

BACKGROUND PAPER



The EUROPE FLOOR WAGE –



updating the benchmark to 2021

July 2022

Introduction: What is the Europe Floor Wage and how did it emerge?

The Europe Floor Wage is vital for the Clean Clothes Campaign's strategy. Global fashion brands and retailers should – as principal employers – pay the full price to their suppliers, i.e. a price which includes a living wage instead of a poverty wage for garment workers. The reality is that the gap between the wages workers earn and a wage their families can live on is huge. This wage gap tends to be bigger in Europe than in Asia. In 15 European countries where garments are produced the gap is on average 1 : 4. Though the right to a living wage is a human right, workers' actual wages are far below a living wage and in Central, East and South-Eastern Europe even fall considerably below the EU poverty line.

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".¹ 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(1): "to recognise the right of workers to a remuneration such as will give them and their families a decent standard of living".² 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),³ which makes reference to the "right to fair wages that provide for a decent standard of living".

1 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

2 *European Social Charter*, available at: <https://rm.coe.int/168006b642>

3 *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

What is a living wage?

These are the features commonly agreed among most stakeholders and experts:



- As a universally applicable human right, it reaches out to **all** workers irrespective of their status in the workplace, their productivity or personal situation (example marital status). It is the lowest paid wage and no worker earns less than the defined living wage.
- It must always be sufficient to meet the **basic needs** of workers – including safe drinking water, sanitation, public transport, health and education facilities –⁴
- and those of their **families**,
- and provide a **discretionary income** (usually an additional 10% of the costs for all basic needs).
- It must be earned during **regular working hours**, i.e. without overtime.

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

How did the discussion around a living wage benchmark for Europe emerge?

Since 2014, the Clean Clothes Campaign (CCC) and close partners in Mid East, East and South Eastern European countries have discussed whether and how the Asia Floor Wage methodology could be applied to their countries. The Asia Floor Wage appealed to us because it is:

- **worker-centered**,
- **gender-sensitive**,
- **relatively simple to calculate and**
- **cross-border**. As a cross-border benchmark it takes the fast fashion business model into consideration. To fight fierce competition for fashion production orders between countries, areas, and regions, a cross-border benchmark is very important.

⁴ 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.

It then took 6 years of surveys, research, deliberations, investigations, interviews with workers, and discussions among Clean Clothes Campaign organisations and close allies. Finally, in 2020, the decision was made on a Europe Floor Wage benchmark.

It is very important to note that there are many living wage estimates by various CSOs and institutions. These living wage estimates focus on single countries or even more restricted areas within countries. Our aim is different: our living wage benchmark is defined according to the logics of global supply chains across borders. However, we don't claim to have the one and only living wage estimate. Cross-border and national living wage benchmarks can complement each other.

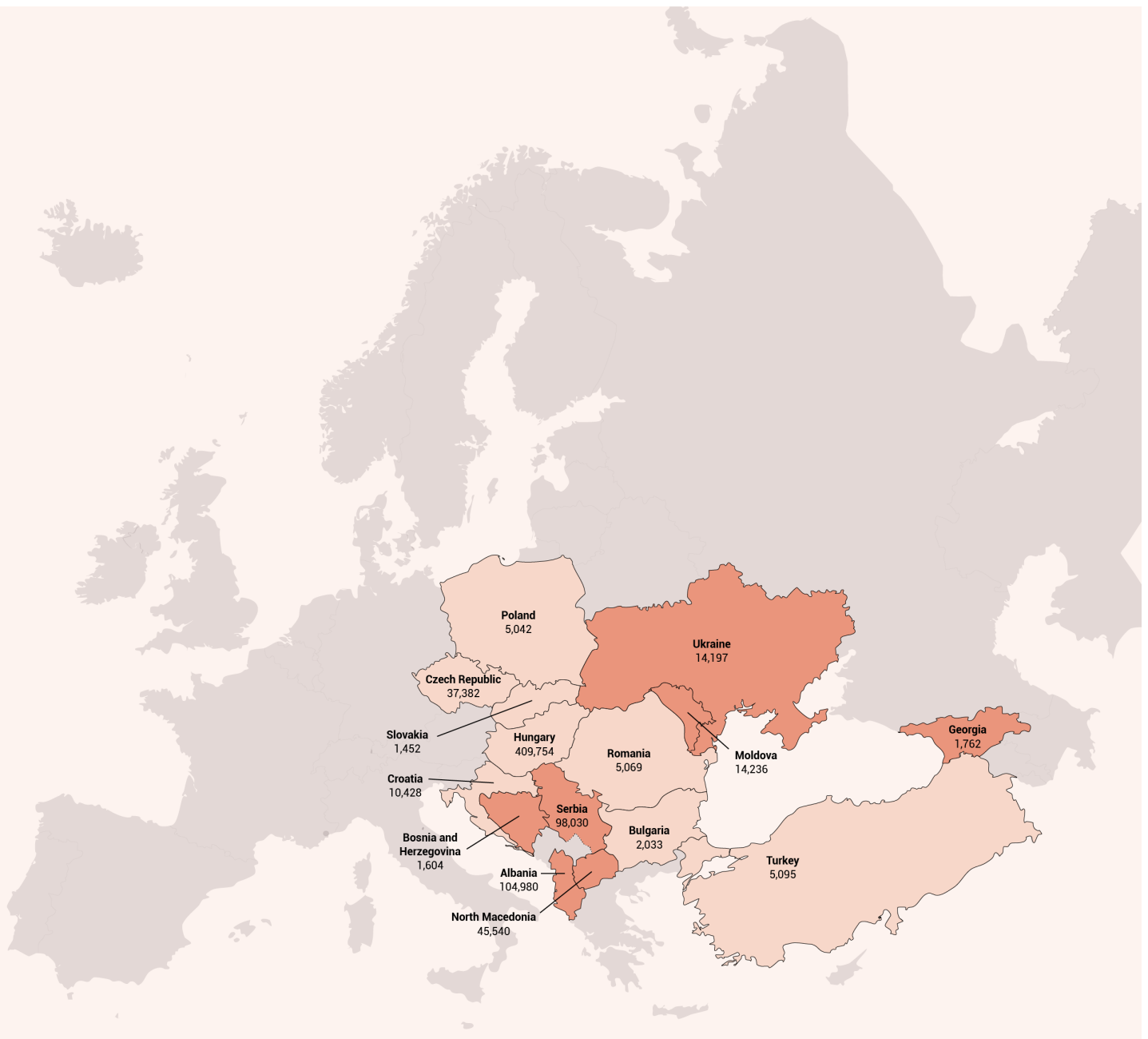
How is the Europe Floor Wage formula designed?

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% respectively for Europe-East/South. This is different from the Asia Floor Wage, where the food to non-food ratio is now 1:1.25 (food share = 45%).⁵

For the reference year 2018, we 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.

⁵ Please refer to the report and policy paper for more info.

Infographic: EFW 2018 in national currency⁶

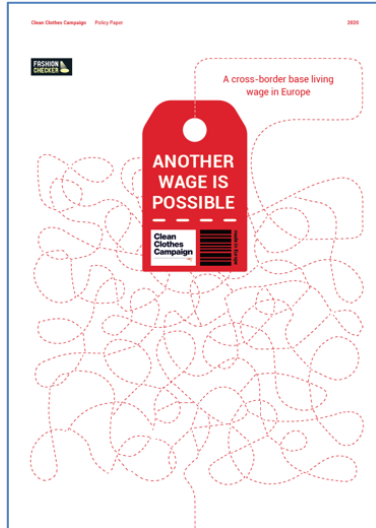


The Europe Floor Wage benchmark was published in 2020:
<https://cleanclothes.org/campaigns/europe-floor-wage>

⁶ Conversion rates: PPP USD 2018, private consumption. <https://data.worldbank.org/indicator/PA.NUS.PRVT.PP>

The launch was based on three CCC publications:

1. The **report** “A Living Wage in Central, East and South-East Europe: The EUROPE FLOOR WAGE benchmark”.



2. The **policy paper** “Another Wage is Possible: A cross-border base living wage in Europe”.

3. A **poster / flyer** “Workers need a wage to live on – a living wage”



Why is the update of the Europe Floor Wage benchmark necessary?

The Europe Floor Wage was launched in 2020. At that time, the most recent year in which all necessary data was available was 2018. Since 2018, after years of stagnation in the development of the statutory minimum wages in the region, not only have statutory minimum wages been increased, but the purchasing power of the minimum wage has also decreased due to inflation. The consumer price index (CPI) raised particularly during the Corona crisis.

From many countries in the region it is evident that – even before the pandemic – the increases in the cost of goods have not been adequately compensated by an increase in the minimum wage. This made it even more necessary to have a robustly updated benchmark.

Methodological note

There are two ways of updating the benchmark. The first is a full set of workers' food basket surveys executed with new food expenditures. On this basis, a new benchmark could be calculated just as the original 2018 benchmark was calculated. The second method is in which the 2018 benchmark is adjusted according to inflation rates. In the absence of means to do workers' food basket surveys, we opted for using inflation figures. Moreover, time did not allow for a more sophisticated inflation adjustment with weighted inflation rates for food costs – a methodology which was developed for the Asia Floor Wage (AFW) updates. This would have required investigations and calculations in all 15 countries on CPI data for food. We explored a simple inflation adjustment by using the average inflation rates for a year issued by the national statistical institutions and for some countries also by EuroStat. We used different sources to fact-check the consistency of data, since misleading and wrongly quoted numbers are frequent. The inflation rates used are not monthly indices, as usually inflation is quoted on a specific month compared to the same month of the previous year. We used annual average inflation, measured by CPI, from January to December of the year compared to the previous 12 months⁷. Currently, the last year for which this data is available is 2021. **Thus, the current update includes the development of consumer prices up to and including the year 2021.**

We are aware that the CPI calculated by the national statistical institutions do not reflect the reality of the working poor. Most garment workers face in-work poverty and earn statutory minimum wages. A basket of goods typical for households of working poor would surely differ from the basket of goods used by the national statistical institutions for CPI calculation. The structure of consumption patterns and household expenditures of working poor, for instance, show higher shares of costs for food, heating and other housing costs despite the fact that workers' families are trying to save on food and heating materials.

This systematic deficiency of the official inflation rates is the reason why in Turkey – the European country with by far the highest inflation – the Clean Clothes Campaign decided not to use the 'official' inflation numbers for their national living wage estimate⁸. However, because more realistic CPI calculations are not consistently available in most countries, we decided to universally use the 'official' inflation numbers and to also utilize the same calculation method consistently for all 15 countries.

7 for CZ, HU, SL, PO, TU: <https://www.inflation.eu/en/inflation-rates/czech-republic/historic-inflation/cpi-inflation-czech-republic.aspx>

for the other countries: national statistical institutes; macrotrend.net; doublechecked on <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>

8 <https://cleanclothes.org/file-repository/ccc-countryprofile-turkey-2022/view>

Statutory minimum wage – poverty threshold – living wage

For the understanding of the terminology context of a living wage, it is important to first understand the relations between the statutory minimum wage, the poverty threshold, and a living wage. The relation of these three categories can be best illustrated by a **wage ladder**. Let's take the example of Ukraine in 2021⁹:

UAH 3,430 €128 ⁴⁶	Interviewed workers' average actual household costs for water, electricity, gas, wood for heating and garbage collection
UAH 3,359 €126 ⁴⁵	Legal minimum net wage, 2019 ⁴⁴
UAH 4,404 €165 ⁴⁷	Interviewed workers' average actual net salary including allowance, within regular working hours
UAH 4,845 €181 ⁴⁸	Interviewed workers' average actual net salary, including overtime, bonuses, allowances, etc. (whole take-home pay)
UAH 5,158 €184 ⁴⁹	Poverty threshold: 60% of national average net salary (see below)
UAH 8,597 €307 ⁵¹	Average net salary in the country, Nov 2019 ⁵⁰
UAH 19,944 €746 ⁵³	Base living wage as estimated by workers, Nov 2019 ⁵²

The **statutory minimum wage** is a politically negotiated wage, often dictated by governments in favour of employers.

The **poverty threshold** most commonly used is the EuroStat, which is calculated according to the European Union Statistics on Income and Living Conditions (EU SILC) methodology¹⁰. It is calculated as 60% of the median equivalised income. (EuroStat does not calculate this for Ukraine. Therefore we simply calculated 60% of the average net wage). The wage ladder shows exactly why 60% median/average wage cannot be seen as realistic poverty threshold for countries in East and South Eastern Europe. The average wage level is very low, unions are weak, the environment is very employer-friendly, and the political-economic structure is like in early capitalist autocratic societies with a nonetheless monopolistic economy. Due to the generally low wage level, average

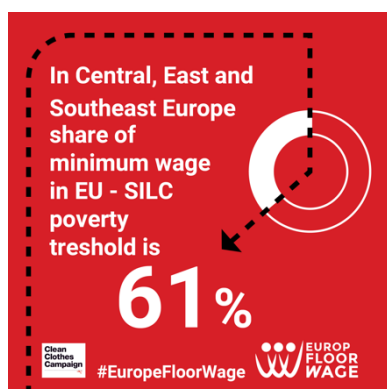
9 source: Musiolek, Bettina/Tamindžija, Bojana/Aleksić, Stefan/Oksiutovych, Anna/Dutchak, Oksana/Medarov, Georgi/Vragolović, Ana (2021): Exploitation made in Europe. Human Rights Abuses in Facilities Producing for German Fashion Brands in Ukraine, Serbia, Bulgaria, Croatia. <https://cleanclothes.org/file-repository/exploitation-made.pdf/view> Page 17

10 http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li01&lang=en
Version for two adults with two children younger than 14 years

wage is already very low and 60% of it is insufficient to sustain a life from. This threshold only works for countries with union-negotiated wage levels like in West European countries.¹¹

Despite the already too low poverty threshold, the minimum wage and the actually earned wages were below this threshold in all 15 countries. In **2018** we found that the minimum wage is on average 65% of this poverty threshold.

Has this relation between the statutory minimum wage and the poverty threshold changed between 2018 and 2020? ¹²



According to CCC calculations, the share of the statutory net minimum wage in the EU-SILC poverty threshold (60% of median / average net wage) **has slightly fallen between 2018 and 2020 from 65% to 61%**. This is an indication that the purchasing power of the minimum wage has continued to drop despite nominal increases of the minimum wage.

Note that for Turkey and Georgia the share of the legal minimum net wage in the poverty line was not included in this average calculation. In Georgia the legal minimum wage has been 16 GEL or 5 EUR per month since 1999. In Turkey, due to hyperinflation, the minimum wage amount has been devaluated monthly and can therefore not count for a whole year.

Calculating the inflation adjustment

Step 1: Multiplying the 2018 EFW amounts in PPP USD (column 1) with the average annual CPIs for 2018, 2019, 2020 and 2021 per country¹³. The result is the inflation adjusted EFW which is different for every country due to different inflation rates (column 2 and 3).

¹¹ This is more extensively argued in the report "A Living Wage in Central, East and South-East Europe: The EUROPE FLOOR WAGE benchmark". https://cleanclothes.org/file-repository/cleanclothescampaign_europefloorwage_report_web.pdf/view

¹² Sources: EU-SILC: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li01&lang=en - family of 4

Where an EU-SILC calculated poverty threshold does not exist, we calculated 60% of the country's average net wage (https://en.wikipedia.org/wiki/List_of_European_countries_by_average_wage)

Legal min net wage for 2020 according to national CCCs' information. Where the net amount depends on the family status it was calculated on the basis of a family of 4; but in many countries of the region there is a flat income tax regardless of income and family status.

¹³ annual average inflation, measured by CPI, in the 12 months (January - December) of the year compared to the previous 12 months. For CZ, HU, SL, PO, TU: <https://www.inflation.eu/en/inflation-rates/czech-republic/historic-inflation/cpi-inflation-czech-republic.aspx>

For the other countries: national statistical institutes; macrotrend.net; doublechecked on <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>

Step 2: Calculating a simple average out of the national EFWs to form a cross-border wage again: column 4. These PPP USD amounts have then been converted into national currencies again (column 5).

Step 3: For a plausibility check, we compared the statutory minimum wage of each country (except for Georgia, due to reasons already stated) with the new EFW. The average of these portions are in column 6. **Their average is 26%, so relation between the minimum wage and the base living wage benchmark is 1 to 4 on average. This is the same ratio as 2018.**

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Countries in the order of the average food share in household expenditures 2018	Europe Floor Wage EFW in PPP USD 2018 ¹⁴	inflation adjusted EFW in PPP USD 2021	inflation adjusted EFW in local currency ¹⁵ 2021	inflation adjusted cross-border EFW per band/cluster in PPP USD 2021	inflation adjusted cross-border EFW per band/cluster in local currency 2021	Statutory minimum net wage 2021 ¹⁶ as proportion of the EFW 2021
Czech Republic	2.640	2.971	44.062	3.185	47.237	31%
Hungary		3.047	517.177		540.597	25%
Slovakia		2.921	1.928		2.102	27%
Poland		2.984	5.789		6.179	33%
Bulgaria		2.939	2.292		2.484	20%
Turkey		4.750	12.349		8.282	34%
Croatia		2.776	10.799		12.391	27%
Romania		3.094	6.063		6.243	22%
Serbia	1.980	2.174	109.431	2.280	114.752	28%
Bosnia-Herzegovina		2.062	1.629		1.801	23%
Georgia		2.456	2.555		2.371	
N. Macedonia		2.115	48.451		52.235	29%
Albania		2.124	115.734		124.214	21%
Ukraine		2.667	21.762		18.605	26%
Moldova		2.333	15.864		15.504	15%
Average						26%

14 See report "A Living Wage in Central, East and South-East Europe: The EUROPE FLOOR WAGE benchmark". 2020.

https://cleanclothes.org/file-repository/cleanclothescampaign_europefloorwage_report_web.pdf/view

15 PPP USD - LCU conversion rate, private consumption - most recent value - accessed 11/05/2022

<https://data.worldbank.org/indicator/PA.NUS.PRVT.PP>

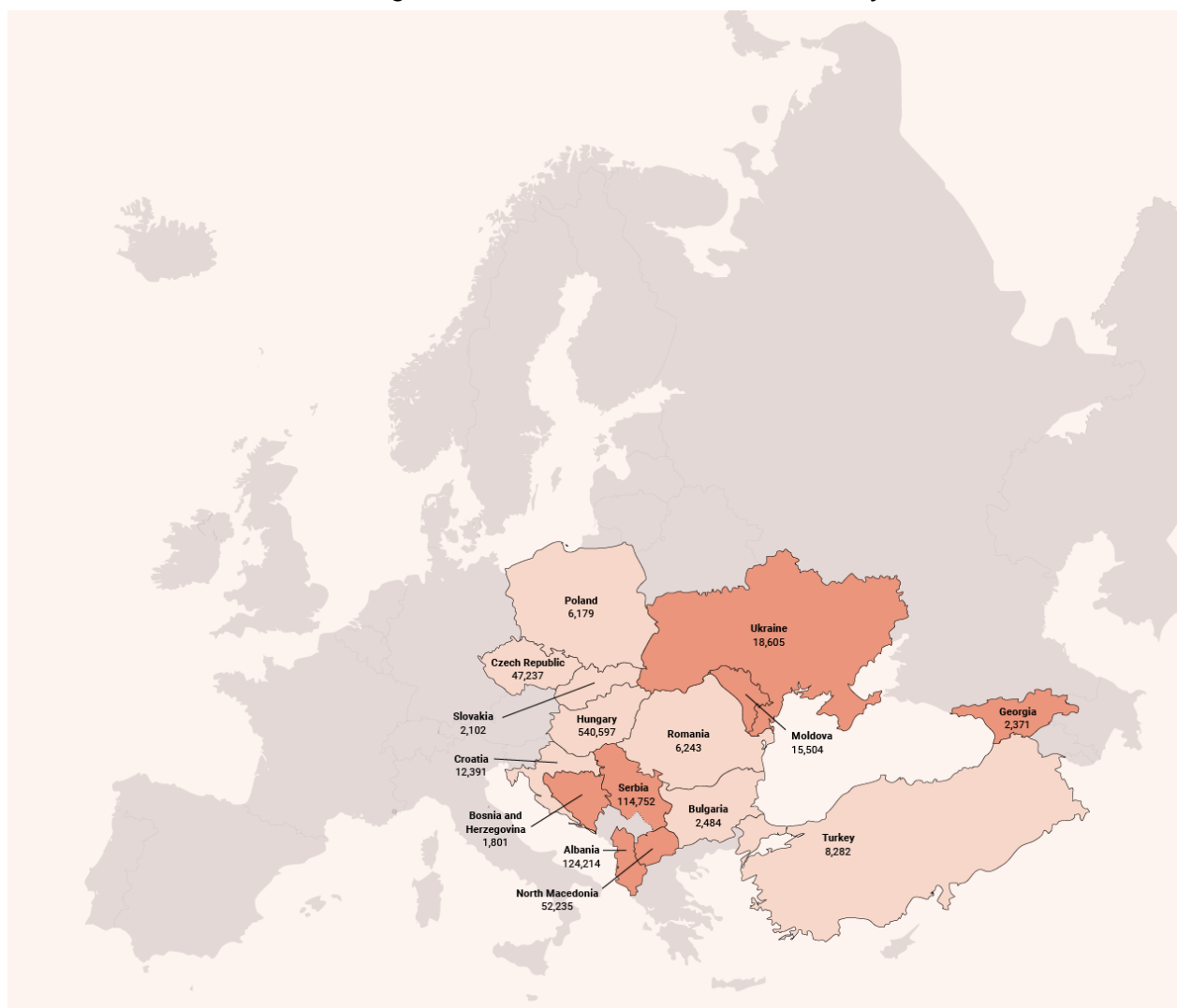
16 According to calculations of national CCCs.



Approval

In June/July 2022 this new inflation adjusted EFW 2021 has been discussed and approved by the CCCs from the 15 countries in question.

Infographic: EFW 2021 in national currency



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