often number of full-time workers in households) should be used to estimate a range of living wages, with core recommendations often provided. Two household sizes are typically used in developing countries. Many more household sizes are used in high-income countries (e.g. EPI uses six, CWW uses 70, CRSP uses nine, HRDC uses 20). In this way, the decision

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regarding what is the most appropriate household size for estimating a living wage is left to stakeholders to discuss and decide. This is, in my opinion, a sensible division of labour between researchers and policy-makers.

10. Methodologies in both high-income countries and developing countries use a variety of assumptions on the number of full-time workers in a household. Some use one full-time worker; some use two full-time workers; some use the observed average number of workers in households; and some use a number in between one and two. As with family size, number of full-time workers per household is to some extent a judgment, and so it is reasonable for researchers to use two assumptions and thus estimate a range of living wages. For a core assumption, I argued above that somewhere around 1.5 full-time workers per couple would be reasonable. But whatever is assumed for the number of full-time workers per household, it is important to take into consideration the trade-off between child care and commute costs and number of full-time workers in a household, as discussed at the end of Section 9. Indeed, estimates of living costs in high-income countries indicate that living costs are approximately the same when both parents work full time and have child care costs as when one parent works full time and the other parent works half time and do not have child-care costs.
11. A good argument can be made that the inability of many workers to find full-time work around the year because of unemployment and underemployment should be taken into consideration when estimating a living wage, even though few methodologies for high-income and developing countries reviewed in Sections 7 and 9 do this. This was done in the United States early in the 20<sup>th</sup> century.
12. Many organizations and companies working in developing countries would like to believe that it is possible to make reasonably accurate and convincing living wage estimates in a simple and quick way. They want what I call a silver-bullet methodology. But as I believe this paper has demonstrated, such a silver-bullet methodology does not exist, nor will it ever exist. Development of well-documented and defensible methodologies and estimates for living wages in developing countries require resources and expertise. The payoff, however, would be great, as many organizations and companies could use these materials and estimates as currently happens in high-income countries, where unions, activists, municipalities and others make use of government and research group methods and estimates. The argument that data availability poses too great a problem in developing countries rings hollow. Well-documented and argued living wage estimates were made in the United States close to 100 years ago when representative sample surveys were in their infancy and, in addition, the fact is that data availability has greatly improved in developing countries in recent decades.

A premise of this paper is that an important reason why living wages are accepted more in theory than in practice, especially in developing countries, is that there is no agreed definition or methodology for measuring a living wage. This also means that worker needs, which according to ILO Conventions should help determine a minimum wage together with possible negative effects on economic conditions, does not receive as much attention as it should when minimum wages are set. It also means that unions are at a disadvantage when bargaining for higher wages.

As shown in Section 4, it is all too easy for companies and others to say that a living wage is too vague a concept to be useful in practice. This means in my opinion that a necessary (but far from sufficient) condition for widespread consideration of living wages and workers' needs in developing countries by companies, unions and governments is greater clarity as regards its definition and measurement. It is possible to rectify this situation with serious work for developing countries along the lines of what has been done

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in high-income countries and was done close to 100 years ago in the United States. While this will require taking into consideration data realities in developing countries, it is possible and well within reach with serious effort.



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## Appendix A: Tables 1 to 17

### *Abbreviations used in tables*

Approx.	Approximately
BN	Basic needs
HH	Household
LF	Labour force
LW	Living wage
NA	Not applicable
NI	Not indicated
PL	Poverty line
PPP	Parity purchasing power
pp	Per person
ph	Per hour
pm	Per month
pw	Per week
py	Per year
>	More than
<	Less than
≈	Approximately





**Table 1: Living wage and international human rights conventions [bold added for emphasis]**

<p><b>United Nations Universal Declaration of Human Rights, 1948</b></p>	<p>"Article 23(3): ... Everyone who works has the <b>right to just</b> and favourable remuneration ensuring for himself and his <b>family an existence worthy of human dignity</b>, and supplemented, if necessary, by other means of social protection." <sup>1</sup></p>	<ul style="list-style-type: none"> <li>• Right to "just and favourable remuneration"</li> <li>• &gt; necessities ("existence worthy of human dignity")</li> <li>• Family wage</li> <li>• Should be "supplemented, if necessary, by social action"</li> </ul>
<p><b>American Declaration on the Rights and Duties of Man, 1948</b></p>	<p>"Every person who works has the right to receive such remuneration as will, in proportion to skill, ensure him a <b>standard of living suitable</b> for himself and for his <b>family.</b>" <sup>2</sup></p>	<ul style="list-style-type: none"> <li>• Right for "suitable standard of living"</li> <li>• Family wage</li> </ul>
<p><b>European Social Charter, 1961, revised in 1996</b></p>	<p>+Part I.4. All workers have the right to a fair remuneration <b>sufficient for a decent standard of living</b> for themselves and their <b>families.</b>" <sup>3</sup></p>	<ul style="list-style-type: none"> <li>• Right for "fair remuneration and decent standard of living"</li> <li>• &gt; necessities ("decent standard of living")</li> <li>• Family wage</li> </ul>
<p><b>United Nations International Covenant on Economic, Social and Cultural Rights, 1966</b></p>	<p>"Article 7. Remuneration which provides all workers, as a minimum, with ... a <b>decent living</b> for themselves and their <b>family.</b>"<sup>4</sup></p>	<ul style="list-style-type: none"> <li>• Right for "decent living"</li> <li>• &gt; necessities ("decent living")</li> <li>• Family wage</li> </ul>
<p><b>Additional Protocol to American Convention on Human Rights in the Area of Economic, Social and Cultural Rights, 1988</b></p>	<p>"Article 7. Just, Equitable, and Satisfactory Conditions of Work (a) Remuneration which guarantees, as a minimum, to all workers <b>dignified and decent living conditions</b> for them and their <b>families</b> and fair and equal wages for equal work, without distinction; ..." <sup>5</sup></p>	<ul style="list-style-type: none"> <li>• Right for "dignified and decent living conditions"</li> <li>• &gt; necessities ("dignified ... living conditions")</li> <li>• Family wage</li> </ul>

1. United Nations (1948).  
 2. Organization of American States (1948).  
 3. Council of Europe (1961).  
 4. United Nations (1966).  
 5. Organization of American States (1988).

**Table 2: Living wage descriptions in national constitutions [bold added for emphasis]**

<b>Brazilian Constitution, Social Rights, Article IV, 1988</b>	"IV. Nationally unified minimum wage, established by law, capable of satisfying their basic living needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation and social security, with periodical adjustments to maintain its purchasing power, it being forbidden to use it as an index for any purpose." <sup>1</sup>	<ul style="list-style-type: none"> <li>• National minimum wage "satisfying basic living needs"</li> <li>• &gt; necessities (e.g. "education, health, leisure")</li> <li>• Family wage</li> </ul>
<b>Indian Constitution, Directive Principles of State Policy, 1949</b>	<p>"39. Certain principles of policy to be followed by the State. The State shall, in particular, direct its policy towards securing – (a) that the citizens, men and women equally, have the right to an adequate means of livelihood; ..."</p> <p>"43. <b>Living wage</b>, etc., for workers. The State shall endeavour to secure, by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a <b>living wage</b>, conditions of work ensuring a <b>decent standard of life</b> and full <b>enjoyment of leisure and social and cultural opportunities</b>." <sup>2</sup></p>	<ul style="list-style-type: none"> <li>• Living wage "ensuring decent standard of life"</li> <li>• &gt; necessities ("full enjoyment of leisure and social and cultural opportunities")</li> </ul>
<b>Namibian Constitution, Principles of State Policy, 1998</b>	"Article 95. Promotion of the Welfare of the People. The State shall actively promote and maintain the welfare of the people by adopting policies aimed at: (i) Ensurance that workers are paid a <b>living wage</b> adequate for the maintenance of a <b>decent standard of living</b> and the <b>enjoyment of social and cultural activities</b> ." <sup>3</sup>	<ul style="list-style-type: none"> <li>• Living wage "adequate for decent standard of living"</li> <li>• &gt; necessities ("enjoyment of social and cultural activities")</li> </ul>
<b>Constitution of Mexico, 1917</b>	"The general minimum wage must be sufficient to satisfy the <b>normal necessities</b> of a head of <b>family</b> in the <b>material, social and cultural order</b> and to provide for the mandatory <b>education of his children</b> ." <sup>4</sup>	<ul style="list-style-type: none"> <li>• General minimum wage "to provide for normal necessities and education of children"</li> <li>• &gt; necessities ("material, social, cultural order and education of children")</li> <li>• Family wage</li> <li>• Education of children mentioned</li> </ul>

1. Government of Brazil (1988).

2. Republic of India (1949).

3. Republic of Namibia (1998).

4. United Mexican States (1917).

**Table 3: Living wage-related descriptions in major ILO documents, Declarations, and Conventions and Recommendations [bold added for emphasis]**

	Description of living wage	Comments
<b>Constitution, Preamble, 1919</b>	"Whereas <b>universal and lasting peace can be established only if</b> it is based upon social justice; And whereas conditions of labour exist involving such injustice hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperiled; and an improvement of those conditions is urgently required; as, for example, by ... the provision of an <b>adequate living wage.</b> " <sup>1</sup>	<ul style="list-style-type: none"> <li>• Universal and lasting world peace requires adequate living wage</li> <li>• Living wage not defined here [see next entry below]</li> </ul>
<b>Constitution and Rules, October 1921</b>	"The payment to the employed of a wage <b>adequate to maintain a reasonable standard of life that is understood in their time and country.</b> " <sup>2</sup>	<ul style="list-style-type: none"> <li>• Wage "adequate to maintain a reasonable standard of live"</li> <li>• Societal standards apply ("standard of life ... understood in their time and country")</li> </ul>
<b>Philadelphia Declaration concerning the Aims and Purposes of the International Labour Organisation, 1944</b> <sup>3</sup>	"The solemn obligation of the International Labour Organisation to further among the nations of the world programmes which will achieve: policies in regard to ... wages and earnings, hours and other conditions of work calculated to ensure a <b>just share</b> of the fruits of progress to all, and a <b>minimum living wage</b> to all employed and in need of such protection ..." <sup>4</sup>	<ul style="list-style-type: none"> <li>• ILO has solemn obligation to further policies in regard to earnings to ensure just share and minimum living wage</li> <li>• Note that "minimum living wage" used and not "adequate living wage" as in ILO Constitution</li> </ul>
<b>Declaration on Social Justice for a Fair Globalization, 2008</b> <sup>5</sup>	"[P]olicies in regard to wages and earnings, hours and other conditions of work designed to ensure a <b>just share</b> of the fruits of progress to all, and a <b>minimum living wage</b> to all employed and in need of such protection." <sup>6</sup>	<ul style="list-style-type: none"> <li>• Repeats Philadelphia Declaration for policies to ensure just share and minimum living wage</li> </ul>
<b>Resolution No. 30, 1928 [minimum wage setting]</b> <sup>7</sup>	"III. For the purpose of determining the minimum rates of wages to be fixed, the wage-fixing body should in any case take account of the necessity of enabling the workers concerned to <b>maintain a suitable standard of living.</b> For this purpose <b>regard should primarily be had to</b> the rates of wages being paid for similar work in trades where the workers are adequately organised and have concluded effective collective agreements, or, if no such standard of reference is available in the circumstances, to the <b>general level of wages prevailing in the country or in the particular locality.</b> " <sup>8</sup>	<ul style="list-style-type: none"> <li>• Minimum wage should take into account enabling workers to maintain a suitable standard of living</li> <li>• Minimum wage should also take into account general level of wages</li> </ul>
<b>Convention No. 131, Article 3, 1970 [minimum wage setting]</b>	"The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include – (a) the <b>needs</b> of workers and their <b>families</b> , taking into account the general level of wages in the country, the <b>cost of living, social security benefits,</b> and the <b>relative living standards of other social groups;</b> (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment." <sup>9</sup>	<ul style="list-style-type: none"> <li>• Minimum wage should consider needs of workers, general wages and economic factors</li> <li>• Societal standards apply (needs should take into consideration relative living standards of other social groups)</li> <li>• Family wage (consider needs of workers and their families)</li> </ul>

	Description of living wage	Comments
<b>Resolution No. 135, 1970 [minimum wage setting]</b>	"1. Purpose of Minimum Wage Fixing. 1. Minimum wage fixing should constitute one element in a policy designed to <b>overcome poverty</b> and to ensure the satisfaction of the <b>needs</b> of all workers and their <b>families</b> ." <sup>10</sup>	<ul style="list-style-type: none"> <li>• Minimum wage is one element to overcome poverty</li> <li>• Family wage (needs of workers and their families)</li> </ul>
<b>Committee of Experts on the Application of Conventions and Recommendations, 1992 [concerned with minimum wage setting]</b>	<p>"The Committee wishes to recall again that the fundamental and <b>ultimate objective</b> of the instruments in question to ensure to workers a minimum wage that will provide a <b>satisfactory standard of living</b> to them and their <b>families</b>."</p> <p>"The <b>best way of taking the various elements mentioned</b> in the instruments into consideration and according them their due weight is no doubt by <b>compiling the information and statistics</b> referred to in the instruments themselves." <sup>11</sup></p>	<ul style="list-style-type: none"> <li>• Minimum wage's "ultimate objective" to provide "satisfactory standard of living"</li> <li>• Family wage ("satisfactory standard of living to them and their families")</li> <li>• Information and statistics "best way to taking various elements in the instruments into consideration and according them their due weight"</li> </ul>
<b>Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, 2006</b>	"[Wages] should be at least adequate to satisfy basic needs of the workers and their families." <sup>12</sup>	<ul style="list-style-type: none"> <li>• Wages paid by multinationals should "satisfy basic needs"</li> <li>• Family wage ("needs of the workers and their families")</li> </ul>

1. ILO (1919).
2. ILO (1921).
3. First major statement of principles and policies adopted by the International Labour Conference.
4. ILO (1944).
5. Third major statement of principles and policies adopted by the International Labour Conference.
6. ILO (2008).
7. ILO Convention No. 26 (1928) on minimum wages does not discuss how to measure minimum wage; Resolution No. 30 (1928) on minimum wage setting does.
8. ILO (1928).
9. ILO (1970a).
10. ILO (1970b).
11. ILO (1992).
12. ILO (2006).

**Table 4: Acceptance of living wage in principle with reasons for not applying living wage in practice related to measurement of living wage [bold added for emphasis]**

Organization, company or person	Acceptance of living wage in principle	Reasons for not applying living wage in practice related to living wage measurement	Comments
<i>Multinational corporate members of Ethical Trading Initiative (ETI) (which has living wage in its base code)</i>			
Ethical Trading Initiative (ETI) <sup>1</sup>	<p><b>“5. Living wages are paid</b></p> <p>5.1 Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event <b>wages should always be enough to meet basic needs and to provide some discretionary income.</b>” [from The ETI Base Code] <sup>2</sup></p>	<p>ETI Director Dan Rees at time, “The first decade of ethical trade put workers’ rights firmly on the map. ... But although we’re proud of the progress we’ve made. ... We’ve picked all the low-hanging fruit now. It’s <b>time to get radical.</b> ... Practical workshops will stimulate discussion of <b>thorny issues such as how to make a ‘living wage’ a reality for workers.</b>” <sup>3</sup></p> <p><b>“Don’t get bogged down in living wage calculations.</b> Don’t let the challenge of how to calculate a living wage in your sourcing countries distract you from the task of making progress in increasing wages. Remember that <b>in many countries, the minimum wage falls way below any living wage estimations,</b> so there’s usually <b>little danger that workers will be paid too much!</b>” <sup>4</sup></p>	<ul style="list-style-type: none"> <li>• Living wage in ETI base code</li> <li>• ETI includes 60 corporations with 9.4 million workers</li> <li>• Does not require members to pay living wages</li> <li>• Says accurate living wage estimates less important when minimum wage much lower than living wage</li> </ul>
Asda/Walmart (ETI member)	<p>ETI member and is <b>aligned to ETI base code (which includes a living wage)</b> <sup>5</sup></p> <p>[Author’s note: No mention of wages on Asda/Walmart website.]</p>	<p>“Unfortunately there is <b>no clear universal definition of the living wage and therefore the ETI Base Code cannot be applied.</b> I believe that <b>Governments should set their minimum wage</b> at levels that are linked to the country’s cost of living and local requirements.” <sup>5</sup></p>	<ul style="list-style-type: none"> <li>• Says no universal living wage definition</li> <li>• So says living wage cannot be applied</li> <li>• Says government should set minimum wage at living wage level</li> </ul>
Debenhams Retail (ETI member)	<p>“Wages and benefits paid for a standard working week ... <b>should always be enough to meet basic needs and to provide some discretionary income.</b>” (From Corporate Social Responsibility, Supplier Code of Conduct, Article 3.1: Living Wages are Paid) <sup>6</sup></p>	<p>“Debenhams <b>does not audit against a ‘Living Wage’ calculation</b> as we are <b>not aware of an agreed formula that can be applied</b> across the countries we source from.” <sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Says no agreed living wage formula available</li> <li>• So does not audit for living wage</li> </ul>

Organization, company or person	Acceptance of living wage in principle	Reasons for not applying living wage in practice related to living wage measurement	Comments
<b>Gap Inc. (ETI member)</b>	<p>"We are committed to the principle that wages for a standard work week should meet basic needs of factory workers and provide them with discretionary income."<sup>7</sup></p> <p>"Workers shall be paid at least the minimum legal wage or a wage that meets local industry standards, whichever is greater. <b>Factories are encouraged</b> to provide wages and benefits that are <b>sufficient to cover workers' basic needs and some discretionary income.</b>" [From Gap's Code of Vendor Conduct]<sup>8</sup></p>	<p>Gap's website says: "Gap Inc. is committed to the principle that wages and benefits for a standard working week should be sufficient to meet basic needs and to provide some discretionary income ... <b>we continue to work with ETI to determine what is meant by 'basic needs'</b>."<sup>7</sup></p> <p>"Gap completed phase 1 of its wages proposal – research strategy development – and <b>chose to expand the scope of the research</b> from five to seven countries in South and South-East Asia."<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Says need to determine what is meant by basic needs</li> <li>• So does not pay living wage</li> <li>• Doing pilot living wage research</li> </ul>
<b>Marks and Spencer (ETI member)</b>	<p>"We believe that all workers in our supply chains should earn enough money to <b>meet their basic needs</b>, whether they are paid on an hourly basis, piece rate basis or work in the informal sector, such as homeworkers. In addition, their earnings should <b>provide some discretionary income</b>, in line with our Global Sourcing Principles and the ETI base code."<sup>7</sup></p>	<p>"A productivity scheme called Model Ethical Factories was completed in <b>3 factories</b> in Bangladesh."<sup>7</sup></p> <p>"M&amp;S have been <b>working on this programme over several years</b> and although limited to three factories at the moment the impacts of the project are starting to be fed back and it does now seem to have a plan for expansion."<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Does not pay living wage</li> <li>• Working on programmes in select factories</li> </ul>
<b>New Look Retailers (ETI member)</b>	<p>"As ETI members, we endorse the principle of living wages for all workers in our supply chain, including those on piece rate, sub-contracted workers, informal and home workers."<sup>7</sup></p> <p>[Author's note: New Look Retailers <b>Group Code of Business Ethics does not mention wages or living wage.</b>]<sup>9</sup></p>	<p>When asked about a living wage, New Look agreed that there were "<b>many challenges in achieving a minimum wage.</b>"<sup>7</sup></p> <p>"New Look have been working for <b>three years on a project</b> with two factories in Bangladesh aimed at exploring 'how far production efficiency and incentives for workers, together with better worker representation and better access to benefits, could increase wages towards a living wage.'<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Says difficult to pay even minimum wage</li> <li>• Doing pilot living wage research</li> </ul>

Organization, company or person	Acceptance of living wage in principle	Reasons for not applying living wage in practice related to living wage measurement	Comments
<p><b>Next Retail (ETI member)</b></p>	<p>"We at Next continue to communicate our commitment to a living wage in both our code of practice and as an ETI member."<sup>7</sup></p> <p>[Author's note: Next <b>Code of Practice does not mention living wage</b>, but it says "The NEXT Code of Practice is now aligned to the ETI Base Code".)<sup>10</sup></p>	<p>"Achieving compliance to the <b>living wage</b> within our supply base is <b>one of our biggest challenges</b>. At this point in time it is still very <b>difficult to understand the calculation of the living wage</b> in different regions, countries and sectors. We think that we should <b>address this together with our partners in the ETI</b>, believing that a combined approach and effort will be by far the most effective."<sup>7</sup></p> <p>Has undertaken <b>pilot projects and studies</b> in 4 countries on productivity and wages.<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Cites difficulty of calculating living wage</li> <li>• Wants to work with ETI on living wage measurement</li> <li>• Undertaken pilot projects and studies</li> </ul>
<p><b>River Island (ETI member)</b></p>	<p>"We fully support the principle of a <b>living wage</b>."<sup>7</sup></p>	<p>"Although we are <b>not working on a specific project</b> on this, as a member of the ETI we have adopted their base code and we are confident, but not complacent about, the standards and practices of our suppliers."<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Living wage not applied and no activities on living wage</li> </ul>
<p><b>Sainsbury's (ETI member)</b></p>	<p>"Pay will not be lower than that required by local law or, in the absence of law, that paid generally within the industry. <b>Wages should always be enough to meet basic needs and to provide some discretionary income</b>, as well as having regard to what is needed to maintain family life above subsistence level." [From Sainsbury's Code of Conduct for Socially Responsible Sourcing]<sup>11</sup></p>	<p>Sainsbury's Socially Responsible Sourcing Manager told us, "[w]e are very aware that the subject of '<b>Living Wage</b>' is an area of huge debate but we do work towards the aims of our Code of Conduct and the ETI Base Code. ... The key point is that <b>we have to work collaboratively on such issues. Through the ETI</b> we feel we can tackle situations such as this far more effectively than acting unilaterally."<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Living wage seen as controversial</li> <li>• Wants to work with ETI on living wage measurement</li> </ul>
<p><b>Tesco (ETI member)</b></p>	<p>Follows ETI base code (with living wage).<sup>7</sup></p> <p>[Author's note: No mention of wages in Tesco Corporate Code of Conduct.]<sup>12</sup></p>	<p>"As noted by the Clean Up Fashion campaign, among others, there has long been contention about what this attempt to <b>define a 'living wage'</b> means in practice ... The <b>lack of a commonly-understood definition</b> means we don't find it practicable to use the term in day-to-day work. But we agree with the 'consensus' definition set out on the Clean Up Fashion website which states that a living wage should, cover basic needs, include a small amount of discretionary income, and cater for dependents."<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Sees need to define living wage</li> <li>• So says cannot follow living wage code without an agreed definition</li> </ul>

Organization, company or person	Acceptance of living wage in principle	Reasons for not applying living wage in practice related to living wage measurement	Comments
William Lamb Footwear (ETI member)	[Author's note: William Lamb is an ETI member and ETI code includes a living wage. I <b>could not find any code of conduct for William Lamb.</b> ]	“A <b>standard wage is not always a living wage, this we understand</b> but we are in a very competitive market with our customers demanding the lowest possible cost for each item.” <sup>7</sup>	<ul style="list-style-type: none"> <li>• Pays market wage, not living wage</li> <li>• Says living wage not possible because in competitive industry</li> </ul>
<b>Selected other multinational corporations</b>			
Adidas Group	<p>“The Adidas Group believes that wages in our own supply chain should <b>meet basic needs and also provide for reasonable savings and expenditure.</b> ... We therefore share with AFWA [Asian Floor Wage Alliance] a common desire for workers to secure just and favourable remuneration for their labour.”<sup>13</sup></p> <p>“<b>Wages must equal or exceed the minimum wage</b> required by law and legally mandated benefits must be provided. ... Wages are essential for meeting the basic needs of employees and reasonable savings and expenditures.”<sup>14</sup> (Workplace standards: Wages and benefits 2009)</p>	<p>“In the coming months we [Adidas] will engage with AFWA to understand more about their proposals, and to <b>openly debate and discuss the practicalities of translating living wage concepts into a meaningful</b> improvement in the wage conditions for garment workers in Asia.”<sup>13</sup></p> <p>“With the introduction of a floor wage, as proposed by AFWA, total wages would be increased significantly. In the case of Bangladesh the floor wage (calculated on a purchasing power parity basis by AFWA) would demand a six fold increase, compared with the current minimum wage, in Sri Lanka it would be a three-fold increase. This <b>raises an important question about the economic viability of such proposals.</b> Can a garment manufacturer or textile producer remain competitive if they adopt the suggested floor wage?”<sup>13</sup></p>	<ul style="list-style-type: none"> <li>• Supports idea of living wage, but pays minimum wage</li> <li>• Says need to discuss how to measure living wage</li> <li>• Says living wage may not be possible to pay and remain competitive</li> </ul>
Arcadia	“Arcadia Group <b>supports the principle of a living wage.</b> ” <sup>7</sup>	<p>“The <b>difficulty continues to be how to measure it.</b> Until there is a universally agreed alternative, we rely on a solid benchmark specified by the ILO convention, and that is the minimum wage set by law in the appropriate country, or local industry benchmark standards.”<sup>7</sup></p> <p>“In the past twelve months Arcadia Group and Next plc have worked together on a <b>living wages project</b> focused on a shared factory in Bangladesh. ... Workers were also interviewed in their homes and food prices were obtained from a local NGO. Arcadia plan to ‘extend the wage study to other Bangladesh factories’ and ‘continue our efforts over the long-term to achieve sustainable solutions to the findings from this study.’”<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Cites difficulty of measuring living wage and need for universal definition</li> <li>• So pays minimum wage</li> <li>• Pilot living wage study undertaken</li> </ul>



Organization, company or person	Acceptance of living wage in principle	Reasons for not applying living wage in practice related to living wage measurement	Comments
<b>Clarks</b>	"Wages must be sufficient to <b>meet basic need</b> " (Clarks Code of Conduct). <sup>7</sup>	"Our audit process is currently the prime driver in improving wages. ... Audits review both pay and payment systems to ensure all aspects of pay and benefits are <b>compliant with legal minimum</b> . Evidence shows us that many of our suppliers pay above these minimum levels." <sup>7</sup>	<ul style="list-style-type: none"> <li>• Pays at least minimum wage</li> </ul>
<b>John Lewis</b>	"Wages and benefits shall be at least fully comparable with locally benchmarked industry norms or national legal requirements, whichever is higher. <b>Wages shall always be sufficient for basic needs whilst still providing some discretionary income</b> " (from John Lewis' 2009 Code of Practice 2). <sup>15</sup>	In its response, the company admits that, " <b>we recognise that our code sets an aspirational standard</b> and we are keen to work with our suppliers and other stakeholders to <b>identify practical ways of implementing it in the future</b> ". <sup>7</sup>	<ul style="list-style-type: none"> <li>• Living wage seen as aspirational</li> <li>• Waiting for practical living wage measurement</li> </ul>
<b>Laura Ashley</b>	"Laura Ashley believes and <b>endorses the living wage ideal</b> . Wage should meet basic needs and provide some discretionary income." <sup>7</sup>	"Recent audits have shown us that workers earn more than the set minimum wage in many cases. We are <b>now trying to determine [through research]</b> what the gap between these earnings and the living wage should be, and what the implications to our business are." <sup>7</sup>	<ul style="list-style-type: none"> <li>• Doing audits and research on living wage</li> <li>• Says pay often above minimum wage</li> </ul>

Organization, company or person	Acceptance of living wage in principle	Reasons for not applying living wage in practice related to living wage measurement	Comments
<p><b>Levi Strauss</b></p>	<p>"Where a country's legal code specifies legal <b>minimum wages</b> and allowances, factories must be in compliance with the law with respect to all workers, including employees paid on piece rate" (from Levi Strauss Code of Conduct Terms of Engagement Guide Book).<sup>16</sup></p> <p>[Author's note: Levi Strauss <b>Code of Conduct does not mention living wage.</b>)]</p>	<p>When asked about living wages, Levi's told us that, "We do not feel that we have all the information we need to be able to responsibly implement and enforce a living wage requirement in our Code of Conduct. As a matter of policy, <b>we will not add provisions to our Terms Of Engagement that we cannot adequately enforce</b>".<sup>7</sup></p> <p>"Our company code of conduct is completely actionable and we don't want to include something we can't really deliver. We <b>support further work on defining what is a living wage</b>, but at the moment <b>we don't want to include something aspirational in our code</b>."<sup>17</sup></p> <p>"Levi Strauss &amp; Co. believes in the principle that wages and benefits for a standard work week should be sufficient to meet workers' basic needs and provide some discretionary income. Markets set wage rates. Where wages fail to keep workers above the poverty line, <b>governments should set minimum wages</b> consistent with the cost of living, in consultation with representatives of workers and employers."<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Pays minimum wage, not living wage</li> <li>• Points out need to define living wage, so says cannot enforce living wage</li> <li>• Supports idea of research to define living wage</li> <li>• Living wage seen as aspirational</li> <li>• Believes government should set minimum wage at living wage level</li> </ul>
<p><b>Matalan</b></p>	<p>"Matalan fully agrees with and supports the need for workers to be paid a <b>reasonable living wage</b> and continuously monitors the progress made through an ethical audit process."<sup>7</sup></p>	<p>"A <b>programme has started</b> to introduce a wage structure with definite time scales for progression. At the bottom of the scale, the wages must always be <b>at least equal to the local government minimum</b>. ... At the top of the scale, it's not unusual for a production worker to earn in excess of 3 times the government minimum. This has benefits for all parties involved, not only does it give the worker sense of achievement whilst earning a living wage but also serves to provide a long standing skilled workforce."<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Uses minimum wage for bottom of pay scale</li> <li>• Says top of pay scale earns living wage</li> </ul>

Organization, company or person	Acceptance of living wage in principle	Reasons for not applying living wage in practice related to living wage measurement	Comments
Nike		<p>"We believe that a responsibly competitive industry that invests in its workforce will result in sustainable, locally relevant wage increases for workers over the long term. <b>We do not endorse artificial wage targets or increases based on arbitrary living wage definitions.</b> Minimum wages should be determined by negotiations with workers and management through public policy." <sup>18</sup></p>	<ul style="list-style-type: none"> <li>• Living wage definitions seen as arbitrary</li> <li>• Against living wage and "artificial wages"</li> <li>• Minimum wage should be determined by negotiations with workers, government and management</li> </ul>
<b>Others</b>			
Fair Labor Association (FLA) <sup>19</sup>	<p>"Employers recognize that wages are essential to meeting employees' basic needs. Employers shall pay employees, as a floor, at least the minimum wage required by local law or the prevailing industry wage, whichever is higher, and shall provide legally mandated benefits" (from FLA Workplace Code of Conduct). <sup>20</sup></p>	<p>"FLA decided to recognize [in 1999 when it started] the <b>minimum wage rather than living wage until a definition and auditing method was found</b> [for a living wage] – effectively kicking the issue into the long grass. Ten years later, it is still there."</p> <p>"The main problem is how to define the living wage in a consistent way and making sure that it is auditable" (Auret van Heerden, chief executive of FLA). <sup>21</sup></p>	<ul style="list-style-type: none"> <li>• Says living wage definition and auditing method not available</li> <li>• Living wage seen as difficult to define and measure</li> <li>• So uses minimum wage in its code of conduct</li> </ul>
Social Accountability International (SAI)	<p>"The <b>right</b> of personnel to a living wage and ... wages paid for a normal work week shall always meet at least legal or industry minimum standards and shall be sufficient to meet the <b>basic needs</b> of personnel and to provide <b>some discretionary income</b>" (SA8000, 2008 Corporate Code of Conduct). <sup>22</sup></p>	<p>"It [living wage] is a <b>thorny problem</b>. We put forth methodologies in auditor and supplier training for how it should be calculated. ... The important thing is to not fixate on getting it down to one universal number, or to get overwhelmed by the difficulties of calculating it – the key is to start a dialogue about it, involving all stakeholders." <sup>23</sup></p>	<ul style="list-style-type: none"> <li>• Living wage recognized as difficult to measure</li> <li>• Living wage seen as the key to stakeholder dialogue</li> </ul>

Organization, company or person	Acceptance of living wage in principle	Reasons for not applying living wage in practice related to living wage measurement	Comments
<p><b>United States Supreme Court</b></p>	<p>1937 <i>West Coast Hotel v. Parrish</i> majority opinion</p> <p><b>“Denial of a living wage</b> is not only <b>detrimental to their health and well being</b>, but casts a <b>direct burden for their support on the community</b>. What these workers lose in wages the taxpayers are called upon to pay. The bare cost of living must be met. .... The <b>community is not bound to provide what is in effect a subsidy for unconscionable employers.</b>”<sup>24</sup></p>	<p>1923 <i>Adkins v. Children’s Hospital</i> majority opinion</p> <p>“The standard furnished by the statute for guidance to the board is <b>so vague as to be impossible of practical application with any reasonable degree of accuracy</b>. What is sufficient to supply the necessary cost of living for a woman worker and maintain her good health and protect her morals is obviously <b>not a precise or unvarying sum - not even approximately so</b>. ... The law takes account of the necessities of only one party to the contract. It ignores the necessities of the employer by compelling him to pay not less than a certain sum.”<sup>25</sup></p> <p>1937 <i>West Coast Hotel v. Parrish</i> dissenting opinion</p> <p>“The ethical right of every worker, man or woman, to a living wage may be conceded. ... The question presented to the Board [wage required to keep her in health and preserve her morals] <b>cannot be solved by any general formula</b> prescribed by a statutory bureau, since it is not a composite but <b>an individual question to be answered for each individual.</b>”<sup>26</sup></p>	<ul style="list-style-type: none"> <li>• View of living wage changed over time</li> <li>• Majority view in 1923: living wage arbitrary and not definable</li> <li>• Majority view since 1937: less than living wage puts unacceptable burden on society</li> </ul>

1. “The Ethical Trading Initiative (ETI) is a ground-breaking alliance of companies, trade unions and voluntary organizations. We work in partnership to improve the lives of workers across the globe who make or grow consumer goods – everything from tea to T-shirts, from flowers to footballs. Our vision is a world where all workers are free from exploitation and discrimination, and work in conditions of freedom, security and equity. This year our [60] corporate members’ ethical trade activities touched the lives of over 9.4 million workers.” (ETI, 2006).

2. ETI (1998).

3. ETI (2008a).

4. ETI (2008).

5. Labour Behind the Label (2006).

6. Debenhams Retail (2010).

7. Labour Behind the Label (2009).

8. Gap Inc. (unknown year).

9. New Look Retailers (unknown year).

10. Next Retail (unknown year).

11. Sainsbury's (2004).
12. Tesco Corporation (2009).
13. Adidas Group (2009a).
14. Adidas Group (2009b).
15. John Lewis Partnership (2009).
16. Levi Strauss (2010).
17. Butler (2007).
18. Nike (2006).
19. "Fair Labor Association (FLA) is a non-profit organization dedicated to ending sweatshop conditions in factories worldwide" (FLA website, home page, 2011).
20. Fair Labor Association (1998).
21. Chhabara (2009).
22. SAI (2008).
23. Hitchcock (2009).
24. United States Supreme Court (1937b).
25. United States Supreme Court (1923).
26. United States Supreme Court (1937a).

Table 5: Living wage-related descriptions from notable persons from 18<sup>th</sup> to 20<sup>th</sup> centuries [bold added for emphasis]

Person	Description	Comments
<b>Adam Smith, <i>The Wealth of Nations</i>, 1776</b> <sup>1</sup>	“No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged. ... These necessities and conveniences [of life when determining money price of labour] are not only commodities which are indispensably <b>necessary for the support of life</b> , but whatever the <b>custom of the country</b> renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. The Greeks and Romans lived, I suppose, very comfortably, though they had no linen. But in the present time through the greater part of Europe, a credible day-laborer would be <b>ashamed to appear in publick</b> without a linen shirt.” <sup>2</sup>	<ul style="list-style-type: none"> <li>• Pay to allow for indispensable necessities for support of life and whatever custom of country renders it indecent for credible people to be without</li> <li>• &gt; necessities (“not only commodities which are indispensably necessary for the support of life”)</li> <li>• Societal standards apply (whatever the custom of society renders it indecent for credible people to be without)</li> <li>• Family wage (implicitly implied)</li> </ul>
<b>Alfred Marshall, 1890</b> <sup>3</sup>	“The <b>necessaries for the efficiency</b> of an ordinary agricultural or an unskilled town labourer and his family, in England, in his generation, may be said to consist of a well drained dwelling with several rooms, warm clothing, with some changes of underclothing, pure water, a plentiful supply of cereal food, with a moderate allowance for meat and milk, and a little tea, etc., <b>some education</b> and some <b>recreation</b> , and lastly, sufficient <b>freedom for his wife from other work</b> to enable her to perform properly her maternal and her household duties. ... In addition, perhaps, some consumption of <b>alcohol and tobacco</b> , and some indulgence in <b>fashionable dress</b> are in many places so habitual that they may be said to be <b>conventionally necessary</b> , since in order to obtain them the average man and woman will sacrifice some things that are necessary for efficiency.” <sup>4</sup>	<ul style="list-style-type: none"> <li>• Pay “necessaries” for efficiency of worker and his family</li> <li>• &gt; necessities (includes moderate housing, clothes and food, and some education, recreation, “alcohol and tobacco, and some indulgence in fashionable dress”)</li> <li>• Family wage for husband (“freedom for his wife from other work” to enable her to perform her maternal and household duties)</li> <li>• Societal standards apply (conventional necessities)</li> </ul>
<b>John Ryan, 1906</b> <sup>5</sup>	“The amount of remuneration that is sufficient to maintain <b>decently</b> the worker. ... A decent and reasonable life implies the power to exercise one’s primary facilities, supply one’s essential needs and <b>develop one’s personality</b> . ... One of his most essential needs is the <b>permanent love and companionship</b> of a person of the opposite sex.” <sup>6</sup>	<ul style="list-style-type: none"> <li>• Remuneration “to maintain decently the worker”</li> <li>• &gt; necessities (“develop one’s personality”)</li> <li>• Family wage. Only husband works.</li> </ul>
<b>John D. Rockefeller, 1921</b> <sup>7</sup>	“The purpose of industry is quite as much to advance social well-being as material progress. ... Every man is entitled to an opportunity to earn a living, to <b>fair wage</b> , to reasonable hours of work and proper working conditions, to <b>decent home</b> , to <b>opportunity to play, to learn, to worship</b> , and to love, as well as to toil, and that <b>responsibility rests as heavily upon industry as upon government or society</b> , to see that these conditions and opportunities prevail.” <sup>8</sup>	<ul style="list-style-type: none"> <li>• Entitled to “fair wage”</li> <li>• &gt; necessities (decent home; opportunity to play, learn, worship and love)</li> <li>• Employer’s responsibility as heavy as government or society</li> </ul>

Person	Description	Comments
<b>Franklin D. Roosevelt, 1936 and 1933</b> <sup>9</sup>	“Liberty requires opportunity to make a living – a <b>living decent according to the standard of the time</b> , a living which gives man not only enough to live by, but <b>something to live for</b> .” <sup>10</sup> “By a living wage I mean <b>more than a bare subsistence level</b> – I mean wages of a <b>decent living</b> .” <sup>11</sup>	<ul style="list-style-type: none"> <li>• Living wage for “a decent living”</li> <li>• &gt; necessities (“something to live for”, “more than a bare subsistence”)</li> <li>• Societal standards apply (“decent according to the standard of the time”)</li> </ul>
<b>Franklin D. Roosevelt, State of the Union message to Congress, 1944</b> <sup>12</sup>	“We have come to a clear realization that true <b>individual freedom cannot exist without economic security</b> and that ‘necessitous men are not free men’. People who are hungry and out of a job are the stuff of which dictatorships are made. In our day these economic truths have become self-evident. We have accepted, so to speak, a <b>Second Bill of Rights of economic security</b> . Among these are: ... The <b>right to earn enough to provide adequate food, clothing and recreation</b> .” <sup>13</sup>	<ul style="list-style-type: none"> <li>• Right “to earn enough to provide adequate food, clothing and recreation” as part of Second Bill of Rights of economic security</li> <li>• &gt; necessities (includes recreation)</li> <li>• Other rights were useful and remunerative job; decent living for farmers; fair competition for businessmen; decent home; adequate medical care; protection from old age sickness, accidents and unemployment; good education</li> </ul>

1. Adam Smith’s book, *The Wealth of Nations* (1776), is often used to justify capitalism and the value of the invisible hand. Quote in this table shows that Adam Smith was also a so-called “moral economist”, who believed that free enterprise should be fair to workers and workers should receive a decent wage.

2. Smith (1776).

3. Alfred Marshall was one of the most famous economists from the late 19<sup>th</sup> century and early 20<sup>th</sup> century, and one of the fathers of neo-classical economics. His book, *Principles of Economics*, published in 1890, was very influential.

4. Marshall (1890).

5. John Ryan’s book, *A living wage* (1906), was very influential in living wage discussions and campaigns at the beginning of the 20<sup>th</sup> century.

6. Ryan (1906).

7. John D. Rockefeller was one of the most famous industrialists of the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, often referred to as robber barons.

8. Rockefeller (1921).

9. Franklin D. Roosevelt was the American president during the Great Depression in the 1930s, when considerable social legislation was enacted.

10. Roosevelt (1936).

11. Roosevelt (1933).

12. Near the end of the Second World War, President Roosevelt proposed what he called “a Second Bill of Rights of economic security”. He felt that this was necessary because “individual freedom cannot exist without economic security and that ‘necessitous men are not free men’”. His Second Bill of Rights was never enacted into law in the United States, but it became the basis for the United Nations Universal Declaration of Human Rights.

13. Roosevelt (1944).

Table 6: Living wage descriptions from the Catholic Church, 1891-1981 [bold added for emphasis]

Person	Description	Comments
<b>Pope Leo XIII, <i>Rerum Novarum</i> (Encyclical on the conditions of labour), 1891</b>	“Remuneration must be enough to support the wage earner in <b>reasonable and frugal comfort</b> . If through necessity, or fear of a worse evil, the workman accepts harder conditions because an employer or contractor will give him no better, he is the victim of fraud and injustice. ... It is advisable that recourse be had to societies or boards such as We shall mention presently, or to some other mode of safeguarding the interests of the wage-earners; the <b>State</b> being appealed to, should circumstances require, for its sanction and protection.” <sup>1</sup>	<ul style="list-style-type: none"> <li>• Remuneration “must be enough to support wage earner in reasonable and frugal comfort”</li> <li>• &gt; necessities (“reasonable and frugal comfort”)</li> <li>• Family wage (indicated elsewhere)</li> <li>• State should help when remuneration too low</li> </ul>
<b>Pope John XXIII, <i>Mater et Magistra</i>, 1961</b>	“71. We therefore consider it Our duty to reaffirm that the remuneration of work is not something that can be left to the laws of the marketplace; nor should it be a decision left to the will of the more powerful. It must be determined in accordance with justice and equity; which means that workers must be paid a wage which allows them to <b>live a truly human life</b> and to fulfill their <b>family obligations</b> in a worthy manner. Other factors too enter into the assessment of a <b>just wage</b> : namely, the <b>effective contribution which each individual makes to the economic effort</b> , the <b>financial state of the company</b> for which he works, the requirements of the <b>general good of the particular country</b> — having regard especially to the <b>repercussions on the overall employment</b> of the working force in the country as a whole — and finally the requirements of the common good of the universal family of nations of every kind, both large and small.” <sup>2</sup>	<ul style="list-style-type: none"> <li>• Remuneration “to live a truly human life ... in a worthy manner”</li> <li>• &gt; necessities (“live a truly human life”)</li> <li>• Family wage</li> <li>• “Just wage” dependent on “own contribution” and economic conditions (“financial state of the company”, general good of country, repercussions on overall employment)</li> </ul>
<b>Pope John XXIII, <i>Pacem in Terris</i>, 1963</b>	“The amount a worker receives must be sufficient, <b>in proportion to available funds</b> , to allow him and his <b>family</b> a standard of <b>living consistent with human dignity</b> .” <sup>3</sup>	<ul style="list-style-type: none"> <li>• Remuneration “must be sufficient ... for human dignity”</li> <li>• &gt; necessities (sufficient for human dignity)</li> <li>• Family wage</li> <li>• Remuneration dependent on “available funds”</li> </ul>
<b>Pope Paul VI, <i>Gaudium et Spes</i>, 1965</b>	“Remuneration for labor is to be such that that people may be furnished the means to <b>cultivate worthily their material, social, cultural and spiritual life</b> and that of their <b>dependents</b> in view of the functions and <b>productiveness</b> of each one, the <b>conditions of the factory or workshop, and the common good</b> .” <sup>4</sup>	<ul style="list-style-type: none"> <li>• Remuneration “to cultivate ... material, social, cultural and spiritual life”</li> <li>• &gt; necessities (cultivate social, cultural and spiritual life)</li> <li>• Family wage</li> <li>• Remuneration dependent on worker’s “productiveness” and “conditions of the factory ... and the common good”</li> </ul>



Person	Description	Comments
<p><b>Pope John Paul II, <i>Laborem Exercens</i>, 1981</b></p>	<p>“<b>Just remuneration</b> for the work of an adult who is responsible for a family means remuneration which will suffice for establishing and properly maintaining a <b>family</b> and for <b>providing security for its future</b>. Such remuneration can be given either through what is called a <b>family wage</b> – that is, a single salary given to the head of the family for his work, sufficient for the needs of the family <b>without the other spouse having to take up gainful employment outside the home – or through other social measures such as family allowances</b> or grants to mothers devoting themselves exclusively to their families.”<sup>5</sup></p>	<ul style="list-style-type: none"> <li>• Just remuneration for properly maintaining family and providing for future</li> <li>• &gt; necessities (provide security for future)</li> <li>• Family wage with only husband working, or “social measures such as family allowances” if wage not sufficient</li> </ul>

1. Pope Leo XIII (1891).
2. Pope John XXIII (1961).
3. Pope John XXIII (1963).
4. Pope Paul VI (1965).
5. Pope John Paul II (1981).

**Table 7: Whether worker needs considered in setting national minimum wage, by region**

Aspects of worker needs used to help set national minimum wage rate	Developing	Transition economy	High-income and European	Total
"Basic family budget"	5 (all from Latin America)	2	0	7
"Social and economic needs of workers and their families"	9 (with three from Latin America)	1	3	13
"Detailed list of social, material, social, moral or cultural needs of workers and families" ♦	10 (with five from Latin America)	1	6	17
Any of above three rows	16 (with nine from Latin America)	3	7	26
"Some or all elements of Convention No. 131 (especially cost of living or average wages)"	42 (with 11 from Latin America)	1	16	60

Notes: According to the ILO Committee of Experts' report, "an analysis of available information shows that the criteria used in fixing minimum wage rates are in some cases identified in the relevant legislative texts, while in other cases they are determined by governments in the apparent absence of specific legislation". Subsequent paragraphs indicate the aspects of worker needs noted in column 1 with lists of countries that use these. A total of 77 countries are mentioned. Ninety-nine countries have either ratified a relevant minimum wage Convention or provided a response of some type to Committee requests for information. Quotations are from source.

♦ These needs "concern housing, food, education, health, leisure, clothing, hygiene, transport, social security or the practice of sports", according to ILO (1992).

Source: ILO (1992), based on lists of countries mentioned in text in Chapter 4A2: "Criteria related to the needs of workers and their families: Application of criteria".

**Table 8: Descriptions of worker needs in early minimum wage laws in the 19<sup>th</sup> and 20<sup>th</sup> centuries [bold added for emphasis]**

Country or state in the United States	Description	Comments <sup>1</sup>
<b>Australia minimum wage law (first minimum wage law in the world), 1894</b>	“Wage that meets the <b>normal needs</b> of the <b>average employee regarded as a human being living in a civilized society.</b> ” <sup>2</sup>	<ul style="list-style-type: none"> <li>• First minimum wage law</li> <li>• &gt; necessities (normal needs of average employee in civilized society)</li> <li>• Societal standards apply (normal needs in a civilized society)</li> </ul>
<b>Massachusetts minimum wage law (first minimum wage law in the United States), 1912</b> <sup>3</sup>	“Wage adequate to supply the <b>necessary standard of living</b> and to <b>maintain the worker in health.</b> ” <sup>4</sup>	<ul style="list-style-type: none"> <li>• First minimum wage law in the United States</li> <li>• &gt; necessities (See Table 15)</li> <li>• Not a family wage (first minimum wage laws in the United States applied only to women and minors)</li> </ul>
<b>Wisconsin minimum wage law (second minimum wage law in the United States), 1913</b>	“Compensation sufficient [for worker] to maintain himself or herself under conditions consistent with his or her <b>welfare ... reasonable comfort, reasonable physical well-being, decency and moral well-being.</b> ” <sup>5</sup>	<ul style="list-style-type: none"> <li>• Second minimum wage law in the United States</li> <li>• &gt; necessities (“reasonable comfort, reasonable physical well-being, decency and moral well-being”)</li> <li>• Not a family wage (first minimum wage laws in the United States applied only to women and minors)</li> </ul>
<b>Oregon minimum wage law, 1913</b> <sup>6</sup>	<p>“Unlawful to employ women for wages which are inadequate to supply the <b>necessary cost of living and to maintain them [women] in health.</b>”</p> <p>“What is the <b>sum required</b> a week to maintain a woman in frugal but decent conditions of living in Portland? The absolute elements of such decent conditions are: (a) respectable lodging; (b) three meals a day; (c) clothing according to the standard demanded by the position such employee fills; (d) some provisions for recreation, care of the health and self-improvement.” <sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Early minimum wage law in the United States, 1913</li> <li>• &gt; necessities (decent conditions are necessities and some provision for recreation, care of health and self-improvement)</li> <li>• Not a family wage (applied only to women and minors as other early minimum wage laws)</li> <li>• Social standards apply (“clothing according to the standard demanded by the position such employee fills”)</li> </ul>
<b>California minimum wage law, 1913</b>	“Wage adequate to supply the necessary cost of proper living and to maintain the health and welfare.” <sup>4</sup>	<ul style="list-style-type: none"> <li>• Early minimum wage law in the United States, 1913</li> <li>• &gt; necessities (proper living and maintain health and welfare)</li> <li>• Not a family wage (applied only to women and minors as other early minimum wage laws)</li> </ul>

Country or state in the United States	Description	Comments <sup>1</sup>
<b>Minnesota minimum wage law, 1913</b>	“Wages sufficient to maintain health and to supply worker with necessary comforts and conditions of reasonable life.” <sup>4</sup>	<ul style="list-style-type: none"> <li>• Early minimum wage law in the United States, 1913</li> <li>• &gt; necessities (necessary comforts and reasonable life)</li> <li>• Not a family wage (applied only to women and minors as other early minimum wage laws)</li> </ul>
<b>Washington State minimum wage law, 1913</b>	“Wages to be reasonable and not detrimental to health and morals and shall be sufficient to maintain himself or herself under conditions consistent with his or her welfare.” <sup>4</sup>	<ul style="list-style-type: none"> <li>• Early minimum wage law in the United States, 1913</li> <li>• &gt; necessities (“reasonable and not detrimental to health and morals”)</li> <li>• Not a family wage (applied only to women and minors as other early minimum wage laws)</li> </ul>
<b>Colorado minimum wage law, 1913</b>	“Suitable wages in view of living and financial conditions of business and the probable effect therein of an increase of the minimum wage.” <sup>4</sup>	<ul style="list-style-type: none"> <li>• Early minimum wage law in the United States, 1913</li> <li>• Not a family wage (applied only to women and minors as other early minimum wage laws)</li> <li>• Concerned with possible negative effect on employment and wages</li> </ul>
<b>Nebraska minimum wage law, 1913</b>	“Wages of female employee of ordinary ability in view of their needs, the financial condition of the occupation and the probable effect thereof of any increase in the minimum wage.” <sup>4</sup>	<ul style="list-style-type: none"> <li>• Early minimum wage law in the United States, 1913</li> <li>• Not a family wage (applied only to women and minors as other early minimum wage laws)</li> <li>• Concerned with possible negative effect on employment and wages</li> </ul>
<b>United States Fair Labor Standards Act, Congressional Finding and Declaration of Policy, 1938</b>	“Existence of labor conditions detrimental to maintenance of the minimum standard of living <b>necessary for the health, efficiency, and general well-being of workers</b> (1) perpetuates such labor conditions; (2) burdens commerce and the free flow of goods; (3) constitutes an unfair method of competition; (4) leads to labor disputes; and (5) interferes with the fair marketing of goods. ... It is declared the policy of this chapter to correct and as rapidly as practical to eliminate the conditions referred to above <b>without substantially curtailing employment or earning power.</b> ” <sup>8</sup>	<ul style="list-style-type: none"> <li>• First federal minimum wage law in the United States</li> <li>• Maintain “minimum standard of living” for health, efficiency and general well-being of workers</li> <li>• &gt; necessities (“general well-being”, health)</li> <li>• Concerned with possible negative effect on employment and wages</li> </ul>

1. All of the early state minimum wage laws in the United States in this table only applied to women and minors.

2. Stabile (2008).

3. Massachusetts had a separate board for each industry set the minimum wage for the industry, based mainly on worker needs. See Table 15 for details.

4. Mills (1914).

5. Theis (1991).
6. Oregon's minimum wage law established a commission to annually set a minimum wage to ensure that it is sufficient "to supply the necessary cost of living to women workers and maintain them in health".
7. Morris (1930). First quote is from the law; second quote is from the first wage conference under the Act.
8. United States Government (1938).

Table 9: Living wage descriptions for high-income countries [bold added for emphasis]

Organization or person	Description of living wage	Comments <sup>1</sup>
Economic Policy Institute (EPI), 2008	“Pre-tax ( <b>taxes</b> are included as a budget category) annual <b>family</b> income required to maintain a <b>safe</b> but <b>modest</b> standard of living.” <sup>1</sup>	<ul style="list-style-type: none"> <li>• Living wage is income required for safe but modest standard of living</li> <li>• Living wages estimated for 614 communities in the United States</li> <li>• &gt; necessities (“safe but modest standard”)</li> <li>• Family wage</li> <li>• Taxes and tax credits considered</li> </ul>
Center for Women’s Welfare (CWW) and Women for Wider Opportunity (WOW), Self-Sufficiency Standard, 2010 <sup>2</sup>	“The amount of income necessary to meet <b>basic needs (including taxes) without public subsidies or private/informal assistance</b> . ... The family types for which a standard is calculated range from one adult with no children ... up to two-adult families with three teenagers.” <sup>3</sup>	<ul style="list-style-type: none"> <li>• Living wage meets basic needs without assistance</li> <li>• Living wage estimated for 37 American states</li> <li>• = level of basic needs without public or private assistance (but methodology measures basic needs at well above necessities)</li> <li>• Online calculators available for six states and three cities</li> <li>• Family wage</li> </ul>
Bill introduced into 104 <sup>th</sup> Congress, 1996 <sup>4</sup>	“Living wage is defined as <b>not less than</b> the federal <b>poverty line</b> for a <b>family of four</b> .” <sup>5</sup>	<ul style="list-style-type: none"> <li>• Living wage is not less than poverty line, which is more than necessities</li> <li>• For the United States</li> <li>• Family wage (four persons)</li> </ul>
Campus Living Wage Action Coalition, 2009	“A living wage is a <b>decent</b> wage. It affords the earner and her or his <b>family</b> the most basic costs of living without need for government support or poverty programs. A living wage is <i>not</i> a just wage! Since a living wage <b>covers only the very basic necessities</b> and doesn't even account for savings or emergencies.” <sup>6</sup>	<ul style="list-style-type: none"> <li>• Living wage is “a decent wage” without savings</li> <li>• For universities in the United States</li> <li>• Says = “very basic necessities” (but &gt; necessities given how EPA estimates)</li> <li>• Uses EPI’s living wage estimates</li> <li>• Family wage (four persons)</li> </ul>

Organization or person	Description of living wage	Comments <sup>1</sup>
<p><b>Canadian Center for Policy Alternatives (CCPA) for Vancouver and Victoria, 2008</b></p>	<p>“Based on the principle that full-time work should provide <b>families</b> with a <b>basic level of economic security</b>, not keep them in <b>poverty</b>. ... Living wage is an hourly rate of pay that enables a <b>family of two parents and two children</b> with <b>seventy hours</b> of paid employment per week to meet their <b>basic needs</b> and to <b>participate in the civic/social life</b> of their community.” <sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Living wage should provide a basic level of economic security and above poverty</li> <li>• For Canada</li> <li>• &gt; necessities (“participate in the civic and social life”)</li> <li>• Family age (four persons)</li> <li>• Must earn in a 35-hour standard workweek</li> <li>• Two earners per household</li> <li>• Taxes considered (mentioned in text)</li> </ul>
<p><b>ACORN Canada for Ottawa, 2010</b></p>	<p>“A living wage is a level of pay which enables someone working full time to earn enough to meet their <b>basic needs</b> and build some <b>savings</b> for the future.” <sup>8</sup></p>	<ul style="list-style-type: none"> <li>• Living wage meets “basic needs” and builds “savings for the future”</li> <li>• Living wage base on LICO for single person</li> <li>• For Ottawa, Canada</li> <li>• &gt; necessities (save for future)</li> <li>• Must earn during full-time working hours</li> <li>• Mandatory deductions from pay considered</li> </ul>
<p><b>Vibrant Communities Calgary, 2009</b></p>	<p>“A living wage is the amount of income an individual or <b>family</b> needs to: meet <b>basic needs</b>; maintain a <b>safe, decent</b>, standard of living <b>in their community</b>; and <b>save</b> for future needs and goals.” <sup>9</sup></p>	<ul style="list-style-type: none"> <li>• Living wage meets basic needs; maintains safe, decent standard of living; and saves for future</li> <li>• For Calgary, Canada</li> <li>• Voluntary</li> <li>• &gt; necessities (decent standard of living in community)</li> <li>• Family wage</li> <li>• Social standards apply (decent standard of living in community)</li> </ul>

Organization or person	Description of living wage	Comments <sup>1</sup>
<b>Center for Research on Social Policy (CRSP), 2010</b> <sup>10</sup>	<p>“A minimum standard of living in Britain today includes, but is <b>more than just food, clothes and shelter</b>. It is about having what you need in order to have the <b>opportunities and choices necessary to participate in society</b>.” <sup>11</sup></p> <p>“Minimum Income Standard is <b>based on what members of the public think</b>. It is calculated by specifying baskets of goods and services required by different types of household in order to meet these needs and to participate in society.” <sup>12</sup></p>	<ul style="list-style-type: none"> <li>• Living wage is “more than” basic necessities and is about “opportunities and choices necessary to participate in society”</li> <li>• For the United Kingdom</li> <li>• &gt; necessities (includes opportunities to participate in society)</li> <li>• Family wage (see Table 13)</li> <li>• Taxes considered (see Table 13)</li> </ul>
<b>UNISON</b> <sup>13</sup>	<p>“Sufficient income to secure an <b>adequate living standard</b> without being dependent on in-work benefits [also called employment-conditional benefits, mainly tax credits].” <sup>14</sup></p>	<ul style="list-style-type: none"> <li>• Living wage is sufficient for “adequate living standard” without tax credits</li> <li>• For the United Kingdom</li> <li>• Must earn without tax credits</li> </ul>
<b>Scottish Living Wage, 2010</b>	<p>“A living wage is the level of pay which will help workers to be lifted out of poverty. The living wage is the minimum amount needed to provide an <b>adequate standard</b> for a worker and <b>family</b>. ... [B]ased on calculations by the Minimum Income Standard project funded by the Joseph Rowntree Foundation.” <sup>15</sup></p>	<ul style="list-style-type: none"> <li>• Living wage minimum for adequate standard “to be lifted out of poverty” based on CRSP’s Minimum Income Standard</li> <li>• For Scotland</li> <li>• Voluntary</li> <li>• &gt; necessities ( as MIS &gt; necessities)</li> <li>• Family wage</li> <li>• Taxes and tax credits considered</li> </ul>
<b>Greater London Authority, 2009</b>	<p>“To provide a <b>minimum acceptable</b> quality of life ... defined by the Family Budget Unit as a wage that achieves an <b>adequate</b> level of warmth and shelter, a healthy palatable diet, <b>social integration</b> and <b>avoidance of chronic stress</b> for earners and their dependents.” <sup>16</sup></p>	<ul style="list-style-type: none"> <li>• Living wage provides “acceptable quality of life ... defined by Family Budget Unit”</li> <li>• For London</li> <li>• &gt; necessities (includes “social integration and avoidance of chronic stress”)</li> <li>• Family wage</li> <li>• Taxes added</li> </ul>



Organization or person	Description of living wage	Comments <sup>1</sup>
<p><b>Universal Living Wage, 2002</b></p>	<p>“If an employee works a <b>standard number of hours</b>, that employee should, as a result of the work, be able to afford these <b>basic life-sustaining necessities</b> (food, clothing, shelter, access to <b>health care</b>).” <sup>17</sup></p>	<ul style="list-style-type: none"> <li>• Living wage should afford “basic life-sustaining necessities”</li> <li>• Says = basic necessities (but formula used means living wage affords &gt; basic necessities)</li> <li>• Must earn in standard hours</li> <li>• Family wage (mentioned in text)</li> <li>• Taxes added</li> </ul>

1. Lin and Bernstein (2008a).
2. The self-sufficiency standard was developed for Women for Wider Opportunity (WOW). It is now carried out in the Center for Women’s Welfare (CWW) at the University of Washington, where Diana Pearce is director.
3. Center for Women’s Welfare (2010).
4. This Bill was introduced into the 104<sup>th</sup> Congress by Representative Luis Gutierrez (D-IL) and Bruce Vento (D-MN). Similar bills were introduced into the 105<sup>th</sup>, 106<sup>th</sup> and 107<sup>th</sup> Congresses.
5. Whittaker (2005).
6. Living Wage Action Coalition (2007).
7. Richards et al. (2008).
8. ACORN Canada (2010a).
9. Vibrant Communities Calgary (2009).
10. “Minimum Income Standard (MIS) in United Kingdom is an ongoing program of research to define what level of income is needed to allow a minimum acceptable standard of living in the UK today. It is funded by the Joseph Rowntree Foudation. It is carried out by a team at the Center for Research in Social Policy (CRSP) at Loughborough University, having been developed in a partnership between CRSP and the Family Budget Unit at York University” (Minimum Income Standard for the UK website, homepage, 2011).
11. Bradshaw et al. (2008).
12. Hirsch, Davis and Smith (2009).
13. “UNISON is Britain and Europe’s biggest public sector union with more than 1.3 million members” (UNISON website, About Us page, 2011).
14. Littman (2008).
15. Scottish Living Wage (2009) and [www.jrf.uk](http://www.jrf.uk) for Jospeh Rowntree Foundation Minimum Income Standard (MIS). Accessed July 2010.
16. Greater London Authority (2009).
17. Universal Living Wage (2002).

**Table 10: Characteristics of living wage laws in the United States, 2001**

Characteristics of laws mentioned in ACORN table ♦	Per cent	Comments
Based on official government national poverty line	29.1	<ul style="list-style-type: none"> <li>• Many other living wage laws probably based on government poverty line but not noted in ACORN table</li> <li>• “Most common benchmark has been the poverty guideline for a family of four” (noted in text of source)</li> <li>• 16 of 60 set amount at &gt; 100 per cent of government poverty line</li> </ul>
Higher living wage when health care not provided by employer	69.8	<ul style="list-style-type: none"> <li>• Others may have specified higher living wage if no health care provided but was not noted in ACORN table</li> <li>• Median and mode was \$1.25 per hour when dollar amount noted</li> </ul>
Household size	20.9	<ul style="list-style-type: none"> <li>• 16 of the 18 where household size mentioned in ACORN table used four</li> <li>• “Most common benchmark has been family of four” (noted in text of source)</li> </ul>
Paid time-off required	9.3	<ul style="list-style-type: none"> <li>• Two most common were 12 days per year (for vacation) and 22 days per year (12 for vacation and 10 for sickness)</li> </ul>
Living wage in future years set to rise or indexed to CPI	23.3	<ul style="list-style-type: none"> <li>• Two-thirds used indexing</li> </ul>

♦ Other municipalities are likely to have used these characteristics, but this was not mentioned in the ACORN table since there were only brief descriptions of 86 municipal living wage laws. Laws generally applied to workers employed by the municipality or contractors hired by the municipality. Luce (2004) reports 66 per cent for health benefits, 17 per cent for paid days off, 7 per cent for unpaid days off and 63 per cent for wage indexing.

Source: Reynolds (2003).

**Table 11: Living wage descriptions from multinational corporations for developing countries [bold added for emphasis]**

Organization or person	Description of living wage	Comments <sup>1</sup>
<b>Adidas Group, Statement on Asian Floor Wage, 2009</b>	“The Adidas Group believes that wages in our own supply chain should <b>meet basic needs</b> and also provide for reasonable <b>savings</b> and expenditure.” <sup>1</sup>	<ul style="list-style-type: none"> <li>• Wage in supply chain “should meet basic needs” and reasonable savings</li> <li>• &gt; necessities (basic needs and reasonable savings)</li> </ul>
<b>Debanhams Retail, Corporate Social Responsibility Supplier Code of Conduct [Article 3.1 (Living Wages are Paid)]</b>	“Wages and benefits paid for a <b>standard working week</b> ... should always be enough to <b>meet basic needs</b> and to provide <b>some discretionary income</b> .” <sup>2</sup>	<ul style="list-style-type: none"> <li>• Wage “enough to meet basic needs” and some “discretionary income”</li> <li>• &gt; necessities (“provide some discretionary income”)</li> <li>• Must earn in standard workweek</li> <li>• Does not audit against a living wage calculation (see Table 14)</li> </ul>
<b>John Lewis, Code of Practice 2, 2009</b>	“Wages and benefits shall be at least fully comparable with locally benchmarked industry norms or <b>national legal requirements</b> , whichever is higher. <b>Wages shall always be sufficient for basic needs whilst still providing some discretionary income</b> .” <sup>3</sup>	<ul style="list-style-type: none"> <li>• Pay wages “sufficient for basic needs” with some “discretionary income” and at least the minimum wage</li> <li>• &gt; basic needs (“providing some discretionary income”)</li> <li>• ETI member so agrees with living wage</li> </ul>
<b>Gap Inc., Code of Vendor Conduct, 2010</b>	“Workers shall be paid at least the minimum legal wage or a wage that meets local industry standards, whichever is greater. Factories are <b>encouraged to provide wages and benefits that are sufficient to cover workers’ basic needs and some discretionary income</b> .” <sup>4</sup>	<ul style="list-style-type: none"> <li>• Pay at least legal minimum wage</li> <li>• <b>Encourages</b> factories to pay “basic needs and some discretionary income”</li> <li>• ETI member so must agree with living wage goal</li> </ul>
<b>Novartis, Policy on Corporate Citizenship, 2010</b>	“Novartis Policy on Corporate Citizenship pledges to base human resources policies and practices on fairness, openness and mutual respect. We pay competitive and fair wages, which <b>clearly exceed</b> what is needed to cover <b>basic living needs</b> .” <sup>5</sup>	<ul style="list-style-type: none"> <li>• Fair wages “which clearly exceed ... basic living needs”</li> <li>• &gt; necessities (“clearly exceed ... basic living needs”)</li> </ul>
<b>Sainsbury’s Partnership, Code of Conduct for Socially Responsible Sourcing</b>	“Wages and benefits paid for a standard working week ... <b>should always be enough to meet basic needs and to provide some discretionary income</b> .” <sup>6</sup>	<ul style="list-style-type: none"> <li>• Wages “enough to meet basic needs” and provide “discretionary income”</li> <li>• &gt; necessities (provide discretionary income)</li> <li>• Must earn in standard workweek</li> </ul>

Organization or person	Description of living wage	Comments <sup>1</sup>
<b>Starbucks, Coffee and Farmer Equity Practices (CAFÉ), 2007</b>	“Hiring Practices and Employment Policies. Discussion: ... <b>Fair wages</b> are necessary to meet the <b>basic needs</b> of employees. ... Evaluation criteria: Overall compensation for full time and temporary workers <b>meets/exceeds</b> local or national <b>laws</b> .” <sup>7</sup>	<ul style="list-style-type: none"> <li>• Pay “fair wages” to meet basic needs and “meets/exceeds” laws</li> <li>• = basic needs</li> </ul>

1. Adidas Group (2009a).
2. Debenhams Retail (2010).
3. John Lewis Partnership (2009).
4. Gap (no date).
5. Novartis (2006).
6. Sainsbury's (2004).
7. Starbucks Coffee Company (2007).

**Table 12: Living wage descriptions mostly from NGOs for developing countries [bold added for emphasis]**

Organization or person	Description of living wage	Comments <sup>1</sup>
<p><b>Ethical Trading Initiative (ETI) base code, 1998</b> <sup>1</sup></p>	<p>“5. Living wages are paid</p> <p>5.1 Wages and benefits paid for a <b>standard working week</b> meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet <b>basic needs</b> and to provide some <b>discretionary income.</b>”<sup>2</sup></p> <p>“Living wage: A wage that allows a worker to provide for him or herself and <b>family</b>; to buy essential <b>medicines</b>, send children to <b>school</b> and to <b>save</b> for the future.”<sup>3</sup></p>	<ul style="list-style-type: none"> <li>• Living wage should “be enough to meet basic needs and to provide some discretionary income”</li> <li>• &gt; necessities (“provide some discretionary income”; also medicines, school for children and save for future)</li> <li>• Must earn in standard workweek</li> <li>• Family wage</li> </ul>
<p><b>Social Accountability International (SAI), SA8000, 2008</b> <sup>4</sup></p>	<p>SA8000, 2008 Corporate Code of Conduct</p> <p>“The <b>right</b> of personnel to a living wage and ... wages paid for a <b>normal work week</b> shall always meet at least legal or industry minimum standards and shall be sufficient to meet the <b>basic needs</b> of personnel and to provide some <b>discretionary income.</b>”<sup>5</sup></p>	<ul style="list-style-type: none"> <li>• Pay “sufficient to meet the basic needs” and provide “discretionary income”</li> <li>• Living wage considered “right”</li> <li>• &gt; necessities (guidance notes say basic needs include food, clean water, clothes, shelter, transport, education, discretionary income, and legally mandated social benefits which may include health care, medical insurance, unemployment insurance, retirement plan, and so on=</li> <li>• Must earn in normal workweek</li> <li>• Family wage (guidance note says living wage calculated using average family size with both parents working full time)</li> <li>• Average household size in location used</li> </ul>
<p><b>Asian Floor Wage Alliance, 2009</b> <sup>6</sup></p>	<p>“Asian Floor Wage [which is a living wage] is based on income required for a <b>single earner</b> to <b>support a family</b> of four (2 adults and 2 children) by working a <b>legal maximum working week</b> (but no longer than 48 hours), <b>excluding</b> any payment for overtime or other <b>bonuses/allowances.</b> ...</p> <p>“It [Asian Floor Wage] accounts for the cost of a fair amount of <b>food</b> per day, plus other <b>essential living costs</b> such as <b>healthcare</b>, housing, clothing, <b>childcare</b>, transportation, fuel, <b>education</b>, etc.”<sup>7</sup></p>	<ul style="list-style-type: none"> <li>• Living wage is enough for “fair amount of food” plus essential living costs (see next comment)</li> <li>• &gt; necessities (includes “healthcare, housing, clothing, childcare, transportation, fuel, education, etc.”)</li> <li>• Family wage (four persons)</li> <li>• Support provided by one earner in family</li> <li>• Must earn in legal maximum work hours (therefore excludes overtime pay)</li> <li>• Excludes bonuses/allowances as pay when seeing if living wage is paid</li> </ul>

Organization or person	Description of living wage	Comments <sup>1</sup>
<b>Leon H. Sullivan Foundation, Principles, 1998</b> <sup>8</sup>	“Compensate our employees to enable them to meet at least their <b>basic needs</b> and provide the opportunity to improve their skill and capability in order to <b>raise their social and economic opportunities.</b> ” <sup>9</sup>	<ul style="list-style-type: none"> <li>• Pay to meet at least basic needs</li> <li>• &gt; necessities (raise “social and economic opportunities”)</li> </ul>
<b>Fair Wear Foundation (FWF), Code of Labor Practice, 2010</b> <sup>10</sup>	“Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and shall always be sufficient to meet basic needs of workers and their families and to provide discretionary income. Deductions from wages for disciplinary measures shall not be permitted. ... ‘Basic needs’ further include costs like housing (with basic facilities including electricity), nutrition, clothing, healthcare, education, drinking water, child care, transport, and savings.” <sup>11</sup>	<ul style="list-style-type: none"> <li>• Living wage shall “be sufficient to meet basic needs” and “provide discretionary income”</li> <li>• &gt; necessities (“healthcare, education, child care” and “discretionary income”)</li> <li>• Must earn in a standard workweek</li> <li>• Family wage</li> <li>• Uses a wage ladder to graphically indicate relationship between living wage and actual wages by showing range of wages received for different occupations in a factory in vertical bars together with horizontal lines for living wage, legal minimum wage and best practices wage in local industry</li> </ul>
<b>Joint Initiative on Corporate Accountability and Workers Rights (Jo-In)</b> <sup>12</sup>	“Wages and benefits paid for a <b>standard working week</b> shall, as a floor, always comply with all applicable laws, regulations and industry minimum standards and shall be sufficient to meet <b>basic needs</b> of workers and their <b>families</b> and provide some <b>discretionary income.</b> ” <sup>13</sup>	<ul style="list-style-type: none"> <li>• Pay sufficient “to meet basic needs... and provide discretionary income”</li> <li>• &gt; necessities (“provide discretionary income”)</li> <li>• Family wage</li> <li>• Must earn in standard workweek</li> </ul>
<b>Center for Reflection, Education and Action (CREA)</b> <sup>14</sup>	“Wage level meets <b>basic needs</b> [of workers and their <b>families</b> ] including food, clothing, housing, energy, transportation, <b>health care, and education.</b> Ability to participate in <b>culturally required activities</b> (including births and related celebrations, weddings, funerals and related activities). Also allows for the setting aside of small amounts of money ( <b>savings</b> ) to allow planning for the future purchase of items and the meeting of needs.” <sup>15</sup>	<ul style="list-style-type: none"> <li>• Wage “meets basic needs including food, clothing, housing, energy, transportation, health care and education”, and “culturally required activities”</li> <li>• &gt; necessities (health care, education, “culturally required activities”, savings)</li> <li>• Also has other recommended wages: three below and one above its sustainable living wage</li> <li>• Family wage</li> </ul>
<b>SweatFree Communities, 2010</b> <sup>16</sup>	“Non-poverty wages so low they [workers] live in abject poverty unable to provide even the <b>basic necessities</b> for themselves and their <b>families.</b> ... The non-poverty wage levels in this table are conservative estimates that most likely drastically underestimate true living wages especially in developing countries.” <sup>17</sup>	<ul style="list-style-type: none"> <li>• Wage above abject poverty level</li> <li>• = basic necessities</li> <li>• Family wage</li> </ul>

Organization or person	Description of living wage	Comments <sup>1</sup>
<p><b>Worker Rights Consortium (WRC), Model Code of Conduct</b> <sup>18</sup></p>	<p>“A living wage is a ‘<b>take home</b>’ or ‘net’ wage, earned during a country’s <b>legal maximum work week</b>, but not more than 48 hours. A living wage provides for the <b>basic needs</b> (housing, energy, nutrition, clothing, health care, education, potable water, <b>childcare</b>, transportation and <b>savings</b>) of an <b>average family unit</b> of employees in the garment manufacturing employment sector of the country divided by the <b>average number of adult wage earners</b> in the family unit of employees in the garment manufacturing employment sector of the country.” <sup>19</sup></p>	<ul style="list-style-type: none"> <li>• Living wage provides for basic needs level that includes “housing, energy, nutrition, clothing, health care, education, potable water, childcare, transportation and savings”</li> <li>• &gt; necessities (includes health care, education, child care and savings)</li> <li>• Family wage (average family size)</li> <li>• Support provided by “average number of adult wage earners in the family unit”</li> <li>• Living wage based on take-home pay</li> <li>• Must earn in legal maximum workweek</li> </ul>
<p><b>Labour Behind the Label</b> <sup>20</sup></p>	<p>“A living wage is one that enables workers to meet their needs for nutritious food and clean water, shelter, clothes, <b>education, health care</b> and transport, as well as providing a <b>discretionary income</b>. It should be enough to provide for the <b>basic needs</b> of workers and their <b>families</b>, to allow them to <b>participate fully in society and live with dignity</b>. It should take into account the cost of living, social security benefits and the <b>standard of living of others nearby</b>. Finally, it should be based on a <b>standard working week</b>, before overtime, and should apply <b>after any deductions</b>.” <sup>21</sup></p>	<ul style="list-style-type: none"> <li>• Living wage is basic needs “to participate fully in society and live with dignity”</li> <li>• &gt; necessities (participate in society; live with dignity; includes education, health care and discretionary income)</li> <li>• Family wage</li> <li>• Societal standards apply (should take account of “standard of living of others”)</li> <li>• Must earn in standard workweek (therefore excludes overtime pay)</li> <li>• Considers deductions (i.e. take-home pay)</li> </ul>
<p><b>Prasanna and Gowthaman, 2006</b> <sup>22</sup></p>	<p>“Monthly wage that workers and their <b>families</b> need for a <b>decent standard of living</b> in the region(s) where they live. In this context, workers should be able to afford a standard level of nutrition, housing, transportation, energy, <b>healthcare, childcare, education and savings</b> within <b>regulated working hours</b>.”</p> <p>“Wage from an <b>eight hour work</b> that is enough to fulfill <b>basic needs</b> of the worker and dependent <b>family</b> and which recognises hidden costs.” <sup>22</sup></p>	<ul style="list-style-type: none"> <li>• Wage for “decent standard of living” to afford “standard level of nutrition, housing, transportation, energy, healthcare, childcare, education and savings”</li> <li>• “Hidden costs” also included (unpaid overtime, sick leave and vacation; permanently impaired health; expenses for transportation, protective clothing and medical care; costs of sexual harassment and violence)</li> <li>• &gt; necessities (“healthcare, childcare, education and savings”)</li> <li>• Family wage</li> <li>• Must earn in an eight-hour day</li> </ul>

Organization or person	Description of living wage	Comments <sup>1</sup>
<b>Institute for Social and Economic Research, Education and Information, 2003</b> <sup>23</sup>	Adidas defined a “fair wage” to be “The <b>take-home pay and benefits</b> received by a worker during a <b>legal workweek</b> which allow the worker and their immediate <b>family</b> and/or dependents to meet <b>basic needs</b> and <b>save</b> a certain portion for long-term planning and emergencies. Basic needs include food, housing, <b>education, childcare, healthcare</b> , clothing, energy, water and transportation”. <sup>23</sup>	<ul style="list-style-type: none"> <li>• “Fair wage” defined as basic needs that include “food, housing, education, childcare, healthcare, clothing, energy, water and transportation”</li> <li>• &gt; necessities (basic needs include education, child care, health care, transportation and savings)</li> <li>• Family wage</li> <li>• Take-home pay and so consider taxes and deductions</li> <li>• Must earn in legal workweek</li> </ul>
<b>Chandararot and Dannel, 2009</b> <sup>24</sup>	“A living wage is a wage that provides for <b>decent living</b> for a worker and his/her <b>dependants</b> , within <b>regulated working hours</b> (not including overtime) from <b>one income source</b> , and should allow for some <b>savings</b> .” <sup>24</sup>	<ul style="list-style-type: none"> <li>• Living wage “provides for decent living ... and should allow for some savings”</li> <li>• &gt; necessities (includes savings)</li> <li>• Family wage</li> <li>• Support provided by one earner in household</li> <li>• Must earn in regulated working hours, excluding overtime</li> </ul>

1. “The Ethical Trading Initiative (ETI) is a ground-breaking alliance of companies, trade unions and voluntary organisations. We work in partnership to improve the lives of workers across the globe who make or grow consumer goods – everything from tea to T-shirts, from flowers to footballs. Our vision is a world where all workers are free from exploitation and discrimination, and work in conditions of freedom, security and equity. This year our [60] corporate members’ ethical trade activities touched the lives of over 9.4 million workers” (ETI, 2010).

2. Ethical Trading Initiative (1998).

3. Ethical Trading Initiative (2008).

4. “SA8000 standard was developed by SAI and published in 1997. It is probably the first and best known international standard for corporate social responsibility, and is based mostly on ILO Conventions. SAI does not implement SA8000. It trains and accredits private company certification bodies to audit to the SA8000 standard. In 2009, 18 certification bodies were certified by SAI” (Hitchcock, 2009).

5. Social Accountability International (2008).

6. “The Asia Floor Wage Alliance brings together a wide range of labour organisations in Asia and beyond. We have come up with a way of establishing a floor on the race to the bottom and preventing wage competition between Asian garment-exporting countries. We are calling it the ‘Asia Floor Wage Campaign’” (Merk, 2009).

7. Merk (2009).

8. The goal of the Leon H. Sullivan Foundation is “to bring the corporate and government communities together for the economic benefit of all” (Leon H. Sullivan Foundation, 2010).

9. Leon H. Sullivan Foundation (1998).

10. “Fair Wear Foundation (FWF) is an international verification initiative dedicated to enhancing workers’ lives all over the world. Its mission is to improve labour conditions in the garment industry. Fair Wear Foundation works closely with a growing number of companies that produce clothing and other sewn products and that take responsibility for their supply chain” (Fair Wear Foundation, 2010).

11. Fair Wear Foundation (2011).



12. The Joint Initiative on Corporate Accountability and Workers Rights says on its website that it “is the first effort to bring together key organizations [and] different aspects of code implementation and/or enforcement in a program of collaborative work. ... Each of these organizations is involved in the global effort to improve working conditions in global supply chains” (Joint Initiative on Corporate Accountability and Workers Rights, 2010).
13. Joint Initiative on Corporate Accountability and Workers Rights (no date).
14. CREA’s web site says: “Believing that the earth is home to all, CREA facilitates analysis of human, social and economic policies from the perspective of their effects on human lives, beginning with the lives of people who are poor.” (CREA, no date).
15. Center for Reflection, Education and Action (no date).
16. SweatFree Communities, “a campaign of the International Labor Rights Forum, assists sweatshop workers globally in their struggles to improve working conditions and form strong, independent unions” (SweatFree, 2010).
17. SweatFree Communities (2010).
18. The Worker Rights Consortium (WRC) is “an independent labor rights monitoring organization, conducting investigations of working conditions in factories around the globe. Our purpose is to combat sweatshops and protect the rights of workers who sew apparel and make other products sold in the United States. The WRC conducts independent, in-depth investigations; issues public reports on factories producing for major U.S. brands; and aids workers at these factories in their efforts to end labor abuses and defend their workplace rights. The WRC is proud to have the support of over 175 college and university affiliates and our primary focus is the labor practices of factories that make apparel and other goods bearing university logos” (Worker Rights Consortium, 2007a).
19. Worker Rights Consortium (2007b).
20. “Labour Behind the Label coordinates the UK platform of the Clean Clothes Campaign” (Labour Behind the Label, 2010).
21. Hearson and Morser (2007).
22. Prasanna and Gowthaman (2006) is an *ad hoc* study for Sri Lanka prepared for the Apparel Industry Labour Rights Movement (ALaRM), that is “a coalition of Trade Unions and Labour NGOs working for the rights of apparel workers in Sri Lanka”.
23. The Institute for Social and Economic Research, Education and Information (2003) is an *ad hoc* research study for Indonesia prepared for Adidas-Salomon.
24. Chandararot and Dannel (2009) is an *ad hoc* research study in the Cambodia Institute of Development Study, financed by the Friedrich Ebert Stiftung in cooperation with TWARO-ITGLWF.

Table 13: Methodologies used in high-income countries to estimate living wage expressed as a formula

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<i>Original methodologies often used by others to estimate living wage</i>					
<b>Economic Policy Institute (EPI), 2010</b> <sup>1</sup>	[Cost of food, housing, transport, health care, child care, other] + taxes – tax credits / # adults in HH	6 expenditure groups (see column 2) Other ≈ 10% + Taxes - Tax credits	6 household sizes (1 parent with 1, 2 or 3 children; 2 parents with 1, 2 or 3 children) (4 with 2 parents and 2 children baseline assumption)	All adults work full time (2 full-time workers baseline assumption)	<ul style="list-style-type: none"> <li>• Living wage estimated for 614 American communities and six household sizes</li> <li>• Recommended core living wage assumes household size of four with both parents working full time</li> <li>• Online calculator available</li> <li>• Excellent technical documentation</li> <li>• Required data available mostly from government sources</li> <li>• 2,080 hours per year (52 weeks*40 hours per week) used</li> <li>• Cost differences between communities mainly due to differences in costs of housing, child care and taxes</li> <li>• Some expenditure excluded (e.g. restaurants/fast food, vacations, movies and savings)</li> <li>• Living wage similar for household of four with two children when (i) 1.5 full-time workers and no child-care cost, or (ii) two full-time workers and child-care costs</li> <li>• Child care ≈ 20 per cent of total cost</li> <li>• Housing standard is two bedrooms for couple with one or two children, and three bedrooms for couple with three children</li> <li>• Rent for 40<sup>th</sup> percentile in locality used</li> <li>• Taxes and tax credits considered</li> <li>• Example of detailed well-documented methodology with online living wage calculator for many communities and six household sizes that encourages use by others</li> <li>• Methodology dependent though on availability of government data for all expenditures in each community</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<p><b>Center for Women’s Welfare (CWW) and Women for Wider Opportunities (WOW), Self-Sufficiency Standard, 2010</b> <sup>2,3</sup></p>	<p>[Cost of food, housing, transport, health care, child care, other]                      + taxes – tax credits]                      / # adults in HH</p>	<p>6 expenditure groups (see column 2)                      Other (10%)                      + Taxes                      - Tax credits</p>	<p>70 household sizes</p>	<p>All adults work full time</p>	<ul style="list-style-type: none"> <li>• Living wage estimated for 70 household sizes in 39 American states</li> <li>• Online calculator available for six states and three cities</li> <li>• Excellent documentation</li> <li>• Large differences in living wage by community (e.g. \$9.80 per hour in North Bay California Mendocino area and \$16.50 per hour in San Francisco in 2003)</li> <li>• Required data available mostly from government sources</li> <li>• Taxes and tax credits considered</li> <li>• Another example (see EPI above and CRSP below) of detailed well-documented methodology with online living wage calculator for many communities and household sizes that encourages use by others. Methodology dependent though on availability of government data for all expenditures in each community.</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<p><b>Center for Research on Social Policy (CRSP), Minimum Income Standard (MIS), 2010</b> <sup>4, 5</sup></p>	<p>(Cost from MIS for 15 expenditure groups + council taxes) / # adults in HH  (A core living wage recommended; see comments.)</p>	<p>15 expenditure groups  (Food, alcohol, water rates, household insurance, clothing, rent, mortgage, fuel, other household costs, motoring, other travel, child care, household goods, household services, personal goods and services, social and cultural)  + Council tax</p>	<p>9 household sizes  (79% of British households in the 9 household sizes)  (Households of 4 with 2 adults and 2 children core assumption)</p>	<p>All adults work full time  (2 full-time workers core assumption)</p>	<ul style="list-style-type: none"> <li>• Living wage estimated for the United Kingdom for nine household sizes/types (covering 79 per cent of British households)</li> <li>• Recommended core living wage assumes household of four with parents working full time, which is &gt; estimated living wage for 90 per cent of households under consideration</li> <li>• Based on sequential focus group discussions with people who were informed by experts. Budgets from groups were checked by experts. Subsequent groups were then asked to re-evaluate previous opinions. Well done, but difficult to replicate.</li> <li>• Minimum income standard (MIS) cost estimates include items people feel are essential needs</li> <li>• Alcohol and eating out included; tobacco excluded</li> <li>• Housing standard is mid-terrace: two bedrooms for couple with one child, three bedrooms for couple with two children</li> <li>• Excellent technical documentation</li> <li>• Online calculator available for communities in the United Kingdom</li> <li>• Core living wage chosen after asking stakeholders to choose preferred living wage between (i) one-person household; (ii) four-person household (two adults and two children) with child-care costs and parents working full time; (iii) four-person household (two adults and two children) with 1.5 full-time workers and no child-care costs</li> <li>• People rejected family type (i) above because no children and family type (iii) because considered difficult to explain</li> <li>• Living wage when spouse works half-time and no child-care costs almost same as core living wage (1 per cent higher)</li> <li>• Costs vary by locality only from differences in rent, local taxes and child-care costs</li> <li>• Costs updated annually for inflation specific to expenditure basket (2009 inflation was 5 per cent for MIS and 1 per cent for government because different baskets used)</li> <li>• Council taxes considered</li> <li>• Basic assumptions to be updated every eight years</li> <li>• Excellent technical work with online calculator for others to use, but difficult methodology to replicate</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Human Resources Development Canada (HRDC), Market Basic Measure (MBM), 2010</b> <small>6</small>	Cost of food, shelter, clothes, transportation, other + taxes + mandatory payroll deductions	5 expenditure groups Food (20-25%) Shelter (30-40%) Clothes/footwear, 17 items (8-9%) Transportation (8-15%) Other (15-20%) + taxes	20 household sizes (household of 4 core assumption)	Not applicable	<ul style="list-style-type: none"> <li>• Not a living wage: MBM developed by HRDC to measure poverty because low income cut-off line (LICO) (see Appendix B) considered a relative poverty measure</li> <li>• Costs estimated for 48 geographical areas and 20 household sizes</li> <li>• Costs estimated for reference household of four persons (two adults and two children)</li> <li>• Costs for other household sizes (one to four adults with one to five children) estimated using adult-child equivalence scales</li> <li>• Main differences in cost by community are shelter (higher in cities and especially bigger cities) and transportation (lower in cities with public transportation)</li> <li>• Food cost based on “nutritious diet [with 66 food items] consistent with food purchase of ordinary Canadian households”, observed expenditure and local prices</li> <li>• Shelter cost based on cost of utilities plus median rent for two- and three-bedroom units (as is most common size for four-person households)</li> <li>• Other costs estimated using ratio of all other expenditures to expenditures for sum of food, and clothes/footwear observed in second household income decile (ratio is 68.9 per cent currently)</li> <li>• Some expenditure excluded: alcohol, tobacco, eating out, pets, hotels, jewelry, gambling, debt repayment</li> <li>• Child care not considered in costs, but when determining if household is below MBM, child-care expenditure is deducted from income to get disposable income</li> <li>• Taxes and payroll deductions considered to get take-home pay</li> <li>• Example of solid government estimates of costs by geographic areas and household size that others can easily use</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Original methodologies NOT used by others</b>					
<b>Novartis (for OECD countries), 2006</b> <sup>7</sup>	[Food cost for American model diet for adult male * PPP in country x * HH size factor in country x)  / proportion food of total HH expenditure in country x]  / 1.5 workers	Food  Other	Not indicated  (presumably household size is country-specific)	1.5	<ul style="list-style-type: none"> <li>• Living wage estimates for OECD countries</li> <li>• Separate formula used for developing countries (see Table 16)</li> <li>• Poor documentation; methodology not fully developed</li> <li>• Living wage based on cost of American diet, which may be inappropriate for other OECD countries</li> <li>• Living wage estimated by formula sometimes changed by Novartis country affiliates in unknown ways. May help explain why only 93 of 90,000 Novartis workers worldwide had &lt; living wage</li> <li>• Novartis deserves praise for adopting living wage as company policy and developing a formula for measuring living wage</li> </ul>
<b>Universal Living Wage Campaign, 2007</b> <sup>8</sup>	(Cost of typical one-bedroom apartment / .3)  + Taxes (income and payroll)	Housing (30%)  Other (70%)  + Taxes	Not indicated  (1 implied)	Not indicated  (1 implied)  (40-hour workweek used to get living wage per hour)	<ul style="list-style-type: none"> <li>• Living wage proposed for American cities</li> <li>• Formula based on assumed need to keep expenditure for housing to less than 30 per cent of total household expenditure</li> <li>• Online living wage calculator available</li> <li>• Required housing costs available from Housing and Urban Development Department of the American government</li> <li>• Fair market rent for 40<sup>th</sup> or 50<sup>th</sup> percentile used</li> <li>• Taxes added as concerned with disposable income</li> <li>• Suggest replacing housing by largest expense in each country (e.g. food for most developing countries)</li> <li>• Required housing data not available for developing countries: assumption of 30 per cent for housing not generally reasonable for developing countries</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b><i>Derivative methodologies using living cost estimates from an original methodology above</i></b>					
<b>Greater London Authority, Economics Living Wage Unit, 2009</b> <sup>9</sup>	Average of 2 living wage estimates used: (1) Low-cost but acceptable budget in London from Family Budget Unit (housing, transport, child care, other, council tax), and (2) 60% of median household income in London + 15% for contingencies	5 expenditure groups (see column 2) + council taxes + 15% for contingencies (calculated with and without means-tested benefits)	4 household sizes (2 adults + 2 children, 1 adult + 2 children, 2 adults, 1 adult) (weighted average of above 4 household sizes core assumption)	5 number of workers (1 full time, 2 full time, 1 part time, 2 part time, 1 full time + 1 part time) (weighted average of # full-time workers core assumption)	<ul style="list-style-type: none"> <li>• London; voluntary; partly original</li> <li>• Living wages estimated for all relevant combinations of household sizes and number of full-time workers</li> <li>• Good documentation and description</li> <li>• Costs said to represent a “poverty threshold wage”, so increased by 15 per cent “to meet day to day challenges”</li> <li>• Core living wages estimated using weighted average of household size and number of workers for both methods. Final living wage is average of both methods.</li> <li>• Workweek is 38.5 hours</li> <li>• Housing standard is three bedrooms</li> <li>• Child-care cost included when either parent works</li> <li>• Other costs use “regular shopping basket”</li> </ul>
<b>Living Wage Action Coalition</b> <sup>10, 11</sup>	Average of living costs from EPI and WOW	See EPI and WOW above	4 (2 parents + 2 children)	2 full-time workers	<ul style="list-style-type: none"> <li>• Provides information for action on living wage</li> <li>• Suggests using EPI or WOW estimates of living costs (see above)</li> <li>• Sets household size at four and number of full-time workers in household at two to represent typical household</li> <li>• Example of activist group that borrows solid cost estimates from another organization while setting assumptions for household size and number of workers in household</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Municipal living wage laws in the United States</b> <sup>12</sup> <b>(see Table 7)</b>	Most often based on federal poverty line (Living wage generally increased by about \$1.25 per hour when health care not provided by employer)	Not relevant (Federal poverty line estimated by multiplying cost of government Thrifty model diet by 3 on assumption that one-third of household expenditure for food and two-thirds for non-food)	4 most common	1 full-time worker usually	<ul style="list-style-type: none"> <li>Over 140 municipal living wage laws in the United States (see Table 7 for typical characteristics)</li> <li>Living wage set after political bargaining at local level</li> <li>Most municipal living wages based on cost of government's national poverty line reported for many different household sizes</li> <li>Most municipal living wages stipulate higher level when health care not provided</li> <li>Note that government's poverty line widely acknowledged to be too low [e.g. food stamp eligibility uses 130 per cent poverty line (National Academy of Science review in 1997 estimated the poverty line is too low by 25-40 per cent. It has increased since then.); 33 per cent food share assumption too high as based on 1995 expenditure data (percentage for food now 8 per cent excluding eating out); model diet used is 25 per cent less expensive than government's low-cost food plan</li> <li>Municipal living wage set in political atmosphere. Government poverty line provides politically acceptable basis for making living wage, even if poverty line acknowledged as too low, especially as implied living wage still above legal minimum wage. Choosing household size provides flexibility to getting a living wage estimate that is acceptable in local political scene.</li> </ul>
<b>Canadian Center for Policy Alternatives (CCPA), Victoria and Vancouver, 2008</b> <sup>13</sup>	[Government's MBM + (cost of child care, medical, adult education) + value of 2 weeks' pay] / 70 work hours pw	5 expenditure groups in MBM (see above for Human Resources Development Canada's MBM) Plus: medical, child care, adult education + contingency funds	4 (2 adults + 2 children)	70 hours per week	<ul style="list-style-type: none"> <li>Living wage for Vancouver and Victoria, Canada</li> <li>Uses governments Market Basket Measure (MBM), which is similar to a poverty line (see above)</li> <li>MBM calculated by geographic area and household size</li> <li>Example of living wage where living costs based on solid cost estimates from government MBM. Contingency costs added and assumptions on household size and work hours per household made to get a living wage estimate.</li> </ul>



Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>ACORN Canada, Ottawa living wage campaign, 2010</b> <sup>14</sup>	Statistics Canada's LICO for single person + deductions from pay	See Appendix B for description of LICO	1	1 (35 hours per week)	<ul style="list-style-type: none"> <li>• Living wage for Ottawa, Canada</li> <li>• Living costs based on Statistics Canada's low income cut-off measure (LICO) that is estimated for five household sizes and seven community sizes</li> <li>• 35 hours per week used to calculate living wage per hour</li> <li>• LICO equals observed household income when percentage spent for food, clothing and shelter &gt; median percentage observed + 20 percentage points (currently 63 per cent of after-tax dollars) (20 percentage points added to median on rationale that such households are in "straightened circumstances")</li> <li>• Example of living wage estimate where living costs based on solid government LICO cost estimates. Done before and after taxes. Deductions from pay added and assumptions made on household size and number of workers per household to get a living wage.</li> </ul>
<b>Vibrant Communities Calgary, 2009</b> <sup>15, 16</sup>	Statistics Canada's LICO for single person	See Appendix B for description of LICO	1	1 (35 hours per week for 52 weeks per year)	<ul style="list-style-type: none"> <li>• Living wage for Calgary, Canada</li> <li>• See comments above for Ottawa</li> </ul>
<b>Scottish Living Wage, 2009</b> <sup>17</sup>	[(Cost of clothes, accommodation, utilities, fuel, household goods, personal goods and services, transport, and social and cultural activities)  + council taxes + income taxes + national insurance contributions – child and working tax credits and benefits]	9 expenditure groups  Costs from CRSP's Minimum Income Standard (MIS)  + taxes and payroll deductions  - working tax credits	11 household types  (core household size assumption not indicated)	1 full time  (37.5 hours per week)  (assume other household members do child care)	<ul style="list-style-type: none"> <li>• Living wages for Scotland, not city-specific</li> <li>• Living cost based on CRSP's MIS budgets (see above)</li> <li>• Uses one earner in household with no child-care costs on assumption that others in household provide care</li> <li>• Example of living wage which borrows living cost estimates from solid work of another organization</li> </ul>

Notes: LW indicates living wage; PL indicates poverty line; HH indicates household.

1. Lin and Bernstein (2008) and Allegretto and Fungart (2005).
2. The self-sufficiency standard was developed for Women for Wider Opportunities (WOW). It is now carried out in the Center for Women's Welfare (CWW) at the University of Washington, where Diana Pearce is director.
3. Pearce (2006) and Center for Women's Welfare (2010).
4. "Minimum Income Standard (MIS) in United Kingdom is an ongoing program of research to define what level of income is needed to allow a minimum acceptable standard of living in the UK today. It is funded by the Joseph Rowntree Foundation. It is carried out by a team at the Centre for Research in Social Policy (CRSP) at Loughborough University, having been developed in a partnership between CRSP and the Family Budget Unit at York University" (Minimum Income Standard for the UK website, homepage, 2011).
5. Bradshaw et al. (2008) and Hirsch et al. (2009).
6. Human Resources Development Canada (2003). HRDC is a Canadian government department.
7. Novartis (2006).
8. Universal Living Wage (2002).
9. Greater London Authority (2009).
10. "Living Wage Action Coalition is a collective of students and recent grads from campuses across the country that share experiences from their living wage and student-worker solidarity campaigns with new and existing campus campaigns" (Living Wage Action Coalition webpage, 2011).
11. Living Wage Action Coalition (2007).
12. Reynolds (2003).
13. Richards et al. (2008).
14. ACORN Canada (2010).
15. "Vibrant Communities Calgary is a non-profit organization that works collaboratively, with various stakeholders and partners, seeking to engage Calgarians and to advocate for long term strategies that address the root causes of poverty in Calgary" (Vibrant Communities Calgary website, 2011).
16. Vibrant Communities Calgary (2009).
17. Scottish Living Wage (2009).

**Table 14: Basic family budgets in the United States for family of four persons by type of expenditure and location (highest and lowest cost areas in the three largest states)**

Expenditure group	California		Texas		New York	
	<i>Lowest</i> (Visalia-Portland)	<i>Highest</i> (San Francisco)	<i>Lowest</i> (Brownsville-Harlingen)	<i>Highest</i> (Austin-Round Rock)	<i>Lowest</i> (Rural)	<i>Highest</i> (Westchester County)
<b>Food</b>	317 (14.8%)	317 (8.0%)	317 (15.2%)	317 (11.1%)	317 (10.1%)	317 (6.3%)
<b>Housing</b>	612 (28.6%)	1592 (40.2%)	559 (26.8%)	935 (32.6%)	703 (22.3%)	1519 (30.3%)
<b>Child care</b>	557 (26.0%)	557 (14.0%)	477 (22.9%)	477 (16.6%)	626 (19.8%)	923 (18.4%)
<b>Transport</b>	298 (13.9%)	318 (8.0%)	298 (14.3%)	318 (11.1%)	390 (12.4%)	339 (6.8%)
<b>Health care</b>	185 (8.6%)	185 (4.7%)	253 (12.2%)	253 (8.8%)	500 (15.9%)	488 (9.8%)
<b>Other necessities</b>	223 (10.4%)	459 (11.6%)	211 (10.1%)	301 (10.5%)	245 (7.8%)	441 (8.8%)
<b>Taxes</b>	-49 (-2.3%)	536 (13.5%)	-33 (-1.6%)	267 (9.3%)	371 (11.8%)	979 (19.6%)
<b>Total (month)</b>	2,143	3,964	2,082	2,868	3,152	5,007
<b>Total (year)</b>	25,772	47,467	24,987	34,421	37,825	60,086

Notes: 2007 budgets are the latest available as of 12 December 2010.

Source: Economic Policy Institute (2008).

Table 15: Methodologies used to estimate living wage in the United States in the early 20<sup>th</sup> century, expressed as a formula

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Massachusetts , Boards setting minimum wage, 1914- 1927</b> <sup>1,2</sup>	Cost of food, board, clothing, laundry, carfare, medical, church, newspaper/magazine, vacation, recreation, insurance, incidentals, self-improvement  + Savings	Many expenditures (see column 2)  + Savings (2.6% of total)  (Note that food, board and clothing accounted for about 80% of total)	1  (applied only to single working women)	1  (applied only to single working women)	<ul style="list-style-type: none"> <li>• Each year new board created for a new industry. Each board estimated own cost of living for a single woman living away from home. Minimum wage set at approximately cost estimate.</li> <li>• Cost estimates based on variety of <i>ad hoc</i> methods, such as worker questionnaires, special studies and bargaining among board members</li> <li>• Detailed list of costs estimated: food, room and clothing accounted for ≈ 80 per cent of total costs; room and board for ≈ 60 per cent</li> <li>• Savings seen as “reserve for emergency”. Most boards included it (was ≈ 2.6 per cent of total)</li> <li>• Took into account working hours (usually around 50 hours per week)</li> <li>• Successful example of detailed cost approach using <i>ad hoc</i> methods and judgement by group/board. Demonstrated basic nature of living standard supported. Done before household expenditure surveys widely available.</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Works Progress Administration (WPA), 1935</b> <sup>3, 4</sup>	Cost of food, clothing, housing (rent, electricity, cooking fuel, heating fuel), personal care, medical care, school, transportation, recreation, membership in organizations, insurance, other + taxes	Many expenditures (see column 2) Food (35.6%) Clothing (12.6%) Housing (25.5%) Household furnishings and equipment (2.5%) Remainder (23.9%) + Taxes	4 (parents with boy age 13 and girl age 8)	1 (average of 110 hours per month; maximum of 140 allowed)	<ul style="list-style-type: none"> <li>• WPA provided mostly unskilled work (70 per cent) during the Great Depression in the 1930s. Approximately 7 million at one time or another in the programme.</li> <li>• Two budgets established (“basic maintenance” and “emergency level” that was 28 per cent &lt; than basic maintenance budget)</li> <li>• Detailed list of items included in budgets. Budgets estimated for 59 cities &gt; 25,000 using prices workers pay.</li> <li>• Food was “adequate diet at minimum cost”</li> <li>• Housing standard was “safe construction, fair state of repair, running water, sanitary disposal of waste, at least one window in each room, and not more than one person per room”</li> <li>• Allowed for 12 haircuts for men and six haircuts for women per year; detailed list of clothes; detailed list of household supplies</li> <li>• Transport was public.</li> <li>• Medical was 4.1 per cent of budget; life insurance was 3.7 per cent of budget</li> <li>• WPA wage rates set for four skill levels in five city size groups in four regions. Hourly pay rate set at roughly prevailing wage rate.</li> <li>• Hours of work per month limited “to permit worker to earn his security wage” considering job allowed for only one person per household</li> <li>• Average monthly pay for unskilled approximately 60 per cent of maintenance level cost for family of four</li> <li>• Successful example of detailed cost approach. Demonstrated basic nature of living standard.</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
Ryan, 1906 <sup>5</sup>	1.08* (Cost for household of food, clothing, shelter, household furnishings, alcohol, tobacco, mental and spiritual needs such as recreation, vacation, education, reading material, membership in organizations, charity and religion)  + other costs + taxes + protection from accidents, sickness and old age	Many expenditure groups (see column 2)  + 8% (added to account for lost time because work often not available for usual 310 workdays per year in 1906)  (Food: 39%)  (Housing: 20%)  (Clothing: 18%)	2 + average # children of workers at end of childbearing (5 in 1906)  (would be 4 now)	1  (1 male worker in household)	<ul style="list-style-type: none"> <li>Living standard included food (detailed diet “sufficient in quantity and quality to maintain in a normal condition of health and vitality”); detailed list of clothing (for “protection against climate and reasonable comfort” and for social occasions “to appear among their fellows without hurt to self-respect”); shelter (heat, lighting, drainage, two rooms plus bedroom for parents and separate bedrooms for male and female children); organization costs included unions and church; protection included insurance (as before government support programmes widely available)</li> <li>Cost of alcohol and tobacco included. Felt necessities would suffer if these were excluded, as some would be consumed anyway and so put family below basic living standard level</li> <li>One earner in household because Ryan believed in a male family wage (with no work by wife, or children as before child labour law)</li> <li>Household size = five as three children normal at that time</li> <li>Took into consideration inability to always find work by adding 8 per cent for this</li> <li>Example of persuasively argued study where living standard based on detailed list of expenditures at basic level</li> <li>Living wage estimate set at a basic living standard to deflect argument that living wage too generous</li> </ul>

1. Massachusetts' minimum wage law in 1914 was the first minimum wage law in the United States. The minimum wage was set for an industry by a separate board for each industry. Boards based their minimum wage mainly on their estimate of “the necessary cost of living and to maintain the worker in health”. In the first five years (1914-1918), minimum wage was about 90 per cent of estimated living cost on average. From 1919 -1927 (latest information provided in 1927 publication), minimum wage was about 98% of estimated living cost on average, and equal to estimated living cost for 13 of the 19 industry minimum wages set in this period.

2. National Industrial Conference Board (1927).

3. The Works Progress Administration (WPA) was created in 1935 by executive order. The National Planning Board (renamed in 1939 to National Resources Planning Board) was “responsible for the honest, efficient, speedy, and coordinated execution of the Works Program as a whole, and for the execution of that program in such a manner as to move from the relief rolls to work on such projects or in private employment, the maximum number of persons in the shortest time possible”. By 1939, “about 7 million individuals, at one time or another” had been in the programme (Harrington, 1939).

4. National Resources Planning Board (1942), with Harrington (1939) and National Emergency Council (1936).

5. Father John Ryan's book, *A living wage*, was very influential in living wage discussions and campaigns at the beginning of the 20<sup>th</sup> century.

**Table 16: Methodologies used for developing countries to estimate living wage, expressed as formula**

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<i>Country-specific data used to estimate living wage</i>					
<b>Social Accountability International (SAI), SA8000 corporate code of conduct, 2004</b> 1,2	[Food cost per person * average HH size  / proportion food of total HH expenditure]  / 2 full-time workers in HH  + 10% for savings	2 expenditure groups  Food (location- or country-specific %)  Non-food (100% - %food)  + Savings (10% added)	Average household size (estimated for each locality)	2	<ul style="list-style-type: none"> <li>• SA8000 often considered gold standard for CSR</li> <li>• Living wage estimated for a locality by SAI certified auditors</li> <li>• Living wage estimate can differ by auditor because each uses own model diet, food cost and food share of household expenditure. SAI attempts to reduce differences by auditor in a locality through training and oversight.</li> <li>• Food costs based on model diet with 2,100 calories per person, which is reasonable. No suggestion on composition of diet.</li> <li>• Other needs/costs mentioned include clean water, clothes, shelter, transport, education and discretionary income. But not known if non-food basic needs are met because estimated amount based on food cost and Engel's law.</li> <li>• Concerned with take-home pay and therefore cost of legally mandated social benefits considered (e.g. health care, retirement and unemployment insurance)</li> <li>• Use of average household size can mean many households receive less than a living wage, because average greatly influenced by frequency of single-person households, for example</li> <li>• Living wage must be earned in normal working hours</li> <li>• Inability to always find full-time work not considered</li> <li>• Qualitative analysis and inputs from workers, worker rights groups and unions also considered</li> <li>• SAI should be commended for including living wage in SA8000. Measuring living wage locally and use of simple, clear living wage formula are also commendable. Problems include lack of transparency as to diet, percentage of food, household size and possible differences between auditors.</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Asian Floor Wage Alliance (AFWA), 2009</b> <small>3,4</small>	(Food cost per adult*3 adult equivalent consumers)  / .50 for proportion of HH expenditure for food  Separate LW estimate for 7 Asian countries. Each value then expressed in purchasing power parity. Average of the 7 LWs in PPP calculated and then slightly adjusted to arrive at an Asian Floor Wage.	2 expenditure groups  Food (50%)  Non-food (100% - %food = 50%)	4  (2 adults and 2 children)  (Note: 3 adult equivalent consumers = 4 persons)	1	<ul style="list-style-type: none"> <li>• Important new initiative on living wage with some emphasis on how to estimate living wage. Has reinvigorated interest in living wage.</li> <li>• For major garment exporting countries in Asia</li> <li>• Excellent presentation and discussion and clear formula for calculating living wage</li> <li>• Model diet used to estimate food costs. Diets not reported.</li> <li>• Model diet uses 3,000 calories per adult equivalent which might be slightly too high. Equals 2,250 calories per person for four-person household. Would be better if calories were expressed per person.</li> <li>• Non-food costs estimated using Engel's law and assumption that food share of household expenditure is 50 per cent</li> <li>• One regional living wage in 2005 PPP estimated and used for all Asian countries. Average of living wages for seven countries adjusted to 475 PPP based on internal discussions.</li> <li>• One living wage in PPP for Asia is not consistent with living wage principle that living wage should differ by development level of country</li> <li>• Living wage must be earned in legal hours and at most 48 hours</li> <li>• Inability to always find full-time work not considered</li> <li>• AFWA should be commended for excellent discussion on need for living wage and helping rekindle interest in living wage. How country living wages were estimated could have been more transparent, and use of one living wage in real terms for all countries and localities in Asia questionable. On the other hand, AFWA avoids possible race to bottom via competition between countries in highly competitive garment industry.</li> </ul>



Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Institute of Labour Science and Social Policy and World Bank, Minimum wage-setting technical report, 2007</b> <sup>5, 6</sup>	1.7* (Cost of food + non-food at BN level per adult)  [1.7* used because each worker responsible for one child whose calorie needs assumed to be .7 of an adult's]	2 expenditure groups Food (≈ 45%) Non-food (≈ 55%)	Every worker supports 1 child  (implies household of 4)	Every adult works full time  (implies 2 full-time workers per household of 4)	<ul style="list-style-type: none"> <li>• Example of a serious input into government minimum wage setting. Methodology and details in unpublished report.</li> <li>• Basic living standards for four regions determined based on observed consumption in a national income and expenditure survey. (Note: percentage spent for food ranged from 32.4 per cent in Hanoi and HCMC to 43.8-49.4 per cent in three other regions.)</li> <li>• Model diet set at observed food consumption of households in income quintile where required calories per person reached (second quintile). Cost of diet estimated using observed food prices. (Note: alcohol included, which is 3.3 per cent of food expenditure.)</li> <li>• Calories per day set at 2,300 for adults and 1,600 for children aged 4 to 6</li> <li>• Non-food costs set at observed level for households in second household income quintile (i.e. quintile with required number of calories per person). Not clear if costs set based on per adult or per person basis.</li> <li>• Possible problem having diet and non-food costs based on observed spending as may not meet basic needs</li> <li>• Example of reasonably well-done estimate of worker needs as input to national minimum wage setting</li> <li>• Example of how household expenditure survey and reported consumption can be used to determine basic living standard level. How reasonable this standard is depends on quality of data and how many households living at an acceptable level.</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Anker, 2005 and 2006</b> <small>7</small>	[(Cost of model diet per person / food share of HH expenditure) * HH size] / # full-time workers per couple + 10% for emergencies	2 expenditure groups Food (percentage varies with level of development) Non-food (100% - %food) + Emergencies (10%)	4 & Average completed family size for couples (used to estimate range of living wage estimates) (core value is 2 + completed family size)	1 & Average number of full-time workers per couple (used to estimate range of living wage estimates) (core value is average number of full-time workers per couple)	<ul style="list-style-type: none"> <li>• Comparable living wages estimated for countries at all income levels</li> <li>• National model diets used to estimate food costs. Diets vary with development (e.g. percentage of calories from proteins increases and from carbohydrates decreases with development). Consumption of pulse/beans, potatoes and cereals determined using FAO data on national food consumption.</li> <li>• Model diet is low cost; includes 11 food items; includes acceptable number of calories, proteins, fats and carbohydrates according to WHO recommendations; and consistent with national food preferences</li> <li>• Cost of model diet estimated using national food prices from ILO October Inquiry</li> <li>• Food share of household expenditure varies by development level (with Engel's law)</li> <li>• Model diet indicated partly to show what living wage can buy</li> <li>• Data required available online</li> <li>• Average number of full-time equivalent workers estimated using labour force participation rates by age and sex, part-time work rate and unemployment rate, and so inability to always find work</li> <li>• Average completed family size equals two plus total fertility rate</li> <li>• Recent paper on Engel's law <sup>8</sup> shows that reported national average food share of household expenditure significantly varies with log of GDP per capita in PPP as well as with income distribution, population age distribution, food prices, and extent to which countries subsidize or provide goods and services. Also shows that reported national food share is sensitive to how countries measure food expenditure (e.g. whether eating out, alcohol and tobacco included in food) and non-food expenditure (whether expenditure for housing and other goods realistic). Implies uncritical use of Engel's law can be problematic.</li> <li>• Methodology demonstrates that approximate national living wages can be estimated quickly using available online information. Transparency and use of range of living wage estimates useful. Problems include dependence on available online data and inability to estimate living wage by localities within countries.</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>World of Good Development Organization, 2010</b> <sup>9,10</sup>	Cost of housing, food, electricity, cooking fuel, transport, medical, school, clothes	8 expenditure groups (see column 2)	Not indicated (probably 1)	Not indicated (probably 1)	<ul style="list-style-type: none"> <li>• Costs based on self-entry on web of living costs by unknown persons. Living wage estimates therefore based on unrepresentative data and unknown expenditures.</li> <li>• Housing standard is two-bedroom house or apartment</li> <li>• Some necessary expenditure excluded</li> <li>• Online living wage estimates available for most countries. Some strange values.</li> <li>• World of Good purchased by ebay to help sell products</li> <li>• Overly simplistic methodology (e.g. too few items included), based on unknown and unrepresentative self-reporting, and intended mainly for commercial purposes</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b><i>Living costs from another country used to estimate living wage</i></b>					
<b>Novartis, 2009</b> <sup>11</sup>	<p>[(Cost in urban Mexico for average person for food, housing, clothing, education, child care and education, transportation, health care, other)</p> <p>* (4 in HH)</p> <p>/ 1.33 full-time workers in HH]</p> <p>* (PPP in country x/PPP in Mexico)</p> <p>+ 5% for savings</p>	<p>7 expenditure groups (see column 2)</p> <p>Food (27.3%)</p> <p>Housing (27.3%)</p> <p>Clothes (6.2%)</p> <p>Child care and education (2.1%)</p> <p>Transport (11.3%)</p> <p>Health (2.5%)</p> <p>Other (23.4%)</p> <p>+ Savings (5%)</p>	<p>4</p> <p>(2 adults and 2 children used, since this is most common HH size in Mexico)</p>	<p>1.33</p> <p>(each parent assumed to work two-thirds time to allow time for child care and household work)</p>	<ul style="list-style-type: none"> <li>• Living wages estimated for developing countries (see Table 13 for separate Novartis methodology for high-income countries)</li> <li>• Living wage estimates based on formula have not been reported</li> <li>• Formula anchored on living wage estimate for urban Mexico. Although excellent study, it is only one unpublished study and not referenced in Novartis documents.</li> <li>• Use of ratio of PPP for country x to Mexico PPP implies one living wage in real terms for all developing countries. Against living wage principle that living wage changes with development.</li> <li>• Urban Mexico not representative of developing countries (e.g. 27 per cent of household expenditure for food in Mexico, which is too low for many developing countries)</li> <li>• Mexico parameters drawn from 2000 household survey (similar to above Vietnam study). Food and non-food costs are median expenditures of households with between plus and minus 5 per cent of required calories per adult equivalent (2,082), which is reasonable. Diet and non-food basket used are not indicated.</li> <li>• Adult equivalents scales used: four persons equal to 3.83 adult equivalents for food expenditure and 2.7 adult equivalents for non-food expenditure</li> <li>• Living wage estimate based on formula sometimes changed by Novartis country affiliates said to "understand local conditions". May explain why only 93 of approximately 90,000 Novartis workers worldwide earned less than the living wage estimate.</li> <li>• Workweek assumed to be 48 hours</li> <li>• Methodology for Mexico baseline has interesting elements, such as assumption parents work two-thirds time to allow time for child care and household work, and different adult equivalents scales for food and non-food</li> <li>• Novartis should be commended for paying living wage to its workers and developing a formula to estimate living wage for all countries, even if methodology is too simplistic and uses same real living wage for all countries, counter to principle that living wages should differ by development level</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<p><b>SweatFree Communities, 2010</b> <sup>12, 13</sup></p>	<p>(1.2 * PL in USA for HH with 1 adult and 2 children)</p> <p>*(GDP per capita in PPP in country x)/(GDP per capita in PPP in USA)</p> <p>2080 hours per year (52 wks*40 hours) used to calculate LW per hour</p> <p>LW per hour reduced by \$1.55 PPP when employer provides health care</p>	<p>Not relevant</p> <p>(Note that United States PL based on 2 expenditure groups: food and non-food)</p>	<p>3</p> <p>(1 adult and 2 children)</p>	<p>1</p>	<ul style="list-style-type: none"> <li>• Living wage estimated for all countries; called non-poverty wage</li> <li>• Clear formula, but living standard implied in country x not known. National living wage estimates are sometimes strange.</li> <li>• Data needed available online for all countries from World Bank and/or CIA</li> <li>• American poverty line multiplied by 1.2 to account for acknowledged low value of American poverty line for the United States: still too low for the United States even after 20 per cent increase</li> <li>• GDP per capita in PPP relative to United States often inappropriate scalar (e.g. PPP not representative of living costs of poor; effect of income distribution on GDP per capita ignored; differences often not proportional to GDP per capita in PPP)</li> <li>• Methodology too simplistic for all countries and sometimes produces strange living wage estimates. Use of the United States for base not appropriate for developing countries.</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b><i>Factory-specific studies and data used to estimate living wage</i></b>					
<b>Chandararot and Dannel, 2009</b> <sup>14</sup>	[BN of worker + (BNs per person in rural * HH size in rural)] / # earners in HH	Not indicated	4 for urban (not indicated for rural) (4 is average HH size observed in factory HHs)	1 & 2 (2 is average number of workers observed in factory HHs) (used to estimate range of LW estimates)	<ul style="list-style-type: none"> <li>• Living wage estimated for one Cambodia factory with mostly single migrant women workers</li> <li>• Questionable for living wage estimate to be so factory-specific</li> <li>• Worker assumed to be responsible for family in rural (where living costs assumed to be lower)</li> <li>• Range of living wage estimates made using (i) average expenditure in survey of 343 workers and average expenditure from 2004 National Income Survey; (ii) for one and two workers in household</li> <li>• Possible problem is that reported expenditure of workers used might not represent decent living standard</li> <li>• Inability to always find full-time work not considered</li> <li>• Methodology too factory-specific, but some ideas are different and useful, such as estimating range of living wages; adding cost of supporting family in rural area, as this is common expense in developing countries; assuming rural costs less than urban costs; and using data from two sources</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Prasanna and Gowthaman, 2006</b> <sup>15</sup>	Two formulas used: (A) [(Cost of food per person + cost of non-food items per person) * 1.1 for underreporting of expenditures * 1.25 for consumer-durables and savings] * average HH size / average number of workers in HH  (B) [(Cost of food + cost of non-food items per person) * 1.1 * 1.25] + fixed amount for support worker's family	Non-food costs estimated separately for clothing, housing, personal care, medical, fuel and electricity, education, transportation, communication, other	For (A): Average HH size of women apparel workers surveyed  For (B): 1	For (A): Average number of workers in HHs of women apparel workers surveyed  For (B): 1	<ul style="list-style-type: none"> <li>• Costs, household size and number of workers in household based on survey data for approximately 700 women apparel workers in Sri Lanka</li> <li>• Questionable for living wage estimates to be so factory-specific</li> <li>• Reported expenditures increased by 10 per cent because workers' responses believed too low; another 25 per cent added for consumer durable expenditure and savings</li> <li>• Other costs include contributions to others, such as parents</li> <li>• Two living wage estimates: formula (A) uses cost per person, average household size and average number of workers in households observed; while formula (B) assumes household size of one and adds fixed amount to cover costs for workers' family</li> <li>• Inability to always find full-time work not considered</li> <li>• Methodology too factory-specific and based on suspect quality survey data, but some useful ideas, such as estimation of range of living wages and support of family in rural areas, as this is common expense in developing countries</li> </ul>

Organization/person	Formula/method	Expenditures included	Household size (assumed)	Number of full-time workers in household (assumed)	Comments
<b>Institute for Social and Economic Research, Education and Information, 2003</b> <sup>16</sup>	BNs of single urban worker + (.15 * BNs of dependent in rural * # dependents in rural) + 15% for discretionary spending	BNs (details not indicated, but workers reported 155 expenditure items) + Discretionary spending (15%)	2.5 for urban (not indicated for rural) (Average HH size in rural and urban based on survey of factory workers)	1 & 1.4 (1.4 is average # workers in surveyed worker HHs) (used to estimate range of LW estimates)	<ul style="list-style-type: none"> <li>• Living wage estimated based on survey data for 1,140 workers and seven focus group discussions in four Indonesian factories</li> <li>• Workers were 70 per cent migrant, 76 per cent aged 20 to 29, 89 per cent female</li> <li>• Questionable for living wage estimate to be so factory-specific</li> <li>• Workers assumed to be single and living in urban area with dependents in rural, where living costs lower</li> <li>• Basic needs determined in part using workers' perceived needs</li> <li>• Basic needs cost for rural is less than urban (and 15 per cent of worker's basic needs cost)</li> <li>• 40 per cent for food, 16 per cent for housing and 8 per cent for clothing</li> <li>• Average household size and average number of workers in household based on survey data from factory workers</li> <li>• Inability to always find full-time work not considered</li> <li>• Methodology too factory-specific but useful ideas, such as considering need to support dependents in rural areas and estimation of more than one living wage</li> </ul>

1. "SA8000 standard was developed by SAI and published in 1997. It is probably the first and best known international standard for corporate social responsibility, and is based mostly on ILO Conventions. SAI does not implement SA8000. It trains and accredits private company certification bodies to audit to the SA8000 standard. In 2009, 18 certification bodies were certified by SAI" (Hitchcock, 2009).

2. Social Accountability International (2004).

3. "The Asia Floor Wage Alliance brings together a wide range of labour organizations in Asia and beyond. We have come up with a way of establishing a floor on the race to the bottom and preventing wage competition between Asian garment-exporting countries. We are calling it the 'Asia Floor Wage Campaign'" (Merk, 2009).

4. Merk (2009).

5. The Institute of Labour Science and Social Affairs, with assistance from the World Bank, estimated needs of workers and a decent wage as an input to government's minimum wage-setting exercise.

6. Institute of Labour Science and Social Affairs and World Bank (2007).

7. Anker (2005 and 2006a) describe a detailed methodology to estimate internationally comparable living wage rates. See also Anker (2006b).

8. Anker (2011).

9. "World of Good Development Organization is a 501(c)(3) non-profit organization focused on building strategies to substantially improve economic and social conditions for millions of women and adolescent girls in the developing world living on less than \$2 a day" (World of Good, 2010b).

10. World of Good Development Organization (2010b).



11. Novartis (2006). Mexico parameters were estimated by Brenner (2004).
12. "SweatFree Communities, a campaign of the International Labor Rights Forum, assists sweatshop workers globally in their struggles to improve working conditions and form strong, independent unions" (SweatFree Communities, 2010).
13. SweatFree Communities (2010).
14. Chandarot and Dannel (2009) is an *ad hoc* research study by the Cambodia Institute of Development Study, financed by the Friedrich Ebert Stiftung in cooperation with TWARO-ITGLWF.
15. Prasanna and Gowthaman (2006) is an *ad hoc* research study for Sri Lanka, prepared for the Apparel Industry Labour Rights Movement (ALaRM), "a coalition of Trade Unions and Labour NGOs working for the rights of apparel workers in Sri Lanka".
16. The Indonesian Institute for Social and Economic Research, Education and Information (2003) is an *ad hoc* research study for Indonesia, prepared for Adidas-Salomon.

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## Appendix B: Detailed description and discussion of two original government methodologies to measure basic acceptable living standards in Canada

Two original methodologies from Canada included in Table 13 are discussed in detail in this appendix, because they provide useful insights into how to estimate basic living costs for developing countries. Low income cut-off (LICO) is “Statistics Canada’s [government’s statistical office] most established and widely recognized approach to estimating low income cut-off” (Statistics Canada, 2007). It is similar to a poverty line. Market basket measure (MBM) is a newer tool developed by the Canadian government’s Human Resources Development Canada (HRDC) to measure low income in Canada. Although neither Canadian methodology estimates a living wage, both are relevant for this paper, since they estimate the cost of a basic acceptable living standard. MBM is especially relevant for estimating living wage in developing countries. It is recent and therefore based on current knowledge. It was developed by a government with an excellent reputation for statistical development. It is well-documented and transparent. It is relatively simple for a high income country, since it estimates living costs for only five expenditure groups.

LICO is estimated based on expenditure for the three necessities of life: food, shelter and clothing. Statistics Canada finds the percentage that the median household spends for food, clothing and shelter using income and expenditure data. This is done for seven household sizes and five community sizes (rural and four sizes for urban areas). Statistics Canada then adds 20 percentage points to the observed median per cent for food, shelter and clothing to get a new percentage, which is supposed to indicate economic difficulty “based on the rationale that a family spending 20 percentage points more than the average would be in ‘straitened circumstances’” (Statistics Canada, 2007). This is 63 per cent (43 per cent plus 20 per cent) currently for a household of four persons living in an urban area with a population between 30,000 and 99,000. Statistics Canada then goes back to household budget data to find the income of households that spend 63 per cent on food, shelter and clothing. This is LICO for each household size/community size.

MBM was developed by the government’s HRDC in response to criticism of LICO and another low income measure (LIM) estimated by Statistics Canada that is a relative measure of low income insensitive to cost differences across Canada (Preville, 2003). MBM is sensitive to cost differences across Canada and has the added advantage that the basket of goods and services included in it are clearly indicated, unlike for LICO and LIM.

MBM estimates “cost of a specific basket of goods and services” (HRDC, 2003). The basket “includes specific quantities and qualities of goods and services related to food, clothing and footwear, shelter and transportation. It also includes other goods and services [without specifying quantities]”.

*“The components of the MBM basket are designed to represent a standard of consumption that is close to median standards of expenditure for food, clothing, footwear and shelter, and that also takes account of certain other categories of expenditure” (Preville, 2003).*

For food, the MBM diet “represents a nutritious diet which is consistent with the food purchase of ordinary Canadian households. It contains food that ‘people like to eat’”. “It is neither ‘an ideal diet’ nor the cheapest diet that meets nutritional requirements.” This type of diet, which is based partly on realism about what people are likely to eat, is a sensible approach compared to the more typical approach of using an idealized low-cost nutritious diet such as used in the United States’ poverty line, since in the real world, people typically eat less of the lowest cost nutritious foods than they “should” (e.g. eat meat when beans are a cheaper source of protein). The lesson here for developing countries is that it is appropriate for model diets to deviate in some ways from the lowest possible cost nutritious model diet.

Cost of shelter in MBM is based on observed rental costs, including utilities costs (water, heat and electricity). Rental costs are estimated by taking the “average of median rents for two- and three-bedroom units because approximately half of two-adult, two-child renting families live in each

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of these two types of units”. Using rental costs to estimate housing cost is much simpler than estimating the cost of owner-occupied housing. Indeed, many developed countries (including the United States and many European Union countries) use rental costs to estimate CPI (Anker, 2011). The lesson here for developing countries is that it is acceptable to estimate housing costs using rents.

Transportation costs in MBM in cities with public transportation are set at the “cost for two adult monthly transit passes plus one round trip taxi ride a month to accommodate a shopping expedition where large items, which cannot be carried by hand, are purchased”. For locations without public transportation, costs are set at the “cost of operating a five-year old four door Chevrolet Cavalier”. What is interesting about how transportation costs are estimated is how (i) clear and transparent it is, and (ii) how reasonable the approach is. In developing countries, it would be similarly appropriate to use the least expensive form of transport widely available. In some developing countries, it would be privately run minibuses, in others public transport, and in others bike or motorbike.

Clothing/footwear costs in MBM are estimated for 12 types of clothes (e.g. socks, underwear, pants, shorts, sweater, jacket, etc.) and five types of footwear (e.g. runners, dress shoes, sandals, winter boots and rubber boots). Given the inherent difficulty of deciding on what specific clothes and shoes are appropriate and basic (e.g. what types of pants, what brand of runners, how many shirts, etc.), it is hardly surprising that HRDC is not satisfied with its clothing and footwear component and so is developing an alternative. The lesson in this for developing countries is not to estimate clothing and footwear costs separately, but rather to fold these costs into the “other” cost group. EPI in the United States does this. After all, clothing/footwear expenditures only tend to be around 4 to 7 per cent of household expenditure around the world.

“Other” expenditure in MBM is dealt with differently than food, shelter, transportation and clothes/footwear. “Other” expenditure is estimated using a “multiplier representing expenditures on them as a proportion of average spending on food and clothing and footwear by the second [household income] decile of the [four-person] reference family [according to income and expenditure survey data]”. Note that the reason why “other” is estimated relative to food, clothes and footwear and not relative to shelter and transportation is that this provided a closer fit. Also note that a detailed list of other expenditure was specified when estimating the “other” multiplier and that some expenditure were excluded, such as eating out, alcohol, tobacco, pets, jewelry, gambling and debt repayment. This approach to estimating “other” expenditure has much to recommend for developing countries. It considerably simplifies estimating living cost, while avoiding having “other” become so large as to become an uncomfortably large “black box”, since “other” is around 20 per cent of total cost in MBM. At the same time, expenditures are excluded that many might feel are unnecessary or inappropriate to include in a basic living standard and living wage.

Total cost for a basic acceptable living standard is estimated for 48 geographical areas for a reference household of four persons. These estimated costs are then converted into estimates for other household sizes using adult-child equivalence scales. It is interesting to note that, as in the United States (see Section 7), differences in cost between Canadian cities are due to a large extent to differences in housing costs. “For 11 cities surveyed in 1999, the cost of shelter in the cheapest city was 61% below that in the most expensive city, for public transportation it was 34% lower. However for clothing and footwear the differential was 9%, for food it was 7% and for household operations and furnishings it was also 7%” (HRDC, 2003).