



THE EUROPE FLOOR WAGE BENCHMARK

A Living Wage in Central,
East and South-East Europe

**Clean
Clothes
Campaign**



**FASHION
CHECKER** 

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The Clean Clothes Campaign (CCC) is a global network of labour and human rights organisations, including unions. It campaigns and advocates for the improvement of working conditions in the apparel and sportswear industry. CCC uses action-oriented research to inform its campaigning, advocacy and lobbying strategies in its quest for a human rights compliant garment manufacturing industry. The human right to a living wage lies at the core of its activities because it is the core of workers' grievances.

The CCC group that adopted this report is the **European Production Focus Group**, consisting of CCCs and other organisations from Central, East and South-East Europe: Albania, Bulgaria, Bosnia-Herzegovina, Croatia, Czechia, Georgia, Hungary, North Macedonia, Moldova, Poland, Romania, Serbia, Slovakia, Turkey and Ukraine. This group is the alliance carrying the cross-border base living wage benchmark in Europe – the EUROPE FLOOR WAGE.

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SUMMARY

A worker-centred and cross-border benchmark for a base living wage

Buyers should pay the full price of a garment. This includes a wage that workers can live on.

What sounds logical is in fact the source of significant political debate among stakeholders in the global garment and sportswear sector. Though the right to a living wage is a human right, workers' wages are far below a living wage and – in Central, East and South-East Europe – even fall considerably below the EU poverty line.

The **human right to a living wage** has been codified by UN institutions as well as European bodies. The subject and target of these covenants are states. Since 2011, the UN Guiding Principles on Business and Human Rights have established the obligation of companies – not just states – to obey human rights.

A living wage is a central enabling human right and vital for any real development. During recent years, when the discourse on a living wage in the fashion

industry was mainly facilitated by the Clean Clothes Campaign, the **main features of a living wage definition** have been widely agreed among experts and stakeholders. The current discourse focuses less on differing definitions and more on how to implement it.

There are many **voluntary initiatives** that aim to increase wages in the sector. Despite all this, workers in the garment industry of the Global South, and specifically in the 'Global East', receive just a small fraction of a living wage. Therefore, we must go beyond voluntary initiatives.

A fundamental feature of the Asia Floor Wage, as well as the Europe Floor Wage, is its **gender sensitivity**. We stress the family dimension of a living wage. In most production countries in Europe, garment workers – usually women – are often the breadwinners of the family or single mothers. Husbands¹ very often are jobless, engage in informal activities – or migrate to western European countries in search of work. This income poverty leads women to work more overtime, engage in second jobs or search for the cheapest food, all of which result in absolute time poverty.

1. See, for instance, the 2019 Romania country profile: <https://cleanclothes.org/livingwage/europe/country-profiles/romania/view>

Most workers in the garment industry in Central, East and South-East Europe receive just the legal minimum wage – often after overtime.

The statutory minimum wage in these countries does not prevent workers from falling into poverty but is, on the contrary, a guarantee for being poor.

Measured against the EU's poverty line (60% of the average or median salary in a country), **minimum wages are, on average, equivalent to two thirds of this threshold** (see infographic p7).

Given the balance of power in national minimum wage setting mechanisms and the balance of power between national governments and the European Commission and International Monetary Fund, it is not surprising that governments accept the dire poverty of their minimum wage earners. Minimum wages are politically negotiated benchmarks where costs of living play a minor role – if at all. Furthermore, the EU poverty threshold of 60% of the average wage is far from a reliable indicator of poverty in a country where average wages are themselves poverty wages.

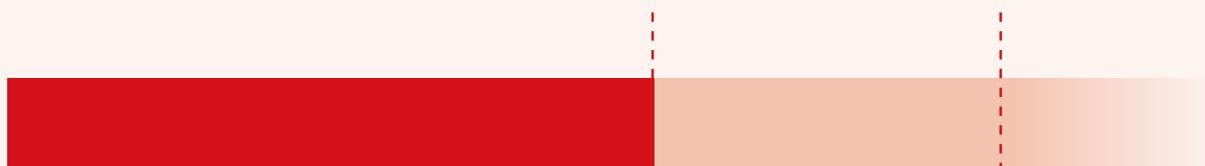
In setting appropriate benchmarks for living wages, we seek to **look beyond national borders**. A concept that aims to put workers at its core has to take this global fast fashion business model into consideration. It aims at challenging the constant relocation threat and circumventing competition around wages. The global fast fashion business model creates the need for a policy that fights the relocation competition between countries/regions around wages – and yet does not make diverse countries equal. With the Europe Floor Wage, we followed this aim. Our goal is to put a floor on the 'race to the bottom' between and within European garment producing countries.

But this does not mean that the Europe Floor Wage is the only possible estimate. On the contrary: **cross-border and national living wage benchmarks complement each other**. We are avoiding the trap of searching for the perfect wage estimate as such a thing does not exist. The proposed benchmark that the CCC brings forth is not meant to exclude policy space for deviations. It can be further tailored by trade unions in different countries, based on their needs and contexts.

Minimum wages are, on average, equivalent to two thirds of the EU's poverty line

LEGAL MINIMUM WAGE

POVERTY LINE



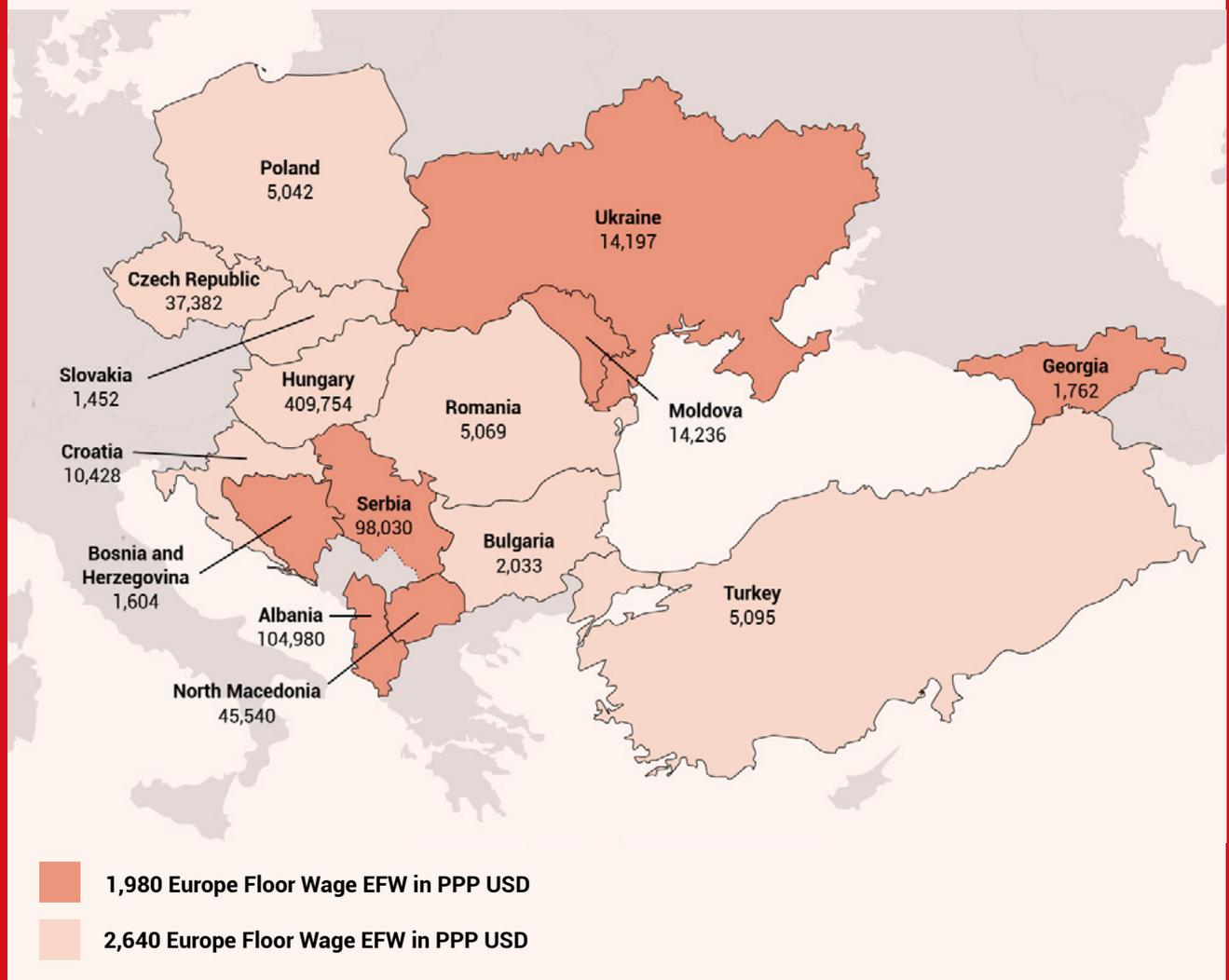
Through our joint regional approach we aim to intensify the urgent struggles for living wages and to support the bargaining power of trade unions. With the development of a Europe Floor Wage, CCC's European Production Focus Group would like to facilitate concrete and enforceable measures towards achieving higher wages for garment workers. We aim to achieve progress for workers in Central, East and South-East Europe.

We intended the cross-border base living wage estimate to be **simple and easy** to understand. Limited resources do not allow extended and continuous research. Therefore, we think that the method used by the Asia Floor Wage Alliance delivers in terms of the above-mentioned features of a living wage: on the basis of Engel's law, it concentrates on food and less all other household expenditure.

So, how is the Europe Floor Wage formula designed? Just like the Asia Floor Wage, we calculate food costs based on a diet of 3,000 calories per day. The Europe Floor Wage (EFW) deviates from its Asian sister in the assumed percentage of household expenditure allocated to food. Two clusters of countries were chosen with assumed food shares of 30 and 40% for Europe-East/South. This is different to the Asia Floor Wage where the food to non-food ratio is now 1:1.25 (food share = 45%).



For the reference year 2018, we thus calculated a Europe Floor Wage of PPP USD 1,980 for Serbia, Bosnia-Herzegovina, Georgia, North Macedonia, Albania, Ukraine and Moldova, and PPP USD 2,640 for Slovakia, Hungary, Poland, Turkey, Croatia, Czechia, Bulgaria and Romania.

INFOGRAPHIC:Europe cross-border base living wage estimate in national currencies, 2018²

1 Introduction: Why focus on a living wage?

Poverty pay is a disgraceful reality if we consider the profits being made by brands and retailers in the garment supply chain.

They benefit from having dual control over the international consumer market and low-cost production areas in the Global South and the 'Global East'. In the production market, brands and retailers have traditionally created competitive pressure for contracts among their suppliers, leading to a race to deliver the lowest production costs.

Entitlement to a living wage is important to the empowerment of women not only in their workplaces but also as economically active members of their societies. Gendered employment is a factor in wage levels as women dominate the garment factory floor. They are typically paid less than men and are given fewer opportunities to be promoted to better paid jobs. Precarious employment arrangements perpetuate constant insecurity of earnings.

When women are unemployed, they are often faced with a non-existent or under-functioning social security system, or find that financial contributions to the social security system have not been paid. The current wages paid to garment workers are inadequate; instead of offering enrichment, they embed workers in poverty, debt, and in a traditional lower status in society and the workforce. A change to such conditions is long overdue.

Some retailers and brands recognise in principle the right to a living wage in their voluntary codes; however, in practice they often just monitor suppliers' compliance with the statutory minimum wage in any given local setting. Almost none of them ensures a living wage in practice.³ Meanwhile, governments in producing regions, like in Central-East-Southeast Europe, keep **minimum wages as low as possible, on average at a quarter of living wage levels** (see table on page 11), comparing the wage rates constantly with competing countries and keeping in mind the risk of brands relocating their orders. The threat of relocation is a major impediment in bargaining over wages and also a huge hurdle towards an organised workforce.

3. See CCC (2019): *Tailored Wages*, <https://archive.cleanclothes.org/resources/publications/tailored-wages-2019-the-state-of-pay-in-the-global-garment-industry>



In theory, it should be possible for unions to bargain upwards from the statutory minimum, standing on a wage 'floor' that is set by law. In practice, that floor is absent in most locations.

This paper **summarises and concludes discussions** that the CCC's European Production Focus Group (Europe-East/South Group) has had in numerous meetings and calls since 2014. Our intention has been to find a methodology for a cross-border base living wage benchmark for European garment production countries. After many deliberations, decisions on critical points were taken in the group with the argumentation for such choices given below. During all these years, we have been in close contact with the Asia Floor Wage Alliance to learn from their experience and knowledge.

MADE IN EUROPE – MADE FAIR?

It seems to be widely presumed that working conditions and wages in European fashion production are better than in Asia. The Clean Clothes Campaign has already questioned this notion in its 2014 report *Stitched up* where we found out that the **gap between the minimum and actual wages of workers and an estimated minimum living wage tends to be bigger in Europe than in Asia.**⁴ In Europe-East/South⁵ we find a comparatively low level of unionisation⁶ in general and in particular in the garment industry.



4. *Stitched Up – Poverty wages in the garment industry in Eastern Europe and Turkey*, pp. 34/35: <https://cleanclothes.org/file-repository/resources-publications-stitched-up-1/view> – last accessed 15/2/2020. Please also see the CCC's country profiles from the region: <https://cleanclothes.org/campaigns/living-wages-in-europe> – last accessed 15/2/2020.

5. The term 'Europe-East/South' is used to describe the Central, Central-East and South-East Europe region.

6. Kurz Vandaele / ETUI (2019): *Bleak prospects: mapping trade union membership in Europe since 2000*. <https://www.etui.org/Publications2/Books/Bleak-prospects-mapping-trade-union-membership-in-Europe-since-2000>

2

The human right to a living wage in public international law

The human right to a living wage is a human right established in the **UN Universal Declaration of Human Rights**:

“Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity”

(Universal Declaration of Human Rights, Article 23, para. 3). Already the Preamble of the ILO Constitution (1919) referred to *“the provision of an adequate living wage”*.⁷ Recent ILO definitions of *Decent Work* reassure this notion.

In the European context, the Council of Europe’s 1965 European Social Charter (ESC) and its revised version of 1999 codify the right to a living wage in Article 4, No 1: *“to recognise the right of workers to a remuneration such as will give them and their families a decent standard of living”*.⁸ The ESC is recognised all over Europe, not only in EU member states. In 2017 the European Union set up its European Pillar of Social Rights (EPSR),⁹ which makes reference to the *“right to fair wages that provide for a decent standard of living”* (EPSR).

7. Report presented to the Peace Conference by the Commission on International Labour Legislation (1920a). Available at: http://www.ilo.org/public/libdoc/ilo/1920/20B09_3_engl.pdf
8. *European Social Charter*, available at: <https://rm.coe.int/168006b642>
9. *European Pillar of Social Rights*, p. 15. https://ec.europa.eu/commission/sites/beta-political/files/social-summit-european-pillar-social-rights-booklet_en.pdf

Pay garment workers a **LIVING WAGE**



They should be able to afford:



1 food



2 rent



3 healthcare



4 education



5 clothing



6 transportation



7 savings



A living wage is a human right, for **ALL** people, **ALL** over the world



3 What are the main, agreed features of a living wage?

The rich accounts on the normative foundation of the right to a living wage provided a call for its main properties to be devised. These are the features commonly agreed among most stakeholders and experts:

- a. As a universally applicable Human Right, it reaches out to **all** workers independently of their status in the workplace, their productivity or personal situation (ex. marital status). It is the lowest paid wage and no worker earns less than the defined living wage.
- b. It must always be sufficient to meet the **basic needs** of workers, including safe drinking water, sanitation, public transport, health and education facilities,¹⁰
- c. and those of their **families**,
- d. and provide a **discretionary income** (usually an additional 10% of the costs for all basic needs).
- e. It must be earned during **regular working hours**, i.e. without overtime.

A living wage is a category that includes costs of living only. Productivity or economic capacity of an employer are **not** under consideration.



10. International Labour Organisation (1977) *Employment, Growth and Basic Needs: a One-World Problem: the International "Basic-Needs Strategy" Against Chronic Poverty*, prepared by the ILO International Labour Office and the decisions of the 1976 World Employment Conference, Overseas Development Council and International Labour Office, Praeger, p. 32.

4 How does the CCC specify a living wage?

There are slight differences among actors and stakeholders in living wage definitions and, consequently, its calculation.

Here we would like to explain how the CCC specifies the above-mentioned widely agreed features.

A LIVING WAGE AS A BASIC NET WAGE

A living wage is a **basic net wage** for a **regular working week** (duration of the working week according to national legislation), without overtime, before bonuses and allowances, and after taxes. In other words, it is the wage that workers have as cash in their pocket at the end of the regular work month. Although workers used to benefit from a range of subsidised provision in relation to public housing, childcare, subsidised heating, transport and so on, processes of 'recommodification', the marketisation of formerly public services – for example, via privatisation – have expanded the basket of goods and services that have to be paid for from their disposable income.¹¹ Their take-home pay also has to cover the expenses that used to be funded via social contributions and income tax.

It is paid in cash, not in kind. Receiving a part of their income in kind or in the form of coupons or other forms of benefits would render workers dependable on their employer and job positions, hence decisively limiting their economic freedom while also affecting the right to self-determination or agency.

11. Eurofund (2018), *Concept and practice of a living wage*, Publications Office of the European Union, Luxembourg, available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef18064en.pdf

WHAT EXACTLY ARE BASIC NEEDS?

The elementary needs the CCC is surveying with regard to garment workers in Europe are food (a diet of 3,000 calories per day), clothing, transportation (public transport passes), housing (rent for accommodation or interest rates for a mortgage, normal household maintenance), utilities and communication (electricity, heating, water, garbage collection, phone, internet), education, leisure and culture, normal health and hygiene costs, and holidays (a one-week trip within the country for all household members).

A LIVING WAGE AS A FAMILY CONCEPT – A GENDER-SENSITIVE APPROACH

The above-mentioned international public norms clearly define a living wage as a family wage.

By principle, a living wage must be paid to a worker independently of their personal situation. If a living wage is split into a single/family wage, competition and cost pressure will lead to workers with families being affected by job-hiring discrimination and deprive unmarried workers of their chance to start a family. Field research has shown that female workers are discriminated against if they become pregnant or are advised not to procreate while being employed in the factory.

We calculate the living wage as a family wage, whereby we understand family as a **household care network that is not limited to the immediate family**. It includes the societal expectations and obligations placed on women, and takes into account realities such as the need to support the extended family and engage in unpaid care work for elders and children. Combined with the trend of the young – and, in particular, better educated¹² – to emigrate, the care deficit will undoubtedly increase and pose huge challenges to these societies.

A living wage is a central enabling human right. It is a powerful tool not only to improve the working situation of women workers but also to create an environment in which they can realise their full capabilities. If a living wage concept does not include a gender-sensitive approach, it is likely that the lack of family and household income will continue to lead to an intra-household distribution of resources that discriminates against women and girls, by, for example, allocating them less nutritious food or denying them access to school or medical services. Field research has confirmed that in garment workers' or other low-income households, women and girls often eat less nutritious food and boys are preferred over their sisters for costly higher education or medical services.

Another reason for stressing the family dimension of a living wage is the fact that in most production countries in Europe, garment workers – usually women – are often the **breadwinners** of the family or single mothers. Husbands¹³ very often are jobless or engage in informal activities – or migrate to western European countries in search of work. This income poverty leads women to work more overtime, engage in secondary employment, or search for the cheapest food, all of which result in absolute time poverty.¹⁴

Furthermore, women are more likely than men to work in **informal job arrangements**. Next to formally employed workers, there may be women who have no wage agreements, receive a pure piece rate with no regular working hours, earn little (not a living wage and often below legal minimum wage standards), are not paid on time, have no employment contracts, are not covered by social benefits, and who are not a priority for most governmental, political or labour organisations.

12. Especially problematic is the immigration of a large number of care workers (e.g. nurses and doctors) to Germany and other western European countries due to their policies of attracting workers from these professions.

13. See, for instance, the 2019 Romania country profile: <https://cleanclothes.org/livingwage/europe/country-profiles/romania/view>.

14. Luginbühl, C. (2019): *Will women workers benefit from living wages? A gender-sensitive approach to living wage benchmarking in global garment and footwear supply chains*, available at: https://cleanclothes.org/file-repository/ccc_dec2019_luginbuhl_lw_gender.pdf/view. Time poverty is a concept developed along the notion of income poverty by Clair Vickery in 1977 ('The Time-Poor: A New Look at Poverty', *Journal of Human Resources*, 12, 1, 27-48, Win 77). The need to constantly cut costs requires time: shopping for the cheapest possible food, for example, takes more time. In addition to working one or multiple paid jobs and carrying out unpaid care work, income-poor women are also often forced to invest a disproportionate amount of time in domestic work.

5 Why don't legal minimum wages protect workers from poverty?

In this section we will argue that minimum wage levels and policies, as well as ways of benchmarking poverty in Europe, are unsuccessful in providing relief for low-income workers.

Instead of a living wage, the actual benchmark for garment workers is now the legal minimum wage. Most garment workers around the globe receive the legal minimum wage during regular working hours – sometimes even only with overtime.¹⁵

THE DIFFERENCE BETWEEN A LIVING WAGE AND A LEGAL MINIMUM WAGE

What mostly sets these two concepts apart is their foundational principle. We relate to living wages as a human right principle based exclusively on costs of living. By contrast, statutory or legal minimum salaries are market-based policies and are thus set in accordance with a country's economic comparative advantage. Despite the fact that a minimum and a living wage are alike in the sense that they aim to provide enough of an income buffer for the low paid, minimum wages are legal and compulsory while the living wage is, for now, in most cases, not regulated.

Minimum and living wages are similar in that both offer remuneration for the labour performed; however, their coverage differs. The former is an individual wage while the CCC emphasises the concept's family dimension. Minimum wage levels largely depart from a needs- and cost of living-based perspective since they should reflect '*medium-term productivity in the industrial sector plus target inflation rate of the central bank*'.¹⁶

15. As, for instance, in Bulgaria: https://cleanclothes.org/file-repository/2019_ccc-countryprofile-bulgaria_eng.pdf/view.

16. Herr, H. and Kazandziska, M. (2011) *Principles of Minimum Wage Policy – Economics, Institutions and Recommendations*; Global Labour University working papers; No 11

TABLE:

Difference between minimum wage and living wage

	Minimum wage	Living wage
Who pays	Employer	Employer
Target	Wage earners	Wage earners
Coverage	Individual	Family
Legally enforced	Yes	No*
Foundational principle	In practice: competitive advantage	Human rights – costs of living
Method	Market-based	Needs-based
Mechanism	Tripartite institutions/ government	Social partners/self-assessment

* Despite constitutional provisions for a living wage, for instance, in Croatia.

Lastly, the process by which the quantitative levels of these two principles are set is different. In most of the Central, Eastern European and South-Eastern European countries, the mechanism of setting the minimum wages is supposed to be negotiated in a tripartite way (involving the labour ministry, employers' associations and trade unions) and adjusted annually. In many countries, tripartite bodies do not make decisions; in case of non-agreement, the government decides. In 2018, for instance, in Bulgaria, Croatia, Czechia, Poland and Slovakia, social partners failed to agree on a minimum wage level following consultations and negotiations in their national tripartite bodies. The government then set the level unilaterally.¹⁷

THE RESTRICTIVE WAGE POLICIES IMPLEMENTED IN THE AFTERMATH OF THE 2008/2009 FINANCIAL CRISIS

Moreover, the period of recession that followed the financial crisis of 2008 was also mirrored by minimum wage levels. Budgetary restrictions on wage growth in the public sector have been introduced in most countries in the region.¹⁸ Under the IMF's conditionality policy, Bulgaria, Hungary, Bosnia and Herzegovina, Albania, North Macedonia, Serbia and Romania were 'advised' to freeze public sector wages and pensions in nominal terms in 2009 and 2010, hence undertaking sharp budgetary cuts and halting wages. Moreover, many governments have tried to tie wage restrictions in the public sector with controls on wage progression in the private sector – for instance, in Ukraine.¹⁹

The European Commission and the International Monetary Fund (IMF) are now hailing the new Ukrainian president, parliament and government for its "rapid legislative activity".²⁰ Their major focus is fiscal discipline where labour and human rights do not play a role. In its *Association Implementation Report on Ukraine* published on 12 December 2019, the European Commission is actually pushing for austerity policy 'reforms', such as reducing social transfers and weakening labour law and institutions for the protection of workers, e.g. labour inspections. While the EC criticises a "weakened fiscal discipline, as wage and pension increases took place", it had to acknowledge that wages in Ukraine are some of the lowest in Europe.²¹ Between 2016 and 2019, minimum monthly pensions, for instance, have increased from EUR 43²² to EUR 61 – an amount that the vast majority of women actually receive in their retirement.

17. Eurofound (2019) *Minimum wages in 2019: Annual review*, Publications Office of the European Union, Luxembourg, p. 15

18. Schmidt, V. and Vaughan-Whitehead, D. (eds.) (2011) *The Impact of the Crisis on Wages in South-East Europe*; International Labour Office, ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe, Budapest: ILO, p. 16

19. CCC: Ukraine country profile; <https://cleanclothes.org/livingwage/europe/country-profiles/ukraine>

20. European Commission: *Association Implementation Report on Ukraine*, 12/12/2019. https://eeas.europa.eu/sites/eeas/files/swd_2019_433_f1_joint_staff_working_paper_en_v4_p1_1056243.pdf – last accessed 15/2/2020.

21. *ibid* pp. 11/12

22. CCC, Ukraine country profile – p. 10: <https://cleanclothes.org/livingwage/europe/country-profiles/ukraine>

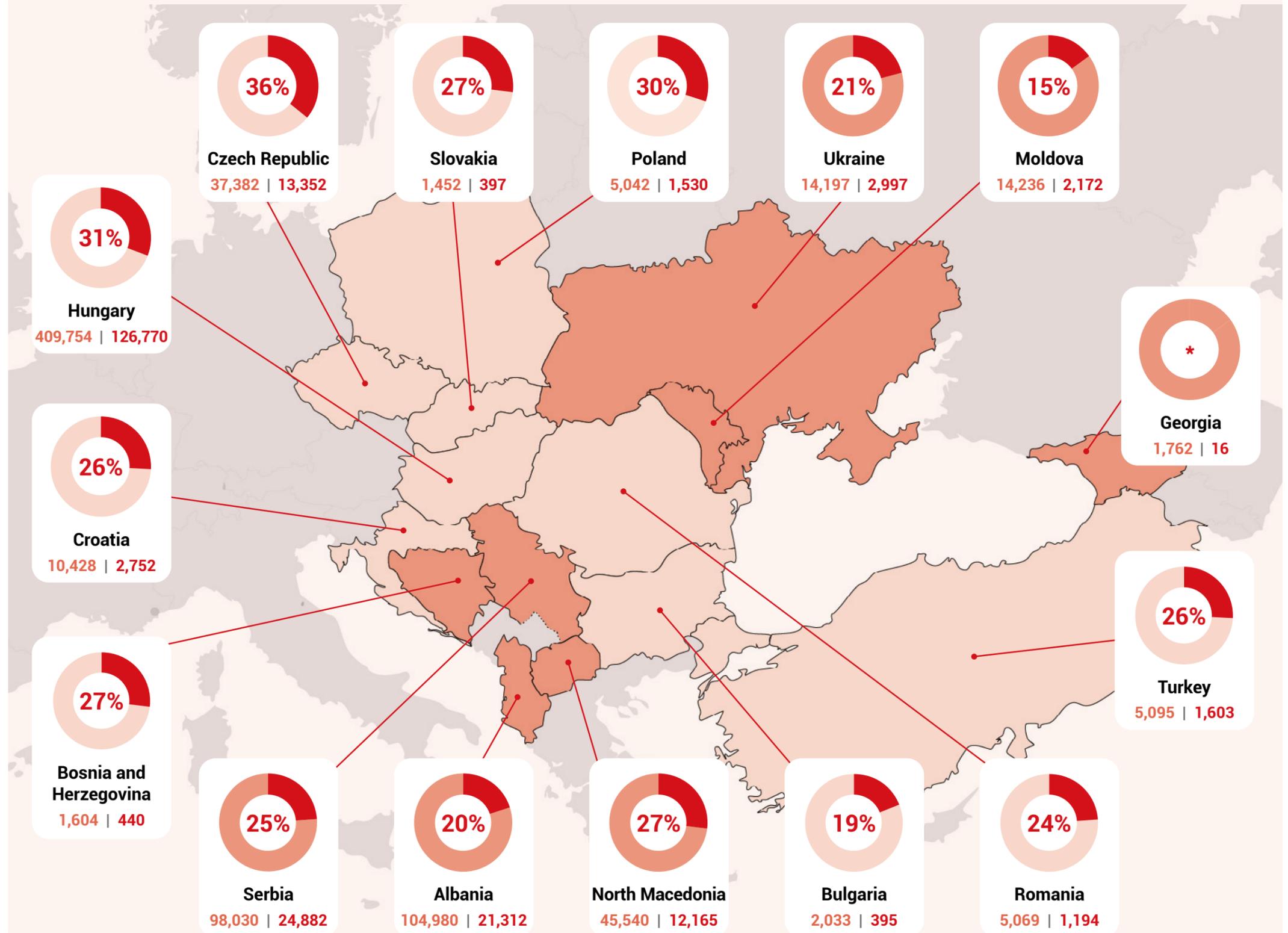
Additional measures used to tackle the consequences of the crisis and to avoid deep recession were the introduction of a flat tax rate,²³ which has worsened the relative position of low-paid workers, and also offering wage deductions for investors.^{24,25} Whether either freezing or limiting peaks in minimum wages, the objective was to prioritise employment through reduced labour costs, no matter the heavy burden placed on workers and the resulting expansion of in-work poverty.

There is a substantial imbalance of power and influence between the government, employers' associations and trade unions – also vis-à-vis other lobby actors such as the American Chamber of Commerce, the European Central Bank, IMF and European Commission. Their economic policy agenda matters a great deal in the setting of statutory minimum wages.

The infographic shows that the Europe Floor Wage figures are on average four times the minimum wage of a country. The bigger the difference, the more suppressed the statutory minimum wage in the respective country is.

INFOGRAPHIC:

Legal minimum net wage as percentage of the cross-border base living wage estimate in Europe, in national currencies, 2018
(The first figure is the cross-border base living wage estimate; the second figure is the legal minimum net wage)



* We excluded the extremely low Georgian minimum wage from calculating the average because it originates from the 1990ies and is not really relevant in the country.

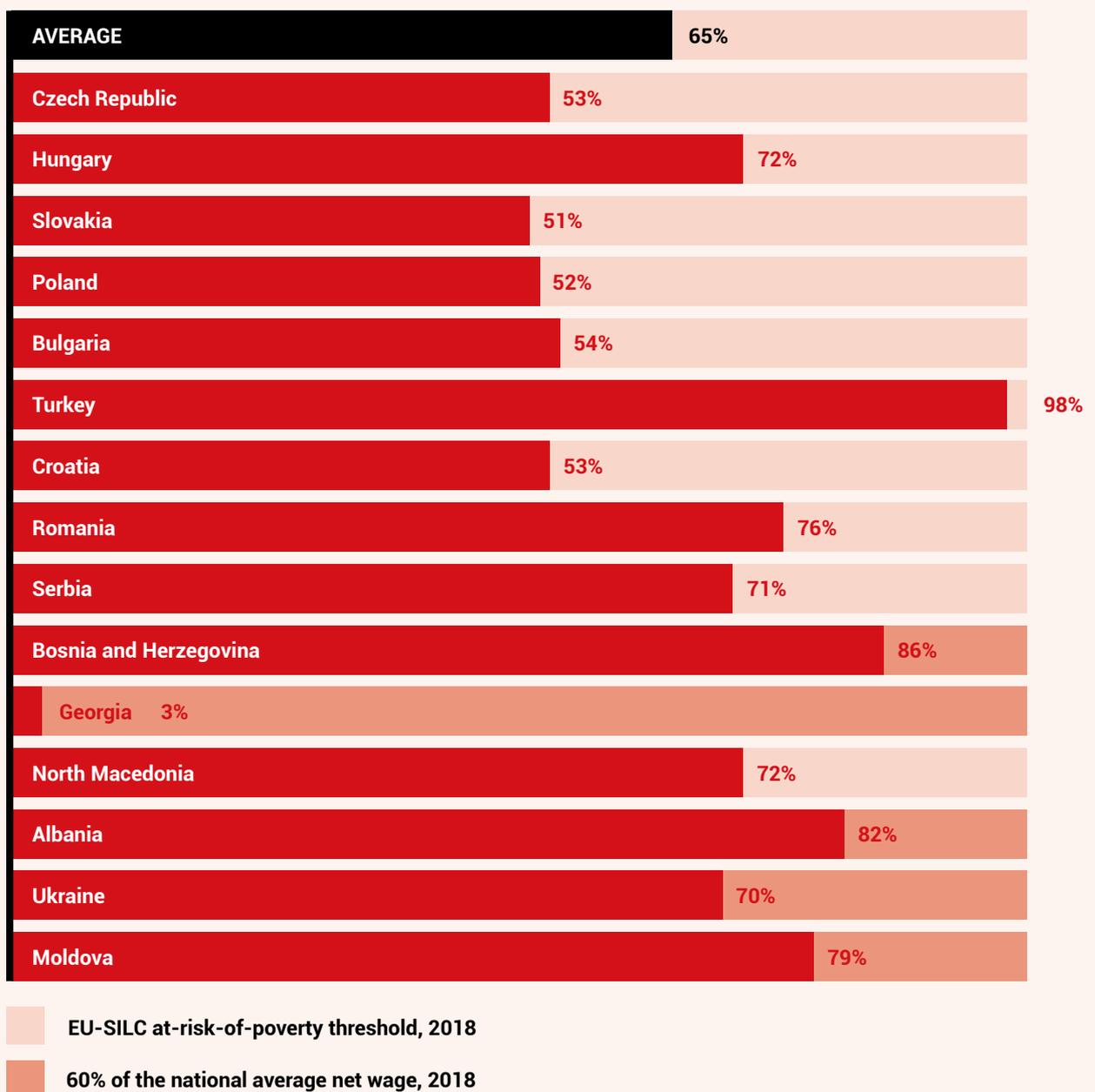
23. As, for instance, in Bulgaria: https://cleanclothes.org/file-repository/2019_ccc-countryprofile-bulgaria_eng.pdf/view
 24. Schmidt, V. and Vaughan-Whitehead, D. (2011) *The Impact of the crisis on wages in South-East Europe*; International Labour Office, ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe, Budapest: ILO, p. 17.
 25. See Chapter 4 in Luginbühl, C. and Musiolek, B. (2016). *Clean Clothes Campaign: Labour on a shoestring. The realities of working in Europe's shoe manufacturing peripheries in Albania, Bosnia-Herzegovina, Macedonia, Poland, Romania and Slovakia*. Entwicklungspolitisches Netzwerk Sachsen e.V. & Public Eye; <https://cleanclothes.org/resources/recommended-reading/labour-on-a-shoestring>

LEGAL MINIMUM WAGES IN VIEW OF EU'S POVERTY THRESHOLD

The table shows all statutory minimum net wages are below the statistical poverty lines as defined by the EU. On average, the legal minimum wage accounts for only two thirds of the poverty line. Legal minimum wages are not poverty-proof. Workers who earn the legal minimum wage (as most garment workers do) are extremely poor, even according to the EU's own poverty threshold.

INFOGRAPHIC:

Legal minimum net wage as proportion of EU poverty line²⁶, 2018



26. Sources: Legal minimum net wage and average wage according to CCC researchers from the respective countries; EU-SILC: European Union Statistics on Income and Living Conditions (EU-SILC) as the "at-risk-of-poverty" threshold for "60 % of the national median equivalised disposable income (after social transfers) for two adults and two children: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li01&lang=en

WHY IS THE POVERTY THRESHOLD OF 60% OF THE AVERAGE OR MEDIAN WAGE INADEQUATE TO MEASURE IN-WORK POVERTY IN EUROPE-EAST/SOUTH?

In the above table, we compared the legal minimum wage with the respective poverty line. However, the real picture is even more dire because this poverty line – although widely accepted as the poverty line in the EU and beyond – fails to deliver an appropriate poverty benchmark in the countries under discussion in this paper.

Our living wage research in the region shows that the 60% threshold is fully insufficient to make ends meet in Europe-East/South. The main reason for this is the generally low level of most wages and therefore also the low average wage. This threshold is not meaningful in countries with high in-work poverty and high poverty rates in general, where average wages are also very low and cannot provide for a decent standard of living; it does not reflect the actual living costs. Average or median incomes as a benchmark for poverty can only be applied to countries with a certain welfare and level of industrial relations, where average wages are sufficient to lead a decent life. Additionally, for countries with extensive informal work such as Georgia, Romania or Bulgaria, statistical average incomes are only partly representative.

Our empirical findings have been confirmed by the European Trade Union Institute's researchers Fabo and Guzi;²⁷ according to Fabo and Guzi, in Bulgaria, Croatia, Romania and Spain, low-income households struggle to make ends meet but their income is not considered low by the EU-SILC's at-risk-of-poverty threshold:

*“in a number of poorer EU countries, an income above the poverty threshold may not be capable of covering the minimum costs of adequate baskets of goods and services. Thus, the relative income poverty indicators published by Eurostat in many countries fail to reliably measure the extent of poverty”.*²⁸

They reiterate the need to scale up the analysis from individuals to households *“to better reflect the fact that caring for economically inactive household members is a reality for many Europeans”*.²⁹

To conclude, we have to state that the EU's poverty threshold fails to reflect poverty adequately. **This means that, in reality, the poverty of garment workers is even more acute than the EU's poverty statistics show.**

It isn't only the levels at which minimum wages are set that are inadequate: statistical poverty benchmarks used to reflect levels of poverty are also insufficient.

27. Fabo, B. and Guzi, M. (2019) *The cost of living in the EU: how much do you need?*, ETUI Policy Brief, No 4.

28. Ibid.

29. Ibid.

6 Why the need for a cross-border base wage?

The apparel industry represents the quintessential example of a buyer-driven value chain.

Lead companies, like brands and retailers, control how value is distributed along the chain of production³⁰ and where and when manufacturing will take place. Therefore, we call these firms **principal employers**.

These companies, headquartered mostly in North America and western EU member states, switch production between factories within and between countries. Relocation becomes easier the less value is added – i.e. by moving to low-wage countries. Due to the EU's long-standing outward processing trade scheme in Europe, the largest part of value added in the production countries of Europe-East/South are the wages paid to workers in cut-make-trim operations – in absolute terms a very small amount.

This production and trade scheme – though it has existed in Europe since the 70s – has been the dominant way of conducting business in the apparel industry in Europe-East/South since 1989/90; it yields very little value-added.³¹

In order to take on foreign competition, suppliers started to suppress wages and wage costs. The strategy then followed up with a race to the bottom on wages.³² Suppliers in Europe-East/South started to compete among them and with suppliers in Asian production countries. The removal of the global textile quota system in 2005 meant these suppliers were swept away by the opening of the market to one of the world's largest manufacturers: China.³³ All this created additional pressure on the suppliers' side and set them on a trajectory of competitiveness towards cutting wages and non-wage costs.

A concept that aims to put workers at its core must take this global fast fashion business model into consideration. It aims to challenge the constant relocation threat and circumvent competition around wages. The global fast fashion business model creates the need for a policy that fights the relocation competition between countries around wages – and yet does not make diverse countries equal.

30. Fernandez-Stark, Frederik and Gereffi (2011)

31. Leitner and Stehrer (2014), pp. 18 et seqq.

32. Podkaminer (2013), p. 35

33. Pickles and Smith (2011).

WHAT IS THE MAIN DIFFERENCE TO EXISTING LIVING WAGE (LW) ESTIMATES?

There are many living wage estimates by various CSOs and institutions, such as the CCC itself, the Global Living Wage Coalition or the Dutch-based Wage Indicator Foundation. These LW estimates focus on single countries or even regions within countries. Our aim is different: **our living wage is defined according to the logics of global supply chains across borders.**

Cross-border and national living wage benchmarks complement each other. One notable initiative for estimating a national living wage was created in Czechia.³⁴ An informal group including CCC organisations and union representatives developed a 'minimum dignified wage' estimate. However, if national or local living wage estimates do not go along with cross-border approaches, they risk increasing the wage competition. Single-headed and nation-based policies on tackling the issue risk falling into the 'competitive advantage' trap and thus failing to defy the downward spiral they sought to challenge in the first place. They need to be complemented with cross-border policies.

A similar shortcoming is seen with the Action Collaboration Transformation's (ACT) approach. ACT is a voluntary agreement between global brands and the IndustriALL Global Union to implement industry-level national collective bargaining processes in garment, textile and footwear sectors. Its aim is to get unions and suppliers to negotiate wages on a national basis – with some involvement of brands to include this negotiated number as a cost in their purchasing practices. The programme aims to increase wages at scale. Our concern is that it does not require brands to significantly increase the prices they pay to suppliers in a way that is legally binding and enforceable. It fails to address the problem that wage increases must also be regional to avoid production relocation. Further, the programme has not adopted a living wage benchmark definition. Wages through this type of negotiation may increase, but, as far as we anticipate due to the global economic model, will not be able to adequately bridge the gap between minimum and living wages any time soon.³⁵



34. <https://www.dustojnamzda.cz>

35. Clean Clothes Campaign, *Tailored Wages 2019: The state of pay in the global garment industry*, <https://archive.cleanclothes.org/resources/publications/tailored-wages-2019-the-state-of-pay-in-the-global-garment-industry/view>, p. 19.

7 Methodology of calculating a worker-centred, cross-border base living wage

WHAT SHOULD IT DELIVER?

We need a method of calculating a cross-border base living wage that is **simple and robust** and avoids expensive and complex sums and updating mechanisms. It should be approachable and understandable by workers and their organisations. A living wage estimate should be pragmatic and easy for different stakeholders (labour rights groups, trade unions, brands, governments, suppliers) to use. We consider these to be important features of a living wage that is worker centred.

The only estimation of a living wage benchmark so far which is both worker centred and cross border is the **Asia Floor Wage (AFW)**. It was adopted by the Asia Floor Wage Alliance in 2009³⁶ and is now widely recognized.

WHY IS IT SIMPLE?

The Asia Floor Wage (AFW) calculation method uses Engel's law to estimate the cost of living. Working with this law (the correlation between household expenditure on food and the welfare of a community) enables a focus on food cost as a core indicator and for it to be viewed separately from other expenditure categories.

This comes with the huge advantage that it is much easier to calculate. We just need to survey food costs – not all household expenditures – and multiply this with the applicable cost of food as a percentage of household expenditure in order to arrive at a cost of living estimate.

WHICH CALCULATION PRINCIPLES DID WE BORROW FROM AFW?

The AFW calculation method divides household expenses into two categories: food and non-food. The AFW expresses the food component in terms of calories rather than food items. The aim is to provide a common basis across countries and food cultures. The caloric figure is based on studying calorie intake in Asian countries' governmental and intergovernmental bodies while defining poverty lines.³⁷ The AFW Alliance has adopted the relatively high Indonesian government figure of 3,000 calories per day, arguing that the floor wage should not result in a lowering of standards in any country and should not contribute to the devaluing of women's work in the garment industry. Hence **3,000 calories** per day has been adopted as its standard.

36. Asia Floor Wage Alliance, <https://asia.floorwage.org/>

37. Bhattacharjee, A. and Roy, A. (2012) 'Asia Floor Wage and global industrial collective bargaining', *International Journal of Labour Research*, Vol. 4, No 1, p. 77.

In developing a normative approach to using the cost of food as a share of working-class household expenditure to calculate a base living wage, the AFW Alliance decided in 2009 to introduce the **1:1 ratio of food costs to non-food expenditure** universally for Asian garment production countries. In 2020 the AFW Alliance revised this ratio to **1:1.25 ratio of food costs to non-food expenditure**. Within the 55% that encompasses non-food costs, 10% represents discretionary income, e.g. savings for emergencies.

Following a gender-sensitive approach as mentioned above, the AFW was calculated using a household of **three consumption units**.



Lastly, the currency through which the AFW is expressed is the **World Bank's Purchasing Power Parity USD (PPP USD)**. This virtual currency was chosen to be able to have one universal figure which can then be converted into all national currencies while avoiding the market and policy fluctuations of currency conversions and taking at least some note of the purchasing power of currencies. PPP is measured by finding the value in a national currency of the same goods that can be bought for 1 USD in the US; it thus expresses the purchasing power of the national currency in relation to the USD. If that basket costs USD 1 in the US and USD 0.5 in Serbia, then the purchasing power parity exchange rate is 2:1.³⁸

Once the living wages are calculated on a domestic level and exchanged into PPP USD, the AFW Alliance takes the PPP USD figures across the region and makes a political decision on a regional figure. **This regional figure is the Asia Floor Wage**, which is then converted back to the local currency. This is a net figure, i.e. after social securities, health insurance and tax deductions. In-kind benefits or any other allowances have not been made the basis for AFW. Therefore, if an employer provides dormitory housing or a canteen lunch, the AFW figure is not lowered. Workers should have the option to obtain these basic necessities from their wage. The AFW provides a base living wage with which a worker can support herself/himself and dependents.

WHERE DID WE DEPART FROM THE ASIA FLOOR WAGE METHODOLOGY WHEN CALCULATING A EUROPE FLOOR WAGE?

In calculating a 'Europe Floor Wage' – the Europe cross-border base living wage estimate – we started from assumptions similar to those used in the AFW methodology. Despite commonalities between the production countries in South, South-East and East Asia and those in Central East, Eastern and South-East Europe, there are still contextual and structural factors that do require the formula to be adjusted. While we agreed with the approach of basing our calculation on 3,000 calories per day and with using food expenditure as a main welfare indicator, at some point we needed to adjust the food costs as a share of a living wage, workers' food costs and the number of household consumption units to the European context. The respective decisions were taken after deliberations in various meetings of the group held over a six-year period.

38. Nevertheless, the indicator does include a few weak elements. The PPP-defined basket of goods has a bias towards developed-country and middle-class consumption patterns, thus differing from the AFW basket of goods and services, which is based on the actual averages of working-class food and non-food expenses. Its calculation is done at longer intervals and is not a current reflection.

STEP 1: THE NUMBER OF CONSUMPTION UNITS

In European production countries the household sizes according to national statistics tend to be smaller than in Asian production countries. However, the wage earner/wage-dependent ratio used in the living wage estimate has to consider coverage of more vulnerable family set-ups, such as single-parent households or the long-term unemployed. In order to account for sudden unemployment, high pressure to emigrate, precarity and informality, it is necessary to use a realistic assumption for full time equivalent workers in the household, which is one wage earner per household.

As mentioned above, a gender-sensitive approach needs to be factored in when determining the number of consumption units for which a living wage estimate is calculated. A living wage approach that focuses on supporting the full capabilities of women workers can also create space for a larger societal debate regarding the work and time distribution among men and women. Moreover, in some countries we found evidence for girls getting worse food than boys in families. On these accounts, also following the approach of the Asia Floor Wage, a higher number of consumption units than the

statistical average household size was proposed, which stood at three consumption units. Working-class households tend to be extended and larger than average households and their expenditure tends to be lower than average households.³⁹

We see this in the broader context of persisting social crises. In the early 90s, the post-socialist region experienced "*the most acute poverty and welfare reversal in the world*" (UNDP 1999). In its report to the 1999 International Labour Conference (ILC), the ILO registers a drastic social disintegration and explosion of poverty in this region. Consequently, the region has been shaken by staggering emigration levels since 1990/1991. In the last 30 years, it has registered one of the largest and most persistent losses of population.

Since the early 1990s, nearly 20 million people (5.5% of the CESEE population) were estimated to have left the region. By the end of 2012, South-East Europe had experienced the largest outflows, amounting to approx. 16% of its early-1990s population.⁴⁰ Under conditions of precarity, informality and family members emigrating, **extended families become support networks**. Therefore, we opted for three consumption units per household, just like the AFW.



39. See: Fabo, B. and Guzi, M. (2019) *The cost of living in the EU: how much do you need?*, ETUI Policy Brief, No 4.
40. Atoyán, R. et al. (2016) 'Emigration and Its Economic Impact on Eastern Europe', IMF Staff Discussion Note.

STEP 2: WORKERS' FOOD COSTS

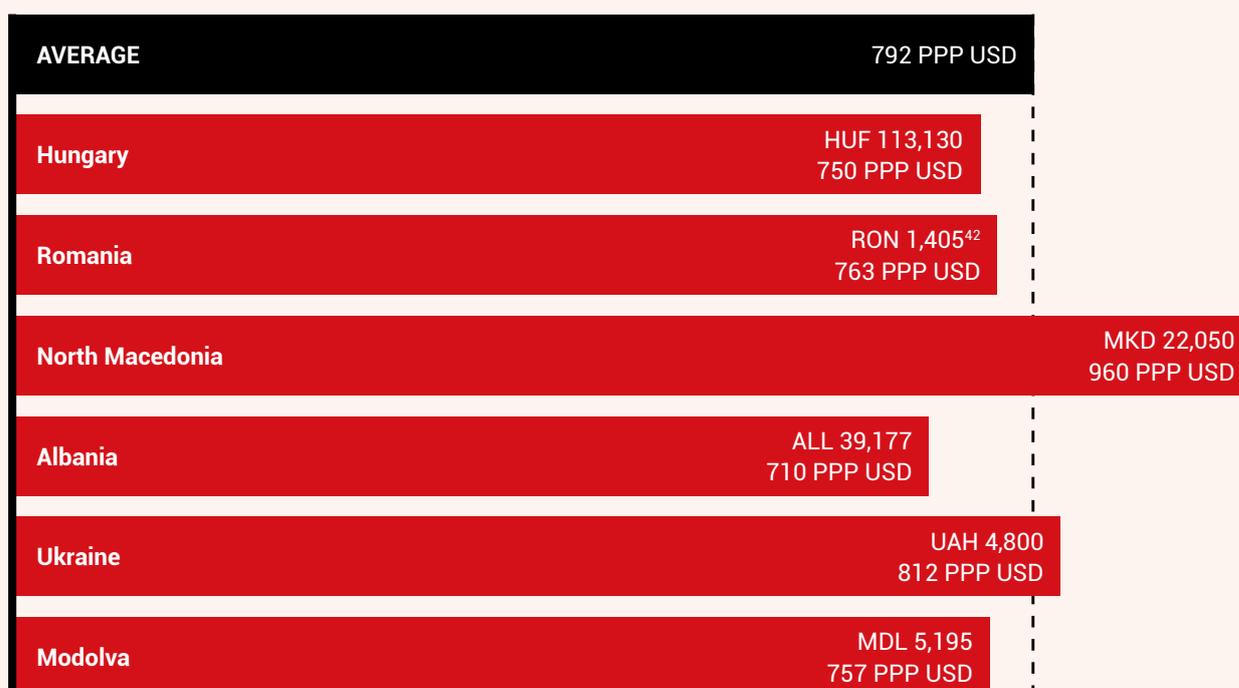
Having defined the number of consumption units, the next step was to find out how much workers would spend on a model diet of 3,000 calories per day. In order to find that out, we conducted **workers' food basket surveys** in various countries. Again, we resorted to the AFWA's methodology to calculate food expenditure according to workers own estimations, not on the basis of national statistics. Although national statistical institutes do provide such data, the aim of the CCC's food basket survey is to reflect, as closely as possible, the realities of working-class households. Just as it is the CCC and the AFWA's philosophy, Fabo and Guzi also emphasise that the households themselves know their living expenses, and their knowledge can be helpful in the definition of adequate minimum income levels.⁴¹

From 2016 until 2019, food basket surveys were conducted in five countries, namely Albania, North Macedonia, Ukraine, Hungary and Moldova. For each of the countries, a specific diet of 3,000 calories/day was developed, reflecting the nutritional patterns of the country and region. Afterwards, a sample of 20 garment workers both from rural and urban areas were asked to price the food items listed. From the surveys conducted, we came up with the cost of a diet of 3,000 calories per day for three consumption units. The food costs were then exchanged into PPP US Dollars (2017 exchange rate for private consumption).

Finally, we calculated an **average of PPP USD 792 for food costs**. In the calculation of this average we included food costs for Romania not generated through a workers' food basket survey, but on the basis of prices provided by national statistics. Despite of this different methodology, we are using this estimate as it is the only calculation of food costs in the biggest production country of the region.

INFOGRAPHIC:

Family food costs in national currency 2016–2019



41. Fabo, B. and Guzi, M. (2019) *The cost of living in the EU: how much do you need?*, ETUI Policy Brief, No 4.

42. Guga (Syndex), Mihailescu (ICCV), Spataru (Syndex): Coşul minim de consum lunar pentru un trai decent pentru popula ia României, p. 43: <http://library.fes.de/pdf-files/bueros/bukarest/14759.pdf>. The publication of this living wage calculation is linked to a coalition for a decent wage, which lobbies for the indexation of legal minimum wages to real costs of living as calculated here.

STEP 3. FOOD COSTS AS A SHARE OF HOUSEHOLD EXPENDITURE

In the many off-site interviews conducted, workers reported that a large share of their incomes is indeed used to purchase food. This amount ranges from 40% in Czechia to 80% in Albania, and is even higher in Bosnia and Herzegovina.

The AFW calculates a food share of 45% and another 55% for non-food costs, including discretionary income. We referred to several sources to be able to present a share of food costs for the researched countries that was as close to reality as possible. In fact, the food share varies widely among the 15 countries in the group.

Therefore, after cross-checking with empirical data and deliberations in the group, we decided upon two different plausible clusters of food shares: **30% and 40% clusters**.

FINAL STEP: CALCULATING A LIVING WAGE BENCHMARK

This resulted in two base living wage figures for the two clusters in PPP USD. We then converted these figures back into local currencies. Afterwards, the wages extrapolated were cross-checked with the living wage estimated by workers in our interviews and again checked for plausibility during meetings of the European Production Focus Group.

TABLE:

Average household expenditure for food covering 3,000 calories/day based on workers' food basket surveys, country groups for food as a share of household expenditure, Europe cross-border base living wage estimates, 2018⁴³

<i>Countries in the order of the average food share</i>	Generalized food costs in PPP USD (3 consumption units)	Clusters food share	Europe Floor Wage EFW in PPP USD	Europe Floor Wage EFW in national currency
Czech Republic	792	30%	2,640	37,382
Hungary	792	30%	2,640	409,754
Slovakia	792	30%	2,640	1,452
Poland	792	30%	2,640	5,042
Bulgaria	792	30%	2,640	2,033
Turkey	792	30%	2,640	5,095
Croatia	792	30%	2,640	10,428
Romania	792	30%	2,640	5,069
Serbia	792	40%	1,980	98,030
Bosnia and Herzegovina	792	40%	1,980	1,604
Georgia	792	40%	1,980	1,762
North Macedonia	792	40%	1,980	45,540
Albania	792	40%	1,980	104,980
Ukraine	792	40%	1,980	14,197
Moldova	792	40%	1,980	14,236

Source: own calculation

43. Conversion rates: PPP USD 2018, private consumption. <https://data.worldbank.org/indicator/PA.NUS.PRVT.PP>

8 Recommendations

According to the **UN Guiding Principles on Business and Human Rights**, the home and host states of apparel and shoe brands/retailers, the European Union and the brands and retailers themselves have a *duty* and *responsibility to respect* and *protect* human rights wherever they produce. This means they should act with due diligence to ensure workers receive a living wage and take clear steps to remediate when this is not the case.

- **The home states of these brands/retailers and the EU** have a duty to ensure that brands and retailers respect human and labour rights worldwide.
- **The home states of suppliers for these brands/retailers and the EU** have a duty to protect the human and labour rights of their workers and implement minimum wages that fight poverty rather than creating an impoverished and socially excluded workforce.
- **Brands/retailers** have a responsibility to pay the full price of the product they order – a price that is in accordance with human rights. This includes a wage that workers and their families can live on.
- **Brands/retailers** have a responsibility to not take advantage of their purchasing power or weak state implementation of labour and human rights and to respect international human and labour rights, including the right to a living wage, over and above compliance with national laws and regulations protecting human rights.

Specifically:

1. Clothing brands and companies must set public, concrete, measurable steps throughout their supply chain to ensure garment workers are paid a living wage within a reasonable timeframe, following the approach laid out in the Roadmap to a Living Wage.⁴⁴ These steps should be aiming at reaching the proposed benchmark for 2018: for **Slovakia, Hungary, Poland, Turkey, Croatia, Czechia, Bulgaria and Romania**, this is PPP USD 2,640, and for **Serbia, Bosnia-Herzegovina, Georgia, North Macedonia, Albania, Ukraine and Moldova**, the figure stands at PPP USD 1,980.
2. Clothing brands and companies should negotiate and sign legally-binding, enforceable agreements with worker representatives that require the payment of significantly higher prices to suppliers, affording them the financial capacity to pay a living wage that covers the basic needs of a worker and their family. Fashion brands and retailers **ensure that their price calculations include payment of the gap between the Europe Floor Wage and the Statutory Minimum Wage simultaneously across garment-producing countries in Europe.**

44. <https://cleanclothes.org/livingwage/road-map-to-a-living-wage>, July 2013, last accessed 19/3/2019.

