

**Committee: 2<sup>nd</sup> GA Committee (Economic and Financial)**

**Issue: The global implementation of the living wage**

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**Position: Deputy Chair**

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## INTRODUCTION

In 2016, the UN updated its Millennium Development Goals to 17 Sustainable Development Goals with the aim of making the world a better place by realistic and sustainable means. The second goal on ending hunger, the eighth goal on decent work and economic growth, the tenth goal on reducing inequalities, the twelfth goal on responsible consumption and production, but most importantly the first goal on the eradication of poverty: They are all inherently linked to a very basic principle, that of equal pay for equal work, which is the only mean of achieving an adequate standard of living. If consumers and producers are in most cases one and the same, and companies may only continue to exist if the consumers have enough purchasing power to seek their products, shouldn't companies automatically be paying their producers/consumers enough for them to purchase their products? Why is the situation currently off-balance?

Due to globalization, multinational corporations have the opportunity to create their products in one place and promote them in another, in an effort to meet up to market competition by offering the best products for the lowest price while covering production costs and making profit. However, this tactic is often fatal for low-skilled workers in developing countries: Where job opportunities are scarce and workers have no special skills to "sell" to a corporation in exchange for a certain wage, the workers seek the labor for whatever wage is offered to them. Corporations don't consider them consumers, as they promote their products in more financially developed nations. Even with the existence of a minimum wage (which is still not legally guaranteed in many locations), a normal week's salary is still not enough for millions of workers to ensure an adequate living standard for them and their families, only to barely ensure their survival. According to Article 3 of the International Labor Organization's 1970 Minimum



**Figure 1:** Factory worker in Myanmar earning extremely low wages. "We are always being told to work faster. They think that we are like animals. I know I have no rights to make a complaint, so I have to bear it", she states.

Wage Fixing Convention, during the calculation of minimum wages, the “general level of wages in the country, the cost of living, social security benefits and the relative living standards of other social groups” should be taken into consideration in order to satisfy the needs of the workers and their families. At the same time, however, “economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment” should not be ignored. So how can there be an international balance between these two often opposing factors in order to ensure that all workers have their basic needs covered and are being paid a living wage? Why is the worker producing an average item of clothing being paid only 0.5-3% of the cost?

## **DEFINITION OF KEY TERMS**

### **Living Wage**

The term “living wage” is defined by the official thesaurus of the International Labor Organization as “The level of wages sufficient to meet the basic living needs of an average-sized family in a particular economy”, not including overtime wages. The aforementioned basic needs are generally thought to include nutrition, transportation costs and housing, but many support that an approx. 10% margin should exist for possible expenses such as education, healthcare and clothing. Moreover, the living wage differs from area to area, state to state and nation to nation, seeing as the cost of the “basic living needs” can differ greatly.

### **Minimum Wage**

The statutory minimum wage is defined by each government’s legislation, and is basically the minimum amount of money any employee can gain for a certain amount of labor (this is usually measured in dollars per working hour). Paying an employee less than the minimum wage is unlawful, so it is an employer’s obligation to uphold this standard. Minimum wages are usually based on more general estimates of the free market and not on the living cost of each specific area, and they aim to protect the worker from exploitation. However, minimum wages are in many cases not in compliance with living wages, failing to suffice for an adequate standard of living for the worker and her/his family.

### **Purchasing Power Parity (PPP)**

Due to the existence of many different currencies, economies and standards of living worldwide, a common financial denominator is needed in order to determine e.g. the global poverty threshold. With the use of PPP, data on each nation's consumption and income rates, as well as each specific living wage, is converted into internationally-comparable terms. The International Comparison Program (ICP) uses price data from across the globe and global exchange rates (usually based on the US dollar) to calculate the PPP annually, with the support of the World Bank. Similar information is provided by the Organization for Economic Cooperation and Development (OECD), which measures the objective differences in price levels for the same basket of goods across nations annually, something which could be used for accurate calculations of the living wage.

### **Poverty Threshold**

The poverty threshold or poverty line is "the minimum level of income considered adequate to survive in a particular country". It is not something that is legally implemented but more of an estimation that governments choose to follow. The international poverty threshold is defined and adjusted by the World Bank. It was last raised to US\$1.90 PPP a day in October 2015 (before that it was at 1.25\$). Keep in mind that as you may have noticed, it is measured in dollars per day and not per working hour, which means that it is not exclusively relevant to official wages. Furthermore, keep in mind that, similar to the case of the minimum wage, the poverty threshold is not the same thing as the living wage.

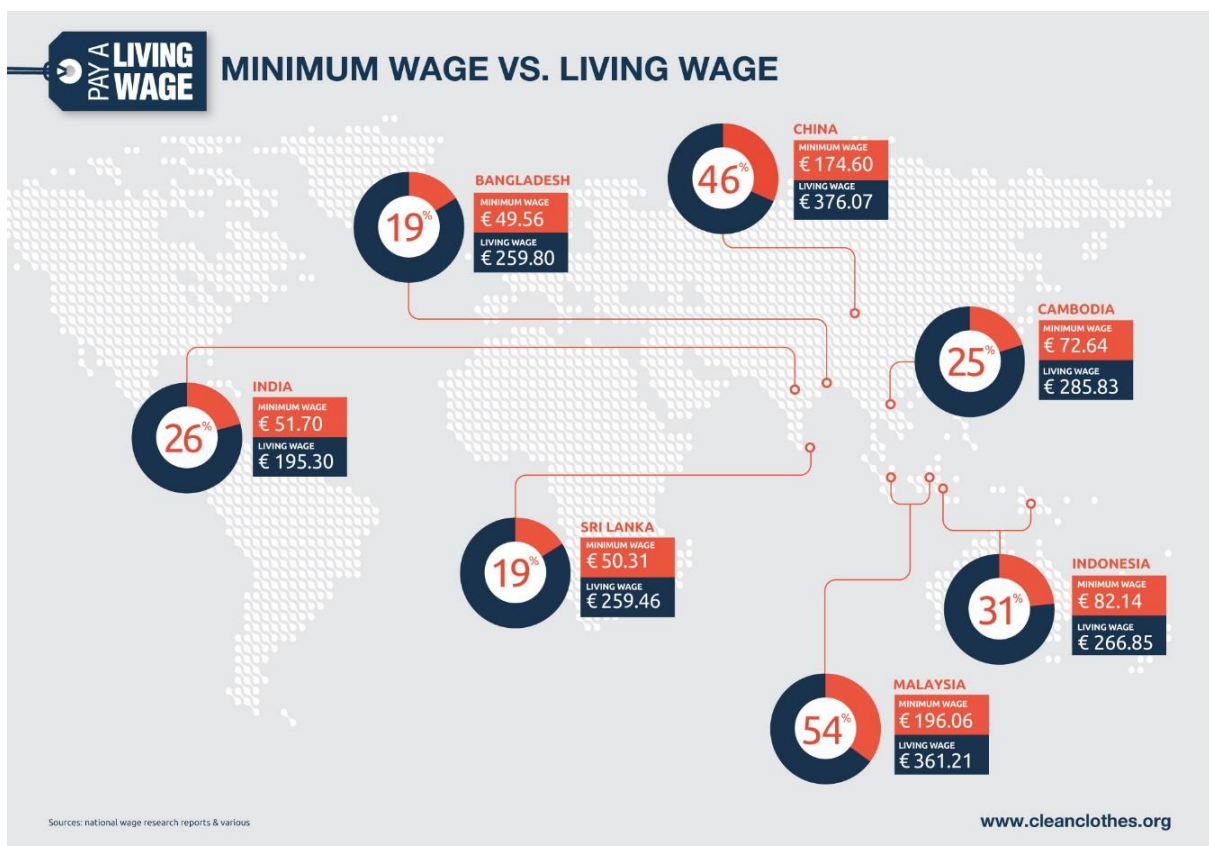
### **Extreme Poverty**

Extreme poverty is the condition in which people below the international poverty threshold have to live in. In this condition, survival is in many cases not guaranteed. According to the latest World Bank estimations, less than 10% of the world's total population are living in extreme poverty by the new standard of 1.90\$ per day.

## **BACKGROUND INFORMATION**

As mentioned before, the minimum wage in developing nations is often not equivalent to the living wage and therefore not sufficient to meet the basic living needs of the employees. According to the chart below, in some of the world's

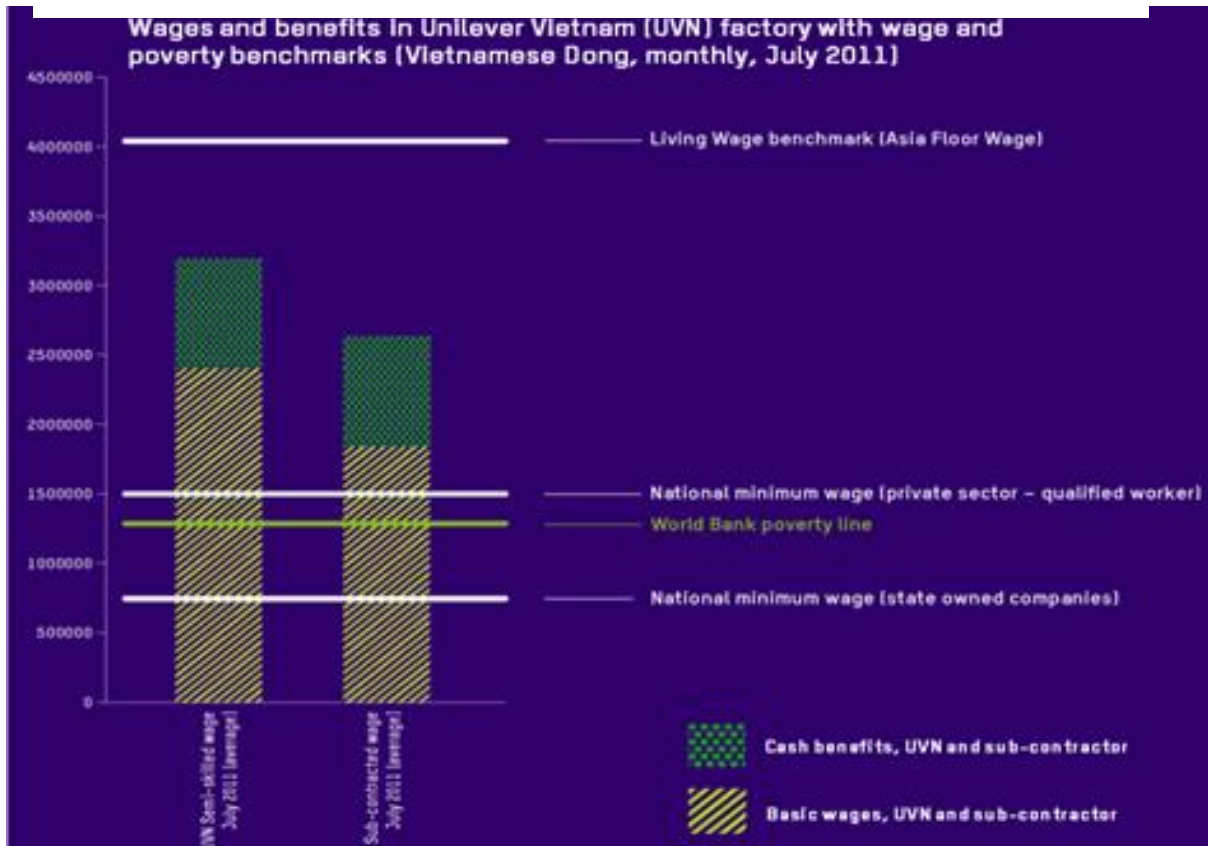
most prominent producing nations, the statutory minimum wage hardly reaches even half of the adequate living wage for each area. Naturally, there can be no effort to globally implement the living wage without a sufficient minimum wage or while there is a lack of the minimum wage or its application. According to the Global Wage Report of the ILO, in 2009 almost half of the 108 countries included in the report had not adjusted the nominal value of their first setting of the minimum wage for inflation. This means that the minimum wage in these countries did not reflect reality, as the cost of living has, since then, greatly differentiated. This is also often the case because the minimum wage is calculated as a result of political negotiations and agreements rather than as an objective standard.



**Average legal minimum wage as a percentage of the calculated living wage in each nation**

Another problem that often arises is the inefficient implementation of the minimum wage, lack of monitoring concerning whether employers are following this legal obligation and lack of sanctions if they are not. This is generally attributed to government failure to carry out sufficient tax audits and visits to check factory conditions, as well as to locate and legally persecute those who violate this law. Lastly, there are still some cases of countries

where the set minimum wage falls below the global poverty threshold (e.g. Cambodia), or specific jurisdictions within nations where this is the case.



**Figure 2:** “Labor Rights in Unilever’s Supply Chain: From Compliance towards Good Practice”, Wage Ladder from the above Oxfam report

However, many more factors contribute to the lack of implementation of the living wage: In today’s globalized society and economy, consensus on this topic between governments, trade unions, corporations and labor organizations is difficult to be found due to the vastly different financial contexts and operating frameworks across the world.

**What causes the distinct lack of living wages in many economies?**

The competitive market

Factory workers in Sri Lanka “struggle to survive on basic wages as low as 25p (US\$0.38) an hour to produce clothes for leading British retailers, who say they abide by an Ethical Trading Initiative (ETI) intended to protect employees' rights.”, according to a 2010 report by newspaper “The Times”. According to the report suppliers to companies such as Next, Tesco and Marks & Spencer “admit that the basic wages are insufficient to live on but say they are dictated by fierce international competition.” In this particular context, the market’s law of competition serves to protect consumers in developed nations from high

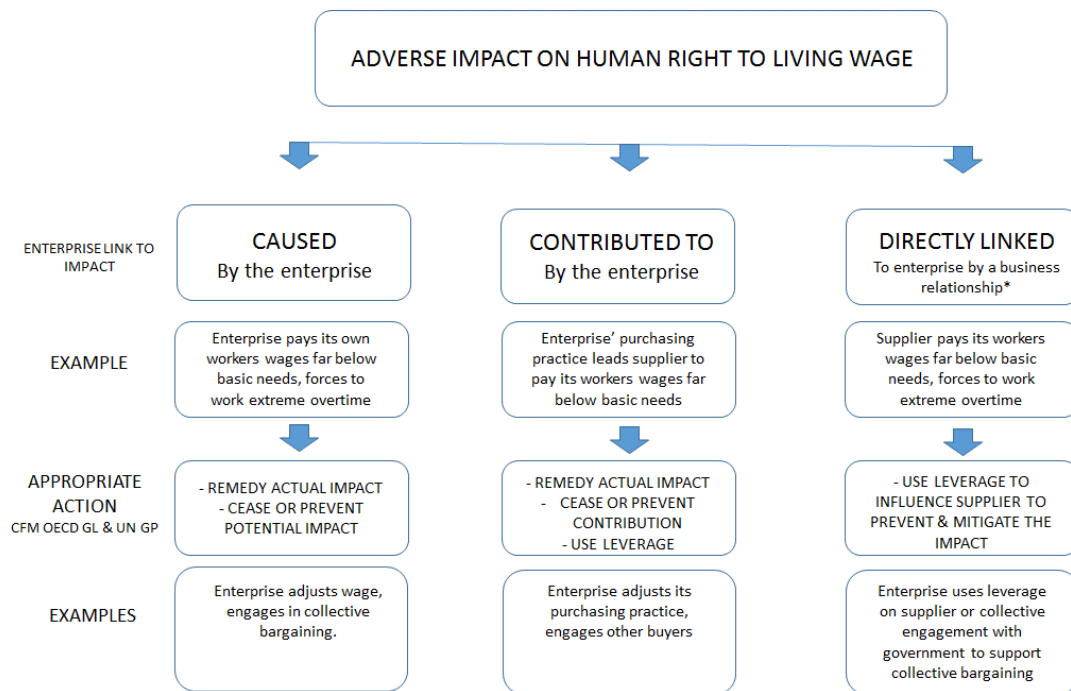
prices, but fails to protect workers in developing nations from extremely low wages. However, it is more complicated than placing the blame on multinational corporations for seeking to maximize profit: They often engage in aggressive price negotiations for materials with retailers and suppliers, who in turn attempt to offer the cheapest price possible while still profiting, so the chain of responsibility is long and complicated. Wages are among the biggest costs of production (if not the biggest in these cases), so businesses take advantage of the loose regulations in these nations to push them lower in order to decrease production costs.

#### Government efforts to keep wages low

In many developing countries where domestic production from local firms is not sufficient, governments intentionally keep minimum wage standards very low in order to attract foreign investment from multinational corporations. According to the ILO, in many such nations minimum wage is set at about 40% of the nation's average wages.

#### Lack of collective bargaining

Collective bargaining via organizations and trade unions is one of the most powerful means workers have of claiming what they need: Each individual worker has little power and can easily be replaced, but the voice of a larger group is more easily heard and corporations have to take it into consideration in order not to risk losing a big part of their workforce. Therefore, insufficient collective bargaining or lack thereof plays a big part in the non-implementation of the living wage. Collective bargaining is especially relative to the living wage because through it, communities can organize in an attempt to request the particular wage that is necessary to cover basic needs in each specific location, as calculating global or national living wages can be tricky for corporations, governments and organizations or may be insufficient for some regions while sufficient for some others. In cases where collective bargaining is discouraged by local authorities or even not allowed (e.g. in China or Viet Nam), different methods such as establishment of workers' committees or support from NGOs and existing trade unions such as the International Textile, Garment and Leather Workers Federation, Oxfam, the Workers' Rights Consortium and the Clean Clothes Campaign could be implemented can help in the improvement of the situation. <sup>2</sup>



\* Not caused and not contributed to the impact, but for example linked to a supplier that causes the impact

### Difficulty of calculating a living wage

There is not only a distinct difficulty for creating a “global formula” for the living wage due to vast differences in living costs and lifestyles across nations, different policies and standards and also constantly varying inflation levels, but also because it is unclear who should have the responsibility for doing this. Should companies unilaterally decide wage levels or trade unions campaign for their demands? Should governments dictate the terms or can all of the above cooperate using existing data to provide a sufficient result? Furthermore, aside from who should be responsible, consensus on what is considered a living wage must also be found on at least a national level, and then be adjusted to regional idiosyncrasies such as local diets, traditions and population statistics, and dilemmas such as whether a margin for savings or investment should be included in the living wage are very difficult to resolve. The ILO’s working paper on this matter -A New Methodology for Estimating Internationally Comparable Poverty Lines and Living Wage Rates- could be a starting point, if incorporated into domestic legislation, company policy and maybe UN guidelines.

### **The aftermath**

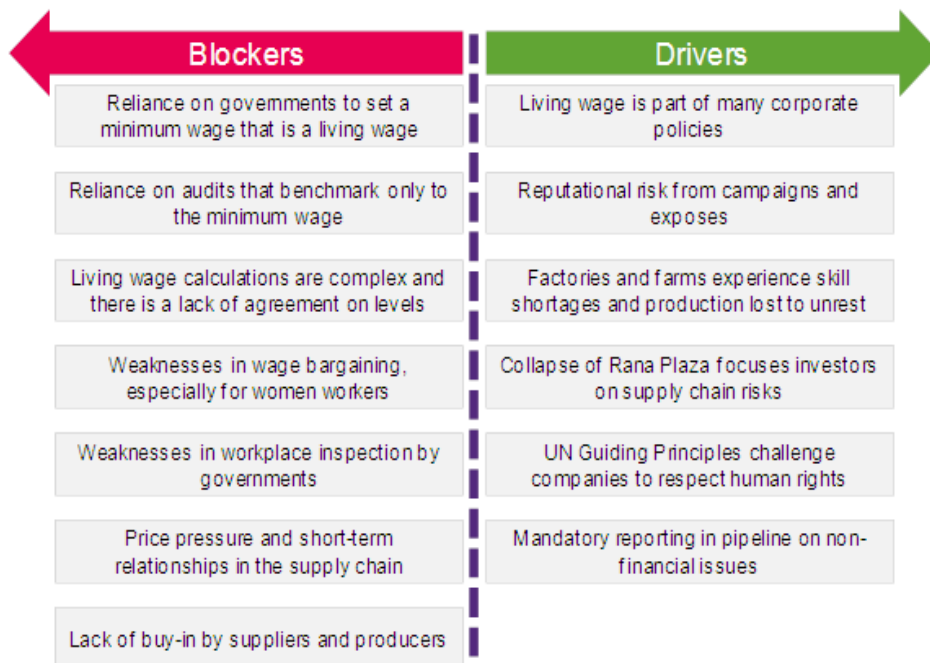
#### Incentives for implementing a living wage

According to the Universal Declaration of Human Rights Article 25, it is the fundamental right of workers to be sufficiently remunerated for their labor in order to



ensure a life of human dignity. However, the humanitarian aspect of any situation is hardly ever the key incentive for organizations such as multinational corporations to change their tactics. Looking at it from a more cynical and assertive angle, however, there are some motives for corporations proving that the implementation of the living wage could actually prove useful to them. First of all, when workers are not provided with sufficient money to meet their basic needs, they often grow hungry and ill and are unable to meet up to the production standards of the company or the supplier, leading to decreased worker motivation or decreased product quality. The ILO Global Wage Report 2014/2015 concluded that a higher level of average wages is proportionate to a higher level of labor productivity. Furthermore, KMPG reported that as a result of the implementation of a living wage policy affecting all employees directly or indirectly linked to the company in the UK in 2006, the employee turnover in catering and cleaning staff was reduced by half (which saves companies a lot of money they can use for said wages), worker attitude and productivity improved and employee loyalty increased, reducing training costs. Moreover, higher wages tend to attract more high-skilled workers and experts, which could be an incentive for government contractors to pay a living wage.

Large strikes and serious industrial unrest may also ensue due to inhumane conditions, such as the



72 incidents that occurred in 2010 in Bangladesh to due insufficient wages. Two other very important factors are the impending damage to the companies' brand reputation and the possible consumer boycotts that follow. NGOs, trade unions

and journalists often take action to bring low wage practices of corporations into the spotlight. Consumer boycotts tend to happen in more economically developed nations because they can be afforded there. An excellent example is the 2001 Campaign for Fair Food launched in the US caused the first farm-worker boycott to a fast food chain, Taco Bell.



The campaign lasted four years until Taco Bell agreed to all of the campaign's demands, including "the first-ever direct, on-going payment by a fast-food industry leader to farm-workers in its supply chain to address sub-standard farm labor wages".

#### Possible disadvantages

The global implementation of the living wage is not something that has been practiced before, so we cannot calculate its exact impact on the economy. It is, however, estimated that if not carefully done it could have some disadvantages. Most importantly, if companies choose or are able to only allocate a certain amount of capital to wages, implementing the living wage would automatically mean reducing the amount of employees, as the artificial increase to the price of labor would mean the decrease of demand for it, which would result in high levels of unemployment for low skilled workers. This is why governments often push for low wages and why collective bargaining is so important, as it is the only significant leverage employees have. Many companies claim that the costs of the living wage would have to be covered by a raise in prices, which might displease consumers and reduce competitiveness. Companies also support that calculating the living wage in each specific region is highly costly and complicated.

## **MAJOR COUNTRIES AND ORGANISATIONS INVOLVED**

### **China**

China, currently the world's fastest growing economy, does not implement a set national minimum wage. The nation's labor law dictates decentralization, whereby provincial and regional governments have the obligation of setting the necessary minimum wage, resulting in extreme differences between provinces which correspond to the very different standards of living. It is widely supported that workers in China are paid unacceptably low wages, work excessive overtime to cover their needs and are often forced to migrate internally, especially in manufacturing sectors e.g. in the Guangdong province.

### **Bangladesh**

Bangladesh is a developing nation and is host to the world's second largest garment export industry in the world (after China), 80% of its workforce being comprised of women, who are also the majority in the largest trade union. NGOs have repeatedly drawn global attention to both the hazardous working conditions in the garment industry and the

divergence of the minimum wage from the actual living wage (m.w. 68 US\$ PPP per month, l.w. 332 US\$, Asia Floor Wage 2014 estimates).

### **India**

In India, the national minimum wage (US\$2.40) is merely a recommendation, as each state sets its own minimum wage standards, with some being higher and some lower. In e.g. the agricultural sector of Tamil Nadu, the minimum wage does not exceed US\$ 1.70 per day, with 1.41\$ for women, both wages falling way below the global poverty threshold.

### **Mexico**

A national statutory daily minimum wage does exist in Mexico, but the UNCESCR has in the past voiced concerns about it being inadequately low, with special concerns for the wages of young female workers in the export-processing zone, who often suffer from labor rights infringements, low pay and lack of collective bargaining.

### **Indonesia**

In Indonesia the minimum wage was previously determined based on the propositions of employers, employees and government bodies, but since 2015 it is being calculated solely based on general inflation and GDP, and not on the real cost of living. Provincial minimum wages differ greatly (US\$80 per month in Jawa Tengah-US\$196 in Jakarta) and workers protested against the new government policy on minimum wage in October 2015.

### **International Labor Organization (ILO)**

The International Labor Organization is a UN agency with the aim of enhancing cooperation between governments, workers, employers and trade unions in order to promote fair working policies and labor standards and issue relevant programs and research.

### **UN Committee on Economic, Social and Cultural Rights (UNCESCR)**

A sub-committee of the UN Office of the High Commissioner for Human Rights, the UNCESCR is comprised of 18 individual experts with the task of monitoring the implementation of the International Covenant on Economic, Social and Cultural Rights by its state parties. It was created with an ECOSOC resolution and its state parties have the obligation of issuing relevant reports concerning the implementation of said rights in their territory.

### **Social Accountability International (SAI)**

SAI is a non-governmental, multi-stakeholder organization that promotes workplace rights, social responsibility and joint dialogue between employers and employees. They

created the SA800 in 1997, a discretionary workplace standard based on relevant UN and ILO conventions, treaties and guidelines, which is widely used by corporations and governments across the globe.

## **TIMELINE OF EVENTS**

<b>Date</b>	<b>Description of Event</b>
1970	ILO Minimum Wage Fixing Convention
1997	Creation of the SA800 initiative by Social Accountability International
2008	Creation of the UN “Protect, Respect and Remedy” framework
2011	Revision of the OECD Guidelines for Multinational Enterprises
2015	Update of the global poverty threshold by the World Bank

## **UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS**

### **1970 Wage Fixing Convention (ILO)**

This convention has the aim of setting common standards for the establishment of a minimum wage and protecting workers’ rights. It has insofar been ratified by 53 nations, for which it is binding.

### **International Covenant on Economic, Social and Cultural Rights**

The ICESCR is a UN General Assembly multilateral treaty urging its parties to work for labor rights, the right to education, to health, to an adequate standard of living etc. It has 164 parties (2015), with six other nations, including the United States, having signed but not ratified it.

### **UN “Protect, Respect and Remedy” policy framework**

This 2008 business and human rights framework aims to implement three things:

- 1) The duty of states to protect their people against human rights infringements by other parties, including enterprises
- 2) The responsibility of corporations to respect human rights and
- 3) Providing victims of human rights abuses with access to sufficient remedy (including judicial procedures).

## PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

This is an issue that has gained increasing global attention over the past years, and numerous specific attempts have been made by governments, trade unions, NGOs and UN organizations to regionally raise the minimum wage or campaign for a living wage. However, no globally coordinated effort has insofar been made. Here are the three most significant and large scale attempts for a solution:

1. The OECD Guidelines for Multinational Enterprises which attempt to set certain standards for Responsible Business Conduct (RBC). 46 nations currently abide by these standards, having legally committed to the setting up of National Contact Points with the aim of promoting and supporting corporate responsibility and handling relevant complaints. They are not binding for businesses, but are a “firm government expectation of company behavior”. After the 2011 revision of these Guidelines, a recommendation on living wages “related to the economic position of the enterprise, but [...] at least *adequate to satisfy the basic needs of the workers and their families.*” was added. The revision also introduced the concept of supply chain responsibility for businesses.
2. The Ethical Trading Initiative is a UK-based alliance of corporations, worker unions and relevant NGOs promoting workers’ rights. Many large corporations such as H&M, Gap, Marks & Spencer, Tesco and the Body Shop are members. It has a Base Code to the labor standards of which members are asked to commit to and offers member-companies an ethical trade program and guidelines as well as strategic advice and training on the matter. It promotes both collective bargaining and living wages in supply chains.
3. The Asia Floor Wage Alliance has made massive efforts to make sure the workers of the enormous Asian garment industry are being paid a living wage, in cooperation with many workers’ unions and other NGOs. It has done so by constantly calculating the Asia Floor Wage in PPP\$, a proposed living wage floor that no wages in Asia should drop below, regardless of the regional living wage which is also calculated. They also attempt to establish a common playing field, so that the implementation of the living wage in one region or nation is not cause for a company to move out and resettle in a different region with lower wages.

## POSSIBLE SOLUTIONS

The UN has little to no jurisdiction over multinational corporations, so all it can do is suggest various methods by which companies can improve their tactics on this matter. Aside from pressuring all governments to sign and ratify the aforementioned treaties and conventions and fix their minimum wage problems as much as possible without endangering their markets, resolutions can also suggest a series of measures to improve the situation in global supply chains.

The first step would be for companies to more comprehensively integrate human rights standards into their company policy, with help from experts from e.g. the OECD, and become part of the Ethical Trading Initiative, so as to abide by the standards set by the ICESCR. Such standards could include cooperating with NGOs such as the Asia Floor Wage and SAI to pay at least the best possible wage, agreeing to provide workers with understandable information concerning their working contract before they are employed and not using wage deductions as a disciplinary method. The supply chain should also be addressed: The above recommendations could also be included in the company's Supplier Code of Conduct, as done for example by Nike. Companies could also provide incentives for the implementation of the living wage to suppliers during negotiations, such as granting the suppliers that pay their workers adequately "preferential status" or rewarding them in some other way, or separating the cost of labor from other costs of production during bidding to reach an agreement.

Companies and regional governments could also be encouraged to conduct the necessary research about what is considered a living wage in each particular region, and to discuss it with workers' unions and committees, employers and NGOs that are specialized in this field to determine a certain necessary "basket of goods". This dialogue could be monitored on a more international level by a UN organization, under the authority of which the price of said basket could be calculated in PPP\$ to be applied as a general worldwide standard. Regional governments should also conduct unexpected factory visits to check the payment conditions and monitor local media to locate any human rights infringements. It is up to the delegates to decide who should be responsible for this, as well as for promoting the creation of trade unions and assisting workers with collective bargaining, during which they should negotiate for a living wage.

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### **Figures and Graphs**

Figure 1: <http://oecdinsights.org/2016/04/28/scaling-up-living-wages-in-global-supply-chains/>

Figure 2: <http://oecdinsights.org/2016/04/28/scaling-up-living-wages-in-global-supply-chains/>