Climbing the Ladder to Living Wages

An update on FWF's Living Wage research 2011-2012

August 2012

FAIR WEAR FOUNDATION

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Acknowledgements

Text: Anne Lally

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Introduction

In many garment production facilities, wages are too low for workers to meet basic needs – such as food, shelter, and basic health care. 'The worldwide garment industry produces enormous wealth,' says FWF Director Erica van Doorn. 'Surely workers can share in these gains. We need to develop effective mechanisms to enable workers earn a wage they can live on.'

The idea of living wages is not a new one. The term has been used since the turn of the last century, and the concept is included in the United Nations Universal Declaration of Human Rights. In recent decades, living wages have come to the fore with the advent of codes of conduct and global supply chains. Nevertheless, the living wage standard is one of the most challenging to implement in garment supply chains.

FWF seeks to find solutions to the main sticking points in many of these discussions. Our goal is to see real improvements in practice. For FWF, there are three key questions that arise in most discussions about wages:

1. *How is a living wage defined / measured?*
2. *How much does payment of a living wage increase production costs, pricing along the supply chain, and retail pricing?*
3. *What approaches are most effective in raising wages?*

Our work this past year has focused on developing real and useful answers to these questions – with the clear objective to move from talk into action.

Defining and measuring a living wage

In the FWF Code of Labour Practices, a living wage is defined as a wage paid for a standard working week that meets the basic needs of workers and their families and provides some discretionary income. 'Basic needs' further includes costs like housing (with basic facilities including electricity), nutrition, clothing, healthcare, education, drinking water, childcare, transport, and savings.

Debates have raged in different fora about how best to calculate this standard in a given context. FWF maintains that the best approach to agreeing a living wage is through sound social dialogue between local social partners. In cases where industrial relations are not yet functional, other measurements can help guide companies towards the payment of a living wage. This is where FWF's Wage Ladder comes in.

Addressing the measurement question: FWF's Wage Ladder

The concept of a wage ladder was developed during the Jo-In project in Turkey, which FWF helped to lead. A wage ladder is a simple benchmarking system used to chart wage levels. Essentially, a wage ladder serves to:

- Benchmark existing local, national, and international measurements of wages in a given regional or national context.
- Chart factory wage levels (both normal working hours and overtime) relative to these benchmarks.
- Depict divergences in pay among departments and different groups of workers, such as men and women.
- Illustrate the real value of changes in wages over time – that is, whether wages are keeping up with increases in costs of living etc.
- Indicate next steps for wage improvements.

Because the wage ladder can include various wage standards and benchmarks, it averts lengthy debating seeking to hone in on a single benchmark. And, as with any ladder, the aim is to 'move up the rungs of the ladder – step by step.'

Climbing the Ladder to Living Wages

FWF's new online Wage Ladder Tool

The FWF online wage ladder tool came to life in 2011, based on several years of research and development. Brands, factories, labour groups, other MSIs, and governments were among the more than 200 registered users of the online tool within two months of its launch in November 2011. Wage ladders are now integrated into all factory audits conducted by local FWF teams.

How can this new online tool be useful for you? The tool comes pre-loaded with diverse wage benchmarks for 12 production countries – both national standards and regional ones, where appropriate. With this data – and 45 available currencies to choose from – creating a wage ladder for a given factory is quick and easy. Once created, a wage ladder illustrates the state of wages in a facility in its particular local context.

What kind of benchmarks are included on a wage ladder?

The FWF online wage ladder tool allows users to choose which benchmarks to include on a particular factory's wage ladder. The choice of benchmarks available for a given country depends on which standards/benchmarks exist in that context. FWF has worked closely with local partners in 12 production countries to collect benchmarks that are up-to-date, representative, and useful. These include:

- Legal minimum wage
- Poverty line
- Local average industry wage
- Wages agreed through Collective Bargaining Agreements
- Living wage estimates by local stakeholders -i.e. trade unions, labour groups (e.g. Asia Floor Wage)

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FWF Wage Ladder Features

Local currencies are provided for 45 countries

Shows range of wages by department. Red line shows the mode—the most commonly paid wage level

A range of benchmarks are provided for 12 production countries, including legal minimums, averages, and recommended living wage benchmarks developed by local groups

Detailed notes clarify the source of the benchmarks

Data is regularly updated in consultation with local stakeholders for

Gender breakdowns by department help to identify possible gender-based pay gaps

Wages in Context

The country context has a great deal of influence on the wage situation in any given factory. We sat down with three FWF verification team members to get a better sense about the wage situation in FWF's four priority countries, and here's what they had to say.

Turkey - Margreet Vrieling

Q: In Turkey, it is customary for the employer to provide lunch (or another meal) and other fringe benefits to workers. How does this factor into discussions about living wages?

A: Turkish stakeholders have long engaged in discussions about cost of living [COL] and comparative wage measurements. In such discussions, the total value of fringe benefits is added to the total wages received to identify the total income. This is measured against COL. (We can use the wage ladder to chart total income against living wage and COL measurements.)

In this context, though, it is important to note that total wages received are often the sum of the legal minimum wage plus an off-the-books cash payment for any pay received above that amount. Off-the-book payments enable both the employer and employee to reduce tax payments. But this also means workers are eligible for less unemployment and pension in the future. From a verification perspective, this raises some thorny questions…

Q: Can you give a sense of how wages in Turkey's garment industry currently stack up relative to other garment-producing countries?

Turkey's legal minimum and overtime wages are some of the highest in garment producing countries, due in part to Turkey's relatively high cost of living. Many unregistered garment workers are not paid legal wages, however.

Q: What is one important impediment to movement towards payment of a living wage in Turkey?

I'd say the biggest impediment in Turkey is weak social dialogue linked to Turkey's trade union law. In order for collective bargaining to begin, the law requires that a trade union represent 50% of the workforce plus 1. And to join a trade union, workers must register officially at a government office. This really undermines a space for healthy industrial relations in enterprises and across society, which in turn makes systemic improvements on wages extremely difficult. Our training efforts for social dialogue in Turkey seek to contribute in a small way to improvements in this regard.

Climbing the Ladder to Living Wages

Once created, how do we use a Wage Ladder in practice?

Wage ladders are particularly helpful in developing corrective action plans. They offer to brands, factories, and workers a clear illustration of the state of wages in one or more factories. The idea is for all stakeholders to share a view of the baseline wage situation and then decide where to start working on solutions.

Wage ladders serve to highlight priority areas for improvements, for instance by depicting areas where corrective action may help address gender pay gaps or discrepancies across or within departments. They also illustrate the real value of reported pay increases. That is, when we observe improvements in wages year-on-year, do these increases reflect inflation or minimum wage increases? Or do wage increases spell improvements in real terms for workers?

How a living wage will impact costs along the supply chain

The FWF wage ladder makes it easier to identify the wage benchmark that a factory aims to pay and to target segments of the workforce for improvement. But once these answers are provided, other questions arise. From a business perspective, a very real question is: 'How much is this going to cost?'

As iterated in many other FWF materials, there is a strong relationship between wages and pricing. As FWF's International Verification Coordinator Margreet Vrieling explains, 'Wages are often the first place that factories look to cut costs in order to keep pricing low.' So constant calls from brands for lower prices result in real pressure on workers' wage levels.

'The FOB price must be adequate to pay living wages, observes Vrieling. 'Otherwise the business relationship undermines the responsibilities of the brand and supplier to respect human rights.'

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Bangladesh – Margreet Vrieling

Q: FWF has just completed a wage survey among workers to gauge the impact of the minimum wage increase that was instituted in 2010. What were some of the outcomes?

Most workers we surveyed receive the new minimum wage of 3,000 Tk / month. But in many cases the improvement for workers was not what they expected. The mandated increase (of about 80%) basically levelled pay among workers. So whether a worker was new or veteran who had been promoted several times, most reported earning the flat minimum wage. Workers also reported that promotions that typically happened in the past were no longer given.

In real terms, there seem also to have been limits on wage increases for workers thanks to big hikes in rent prices where workers live following the increase. The workers reported that money for food or other basic needs remains scarce. Inflation has also played a part… We now see that the living wage estimate in Bangladesh has jumped from 5,000 Tk/month in 2010 to 7,000 Tk/month. There are calls for another minimum wage increase.

Q: Can you give a sense of how wages in Bangladesh's garment industry currently stack up relative to other garment-producing countries?

Despite the 2010 minimum wage increase, wages there are still some of the lowest in the world. Low wages are Bangladesh's main competitive advantage.

Q: What is one important impediment to movement towards payment of a living wage in Bangladesh?

One key factor in Bangladesh is low productivity. Low wage levels are a disincentive for investing in productivity improvements. This creates a vicious cycle of sorts: If productivity is low, it is difficult to raise wages in any sustainable way.

I spoke recently with a company working on productivity in Bangladesh, as part of efforts to work with suppliers on minutes costs for production, in order to ensure the FOB price is high enough to cover wages. The company found that the productivity rate in its Bangladeshi suppliers was less than half that of estimates for factories elsewhere. If we raise wages without looking after productivity, it's tough to make a business case for buyers to continue sending orders there.

A Thai example: The impact of living wages on FOB prices

The FOB (or ‘Freight on Board’) price essentially is the total price paid by a buyer for a finished product – that is, the total price paid to a factory for a product (including material, production costs, and factory profit margin). So FWF has focused on the impact of wage increase for FOB in order to address questions about the costs of living wages.

At the FWF Members Day in March 2011, Sourcing Solutions’ Klaus Hohenegger offered various insights into wages and pricing at a Thai garment factory and up the supply chain to retail.

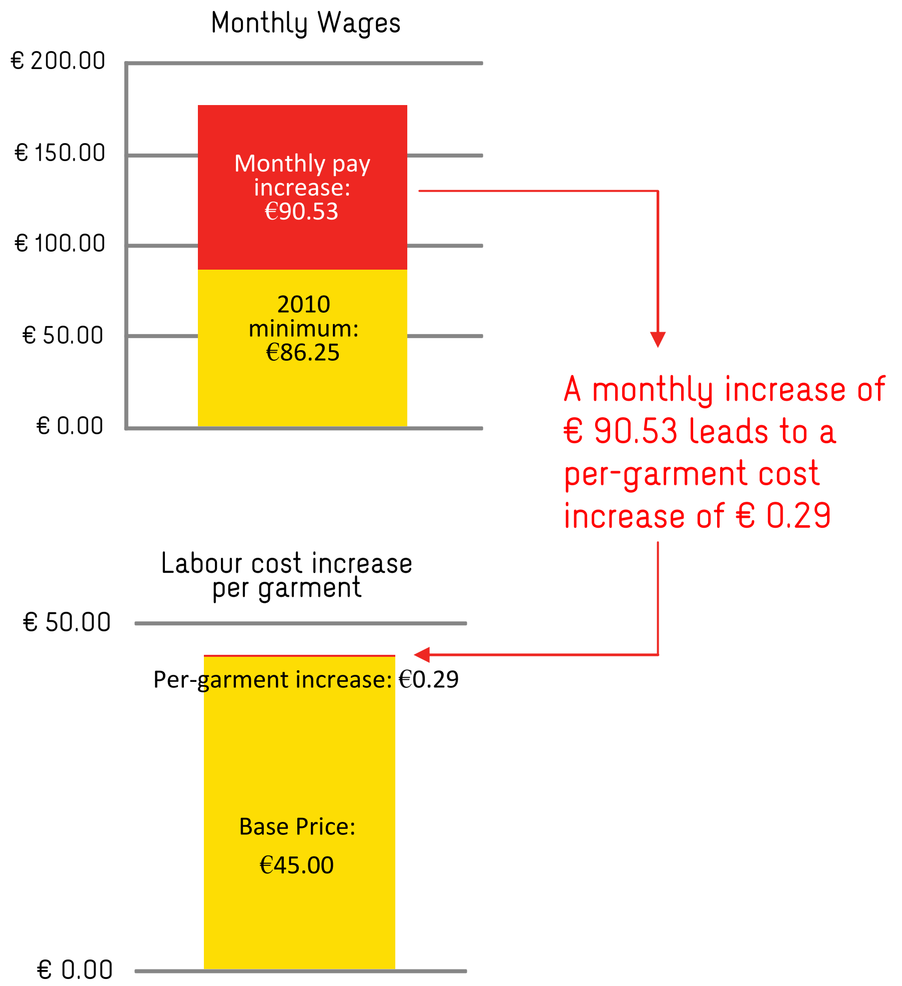
Using a knitted sportswear garment that retails for €45.00 as an example, Hohenegger calculated the cost implications of raising average wages by €90.53/month, from the 2010 minimum wage (calculated at a minimum of €86.25/month) to the 2010 Asia Floor Wage for Thailand (€176.78/month).

‘Specific values and percentages will differ per country, product, brand and factory,’ explained Hohenegger, ‘but this case is fairly representative of garments generally. Here, paying living wages would represent a maximum of a €0.29 increase in production costs per garment.’ Allowing that all other costs will remain constant, Hohenegger calculated that this increase amounts to a rise in labour costs from 1% to 1.46% of the total retail price for that garment.

‘There certainly are real challenges to living wage implementation in complex supply chains,’ stated Hohenegger. ‘But the impact on production costs does not top this list.’

Climbing the Ladder to Living Wages

Projected impact of raising monthly salary to Asia Floor Wage (2010) on a sample garment



Pricing T-shirt production in Tirupur

Building on this Thai t-shirt case study, FWF integrated the question of wages and pricing into its collaborative pilot project with Fairtrade International and Max Havelaar Foundation Switzerland.

The 2011 pilot focused on the production of Fairtrade Cotton-labelled T-shirts in Tirupur, India, and gave FWF access to information that is usually confidential:

- Costing data from pilot factories (that is, how the FOB price is calculated), and
- Pricing calculations of specific product items from participating brands (that is, the additional costs along the supply chain through to retail).

The graphic summarises the data FWF collected pertaining to pricing for a single t-shirt created using Fairtrade-certified cotton. It indicates the costs of the key inputs for production, as well as the prices paid as this particular t-shirt moves through the supply chain ending at the retail level.

In this case, the salary costs (based on a monthly mode wage of 3302 Rs) make up 3.6% of what the factory receives for producing the t-shirt (i.e. the FOB price) and 0.6% of the retail price.

Cost Breakdown of Sample €29 T-Shirt

	Cost	% of FOB*	% of Retail Price	
Labour	€ 0.18	3.6%	0.6%	‹ Gross pay to workers
Materials	€ 3.40	68%	12%	
Overhead	€ 0.27	5.4%	0.9%	
Factory Gross Margin	€ 1.15	23%	4%	‹ Other costs not directly part of the garment + factory profit
FOB:	€ 5.00	100%	17%	‹ The total paid to the factory
Customs, Transport, Warehouse, etc.	€ 2.19		8%	
Agent Fee	€ 1.20		4%	
Clothing brand gross margin	€ 3.61		12%	‹ Includes all the costs at the brand level: staff, rent, brand profit, etc.
Subtotal	€ 7.00		34%	
Wholesale Cost	€ 12.00	240%	41%	‹ What the shirt costs a store; FOB + all intermediate costs
Retail costs	€ 17.00	340%	59%	‹ Includes all the costs at the retail level: staff, rent, store profit, VAT, etc.
Retail Price	€ 29.00	580%	100%	‹ What consumers pay

How an increase in wages affects prices (everything else remaining equal)

Using this data, FWF was interested in determining the impact that an increase in wages would have on pricing. As a first step in this exercise, we used the Asia Floor Wage level of 7967 Rs / month (141% more than the mode wage level in the factory) to develop a hypothetical model where living wages are paid. We calculated the salary costs accordingly.

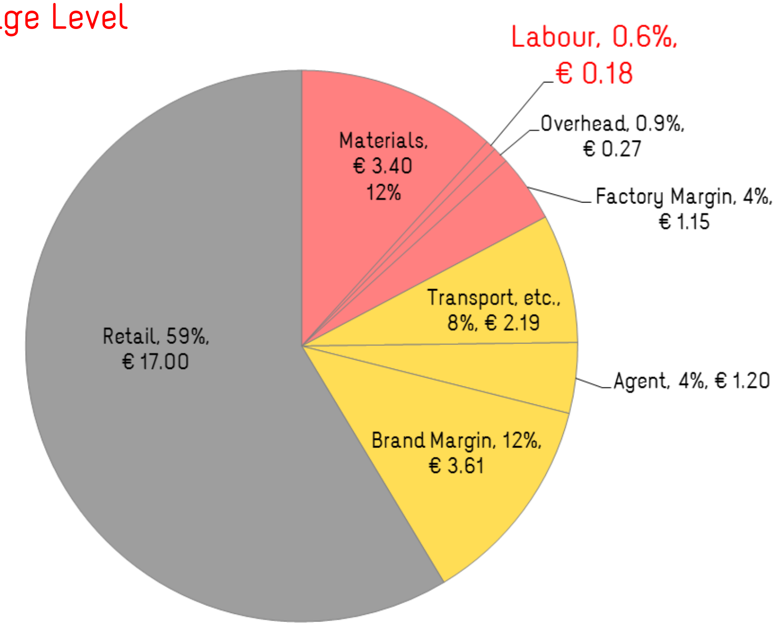
According to our calculation, payment of a living wage would increase salary costs for a single t-shirt from €0.18 to €0.45. If all other costs remain the same and the amount of profit earned per t-shirt remains steady, this would increase the total FOB price by €0.27, which represents a 5.4% increase in FOB price. Interestingly this aligns closely with the findings from Hohenegger's analysis of pricing in the Thai example.

The question then arises how this price increase might affect pricing for consumers. First FWF experimented with a model where the cost of wage increases is passed through the remainder of the supply chain while other inputs remain steady. In this case, the wholesale price rises from €12.00 to €12.27 and the retail price goes from €29.00 to €29.27. This amounts to a less than 1% increase in the retail price.

For many, a €0.27 increase on a €29.00 t-shirt seems a small price to ensure that the people who make the t-shirt receive a living wage.

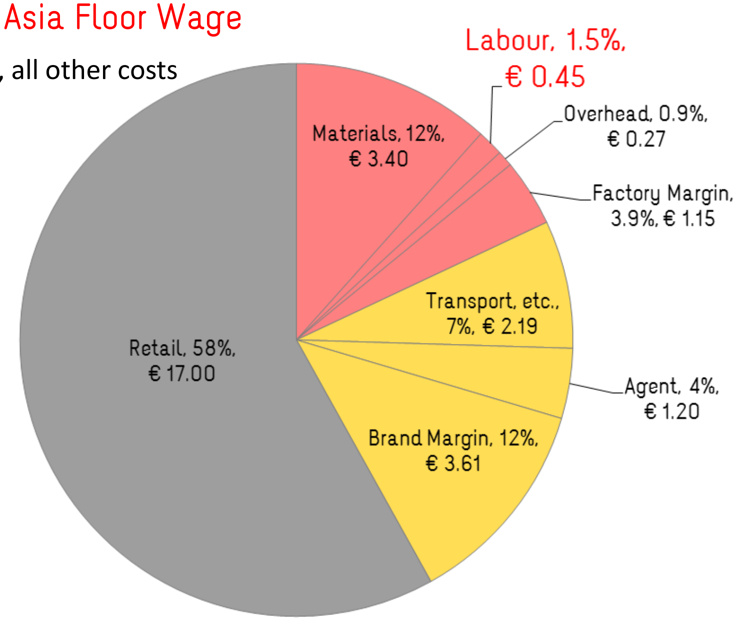
'Various marketing studies and consumer surveys indicate that a significant number of consumers will pay a premium to buy clothes that are made fairly,' explains FWF's Marketing and Communications Manager Sophie Koers. 'We know the demand is there. Our focus now is on building solid models to reliably meet that demand.'

Current Wage Level



Increase to Asia Floor Wage

(no escalation, all other costs remain equal)



How a wage increase actually impacts price: Compounding price escalation explained

A model that assumes that the cost of wage increases can be transferred directly to consumers fails, however, to integrate a common practice in garment supply chains, which we at FWF have dubbed 'compounding price escalation'.

Compounding price escalation occurs when the price paid at each step is calculated relative to the price quoted at the previous step. For example, in the pricing data provided to FWF, the selling agent's fee is calculated as 24% of the FOB price paid. So if FOB increases, so does the agent's fee.

While on its face, this seems to offer a quick and simple way to calculate payment in long a complex supply chains, it has real potential to make wage raises more costly than they needs to be. Particularly in long supply chains, the cost of increases to wages can be seriously inflated by the time they are passed along to the consumer.

Using the real-life ratios collected in the pilot project, FWF calculated that in the case of the example above, a €0.27 increase in salary costs translates to a €1.57 increase at retail in the particular supply chain studied. As the table below shows, each actor along the supply chain is paid a higher price (relative to the pricing in the previous table) simply because the workers who made the product have been paid more.

Ultimately, thanks to the practice of compounding escalation, a wage increase that represents less than 1% of the original retail price would actually cost the consumer more than 5%. As Ivo Spauwen, who headed the hypothetical exercise, explains, 'This is just one case study for a specific product group, t-shirts. We aim to develop other cases for other product groups in the near future.'

Effect of escalation on a living wage increase equal to 1% of retail price

	Base	No Escalation	Standard Escalation	
Labor	€ 0.18	€ 0.45	€ 0.45	
Material	€ 3.40	€ 3.40	€ 3.40	
Overhead	€ 0.27	€ 0.27	€ 0.27	
Total MFG costs	€ 3.85	€ 4.12	€ 4.12	
Factory Margin	€ 1.15	€ 1.15	€ 1.24	Factory Margin is based on total MFG costs
FOB	€ 5.00	€ 5.27	€ 5.36	
Transport, Etc	€ 2.19	€ 2.19	€ 2.19	
Agent Fee	€ 1.20	€ 1.20	€ 1.26	Agent Fee is based on FOB
Brand Margin	€ 3.61	€ 3.61	€ 3.85	Brand margin is based on FOB
Wholesale	€ 12.00	€ 12.27	€ 12.66	Wholesale = FOB + transport, agent & brand costs
Retail Costs	€ 17.00	€ 17.00	€ 17.91	Retail markup is based on wholesale price
Retail Price	€ 29.00	€ 29.27	€ 30.57	Retail Price = wholesale + retail costs
Change in retail price		+1%	+5%	Sum of increases escalated through the supply chain

Wages in Context

The country context has a great deal of influence on the wage situation in any given factory. We sat down with three FWF verification team members to get a better sense about the wage situation in FWF's four priority countries.

China – Ivo Spauwen

Q: Many of FWF's reports from China highlight the prevalence of long overtime hours in many Chinese garment facilities. How does that relate to discussions about raising wages to a living wage standard?

Overtime and wages are inextricably linked. In China and other garment producing countries, overtime-as-the-norm is depressing regular/base wage rates. If we look at wage ladders from China we usually see that regular and overtime wages taken together hover around various living wage estimates. If we consider this and the prevalence of hefty overtime pretty consistently, it's clear that workers have come to rely on working very long hours in order to earn enough to live on.

Any strategy to increase wages or to reduce overtime needs to address both issues. If we seek to reduce overtime, we need to also consider ways to raise wages, or else workers will object to reductions in overtime. We also need to look beyond wages at overtime causes, such as poor planning and weak productivity gains.

Q: Can you give a sense of how wages in China's garment industry currently stack up relative to other garment-producing countries?

With recent inflation and mandated wage increases, China's wages are increasing at a rate that is faster than many of its nearby competitors. It is something China's garment industry and government are watching closely.

Q: What is one important impediment to movement towards payment of a living wage in China?

China's central government has committed to year increases of 15-20% in minimum wages; provincial governments may determine the appropriate level. Increases are aimed at offsetting inflation in China. In an effort to maintain social stability, the government seeks to ensure that workers' purchasing power remains fairly steady.

All of this is for the good – we want to see wages rising to keep up with inflation. And it is encouraging that a number of NGOs have started to provide calculations for local living wages. Yet with mandated wage increases already affecting FOB prices in many cases, we've encountered resistance to discussions about living wages or collective bargaining on wages. Brands and suppliers are already trying to find ways to cover existing increases…

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Compounding price escalation: An ethical and practical dilemma

For Spauwen, the common practice of compounding price escalation in garment supply chains needs to change. 'A practice that costs the consumer nearly five times the increase received by workers just doesn't seem right,' says Spauwen. 'All of us need to rethink these pricing mechanisms. Both with a view to ethics and good business, there's got to be a better way.'

Despite its common use in garments, FWF looks to explore alternatives to this practice in supply chains. In today's economic climate, consumers are very sensitive to price, so a 5% price increase will almost certainly negatively affect sales. And any strategy for wage improvements that undermines sales is not sustainable.

But even if consumers were willing to bear such price increases, the idea of other supply chain actors profiting at a total rate that is many times greater than the gains for workers raises ethical questions.

There is nothing wrong with making a profit – for creativity, good quality, strong business practices.' explains Spauwen. 'But to charge consumers much more than a fair wage-increase for workers amounts to – we all have an obligation to do better than that.'

Implementing living wages effectively

2011 delivered the wage ladder and valuable experimentation with costing living wages. But with in-depth understanding gained about practices like compounding price escalation, what's clear is that most of the work still lies ahead. We need to improve upon the tools and learning from this year. More importantly, though, we need to find creative solutions to various challenges impeding living wage implementation.

Costing living wages

While FWF's work this year began to answer 'how much will it cost?' a number of issues still merit further exploration. For instance, there would be real value in exploring methods for costing living wage payments in factories.

At FWF's 2011 Annual Conference, British scholar Doug Miller presented his research on wages and pricing. 'Many brands now lack the industrial engineering skills to engage suppliers in practical discussions about pricing and living wages,' Miller explained.

Indeed, without such industrial engineering know-how, it is difficult to accurately calculate the time required for the production of a garment. This makes it nearly impossible to accurately calculate and then negotiate an FOB price that is enough to pay living wages.

It is also important to gauge the corollary costs of living wage implementation, explains FWF's Ivo Spauwen. 'In addition to increased production costs, what, if any, changes will there be to monitoring fees or taxes and duties? Or if training is required, how much does that cost? … In order to develop replicable models, we need to be clear about all of it.'

In upcoming pilot work, FWF will experiment with methods for identifying the full cost of living wage increases.

Identifying ways to cover the cost of wage increases

FWF's experiments with pricing thus far focused on a model where the cost of living wages is offset by retail price increases. Looking ahead, we hope to experiment further with this model, relying on supply chain pricing methods alternative to 'compounding price escalation'.

But there are also other ways we can explore covering this cost.

'In most production countries, any discussion of wage and price increase needs to start with an evaluation of productivity,' explains FWF's Margreet Vrieling. 'In many garment facilities, productivity is lagging.' There are real gains that can be made by addressing factors such as the physical layout of the workplace, human resource management, and payment schemes.

Efforts to raise wages above the minimum wage and towards living wages can also be funded through efficiency gains in the supply chain. Some companies have moved to work directly with factories, cutting out commissions paid to agents or other middle men. It is also worth exploring how costs might be absorbed into profit – either at the level of the factory, the brand, or both.

On profits, FWF seeks to explore how slight cuts to unit profit can be offset by gains through bigger order volumes or recognition in the market as an ethical brand.

'My hunch is that any sustainable increase to wages will require a range of tactics – from productivity through consumer premiums…,' says Vrieling. 'Each case is different. We just need to develop a range of tools to include in the living wages toolbox.'

Countering Supply Chain Practices That Undermine Wages

In the garment industry, most companies source from numerous suppliers and rely on short-term contracts in order to be able to respond quickly to changes in fashion. This – combined with long, and often complex, supply chains – can present real challenges for living wage implementation.

For instance, long supply chains also have implications with regard to efforts to monitor that workers have received wage increases. There are real logistical questions that arise. If the retail price is increased in order to offset wage increases, for instance, how is this transferred to workers?

Or, even though FWF performance checks include a review of brands' sourcing practices with an eye to enhancing brands' ability to influence change in factories, questions still arise about how a company can implement a living wage in facilities where they represent a small fraction of production. So, for example, if the company pays a unit price that is calculated using a living wage, how much does that contribute to workers' livelihood given that the increased payment only applies to a small portion of the factory's production?

'In order to develop initial good practice examples, FWF will likely need to focus pilot efforts in facilities where brands have fairly strong and long-term relationships, explains Spauwen. Then, in time, FWF can methodically work to apply that learning more complicated supply chain situations.

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Wages in Context

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India – Juliette Li

Q: We've heard about the Tirupur tripartite wage (T-wage) as an example of successful collective bargaining on wages. Is it a model for implementing regional living wages ?

Observing the T-wage in practice, we've seen some areas where it needs improvement. Among other things it would need to cover a larger portion of the garment industry, and it would need to respond to inflation.

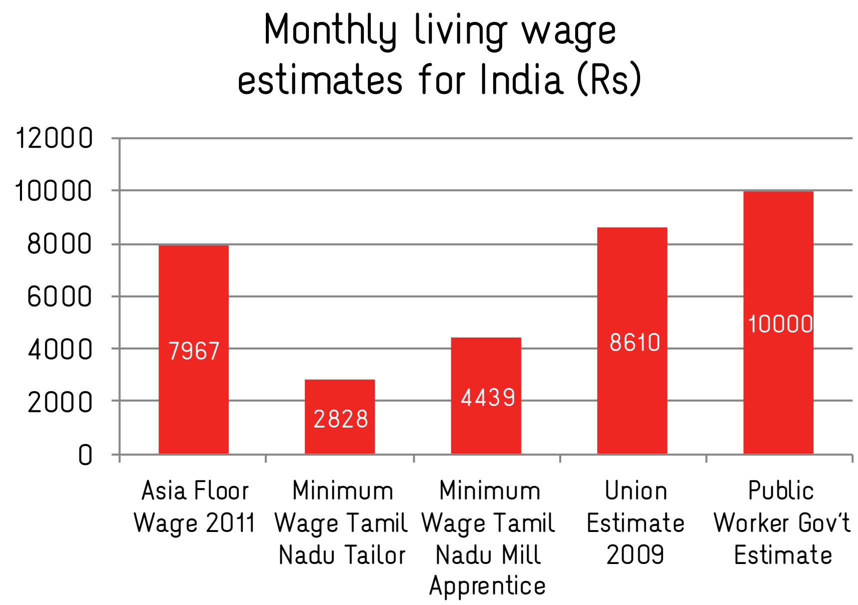
Yet it is a interesting model in that wages were agreed for a region and industry by way of social dialogue, which is what FWF supports in all of its work. This approach has real potential: All actors have a seat at the table, which increases buy-in. This also means that trade unions are present and able to monitor that wage increases are actually reaching workers. Effective social dialogue is the most sustainable way to agree and enforce wage standards.

Q: How do wages in India's garment industry compare to other countries?

Although there are regional differences, minimum wages for garment workers in India are a little higher than other countries in South Asia, such as Bangladesh and Nepal. However, a considerable number of workers are not covered by the national minimum wage. State governments are not bound by the national minimum wage.

Q: What is a major impediment to movement towards payment of a living wage in India?

One issue is awareness among workers about wages. In Tamil Nadu, where a lot of FWF's work this year focused, workers are typically paid in cash and do not receive pay stubs. Workers are often confused by government wage standards, and, for any given work period, they cannot distinguish between what they were paid for regular work versus overtime.



Aside from the serious abuses that can take place in this context, this practice makes it difficult to get a sense of what is being paid – for regular hours or overtime. This in turn makes it difficult to compare current wages and living wage levels. And without an understanding of current wages, workers are not well positioned to represent their own interests with regard to wage increases. Trade unions and NGOs have made some progress on this issue in some places, but we need to keep it up.

Living wage has been the primary discussion of FWF's key stakeholders in India. The Asia Floor Wage (AFW) is often considered to be high, although AFW's figure is actually far from the highest estimate of living wage in the country (see figure).

Involving Workers and Trade Unions

Workers sit at the core of all of this work. FWF's approach is designed to integrate workers wherever possible. Examples include our worker-focused interview methodology; the inclusion of worker representatives in monitoring and remediation discussions when possible; worker complaint and training programmes; and worker surveys.

Yet, even in FWF's system, workers are missing at some of the most critical points in the effort to raise wages. In many cases this is due to limitations placed on workers' freedom of association and/or the lack of trade union capacity on the ground. With regard to wages, one such critical juncture is pricing negotiations.

'Historically, trade unions would have a role in pricing. They would ensure that per-unit prices covered wages, but they were also interested in keeping the enterprise in business,' explains British scholar Doug Miller. 'It is a model that would be good to adapt to today's contract negotiations.'

'Of course, workers should also be at the table in setting wages,' adds FWF's Margreet Vrieling. 'Our approach at FWF focuses on supporting the development of institutions for healthy social dialogue. For us, the best way to set a living wage is through effective industrial relations.'

FWF's work on wages will continue to explore ways in which to support worker involvement in decision-making around wages. Until now, most of FWF's direct efforts with workers have indirectly supported such involvement. Most notably, FWF has robust training programmes in development to support workers' capacity for communication, negotiation, and grievance handling. We also hope that future work on living wages can also include technical training to enable workers to participate in price-setting discussions.

FWF's Next Steps for Wage Improvements

Planning is currently underway for the next iteration of FWF's online wage ladder tool (version 2.0). Further software developments will enhance the tool's functionality, and wage data analysis in coordination with local verification teams will enhance the quality and breadth of pre-loaded wage data. We also hope new licensing agreements and other partnerships can ensure that even more stakeholders and partners can access this improved tool.

Perhaps even more important than improvements to the tool itself are the plans underway to develop more materials to help member affiliates take action to address violations depicted in a given wage ladder. FWF is

developing a wage analysis template, which enables buyers, factory management, and workers to identify the reasons (or root causes) for low wage levels in a factory. The goal is to provide a framework for local stakeholders to sit down together and define the baseline for the factory's wage situation. They then can identify effective and realistic next steps for improvement.

In parallel to tool development, FWF is partnering with some leading company members to experiment with living wage implementation. The pilots are still in the planning phase, but the aim is to raise wages and develop systems that avoid this resulting in an inflated price for consumers. Pilots will also focus on developing effective systems for monitoring payments to workers.

In addition to exploring how consumers can help fund wage increases, FWF is planning to research and test a new productivity assessment methodology. As discussed above, by combining clear information about productivity with a strong understanding of wages and pricing, we can make real progress on wages.

Conclusion

For FWF, wages are a keystone issue. Wages are linked to a number of other labour standards. They are also incredibly complex because wages are influenced by so many forces. Sustainable change around wages requires strategic action based on strong foundations. In short: lasting change on wages in the garment industry is a big job.

'We are well aware of the complexities surrounding wages – whether we are talking about the forces of global competition, inflation at the regional or national level, or pervasive supply chain practices that disincentive adherence to wage standards,' explains FWF Director Erica van Doorn.

'And we do not suffer delusions that we can single-handedly change the industry,' van Doorn continues. 'No single MSI or company can do this. But we certainly can use our strengths to make important contributions to the cause.'

FWF maintains that it has a valuable role to play on wages – primarily by way of developing models of good practice. This is where experimentation comes in.

'We aim to provide some real-life examples of what living wage implementation can look like. Of course, not everything we try will work, but if we persevere methodically, we can make an important contribution and move this issue forward.'

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