



CPE Globalization Briefs

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Global Living Wages

Poverty is widespread around the globe. Currently, approximately 2.8 billion people worldwide – about half of the world’s population – live on less than \$2 a day. The primary source of income for the vast majority of the world’s population is their own labor – performed in formal sector paid employment, in [informal sector](#) activities, or in a variety of self-employment/subsistence arrangements. One component of a broader strategy to tackle the problem of poverty-level incomes is to raise the return to their own labor that people receive.

The idea of a global living wage is simple – to raise the return to labor to a level at which a household’s basic social and economic needs can be met. However, the practical task of accomplishing this goal is much more formidable. For example, under some conditions, raising wages in formal sector jobs could prompt businesses to use less labor, reducing employment opportunities. Moreover, informal sector activities, by definition, are not subject to regulation. Improving the return to informal labor, therefore, requires a different set of strategies. Nevertheless, the idea of improving global living standards by raising the returns to work, both paid and informal, contains much unexplored potential.

When global integration increases competitive pressures, raising the return to labor in one coun-

try or region becomes more difficult. Investment, trade, and financial flows can respond to higher returns to labor in ways that put an economy at a competitive disadvantage. However, in today’s world, competitiveness depends on many factors other than wages. Globalization might make living wages harder to obtain, but improvements are certainly possible.

A comprehensive global living wage framework would require the weaving together of numerous different strategies. One place to start is with [multinational firms](#) that operate in developing economies while producing for consumer markets in the world’s richer countries. Dramatic improvements in wages can be achieved with only moderate retail price increases. For example, a 100 percent wage increase in various sectors of the Mexican clothing industry would account for only 2 to 5 percent of the U.S. retail price. If consumer prices increased to cover the higher labor costs, the incentives of firms to cut jobs would be reduced, if not eliminated. By having consumers in relatively wealthy economies pick up the tab for improvements in working conditions abroad, there would be a net redistribution of income from rich to poor.

In order for a global living wage approach to be effective, the emphasis for many countries must

**Effect of a 100% wage increase on the labor costs of
producing various garments for sale in the United States, 1997**

	Mexico		United States	
	<i>Production Workers</i>	<i>All Workers</i>	<i>Production Workers</i>	<i>All Workers</i>
Men's Casual Shirts				
Increase in labor costs as a percent of retail price	1.6%	2.8%	2.7%	4.5%
Men's Suits				
Increase in labor costs as a percent of retail price	2.2%	3.9%	3.9%	7.1%
Women's Dresses				
Increase in labor costs as a percent of retail price	1.2%	2.5%	2.8%	6.5%
Women's Blouses				
Increase in labor costs as a percent of retail price	1.3%	2.7%	2.2%	4.4%

be on *more* jobs, as well as better jobs. This is particularly important for economies with a large surplus of labor (that is, more people looking for opportunities to work than the number of opportunities that exist). Expanding economic opportunities should go hand-in-hand with improvements in the return to labor.

There are difficulties with determining a precise value for a living wage in a particular country. Prices and costs of living vary dramatically from economy to economy. Moreover, the living wage depends on the presumed structure of households (for example, how many people in the family are assumed to work?), kinship and community networks (does one wage support more than one household?), and systems of migrant labor (what is the pattern of remittances?). Finally, the private return to labor necessary to meet basic family needs will vary depending on the extent of publicly provided social services, sometimes called a “social wage,” in the economy. Despite these challenges, strategies to increase the

returns to labor in general can form an important component of a broader effort to reduce rates of global poverty.

Sources:

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