

## COLLOQUIUM

### IS A LIVING WAGE BAD FOR THE ECONOMY?

*Contributing to the Implementation of SDG 8 of the 2030 Sustainable Development Agenda by promoting inclusive and sustainable economic growth, full and productive employment and decent work for all.*

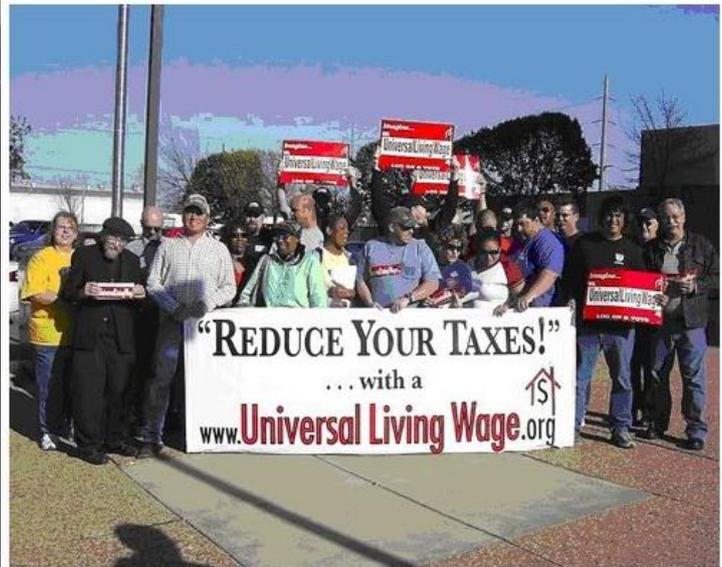
**Venue:** University of Geneva, MS 130, Bd. Du Pont-d'Arve 40, Geneva  
From train station Cornavin, take Tram 15, direction Palettes, get out at stop "Uni Mail"

**Date/Time:** 10<sup>th</sup> June 2017 (Saturday) from 9.00-13.00

**Duration:** 4 hours



**Before**



**And Now**

### Rationale

The 2030 Agenda focuses on employment and decent work for all. In particular, two targets of the SDG 8 specify the following:

**Target 8.3:** Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

**Target 8.5:** *By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value*

Both targets do not refer to known labour policies such a Minimum Wage or Living Wage. Not to mention that either of the two labour policies leaves a policy vacuum which could be interpreted as deliberate omission or an attempt to subsume both- MW and LW- as being part of Decent Work without though spelling out in detail how Decent Work might related to MW or LW.

Since MW and LW are not mentioned specifically there is uncertainty as to how SDG 8 and its targets 8.3 and 8.4 could or should be interpreted by policy makers, business, labour unions and civil society.

In view of the fact that MW and LW have been considered controversial labour policy options by some governments and employer associations, there is a need for clarifications as to what both terms mean and could contribute to the achievement of the two SDG 8 targets.

This colloquium offers an opportunity to discuss the advantages and disadvantages of both MW and LW for countries' economic and social development. Experts from different academic backgrounds with broad and deep understanding of both themes will engage in discussions with a particular focus on LW.

The title of this colloquium is deliberately formulated with a provocative undertone because political opinions and academic theories hold at time opposing views. What is needed is a public debate on Living Wage to advise policy makers as to whether or not and if so how Living Wage could be an essential factor in accomplishing the SDG 8 targets 8.3. and 8.4 as well as employment and development in general.

The scheduled speakers and Discussants are the following:

### **Programme**

**Welcome Remarks: Professor Lucio Baccaro, University of Geneva**

**Introductory Remarks: Professor Raymond Saner, Director of Diplomacy Dialogue, CSEND.**

### **Round One (9.00-10.45)**

**Dr Emmanuel Reynaud**, sociologist, former ILO official, Geneva

"The ILO and the Living wage: a historical perspective".

**Prof. Daniel Vaughan-Whitehead**, Sciences Po, Paris, ILO, Geneva

'How to reach a living wage in a sustainable way?'

**Dr Marc Bacchetta**, Counsellor, Economic Research and Statistics Division, WTO

"The labour market effects of trade"

**Dr Marion Jansen**, Chief Economist, ITC, previously WTO and ILO.  
"Inclusive growth through SME competitiveness".

**Prof. Roel Nieuwenkamp**, Chair, OECD Working Party on Responsible Business Conduct

"Living Wage and the OECD RBC Guidelines" (by recorded video message)

**Prof Stewart Carr, Prof Darrin Hodgetts**, Massey University, Auckland, New Zealand

"Living Wage and Low Income Development Countries"

**Discussants:**

**Drs Roel Gans**, Director of International Affairs, Ministry of Social Affairs and Employment, The Hague, Netherlands

**Prof. Raymond Saner**, University of Basel, Sciences Po, Paris and CSEND, Geneva

**11.30-12.15 Audience participation Q&A.**

**12.15-12.30 Closure**

**Moderator**

Professor Lucio Baccaro, University of Geneva and Dr Lichia Yiu, President, Centre for Socio-Eco-Nomic development (CSEND)

**Assistants:**

Mr. Davide Gardina, Research Assistant, CSEND

Mr. Sinisa Hadziabdic, Ph.D. cand., University of Geneva

# IS A LIVING WAGE BAD FOR THE ECONOMY? SUMMARY OF COLLOQUIUM

## Agenda Topics

### 1. Welcome remarks, Prof. Lucio Baccaro, University of Geneva

### 2. Introductory remarks, Prof. Raymond Saner, University of Basel, Sciences Po, Paris, Director of Diplomacy Dialogue, CSEND

2.1. Living wage is a controversial concept often perceived by employer associations as demand by labour leaders on political and ideological grounds resulting in higher labour costs and a loss of a company's competitiveness risking at the extreme bankruptcy and closure of companies. On the other hand, pro-labour advocats and labour union leaders reiterate that a paying a living wage is equal to the concept of decent work allowing workers and families to survive and to ensure performance levels expected by the employer. It is time to discuss the Living Wage policy proposal and to assess the strengths and possible negative implications without pre-conceived ideological positions. It is time to make an academic effort to truly understand what living wages mean for our economy

### 3. "The ILO and the living wage: A historical perspective", Dr. Emmanuel Reynaud, sociologist, former ILO official, Geneva

3.1 The notion of a living wage is closely linked to the very reason for establishing the International Labour Organization after WWI:

- to avoid social unrest in improving labour conditions in context of economic competition and free trade;
- 1919 context: post-WWI labour unrest and experience of pre-war "first globalization".

In the Treaty of Versailles (1919), in Part XIII on "Labour", the living wage is mentioned twice, in the Preamble of the Section establishing the ILO and in the Section "General Principles" (art. 427).

- Preamble: "an improvement of (the conditions of labour) is urgently required: as, for example, by (...) the provision of an adequate living wage..."
- General principles: "Third. The payment to the employed of a wage adequate to maintain a reasonable standard of life as this is understood in their time and country".

The commission's working sessions began with the concept of "living wage" and then broadened it into "an adequate living wage": an ambitious objective, but intended as minimum wage (it was listed as "Principle of the minimum wage").

The International Labour Conference restated the aims of the ILO in 1944 in Philadelphia and incorporated into the ILO Constitution the objective of "a minimum living wage for all employed and in need of such a protection."

In the 2008 ILC the Social Justice Declaration reaffirmed the Philadelphia Declaration and mentioned explicitly the Living Wage as a goal to reach. Historically, statements and provisions regarding Living Wage have always been approved unanimously, but with a lack of concrete and substantive specifications leading to

implementation difficulties.

### 3.2 Implementation of the principle in the first decade: C26 and R30 (1928)

Extensive statistical research generated data for drafting an international standard on wages. Given that the main concern was the comparative advantage in international trade, the proposals aimed at establishing a national (not international) machinery for fixing the minimum wage in low-paying industries. It led to the adoption in 1928 of Convention 26 and Recommendation 30.

R30 stated that “the wage-fixing body should in any case take account of the necessity of enabling the workers concerned to maintain a suitable standard of living”. There were actually references made to prevailing practices in similar trade with effective collective agreements, or to the level of wages within a country or locality, but not to the living requirements of workers.

### 3.3 Implementation of the principle in the 1960s: C131 and R135 (1970)

The post WWII decolonization produced a growth in the ILO membership and therefore facilitated a revision of C26 and R30 with special reference to developing countries. A Meeting of Experts was held in 1967 and the final report identified four criteria for setting a MW : workers’ needs, the employers capacity to pay, wages or income elsewhere in the economy, requirements of economic development<sup>1</sup>.

Both C131 and R135 were meant to determine MW by striking a balance between economic considerations and needs of workers and their families.

Quoting C131, “the elements to take 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 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.”

## 4. “How to reach a living wage in a sustainable way?”, Prof. Daniel Vaughan-Whitehead, Sciences Po, Paris, ILO, Geneva

We need to overcome three types of deficits:

### 4.1 The “institutional” deficit

This deficit deals with lack of adjustment of minimum wages and poor social dialogue. Two different gaps should be considered:

- a living wage/minimum wage gap: minimum wages in many countries remain below living wage thresholds or don’t apply to vulnerable groups, such as domestic workers or homeworkers. In developing countries this gap is remarkable, whereas in Europe the gap between the MW and the LW is much closer precisely because the minimum wage is adjusted on a regular basis through institutional mechanisms.
- a social dialogue gap: trade unions are not always recognized and the rights of association and of collective bargaining are not respected in many companies and countries; this lack of social dialogue impedes a fairer redistribution of growth. Labour inspections as another type of institution are also insufficient.

#### 4.2 The “purchasing practices” deficit

The existing imbalance in bargaining positions between buyers and suppliers may lead to disproportions in the value-added distribution. There is an increased recognition that the internal functioning of the global supply chain (at every step) and in particular the relationship between the buyer brand and its suppliers have implications on wages and labour conditions.

According to a global survey carried out in 2016, this imbalance can be explained taking into account four types of purchasing practices:

- Type of contract (35% of suppliers have some non-written contracts with the buyers; 56% of the contracts don't specify responsibilities in case of changes in orders so that suppliers are often designed as responsables.)
- Low technical specifications (accuracy of technical specifications about products and its features)
- Insufficient lead times (only 16% of suppliers considered orders to have enough lead times)
- Prices below the production costs (39% of the suppliers reported to have accepted orders whose price did not allow them to cover their production costs; 52% in textile and garment industry)

#### 4.3 The “pay systems” deficit

Evidence collected so far shows that there are practices of double records, non-payment of wages, non-payment of overtime hours, non-payment of minimum wage at supplier level. Pay systems are also often very rudimentary: over-reliance on the piece rate system, lack of link between wages and skills, lack of rewards according to performance, poorly diversified pay packages, and generally missing role of wages to boost human resources totally neglected at enterprise level. As a result the pay system are not only unfair, but they are also poorly motivating. The causes are thus not just rooted into the wage levels, but also into pay systems that should be reformed at enterprise level. In order to obtain sustainability, we thus need to improve not only wage levels, but also wage adjustments, wage bargaining, wage-fixing mechanisms and pay systems so that we would rather need a comprehensive “fair wage” policy rather than just a “living wage” policy.

### 5. “The labour market effects of trade”, Dr. Marc Bacchetta, Counsellor, Economic Research and Statistics Division, WTO

5.1 Trade is coming under increasing fire in developed countries. This is because while many are doing well, some are being left behind by globalization.

Research suggests positive overall effects of trade on labour markets, however, most of the benefits from trade – or technology - require resources to be reallocated from lower productivity to higher productivity firms/sectors. Practically, this means that some workers may lose their job and may need to find another job.

This may be difficult in the presence of “frictions” concerning: skill mismatches, the geographic labour mobility, labour market regulations.

5.2 Trade increases the demand for skilled workers relative to unskilled workers in every country.

Depending on a number of factors, this can translate into: an increase in the skill premium (that will affect wage inequality); an increase in the share of skilled workers in employment; a mix of both; a polarization.

5.3 Governments must reduce frictions and provide workers with compensation and redistribution measures; key role is played by skills development policies and competitiveness related policies.

## **6. “Inclusive growth through SMEs competitiveness”, Dr Marion Jansen, Chief Economist, ITC, previously WTO and ILO**

6.3 SMEs represent 95% of firms and nearly 70% of the employment in the world. Within a globalized economy, both low-wage workers and SMEs tend to have low bargaining power.

6.4 Studies suggest that a productivity gap exists between large firms and SMEs in developed countries. The gap is bigger (twice the size) in developed countries (OECD – ECLAC 2013). Similar findings have been achieved by observing wages gaps.

6.5 The three pillars of competitiveness (capacity to compete, to connect, to change) have been analyzed with regard to three different levels: firm level, immediate business environment, national environment.

Other studies show a positive correlation between SMEs’ competitiveness and GDP per capita (ITC 2016), and between SME’s competitiveness and bargaining power.

Certain levels of “competitiveness” may probably be a precondition for facilitating the payment of living wages.

## **7. “Living wage and the OECD RBC Guidelines” (video message), Prof. Roel Nieuwenkamp, Chair, OECD Working Party on Responsible Business Conduct**

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7.1 OECD Guidelines for Responsible Business Conduct (RBC) also focus on living wages: they are the most important international standard on this topic. The Guidelines are a truly global mechanism because they cover all of a company’s global supply chain: for instance, in case of violations of the freedom of association in a factory in India, it is possible to file a complaint before the national contact point of the country where the buyer brand is headquartered.

There have been many complaint about supply chain responsibility already.

7.2 The 2011 revision of the OECD RBC GLs embedded the topic of Living Wages into the Guidelines (“when multinational enterprises operate in developing countries, where comparable employers may not exist they should provide the best possible wages, benefits and conditions of work, within the framework of the respective government’s policies. These should be related to the economic position of the enterprise, but should be at least adequate to satisfy the basic needs of the workers and their families.”)

There are now concrete provisions on due diligence in the garment and footwear industry. It means that transnational corporations must identify the risks on wages, prevent and mitigate difficulties and be accountable on how they address the issues. Furthermore, Living Wage is a human right, so companies must respect this principle according to the Human Rights chapter of the Guidelines, as well as according to the Labour chapter of the Guidelines.

7.3 Corporations should work together: a single company alone could get out of business if they pay

a higher wage on their own. It could thus be harmful for employment and the overall economy. Good examples are ACT (Action, Collaboration, Transformation), a collaborative global framework on Living Wage, and the Malawi Tea 2020 revitalization programme. They need to be scaled up.

## **8. “Project GLOW (Global Living Organizational Wage)”, Dr. Lichia Yiu, President, Centre for Socio-Eco-Nomic Development (CSEND)**

8.1. The Project GLOW (Global Living Organizational Wage), carried out by an international consortium of industrial psychologists, aims at setting a Global Living Wage that enables people, organisations and communities to prosper and thrive.

8.2 Addressing the wage issue is crucial to address the demand for poverty eradication. SDG8 (Decent work and economic growth) is related to the concept of sustainable livelihoods, that makes reference to resilience, to Amartya Sen’s capabilities approach, and to the traditional definition of sustainability:

“a livelihood comprises the capabilities, assets (...) and activities required for a means of living, a livelihood is sustainable for a worker’s ability to cope with and recover from stress and shocks, maintain or enhance capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other persons’ livelihoods at the local and global levels and in the short and long term”<sup>ii</sup> .

8.3 It must be underlined that Treasuries in New Zealand and South Africa have indicated that the introduction of Living Wages could put at risk firm a company’s sustainability. We need therefore to identify a pathway towards a win-win situation, for example by marshalling the extensive and substantive evidence on the shared benefits to employees and employers alike from enhanced workplace justice, job satisfaction, work engagement, organizational commitment, occupational pride and work-life balance (to name but a few).

Living wages are often calculated econometrically, but we propose a different, qualitative approach: we may ask people directly to estimate the real value of their needs, with particular respect to their need for adequate quality of life including conditions at work.

This is a “people development approach” that considers the real needs and tries to map them onto monetary incomes. It measures wages in terms of perceived benefits for workers and possibly for organizations.

## **9. Discussant: Dr. Roel Gans, Director of International Affairs, Ministry of Social Affairs and employment, The Hague, Netherlands**

9.1 Living Wage is now seen by many governments as a human right, as stated in international treaty instruments<sup>iii</sup>. It is therefore not just an economical technical issue, but an ethical one as well.

9.2 Amongst the members of the OECD, the only country in which a due diligence inspired by the Guidelines is a legal obligation is France<sup>iv</sup>. In the UK, the due diligence process is compulsory within the specific scope of forced labour<sup>v</sup>.

The last G20 meeting of labour ministers on labour, held in Germany, made strong references to decent work, OECD RBC Guidelines and ILO standards<sup>vi</sup>.

9.3 In The Netherlands, the government together with NGOs and social partners created a platform for discussing a multistakeholder agreements. These are voluntary commitments to make plans of actions with the purpose of promoting decent work (“RBC sector plans”).

A remarkable program within the Government of The Netherlands is the “sustainable trade initiative for developing countries”, which has supported for instance the tea sector in Malawi. Putting tea buyers, farmers, civil society, government and other partners together helped start a process of institutional growth and a framework for broadening social dialogue. Thanks to this process in Malawi the salaries in tea sector over the last two years increased from one third to two third of the living wage.

## **10. Discussant: Prof. Raymond Saner, University of Basel, Sciences Po, Paris, Director of Diplomacy Dialogue, CSEND**

10.1 To reach a the Sustainable Development Goal 8: Decent Work and Economic Growth can help meet several other SDGs. We need to make clear the connections between the different goals of Agenda 2030. Within the Swiss Confederation there are Cantons that got out of the deep poverty they suffered in the 1920s, thanks to a correct combination of policies relating to economic development, social policies and social dialogue through public regulation. By analysing the features of this historical transition towards shared prosperity it is possible to draw lessons as to how a country can create an appropriate and applicable policy formula to create decent work for all.

10.2 The Swiss federal popular initiative "against rip-off salaries" of 2013 was a successful popular initiative in Switzerland to control executive pay of companies listed on the stock market, and to increase shareholders' say in corporate governance. It was one of three questions that was put to the electorate in the March 2013 initiative. The vote took place on the 3 March 2013, and passed with a majority of 67.9%, with a 46% turnout. A similar initiative could be launched regarding a Living Wage to request shareholders of companies to vote on whether their company should keep employees in conditions below the living wage (working poor).

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<sup>i</sup> Final report available from [http://staging.ilo.org/public/libdoc/ilo/1967/67B09\\_64\\_engl\\_report.pdf](http://staging.ilo.org/public/libdoc/ilo/1967/67B09_64_engl_report.pdf).

<sup>ii</sup> Chambers, R., and Conway, G.R. 1991. *Sustainable Rural Livelihoods: Practical Concepts for the 21st Century*. IDS Discussion Paper 296, IDS (Institute of Development Studies), UK, p. 6.

<sup>iii</sup> Universal Declaration of Human rights (1948). Art. 23, par. 3. “Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection”.

International Covenant on Economic, Social and Cultural Rights (1966). Art. 7. “The States Parties to the present Covenant recognize the right of everyone to the enjoyment of just and favourable conditions of work which ensure, in particular: (a) Remuneration which provides all workers, as a minimum, with: (ii) A decent living for themselves and their families in accordance with the provisions of the present Covenant”.

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<sup>iv</sup> LOI n° 2017-399 du 27 mars 2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre, available from <https://www.legifrance.gouv.fr/eli/loi/2017/3/27/2017-399/jo/texte>.

<sup>v</sup> Modern Slavery Act 2015, available at <http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>.

<sup>vi</sup> Final declaration available from <http://www.g20.utoronto.ca/2017/170519-labour.html>.

## **Further Reading (Speakers' References)**

Bacchetta, M; Jansen, M. (eds) *Making Globalization Socially Sustainable*.

[http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_144904.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_144904.pdf)

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Saner, R., Keith, A., Yiu, L., "Labour Rights as Human Rights: Evaluating the Policy Coherence of USA, EU and Australia through Trade Agreements and Their Participation in the Universal Periodic Review". *Trade, Law and Development, Winter 2015, Vol. 7 (2), p. 195-299.*

Saner, Raymond; Sapienza, Emmanuele; "Development Diplomacy and Partnerships for Social Policy at the Time of PRSPs: The Case of Decent Work", *Journal of Poverty Alleviation and International Development, (2012), 3(2): 145-180*

Vaughan-Whitehead, D. (2010), "Fair Wages for Strengthening Corporate Social Responsibility", Edward Elgar.

Vaughan-Whitehead, D. and L. Pinedo (2017), *Purchasing practices and working conditions in global supply chains: Global Survey results, INWORK Issue Brief NO 10, ILO, Geneva.*

**Presentations have been uploaded to give interested readers the opportunity to follow the main messages provided by the speakers.**

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