

LIVING WAGE AND IMPLICATIONS FOR VIETNAM

Recognized in developed countries, the living wage has begun to emerge in developing countries through civil society organizations and multinational corporations. In Vietnam, the concept of a living wage has been mentioned only in studies conducted by international organizations. Further researches on the applicability of a living wage is needed before the introduction of any policies and management measures.

1. Living wage definition

The living wage concept was mentioned by Sidney and Beatrice Webb¹ in 1911: a *wage level enough to live on and provide for the needs of food, clothing and shelter of workers and their families.*

In 1919, the living wage was mentioned in the ILO Constitution: *“it is the responsibility of the International Labor Organization to direct countries and international programs’ attention towards policies related to wage and income, working time and conditions , ensuring equalized allocation of working achievements and living wage for all workers”.*

According to Anker², the living wage is a *wage level enough to ensure that workers and their families have a simple sustainable life in line with the level of economic development. A simple sustainable life is identified with ensuring*

basic needs and having provision; a living wage must be paid according to working time, excluding overtime pay, and adjusted to keep pace with changes in prices and economic development.

The living wage is determined by:

- (1) Foods in line with dietary recommendations by World Health Organization about calories, nutrients and micronutrients, which are tailored to local food needs and the level of national development.
- (2) National and international standards housing
- (3) Essential household needs: clothing, clean water, sanitation, ...
- (4) Healthcare, education and transportation
- (5) Provision.

Determined according to households, these factors depend on the household size and the number of full-time workers

¹ Sidney and Beatrice Webb’s Institution theory of labour markets and wage determination.

² Richard Anker, 2011. Living wages around the world: Manual for measurement



2. Living wage in some countries

In the US, the living wage was firstly formed and developed from movements launched by trade/labor unions and BUILD in Baltimore in 1994 to protect workers in the city's construction works who were too low-paid and struggled to make ends meet. Although employed, these workers still needed support from charity programs of churches for food and shelter. These organizations succeeded in requiring the municipal authorities to pay living wages for workers. After its success in Baltimore, the movement had spread to other cities. More than 100 cities passed an edict on "Living wage". Nowadays, all 50 US States have their own living wage, which is determined by working hours and provides a basis for encouraging wage negotiation between employers and employees. The living wage is determined according to the cost of food, healthcare, housing, transportation, child care and taxation so as to ensure that all workers with adequate working hours do not have to live under poverty and are not homeless.

In the UK³, although the Government provided housing subsidies and preferential credits to improve lives of low-paid wage workers (and up to 50% of poor children lived in households with at least one working adult), this policy had not fundamentally addressed their poverty situation. Inspired by the success of the

³ <http://www.livingwage.org.uk/faq#n1578>

US living wage movement, in 2001, the UK Living Wage Coalition (including religious organizations, trade unions and social organizations/community groups) was founded to fight for a living wage. Political activists and social reformers also sided with the coalition to protect workers. In 2011, the Government announced a living wage that provides the basis for employers to pay workers. In 4/2016, the British Government issued a "national living wage"⁴, which is a minimum wage level that employers must pay for workers aged 25 or above. The UK living wage is determined and monitored by the living wage committee based on calculation of basic living expenses of workers and their families.

In 2002⁵, the Global Living Wage Coalition was founded in the US, including 6 Organizations on sustainability standards, including: Fairtrade International, Forest Stewardship Council, GoodWeave, Sustainable Agriculture Network/Rainforest Alliance, Social Accountability International and UTZ Certified which work together to protect the environment and ensure sustainability standards.

In 2013, the University of Manchester issued a whitepaper on "Towards sustainable labor costing in UK fashion retail industry", suggesting that competition between buyers has led to the very low wages in processing countries (e.g. Bangladesh, Sri Lanka,...), thereby recommending to create a roadmap into ensuring a living wage in these countries.

In the context of globalization, living wage movement has spread to other countries through multi-national corporations, providers, NGOs

⁴ <https://www.gov.uk/national-minimum-wage-rates> based on a report of the Living wage Committee, 9/2016. "Closing the gap: A living wage that means families do not go short".

⁵ <https://www.isealliance.org/about-iseal/our-work/global-living-wage-coalition>

and sustainability standards organizations. In 2013, the International Textile, Garment and Leather Footwear Workers' Federation issued a handbook on negotiation to get a living wage and helped workers in processing factories for brands and multinational corporations in Bangladesh and Srilanka to fight for a living wage.

In 2016, Social Accountability International (SAI) and the Global Living Wage Coalition agreed on the use of the Anker's methodology to propose and implement a living wage for workers. These organizations committed to putting the living wage into their standard system and aimed to the long-term goal of achieving a living wage. They have tested the living wage in Vietnam and 9 other countries⁶. In Vietnam, in 2016, SAI and the Global Living Wage Coalition estimated the living wage of migrant workers in garment enterprises at the industrial parks of Ho Chi Minh city at VND 6.4 million/month, while at the same time, the regional minimum wage for the region I of Ho Chi Minh city was VND 3.5 million/month. The organizations are calling upon multinational corporations and brands to use these findings as the basis for their wage payment.

Since 2016, the Fair Wear Foundation (FWF), funded by the Ministry of Foreign Affairs of the Netherlands, has implemented a five-year project on "Living wage incubator"⁷ in Vietnam.

Some recent studies have indicated positive effects of a living wage for workers, employers and society:

A study on the economic impact of local living wages of Jeff Thompson and Jeff Chapman⁸ in the US, shows that:

- Increase in wage to ensure a living wage causes a negligible rise of cost (under 1% of the total cost) which is well below the inflation rate.
- The significantly decreased turnover rate was witnessed in many enterprises in Baltimore, Boston, Los Angeles and San Francisco, allowing companies in Los Angeles to increase their profits by 16%; as the hourly wage level at San Francisco airport rose from \$6.45 to \$10.00, the turnover rate fell from 95% to 19%, morale and discipline saw improvements and quality of services was improved.

A study on "The impact of improved pay and conditions on low-paid urban workers: The case of Royal London Hospital"⁹ at the University of Queen Mary in the UK shows that payment of living wage helps improve the living conditions of workers:

- 30,2% of workers think their lives have been greatly improved
- 23,8% of workers think their lives have been relatively improved
- 33.3% of workers think their lives have been slightly improved.

A study by the Middlesex University and the University of Liverpool (UK) on the benefits of small and medium enterprises when voluntarily paying a living wage shows that:

- 72% of organizations saw positive effects on their image and reputation.
- 60% saw improvements in employer/manager - employee relationship
- 43% saw improvements in morale and productivity

⁶ 9 Countries include India, Pakistan, Bangladesh, Brazil, Ghana, Ethiopia, Kenya, Dominican Republic, Malawi, South Africa.

⁷ "Living wage incubator" project.

⁸The economic impact of local living wages Jeff Thompson and Jeff Chapman, EPI Briefing Paper #170, February 16, 2006

⁹The impact of improved pay and conditions on low-paid urban workers: The case of Royal London Hospital

- 77% said that they paid a living wage as it was in line with their values.

- 15% thought that payment of a living wage increased the wage costs by 10% while 40% disagreed with this view.

3. Implications for Vietnam

Along with the integration process, Vietnam has become an attractive destination for foreign direct investment. The number of foreign investors in Vietnam increased from well below 5,000 in 2007 to approximately 12,000 in 2016; the number of outsourcing enterprises for international brands in Vietnam also grew rapidly. As the trend of living wage payment in developed countries spread to developing countries through movements launched by international organizations, social responsibility standards organizations, multinational corporations ,... Vietnam will soon need to take living wages into consideration.

The concept of a living wage has been studied and initiated in Vietnam, and will be adopted. However, the impact of the living wage in Vietnam remains marginal and is far from being as strong as in developed countries due to limited capacity and low competitiveness of enterprises; the minor role of labor unions and their lack of negotiation skills. Accordingly, the fight for a living wage is faced with many difficulties.

A long period of time had passed with various movements/campaigns launched by living wage coalitions and social organizations,... before the living wage could be implemented in developed countries like the US and the UK ... In the economic intergration trend, with the implementation of corporate social responsibility of multinational corporations and social responsibility

organizations, Vietnam also follows the general trend. The living wage can be adopted in branches of multinational corporations and outsourcing enterprises.

The contents of the living wage need to be promulgated and there should be incentive policies, negotiation and promotion of corporate social responsibility to encourage enterprises. Further studies and calculations on living wage should be conducted in line with the conditions of Vietnam.

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