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1999

The History and Theory of the Living Wage Concept

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The History and Theory of the Living Wage Concept

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April 1999

This paper was produced as a background document in preparation of a Congressionally mandated study which was published by the U.S. Department of Labor entitled *Wages, Benefits, Poverty Line, and Meeting Workers' Needs in the Apparel and Footwear Industries of Selected Countries*, U.S. Department of Labor, February 2000.

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The living wage is a term used to define a “fair and decent” level of income that would enable workers to meet their “basic needs.” There is no agreed upon definition of what specifically “basic needs” are nor is there an agreed upon methodology to determine basic needs; however, it is generally agreed that “basic needs” means more than mere physical subsistence and includes social needs that would allow a household a comfortable and decent standard of living. There appears to be general agreement that a living wage should provide a nutritious diet, safe drinking water, suitable housing, energy, transportation, clothing, health care, child care, education, savings for long term purchases and emergencies, and some discretionary income. However, even with this more detailed definition there remains a significant difference of opinion as to what specifically is required in order to achieve these more specific objectives.[1] In addition, some have argued that the living wage is not just about wage levels but also must concern itself with conditions of work; a maximum hours of work (usually 48 hours) is often part of the living wage discussion. There are a number of U.N., ILO[2], and OAS declarations and conventions concerning the right of a worker to receive an adequate wage but these

[1] For example, in the U.S. there is significant disagreement about what constitutes a living wage; some of the U.S. city living wage campaigns have defined living wages in the $8-10 an hour range while some other groups set it in the $16-19 an hour range.

provide no precise definition of what that wage should be or how it should be determined.

There are a number of organizations and researchers currently involved in the living wage issue and they have different objectives, different methodologies, and have generally concentrated on different countries. In the United States the living wage movement has concentrated at the local level on raising minimum wages for those providing goods and services to city governments. In the developing world the living wage movement has concentrated on raising wages for unskilled workers in export processing businesses or multinationals. There have been several conferences (such as the Living Wage Working Summit in Berkeley during July 1998 and the Global Living Wage Workshop in Atlanta during January 1999) which have brought together a number of the major participants involved with living wage issues in an attempt to establish a more uniform definition and methodology as well as to coordinate strategies for raising wages to living wage levels.

Determination of a living wage has many similarities with national attempts to set minimum wages and poverty levels since these latter two measures are normally defined so as to ensure some minimum living standards. Although the ability of the minimum wage or the poverty level to satisfy some level of basic human needs is generally considered as an important factor in their determination, especially in the lower income

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[2] ILO Convention 131 requires that a minimum wage consider "the needs of workers and their families."

nations, the specific method by which human needs are incorporated into the process of determining minimum wages and poverty levels is often not transparent. In addition, since minimum wages and to a lesser extent poverty levels, are incorporated into legally binding commitments they must be consistent with other national economic objectives such as efficiency, international competitiveness, price stability, unemployment, and fiscal constraints. The living wage, however, does not explicitly address any of these other economic objectives explicitly but focuses solely on what wage level is necessary to achieve "basic needs" without regard to whether or not such a wage is economically inconsistent with the other national economic objectives. As such, that is the major advantage but also the major disadvantage of the concept.

The overall objective of establishing a living wage is usually not made explicit. It is not clear as to whether the living wage is being suggested as a proposed minimum wage, or as a proposed wage for only some workers (perhaps those working for multinationals, producing for export, or working for governments), or is being proposed only as a reference level. Most estimates of living wages are higher than current legal minimum wages.

Although the national economic implications (unemployment, price stability, competitiveness, etc.) of workers receiving a living wage are not explicitly addressed in any of the living wage methodologies, a cross-country comparison of some estimates of living wages prepared by several organizations and researchers reveals that the economic implications are probably being implicitly incorporated into their estimates. Generally, the richer the country the higher the calculated real living wage. For example, the living wage for a single worker in Indonesia has been estimated by Global Exchange to be $400 a year while the living wage for a one worker family in the U.S. has been estimated to be $31,616.[3] This tendency for the estimated living wage to increase with the level of development mirrors a similar tendency for estimates of the absolute poverty level to increase with the level of development.[4] This tendency for the absolute poverty level to increase with economic development is referred to as the income elasticity of poverty. Alfred Marshall commented over a century ago, "every estimate of necessaries must be relative to a given place and time."[5] Llewellyn Smith has even suggested that the public's perception of what constitutes poverty is simply the income level of unskilled labor at that place and point in time.[6] Henry Clay concluded, "The fact that all the poverty lines seem to bear a close relation to the wage of unskilled labor in the country in which they are made makes one doubt the scientific value of the dietetic data on which the line is based."[7]

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[3] There are a sizable number of estimates which differ substantially as to what a living wage is in the U.S.; this estimate is from the National Priorities Project and Jobs With Justice.

[4] The absolute level of poverty is based upon an estimate of the minimum consumption needs of a household and is therefore quite similar to the living wage concept, although the levels may differ; the relative poverty level is based upon some relationship to the median or mean income level and would automatically increase with economic development.

[5] Alfred Marshall, *Principles of Economics*, London: Macmillan Press, 1890, pp.121-122.

[6] Llewellyn Smith, "The New Survey of London Life and Labour," *Journal of the Royal Statistical Society*, Vol. 92, 1929.

[7] Discussion on Mr. Caradog Jones's Paper 'The Social Survey of Merseyside,' *Journal of the Royal Statistical Society*, Vol. 94, 1931, pp. 256.

Although these opinions deal more precisely with the concept of poverty, they would appear to be even more consistent with the living wage level since it is generally defined closely to the poverty level with perhaps some additional discretionary income.

A 1973 study by Kilpatrick calculated the budget costs from 1905 to 1960 of a basket of goods or services in the United States, which Ornati had determined a household would need to live at three designated levels of well-being --- minimum subsistence, minimum adequacy and minimum comfort.[8] The latter two levels represented standards of living higher than minimum subsistence or poverty and therefore were in spirit similar to current living wage definitions. Kilpatrick found that the minimum adequacy level rose by 0.88 percent in real terms for each 1.0 percent increase in real disposable income per capita; the corresponding minimum comfort level increased by 0.998 percent.[9] Gordon Fisher has found similar (e.g., close to one) income elasticities for poverty using several different approaches for the United States, Britain, Canada, and Australia.[10] An exception to this pattern is the U.S. official poverty line which has remained fixed in real terms since it was established in 1969; Fisher concludes that this has happened for political reasons (no Administration wants the poverty rate to go up during its tenure) and because the official poverty level is determined by theoretical statisticians instead of workers in the

[8] Oscar Ornati, *Poverty Amid Affluence*, New York, Twentieth Century Fund, 1966.

[9] Robert W. Kilpatrick, "The Income Elasticity of the Poverty Line," *Review of Economics and Statistics*, Vol. 55, No. 3, August 1973, pp. 327-332.

[10] Gordon Fisher, "Is There Such A Thing as a Absolute Poverty Line Over Time? Evidence from the United States, Britain, Canada, and Australia on the Income Elasticity of the Poverty Line," *Poverty Measurement Working Papers*, U.S. Census Bureau, 1995.

field.[11] Thus although the living wage is often discussed as a living standard that meets some minimum absolute level of well-being, it is apparent that living wages are culturally defined and based upon and move in tandem with the general living standards of the society.

History of the Living Wage

The current attempts to define a wage rate that would provide an "acceptable" standard of living which is above the minimum required for biological existence go back at least to the Middle Ages. The origin of the concept of a "fair and decent" wage was already present in the Middle Ages where wages and prices were not market determined but administratively set in a manner consistent with community values. Since this assessment about fair wages and prices was made "under the immediate and powerful influence of moral and religious teaching,"[12] it incorporated the dominant ethical ideals of the time. The concept that there was some wage level above biological subsistence that was nevertheless "necessary" can be found in the earliest of economic writings. Adam Smith stated in the *Wealth of Nations*:

> By necessaries I understand, not only the 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...Under necessaries therefore, I comprehend, not only those things which nature, but those

[11] Gordon Fisher, pp.34-38.

[12] John Ryan, *A Living Wage*, London, MacMillian, 1912.

> things which the established rules of decency have rendered necessary to the lowest rank of people.[13]

Religious leaders were central to the development of the living wage concept as it was developed in the late nineteenth century. Joseph Cook, a minister, in several lectures during 1877 and 1878 made a distinction between "starvation wages" and "natural wages" or "just wages." He determined what he thought were the necessary requirements for a family and specified the yearly income needed to achieve that standard of living.[14]

During the first decade of the twentieth century academics, the clergy, and charity organizations became interested in determining what the minimum income level was for an minimally acceptable American living standard. The author of each study used their own assessment to determine what physical quantities of goods defined a living standard that was acceptable. A number of budgets for individual U.S. cities were developed for several different levels of well-being; some of the higher living standards included items such as insurance, savings, vacations, reading material, and cultural expenses. Some of these higher working-class living standards were referred to as "a fair living wage."[15]

In 1906 Father John Ryan published a book entitled *A Living Wage; It's Ethical and Economic Aspects* in which he argued for a "living wage" that allowed "a decent livelihood for the adult male laborer." Ryan proposed that a living wage would allow

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[13] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations,* 1789, pp.821-822.

[14] Joseph Cook, *Boston Monday Lectures: Labor with Preludes on Current Events,* Boston: Houghton Osgood and Company, 1980.

[15] Gordon M. Fisher, "From Hunter to Orshansky: An Overview of (Unofficial) Poverty Lines in

income for not only food, clothing and a five room dwelling but also education for four or five children, periodicals, recreation, labor union dues, church contributions, and savings for sickness and old age.[16] He determined the dollar value of a living wage by specifying the required dollar expenditures (but not the exact physical quantities) for 17 types of commodities.

From 1907 on, there have been numerous studies attempting to determine the income necessary to have a "fair" standard of living. These studies were similar in that they were based on a living standard higher than mere subsistence and one that would allow for the "development and satisfaction of human attributes." These studies generally specified the items necessary to obtain this standard of living, determined their prices and calculated the total costs required to obtain those items. The authors gave these income levels various names such as "standard budget," "minimum comfort level," or "fair standard of living." As with the estimates of living wages today, there was never any agreement on specifically what items and what quantities were required in order to obtain an "adequate" living standard.

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the United States from 1904 to 1965," *Poverty Measurement Working Papers*, U.S. Census Bureau, 1997.

[16] John Ryan, *A Living Wage*, pp. 134-136.

Some of the more significant of the early studies include those of Louise More (1907),[17] Wood and Daisy Worester (1954),[18] Scott Nearing (1913),[19] Seebohm Rowntree (1918),[20] William Ogburn (1919),[21] the Australian Royal Commission on the Basic Wage (1919-1920),[22] and Leonard Marsh (1943) for Canada.[23] Using a slightly different approach, Warren and Sydenstricker (1916) studied the budgets of a number of households at different income levels, and determined at what income level the point of adequate dietary subsistence was actually reached.[24] Similarly, Jett Lauck (1917) determined the income level below which infant mortality increased significantly.[25]

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[17] Louise Bolard More, *Wage Earners Budgets: A Study of Standards and Costs of Living in New York City*, NewYork: Henry Holt and Company, 1907.

[18] Daisey Lee Worcester, *Grim the Battles: A Semi-Autobiographical Account of the War Against Want in the United States During the First Half of the Twentieth Century*, New York: Exposition Press, 1954. Daisey Lee Worcester and her husband Wood Worcester provided estimates of a "fair standard of living" for the early part of the twentieth century and are notable in that they 1) attempted to determine if children needed to work to attain that level, and 2) used the diet of the federal prison in Atlanta to determine the food component.

[19] Scott Nearing, *Financing the Wage-Earner's Family: A Survey of the Facts Bearing in Income and Expenditure in the Families of American Wage-Earners*, New York: B.W. Huebsch, 1913.

[20] Seebohm Rowntree, *The Human Needs of Labour*, 1918.

[21] William Ogburn, "Measurement of the Cost of Living and Wages," *Annals of the American Academy of Political and Social Science,* Vol. 81, January 1919, pp.110-122.

[22] Described in Gordon Fisher, "Is There Such a Thing as Absolute Poverty..*,"* pp.32-33.

[23] Leonard C. Marsh, *Report on Social Security for Canada,* Ottawa, Canada: Edmond Cloutier Printer, 1943.

[24] Gordon Fisher, "From Hunter to Orshansky.....," p.22.

[25] Jett Lauck and Edgar Sydenstricker, *Conditions of Labor in American Industries: A Summarization of the Results of Recent Investigations,* New York: Funk and Wagnalls, 1917.

Caradog Jones made an early distinction between a poverty line living standard which he argued was appropriate for a family on public assistance and a "human needs" standard of living that was appropriate for working families which were self-supporting.[26]

During the 1940s and 1950s most of the discussion of income levels was concentrated on determining the minimum poverty level. In 1962 the Conference on Economic Progress provided income requirements for various levels of living which were above the deprivation level, these included a "deprivation-comfort," "comfort-affluence," and "affluent or higher" levels[27]; this was one of the first studies to estimate higher than poverty living standards since the 1930s.[28] Also in 1962, Alice Bourneuf raised the issue of the need to determine a "living wage" that would allow decent housing, good food, medical care, and savings for old age and emergencies.[29]

Methodologies for Calculating a Living Wage

In calculating a living wage there are some general issues that must be addressed and then more specific issues as to how to calculate a living wage. A general issue that all living wage calculations must address is the question of how many workers in a household

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[26] Caradog Jones, *Cost of Living Of Representative Working Class Families*, University Press of Liverpool, 1941.

[27] Conference on Economic Progress, *Poverty and Deprivation In the United States: The Plight of Two-Fifths of a Nation*, Washington, D.C., April 1962.

[28] Gordon Fisher, "From Hunter to Orshansky.....," p.43.

[29] Alice Bourneuf, "Comment on Goldsmith 'Low-Income Families and Measures of Inequality'," *Review of Social Economy,* Vol. 20, No. 1, March 1962, p.20.

should be assumed to work in order to obtain the household income that corresponds to a living wage standard of living, and how many children should be assumed as family members. The number of workers per household is very important since if only one worker is assumed, the wage would have to be 100 percent more than when two workers are assumed. For example, Ryan advocated a wage that would allow a man to support a wife and five children.

Mexico's constitution "guarantees" a living wage capable of supporting a family that must be based on the assumption of one wage earner per family.[30] The Australian federal and state wage policy based it's living wage on a one-worker household of five.[31] The living wage established in Boston beginning in 1998 for providers of government services was set at a level that would allow one wage earner to support a family of four at the federal poverty line.[32] Just as the items considered as being necessary are culturally determined and have changed through time, the expectation that two breadwinners should be required to work appears to have gained some credence (but not general acceptance) as the practice has become more widespread in most cultures.[33] Since a single person can attain a specified standard of living at a lower wage than is required for a two-earner

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[30] Campaign for Labor Rights, based on a discussion at the San Francisco Bay Area Living Wage Summit, July 1997.

[31] Gordon Fisher, "Is There Such a Thing as an Absolute Poverty Line ...," p. 32.

[32] Robert Kuttner, "Boston's 'Living Wage' Law Highlights New Grassroots Efforts to Fight Poverty," *Electronic Policy Network*, October, 1997.

[33] The CEPAA guidelines for the SA8000 generally assume two workers while the NNP/JFJ living wage estimates assume one household worker in a family of four.

family of four, it is not clear why all jobs should have to pay a wage that supports a family when many of the workers do not have families.

Another general issue is whether there is to be an objective of setting internationally consistent standards. Since implementing living wages in internationally competitive industries could alter competitiveness, it may be desirable to develop living wage levels which raise worker income but do not alter the relative competitiveness of industries in specific countries. This objective must address the observed problem concerning the income elasticity of absolute poverty. In addition, the qualitative approach to poverty--in which each community decides what poverty is based on their own characteristics -- suggests that such an attempt at standardization may not even be desirable.[34]

There are two basic methodologies and numerous variations of each that have been used to calculate a living wage. First, there are those that specify a commodity basket of goods that a person or family would need to consume in order to satisfy their basic needs. The cost of the basket is determined, and the wage level necessary to buy the basket is then calculated. Those that first addressed the living wage issue at the end of the nineteenth century used this basket of goods approach. This method has generally been adopted and accepted by consumer, human rights, religious, and labor organizations and appears to address directly what appears to be the primary objective of the living wage

[34] Soniya Carvalho and Howard White, "Combining the Quantitative and Qualitative Approaches to Poverty Measurement and Analysis," *World Bank Technical Paper No. 366*, Washington, D.C., World Bank, 1997.

studies. The second method to determine living wages attempts to impute a living wage based upon national economic statistics. This method relies on some comparison of historical or cross-sectional national income, productivity or wage levels in order to estimate what would be an appropriate living wage. This approach uses statistics to calculate living wage levels using a more roundabout method, and is desirable in that it does not require the detailed data collection required of the market basket approaches.[35]

1) Living Wages Based Upon A Market Basket: The market basket approach designates the types and physical quantities of commodities that are required for a person or household to attain a certain or desired standard of living. There remains significant disagreement as to what types and what quantities of commodities should be in the basket, especially as the level of economic development varies. Once the basket is determined, a pricing survey determines the monetary costs of the basket. This figure is then adjusted by considering average family size and the number of workers. There are two basic market basket methodologies used to calculate the costs of the necessary items; one specifies the whole basket of goods and the other specifies only the food basket and then extrapolates the costs of the remaining items based on the costs of the food basket.

1A. The Full Market Basket Approach. Since the this method specifies the complete basket of required goods and determines their costs, the approach makes explicit

[35] These approaches require significant data but most, if not all, of it is readily available from existing sources.

exactly what goods are being assumed to be needed in order to meet basic needs.[36] A disadvantage of the approach is that it requires a significant amount of price data to be collected. For some items such as health care, monthly or even yearly expenses could vary widely and therefore statistical procedures may have to be used to estimate their costs in the basket. Although, the approach could generally be implemented universally, the required basket of goods which would be required to meet basic needs will vary by time and location as food consumption patterns, housing needs, family size, education requirements, and public health vary. Thus if living wage levels are to be calculated for every country or even subregion, a significant amount of continuous on-site data collection would be required. There is no scientific method which could be used to ensure that living wages were comparable from region to region where the baskets varied since it is widely accepted by the economics profession that interpersonal comparisons of well-being (utility) can not be made.

Although the types and quantities of food items that are to be part of a market basket vary, there appears to be some agreement amongst those that have proposed food baskets that the basket should at least assure a minimum required calorie intake and should assume a diet of the most affordable local foods. The required level of calories varies

[36] This was the method used by the first writers to estimate a living wage, including John Ryan's *The Living Wage*, in 1906; many of the early writers simply gave dollar amounts for the various items and did not specify the exact physical quantities.

from around 2,250 to 3,000 per person per day; this level provides more energy than is necessary for biological survival and allows the worker to carry out normal work and life activities. As a practical matter, the calorie requirement will vary with the persons weight, state of health, and level of activity. In addition, a healthy diet is more than just calories; the degree to which the diet should include the correct proportions of the food types (fruits, vegetables, etc.) needs to be considered.

The Amos Tuck School of Business used a variation of the full market basket approach to determine that NIKE was paying its workers a living wage in Indonesia (1997) and Vietnam (1997).[37] The Global Exchange used this method to determine that NIKE was not paying its workers in Indonesia a living wage in 1998.[38] The "minimum living level" (MLL) calculated by the University of South Africa and the "household subsistence level" (HSL) calculated by the University of Port Elizabeth use this method in their roles in determining required wage levels for compliance with the Statement of Principles for South Africa (a voluntary business code for firms operating in South Africa).[39]

A variation of this approach referred to as the Purchasing Power Index (PPI)

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[37] Derek Calzini, Jake Odden, Jean Tsai, Shawna Huffman, and Steve Tran, "Survey of Vietnamese and Indonesian Domestic Expenditure Levels: Nike, Inc," Amos Tuck Business School, November 1997.

[38] Global Exchange, *Wages and Living Expenses for Nike Workers in Indonesia*, Web site www.globalexchange.org, 1998.

[39] Arthur D. Little, Inc., "Fourteenth Report on the Signatory Companies to the Statement of Principles for South Africa," Cambridge, Mass.: Industry Support Unit of Arthur Little, 1990.

method attempts to determine the working time required to purchase the basket of goods and from that determines the required living wage. Ruth Rosenbaum, of the Center for Reflection, Education and Action has completed studies using this PPI method for Mexico (1994), Haiti (1995),[40] and Indonesia (1996). There does not appear to be any useful advantage in making the conversion into working times in order to calculate the living wage; however, the working time conversion provides useful complementary information that allows comparison between countries with different currencies without the distortions created by conversion into dollars,[41] or historical comparisons independent of nominal dollar evaluations.

Given that some costs vary directly with family size and others do not and the difficulty of including absolutely every item in the basket, a more precise formula has been suggested (by the Living Wage Working Summit at Berkeley)[42] where the living wage (LW) equals average family size (FS) times the cost of a basic needs basket for an individual (BN) plus housing costs (H), which is then divided by the average number of workers (W) with an additional 10 percent added for discretionary income, i.e., LW=1.1((FSxBN)+H)/W.

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[40] CREA (Center for Reflection, Education and Action), *In Whose Interest: Using the Purchasing Power Index to Analyze Plans, Programs and Policies of Industrialization and Development in Haiti*, February 1996.

[41] Although using dollar exchange rates allows one to make comparisons in a common currency it is not clear if it is a meaningful comparison due to distortions in exchange rates such as the Balassa-Samuelson purchasing power parity bias.

[42] Results of the Berkeley summit were obtained from the CREA (Center for Reflection, Education and Action), *Sweatshop Watch,* Web Page: www.sweatshopwatch.org.

1B. <u>The Extrapolated Food Basket Approach.</u> The second market basket approach calculates the costs of a market basket of only food items in a manner similar to the first approach,[43] and then extrapolates from that what the required level of expenditure of all other goods would be.[44] Generally what has been assumed is that workers at the living wage level of income should only be required to spend the same percentage of their income on food as the average person in their nation. For example, if the average consumer in a country spends 25 percent of their income on food, then the living wage is 4 times the costs of purchasing a basket of necessary food items. This approach requires less data to be collected since the costs necessary to buy the non-food items, which may generally be more difficult to quantify, are imputed from the cost of the food basket instead of being directly computed. However, the legitimacy of this extrapolation which uses the national average food/income ratio can be questioned since it would be expected that poorer households would (and perhaps should) spend a higher percentage of their income on food.[45] The result of this distortion would be that if a food basket was specified and a living wage was extrapolated from it using this method, the average

[43] There is no methodological difference in general principles between the full market basket and the extrapolated basket approaches as to how the food basket should be determined, but in practice there is no general agreement between the approaches or even amongst different researches using a similar approach, as to what specifically should be in the food basket.

[44] This approach was used to estimate living wages as early as that of Louise More in 1907. She appears to have adopted the approach from Richard Mayo-Smith, *Science of Statistics: Part II: Statistics and Economics*, New York: Macmillan, 1899.

[45] This is a well established empirical relationship of consumer expenditure studies and is referred to as Engel's Law.

worker who received that wage would actually purchase a larger food basket than what was assumed in the living wage calculation.

As discussed, the living wage estimates appear to implicitly raise the living wage level as the level of national income increases; this food basket extrapolation approach has a built in mechanism which results in this outcome since average food expenditure as a percentage of national income declines with development. Thus a given food basket results in a higher estimated living wage as per capita national income increases. In addition, the quantity and quality of foods thought necessary to be included in the basket are also likely to be upwardly adjusted with development.[46]

The Council of Economic Priorities has used a variation of the extrapolated food basket approach for their SA 8000 standard.[47] The SA 8000 explicitly states that the food basket should provide at least 2,100 calories. Their living wage formula assumes two wage earners and allows an additional 10 percent of income for discretionary purposes. Therefore their formula estimates the budget for an individual as the cost of a basic food basket for one person (BF) multiplied times the ratio of total expenditure (E) to average household food expenditure (AF), and then multiplies this amount by 1.1. This estimated budget for an individual is then adjusted for household characteristics by multiplying the

[46] For example, Ornati's minimum comfort basket included 25.9 pounds of milk and meat in 1908 but had increased to 54.7 pounds by 1960. This bias would also be present in the full market basket approach.

[47] CEPAA (Council on Economic Priorities Accreditation Agency), *Guidance Document for Social Accountability 8000*, New York: CEPAA, 1998 (www.cepaa.org).

individual amount by the average household size (FS) and then dividing by two (the number of workers (W)), i.e., LW=(1.1xBFx(E/AF)x(FS/W).

The extrapolated food basket approach was used by the United States Government to establish the "poverty line" in 1969; since that time it has been adjusted annually for inflation. The cost of the most economical but adequate diet for an household was estimated in 1968, and it was also estimated that an average family spent one-third of their income on food; the poverty line was then defined as three times the cost of the food basket.[48] Most of the municipal living wage proposals for U.S. cities have attempted to set a wage that would allow a worker to support a family at or above the official U.S. poverty line, so indirectly their living wage calculations are based upon an extrapolated food basket.

2) <u>Living Wages Imputed from National Economic Statistics:</u> The alternative to determining a living wage based upon hypothetical market baskets is to use national economic statistics to impute what a minimum wage or a living wage should be. Several methods have been suggested; two of these are by Rothstein but are restricted to estimating living wages only for developing nations.[49] In the first method, Rothstein suggests using a unit costs method that is based upon the unit labor costs in apparel export industries with possible adjustments for the level of development. Rothstein's

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[48] Gordon Fisher, "Is There Such a Thing as Absolute Poverty...," 1995.

[49] Richard Rothstein, *Developing Reasonable Standards for Judging whether Minimum Wage Levels in Developing Nations Are Acceptable*, Economic Policy Institute, 1996.

second method uses the minimum wages (or prevailing wages) of currently developed nations when they were at similar levels of development as developing nations today.

2A. Unit Cost Method. The unit cost method determines the wage level that would equate the labor cost in making an apparel item in a nation with that in the United States. Thus if productivity in a nation was one-half of that in the U.S. the calculated wage which would equalize wage costs would be one-half of the U.S. wage. Rothstein suggests that this wage could be further adjusted downward to provide concessions for countries at different levels of development; these proposed adjustments are large -- he suggest, as an example, that the Bangladesh wage would be adjusted downward by 80 percent. The adjustment factor seemed to be arbitrarily determined. Thus nations' comparative advantages would be determined not by opportunity costs but by an arbitrary number chosen by some organization. The method itself would not insure that a wage so determined was sufficient to achieve basic needs since the income needs of workers are not considered at any point in the calculation.

2B. Historical Comparison Method. A second method proposed by Rothstein and the Trade Partnership for the National Retail Institute attempts to determine what developing countries' wages should be by comparing them to the minimum wages of more advanced countries when they were at similar stages of economic development. Rothstein has used this method to compare historical minimum wages in the United States to those currently in Chile, Dominican Republic and Mexico; he finds that U.S. minimum wages were three or four times higher than those currently in Chile or Mexico. This method, like the unit costs method, does not insure that a wage so determined would necessarily be sufficient to achieve basic needs since U.S. minimum wages may not have been sufficient at earlier times, inflation and exchange rate adjustments are likely to introduce significant distortions, and the concept of basic needs could now be different due to the tendency for the concept to change through time.

2C. <u>Relative Income Methods.</u> Some nations, especially the more developed ones, use relative income measures to set their minimum wage levels or to define their poverty levels. For example, Israel defines it's minimum wage as 47.5 percent of the gross monthly wage and the poverty line is defined as 50 percent of median net income (adjusted for family size). Peter Townsend first proposed this method in 1962.[50] Another early advocate was Victor Fuchs who wrote "attempts to define poverty in absolute terms are doomed to failure because they run contrary to man's nature as a social animal."[51] Since the percentage adjustment is arbitrary, these relative definitions could implicitly consider the ability of households to purchase a commodity basket consistent with some specified standard of living when they are created; but since they make no explicit attempt to do so they do not guarantee that basic needs will be met. As such, this method has not been adopted by those making living wage calculations. If the original percentage was determined based upon a market basket approach, then this method could possibly be used

[50] Peter Townsend, "The Meaning of Poverty," *British Journal of Sociology*, Vol. 13, No. 3, 1962.

[51] Victor Fuchs, "Towards a Theory of Poverty," *The Concept of Poverty*, Washington, D.C.: U.S. Chamber of Commerce, 1965.

as a simple way to estimate yearly updates in a manner similar to the way market baskets are often updated using an inflation adjustment instead of a complete recalculation of the costs of the market basket. Given the fact that the market basket approaches appear to be quite relative in practice although in theory they are considered as an almost absolute measure, as a practical matter, the relative income methods and the market basket methods may be more similar than is readily apparent.

Conclusions

The living wage is an old concept if it is interpreted as the belief that workers are entitled to a certain minimum quality of life that is above biological subsistence and above what has generally resulted from market generated outcomes for unskilled labor. The idea that workers should be paid an “appropriate” wage existed in the Middle Ages (if not throughout human history since labor began to specialize) and has remained a ideological belief of some although societies overall have moved towards wages set by market generated outcomes over the last several centuries. The movements during the twentieth century to establish poverty levels and minimum wages have been motivated by similar concerns.

The living wage movements of today share the common motivation of increasing wages for those near the bottom of the income distribution in their societies but are diverse in large number of ways. They use different methodologies to determine what a living wage level is, and even when the methodology is similar they often make different assessments as to what level of well-being is considered “suitable.” There is no “scientific” basis for determining this level of well-being as it is subjective and highly influenced by the economic conditions in which it is made. In an overwhelming majority of cases, those that have undertaken this assessment are usually advocates for the low-paid workers and have generally concluded that a living wage standard of living in a given location is one that is moderately above what an unskilled worker in that location can currently obtain based upon market determined wages. In addition those that have undertaken living wage calculations appear to have different objectives in that some target workers in only specific industries while others appear interested in raising minimum wages for all workers in a city or nation.

The major contribution of the current living wage movement is that they attempt to highlight the inadequacy (in their assessments) of current market determined wage outcomes for the unskilled; this information may be useful for government agencies setting poverty and minimum wage levels, or business in negotiating with labor, or consumer groups, or humanitarian agencies. The shortcoming of the living wage movement is that if their objective is to alter current wage levels, they do not consider the economic implications of these wage changes for other national economic objectives such as unemployment, inflation, international competitiveness, growth, and fiscal constraints.