



► ILO Brief

October 2022

Setting adequate wages: The question of living wages

Introduction

The present brief provides an ILO perspective on the question of living wages and describes how the ILO promotes the setting of adequate wages that consider both the needs of workers and their families, and economic factors. ILO technical support to its members also seeks to strengthen national institutions and evidence-based social dialogue.

The setting of adequate wages is an essential mechanism to enable decent living standards and incomes for women and men workers and their families, while at the same time ensuring the sustainability of enterprises which create the jobs for these workers.

The brief also points out that minimum living *incomes*¹ can be achieved through a variety of mechanisms, including wages, labour incomes for the self-employed, and social transfers.

The ILO mandate

The importance of a living wage has been highlighted in various key ILO documents since its creation.

The preamble of the ILO Constitution adopted in 1919 considers that “universal and lasting peace can be established only if it is based upon social justice” and therefore called for an urgent improvement in conditions of labour, including “the provision of an adequate living wage”.

In 1944, ILO members adopted and later incorporated into the Constitution the *Declaration of Philadelphia*² concerning the aims and purposes of the ILO, which affirms the “solemn obligation” of the ILO to promote “policies in regard to wages and earnings, hours and other conditions of work calculated to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection”.

Various ILO documents and declarations adopted since then – including the 2019 *ILO Centenary Declaration for the Future of Work*³ – have reaffirmed the mandate set out in the ILO Constitution and the Declaration of Philadelphia.

Although the current version of the ILO Constitution does not mention how a living wage should be defined, up until 1946 it specified that an adequate living wage referred to “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”⁴.

This definition is similar to other more recent definitions, which all generally point towards the idea of a level of wages that enables workers and their families to reach some minimum living standard⁵. The *Global Living Wage Coalition* for example defines a living wage as “the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family”⁶.

1 The concept of income is broader than the notion of wages and typically includes all receipts that are received by a household or its members, not just wages.

2 See <https://www.ilo.org/legacy/english/inwork/cb-policy-guide/declarationofPhiladelphia1944.pdf>

3 See https://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_711674.pdf

4 These were the words used in Article 427 of the Treaty of Versailles (the so-called “Labour Charter”), which became the article 41 of the ILO Constitution. Article 41 was later omitted when, in 1946, the Declaration of Philadelphia was incorporated into the ILO Constitution.

5 See https://www.ilo.org/global/standards/WCMS_235303/lang-en/index.htm

6 See <https://www.globallivingwage.org/about/what-is-a-living-wage/>

The ILO approach to setting adequate wages: needs of workers and their families, and economic factors

Over the years, the ILO adopted several international labour standards and provided technical advice to its members on wage policy. In doing so, the ILO emphasized the importance of taking into account both the needs of workers and their families - which is what the notion of a living wage refers to - as well as economic factors.

When the ILO developed its first *Convention (No.26)*⁷ and *Recommendation (No.30)*⁸ on minimum wages for workers employed in low-paying sectors in which no arrangements existed for the effective regulation of wages by collective agreement, it noted that the rates should “take account of the necessity of enabling the workers concerned to maintain a suitable standard of living”, but also remarked that “it would be counterproductive to establish a minimum wage beyond the capacity of industry to pay”⁹.

The *ILO Minimum Wage Fixing Convention No.131*¹⁰ adopted in 1970 is explicit in calling for minimum wage setting to take into account:

- (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.

In the same vein, the *ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy* (the *ILO MNE Declaration*¹¹) provides the following guidance on wages:

“Wages, benefits and conditions of work offered by multinational enterprises across their operations should be not less favourable to the workers than those offered by comparable employers in the host country. Where comparable employers do not exist, they should provide the best possible wages, benefits and conditions of work. The elements to be taken into consideration should include: (a) the needs of workers and their



A woman plucks tea leaves in tea gardens, Assam, India
© Panos, Abbie Trayler-Smith

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; and (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment. Where the employer provides workers with basic amenities such as housing, medical care or food, these amenities should be of a good standard” (Article 41).

Through its technical advice, the ILO has supported and continues to support a large number of countries, notably on minimum wage setting¹². In this work, the ILO seeks to strengthen the capacity of national institutions, such as tripartite minimum wage commissions, improve institutional aspects of minimum wage systems - such as the legal coverage, the number of different rates, or the regularity and frequency of adjustments - and promote evidence-based social dialogue, including through the use of solid data and information on both the needs of workers and their families, and economic factors.

The Netherlands supports the ILO in this area of work through development cooperation projects that promote adequate wage setting, including through the use of better indicators of the needs of workers and their families (see box 1 & 2).

7 The Minimum Wage-Fixing Machinery Convention, 1928 (No. 26). Available here: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C026#:text=Each%20Member%20of%20the%20International,no%20arrangements%20exist%20for%20the
 8 The Minimum Wage-Fixing Machinery Recommendation, 1928 (No. 30). Available here: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312368
 9 See https://www.ilo.org/travail/info/publications/WCMS_557250/lang-en/index.htm
 10 See https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C131#:text=Article%202-,1.,2.
 11 See https://www.ilo.org/empent/Publications/WCMS_094386/lang-en/index.htm
 12 See the Minimum Wage Policy Guide available here: <https://www.ilo.org/global/topics/wages/minimum-wages/lang-en/index.htm>

Box 1: Indicators of the needs of workers and their families: a project funded by the Netherlands

A development cooperation project funded by the Netherlands from 2018 to 2021 helped the ILO to develop a methodology to estimate the needs of workers and their families, alongside economic factors, mostly for the purpose of minimum wage setting. Pilot countries of the project included Costa Rica, Ethiopia, India, Indonesia, and Viet Nam.

The methodology uses data from the national statistical offices and proposes a framework that is adaptable at the country level to ensure national ownership and to support evidence-based social dialogue between governments and the social partners.

In addition, a series of studies were carried out in relation to wages and working conditions in the banana, coffee and tea sectors. The reports seek to contribute to a better understanding of the prevailing wages and working conditions in these selected sectors to feed into the knowledge base for the setting of adequate minimum wages, statutory or negotiated, in the pilot countries.

The methodology and different studies are available on the project website¹³.



Women working at a textile factory in Ho Chi Minh City, Viet Nam © Panos, Mark Henley

Box 2: Setting Adequate Wages: a Netherlands-supported initiative

Launched in October 2022 with support from the Ministry for Foreign Trade and Development Cooperation of the Netherlands, the ‘Setting Adequate Wages’ project seeks to promote higher living standards for workers and their families through a strategy that rests on three pillars.

First, this four-year project aims to support wage setting mechanisms, including minimum wages and collective bargaining, in making a stronger use of data and evidence on the needs of workers and their families and economic factors. As statutory or negotiated wages can only improve living standards of workers when they are effectively paid, the project also promotes compliance through studies on compliance rates, dissemination of information on statutory and negotiated rates, and training of labour inspection services.

In addition, the project contributes to identify national factors and conditions that enable wage increases at the macro-level, and supports measures to raise productivity in some selected enterprises, focusing in priority – but not necessarily exclusively – on agriculture and garment supply chains, with a view to generate a demonstration effect. In this way, the project will support not only wage-setting mechanisms, but also the capacity of countries and enterprises to pay higher wages.

Finally, the project undertakes peer-reviewed research that contributes to a better understanding of living wages, provides technical assistance to Member States in this regard, and interacts with existing living wage initiatives, inviting them to take into account data and information on both needs of workers and their families and economic factors, to engage in evidenced-based social dialogue on living wages.

At the national level, the project provides technical assistance in four pilot countries – Costa Rica, Côte d’Ivoire, India and Viet Nam. At the global level, the project develops a series of tools to support the implementation of the planned actions in the countries, and undertakes research on different dimensions related to the concept and estimation of living wages.

More information about the project can be found in the project website¹⁴.

13 See https://www.ilo.org/global/topics/wages/projects/WCMS_826265/lang-en/index.htm

14 See https://www.ilo.org/global/topics/wages/projects/WCMS_864021/lang-en/index.htm

Recent living wage initiatives

Many initiatives across the world seek to promote living wages through various mechanisms, including statutory minimum wages, collective bargaining, or voluntary mechanisms.

The *Global Living Wage Coalition (GLWC)* for example encourages multi-stakeholder efforts to achieve living wages in global supply chains; *Fairtrade* or *Rainforest Alliance* provide certification schemes that include living wages; the *Sustainable Trade Initiative (IDH)* promotes living wages by bringing together governments and civil society; the *ACT initiative* promotes living wages in the textile and garment industry through industry-wide collective bargaining; and through its *Think Lab* on living wages, the *U.N. Global Compact* provides space for an exchange of ideas between some of the growing number of multinational enterprises that have announced their intentions to ensure that living wages are paid across their supply chains. These are only a few examples.

To determine the level of a living wage in a particular location – and calculate the possible gap between a living wage and prevailing wages – multinationals and living wage initiatives frequently rely on living wage “benchmarks”.

These benchmarks, typically estimate the cost of living for a family of a determined size in a particular location - estimating the cost of food, housing, health, education and other essential goods and services or unforeseen events. Benchmarks involve some important assumptions about the number of workers in the household and the number of wage earners. For example, a particular wage may be sufficient to meet family needs if it is earned by two people in the household, but insufficient if there is only one wage earner.

Challenges in the use of benchmarks are multiple and include the fact that different assumptions and methodologies can result in very different figures; that there are many locations for which no recent benchmark is available; and that some organisations produce benchmarks for sale which are thus not easily available for employers and workers in producing countries. Other benchmarks are publicly available but produced without consultation with workers and employers in the supply chain. There is also a broader concern that benchmarks should not be used as a “technocratic” substitute for bipartite social dialogue or collective bargaining in producing countries, but rather as information to promote evidence-based social dialogue.



Employees working at a factory south of Addis Ababa, Ethiopia, packing beans before they are exported © Panos, Sven Torfinn

It is also useful to keep in mind that a living wage is a moving target. While needs are often estimated through “absolute measures” which define minimum quantities of certain goods and services, the needs and aspirations of workers and their families evolve with the level of income and consumption in the country where they live. This is also why, as countries become richer, they define poverty as a relative concept, setting their poverty lines at a certain proportion of the median household income, for example. Because price inflation erodes the real value of nominal wages, existing benchmark values need to be regularly updated to avoid losing their relevance.

ILO engagement with living wage initiatives

As the prime U.N. institution dealing with labour and wage issues, and because the ILO has a Constitutional mandate to promote adequate living wages, the ILO is engaging with various living wages initiatives. The ILO also has been requested recently by its Members to “contribute to a better understanding of living wages by undertaking peer-reviewed research on concepts and on estimations in that respect, and by providing assistance to Member States, upon request”¹⁵.

15 See the resolution and conclusions of the Recurrent Discussion Committee: Employment available here: <https://www.ilo.org/ilc/ILCSessions/110/committees/employment/lang-en/index.htm>

When engaging with living wage initiatives, and in moving towards living wages, the ILO seeks to highlight good wage setting practices, including the following:

Taking into account the needs of workers and their families: The ILO has a Constitutional mandate to promote social justice, including “adequate living wages”. Living wages – the idea that wage levels should be sufficient to enable workers who earn them to afford a decent minimum living standard – are thus a fundamental part of the agenda for social justice and an essential objective of wage policy. The development of cost-of-living evidence is therefore important to inform discussions on wage adequacy, including within statutory and collectively negotiated wage setting processes.

Taking into account economic factors: At the same time, economic factors should also be taken into account when setting wages, including the capacity of many enterprises to pay, as well as broader economic considerations including economic growth, productivity, levels of employment and informality. As reflected in the ILO Minimum Wage Fixing Convention No.131 and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (the ILO MNE Declaration), there is thus a need to consider both the needs of workers and their families and economic factors when setting wages.

Closing the living wage gap may require a set of measures that go beyond the sphere of wage policy alone. In instances where underlying productivity is low, this can impede wage growth. This is particularly the case in the informal economy, where the vast majority of enterprises are small units and where productivity is on average much lower than in the formal economy. When it comes to supply chains, the ability of suppliers to pay living wage is also affected by the prices paid by the buyers for the goods and services of the producers.

Hence, comprehensive strategies to promote living wages should also consider measures to raise the skills of employers and workers, to increase the productivity of low-productivity enterprises, to foster transition to formality, and to implement sustainable practices that enable suppliers to pay living wages. At country level, sustainable wage increases should be enabled by a combination of micro- and macro-economic policies that contribute to both higher economic growth and a fair distribution of the fruits of this growth¹⁶.

As shown in the Global Wage Report 2020/21, non-compliance with existing minimum wages remains a major global challenge. Out of the estimated 327 million wage earners who are paid at or below the minimum wage, 266 million wage earners are actually paid less

than the minimum wage, in large part because of non-compliance¹⁷.

Strengthening national institutions and social dialogue: National governments and social partners should be in the driving seat when it comes to identifying actions and measures that can contribute towards achieving living wages. National wage setting institutions, such as minimum wage commissions or collective bargaining mechanisms, should be strengthened and empowered in the process.

This also implies that living wage benchmarks or estimates, where they exist, should serve to inform - not replace - evidence-based social dialogue, including collective bargaining, and facilitate the setting of wages considered as adequate by the parties involved.

Promoting a minimum living income for all, through a combination of means: although for many households wages are the main part of their total incomes, globally about one out of two workers is an independent worker or a contributing family worker; in the informal economy this proportion is even higher. All these workers earn income from their labour, but do not earn a wage – which refers to remuneration or earnings paid by an employer to an employed person.

Different initiatives that promote “living incomes” – as opposed to “living wages” – thus seek to ensure that self-employed workers, like smallholder farmers, who do not earn a wage, can cover their needs by selling their goods and services on the market.



Gold mine workers in Peru © Panos, Eduardo Martino

16 See also the ILO document on decent work and productivity available here: https://www.ilo.org/gb/GBSessions/GB341/pol/WCMS_769282/lang--en/index.htm
 17 ILO Global Wage Report 2020/21, p.17 and pp.90-91. Available here: https://www.ilo.org/global/publications/books/WCMS_762534/lang--en/index.htm

When it comes to ensuring a minimum living income for all, a combination of different means can be used. As defined by the ILO's *International Conference of Labour Statisticians* (ICLS), household income can be measured as the sum of (i) income from employment (both paid and self-employment); (ii) property income; (iii) income from the production of household services for own consumption; and (iv) current transfers received¹⁸. Hence, a minimum income can be achieved for example by combining income from employment and social transfers.

It must be noted that a given wage level cannot in itself guarantee a minimum standard of living – not least because some households may have no member who is a wage earner. Furthermore, some households may have more children than others or may have special needs – and consequently need higher incomes to cover these needs. In those circumstances, social transfers, such as minimum income guarantees, family benefits, unemployment benefits or disability benefits are important mechanisms.

It remains true, unfortunately, that due to lack of access to social protection, billions of people across the world continue to rely on labour incomes as their only source of income.

Living wages should not be seen as the “final destination” for wages: Paying a minimum living wage should not be the final objective of wage policy, but among its key objectives. Indeed, paying “only” a living

wage that covers the minimal needs of workers and their families when economic factors would allow to pay higher wages would not be in line with the principle set out in the ILO Declaration of Philadelphia of “a just share of the fruit of progress to all”.

Where economic factors allow, wage bargaining or other mechanisms may result in wages that are above the bare minimum, ensuring an inclusive pattern of economic growth, the emergence of a middle class, and reduced wage inequalities. Various editions of the ILO Global Wage Report have highlighted how collective bargaining over wages can ensure that wages increase in tandem with productivity and contribute to both economic growth and an equitable distribution.

There are also many other elements of wage policy that are essential to ensure decent work for all, including measures to promote equal pay for work of equal value between men and women, or wage protection measures which ensure the predictable, timely, complete and transparent payment of wages.

In going forward, the ILO looks to strengthen its contribution to a better understanding of living wages, notably by carrying out research and developing methodological guidance on the subject matter, and by providing assistance to its Member states upon their requests.



Tea pluckers, carrying baskets on their heads, walk through the tea gardens, Assam, India © Panos, Abbie Trayler-Smith

¹⁸ See https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_087568.pdf



A worker at a coffee processing station in Uganda © Panos, Andrew Johnstone

Contact details

International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

Conditions of Work and Equality Department
E: inwork@ilo.org