

## The needs of workers and their families

### Convention No. 131 and workers' needs

The discussion of needs has been part of the main concerns of minimum wage fixing from the outset. The Preamble of the [ILO Constitution in 1919](#) makes reference to a “provision of an adequate living wage”. The minimum wage issue was also discussed during the 1927 and 1928 sessions of the International Labour Conference (ILC). The report draft from these sessions, which produced the [Minimum Wage Fixing Machinery Convention, 1928 \(No. 26\)](#), considered different alternatives to workers' needs: “mere subsistence, the amount necessary for health and decency, and the amount to provide a standard of comfort”, as well as whether minimum wages should take into consideration the needs of the worker alone, or of the whole family.<sup>1</sup> In the end, consideration of the family was not included, and the idea of a living wage was not one of the alternatives. The responding countries rejected the inclusion of criteria for minimum wage fixing, as well as methods for how to do it. Indeed, most governments agreed that the Convention should only lay down general principles. As a result, [Convention No. 26](#) represented a step towards improving labour conditions by promoting the adoption of a minimum wage, but offered no concrete guidance on the criteria to be applied.

By contrast, [Convention No. 131](#) groups the social protection role of minimum wages in a first set of criteria, including “the needs of workers and their families”. The economic considerations were kept separately, forming a second set. Although the inclusion of this “needs of workers” criterion was evident at the time, it was agreed that it was difficult to put into practice. The experts' report shows that even the determination of nutritional needs, which are basic for survival, was very much discussed. Another concern was the inclusion of family needs. The reference to family needs was retained in the Convention on the proviso that it did not promote different rates for workers with and without dependants.

Many countries' national legislation reflects a reference to the needs of workers or to poverty reduction. For example, Costa Rica's Labour Code establishes that “every worker has the right to a minimum wage that covers the normal needs of the household (material, moral and cultural)” (Article 177). This is also the case in Armenia, some provinces of Canada, Croatia, the Czech Republic, Kenya, Lithuania, South Africa and the United Republic of Tanzania.<sup>2</sup>

### Measuring the needs of workers and their families

[Convention No. 131](#) states that in determining the level of the minimum wage, the needs of workers and their families should be taken into account, irrespective of the complexity or simplicity of the minimum wage system in place. Assessing the needs of workers and their families, for the purpose of setting the minimum wage, can be complex for three principle

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<sup>1</sup> ILO. 1927. Minimum wage-fixing machinery, questionnaire, International Labour Conference, Tenth Session, Geneva; ILO. 1927. Minimum wage-fixing machinery, questionnaire, International Labour Conference, Eleventh Session, Geneva, 1928.

<sup>2</sup> [ILO General Survey 2014 on minimum wage systems](#)

reasons tied to: the measurement of the minimum income level, the household size, and the number of household members working. The three elements are discussed in detail below.

### **Income benchmarks – what are the needs of an individual?**

The definition of needs is a relative concept. There can be basic needs, higher needs, and so on. The definition of these different types of needs can also vary across and within countries. For example, should allowance for recreation be considered as part of basic needs – or are they higher needs? The difficulty of pinning down what constitutes what type of need explains why there is no universal definition that is widely accepted. This is despite the fact that there are multiple references to needs in international conventions, national legislation or even enterprise-level regulations. Generally however, as countries develop, standards of living rise and as they do, so does the definition of needs.

As a starting point, national poverty lines or thresholds, combined with information on household size and labour force participation rates, can be used to estimate a potential minimum wage that is high enough to lift households out of poverty. This section reviews such a method in detail and provides a practical example of its application. A poverty threshold offers a benchmark for minimum needs, usually based on the cost of basic requirements for adequate nutrition and other non-food essentials such as clothing, shelter and other items.

#### *International poverty lines*

There are both international and national poverty lines. International poverty lines are used for the purpose of international comparison. They include those established by the World Bank at 1.25 purchasing power parity (PPP) dollars per day and at 2 PPP dollars per day. PPP dollars capture the amount of a country's currency that is required to buy the same basket of goods and services in the domestic market as a US dollar would buy in the United States. In addition, while the Food and Agriculture Organization of the United Nations (FAO) does not provide information on poverty lines, it does provide data for selected countries on food security. Some of the indicators on food security include: the minimum dietary energy requirement per country and the average dietary energy requirement. The minimum dietary energy requirement captures “the minimum amount of dietary energy per person that is considered adequate to meet the energy needs at a minimum acceptable BMI [body mass index] of an individual engaged in low physical activity”<sup>3</sup> (expressed in kilocalories per day). The average dietary requirement calculates the average amount of dietary energy per person (expressed in kilocalories per day). In the absence of a poverty line (or a recent poverty line) these data could be used in combination with data on local prices to estimate an approximate amount of cash required to meet minimum dietary requirements.

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<sup>3</sup> [Food and Agriculture Organization of the United Nations. FAOSTAT.](#)

### *National poverty thresholds*

National poverty thresholds provide a more useful reference for policy-makers since they take into account the level of development and context specific to a given country.<sup>4</sup> National poverty lines can normally be found from the national statistical office and/or other government agencies responsible for their calculation. However, it is important to bear in mind that the national, statistical definition of a poverty line may not necessarily correspond to the legal definition of the needs of workers established in national legislation and necessary for minimum wage fixing. In case of a discrepancy, poverty lines can and should be complemented with additional elements. Poverty lines or any other index measuring workers' needs are not permanent parameters. The sustained development of a country should result in the inclusion of more concepts in the basic needs basket for low-income workers. For this reason, it is recommended that these standards be revised on a regular basis.

### *Relative poverty lines*

Relative needs and relative poverty lines are defined as some proportion - sometimes 60 per cent - of median household income. Relative poverty lines better capture the "cost of social inclusion and equality of opportunity in a specific time and space" and are usually preferred in more developed economies<sup>5</sup>.

### **Household size: How many people's needs can or should be met?**

Household size varies across workers and also through the lifetime of a worker. During the working lifetime of an individual, it is common that a wage earner's family comprises both adults and dependants. But how many dependents? How many people's needs should be met? Considering the potential multiplicity of situations, what is the best approach to estimate the size of a household? Three possible options are presented below:

- consider the national average
- consider two adults and two minors as a structure that ensures population replacement
- consider the average household size of lower-income households, given that minimum wages generally aim to protect these groups and that poorer households tend to be larger.

Irrespective of the option chosen, household size should also be adjusted for the lower consumption needs of children and for economies of scale. The poverty line for a family of four is not equivalent to four times the poverty line for one person, since, for example, children

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<sup>4</sup> National poverty thresholds may be determined on the basis of various methods. Some examples are described in [Haughton, J.; Khandker, S.R. 2009. \*Handbook on poverty and inequality\* \(World Bank, Washington DC\).](#)

<sup>5</sup> Jonathan Bradshaw; Yekaterina Chzhen; Gill Main; Bruno Martorano; Leonardo Menchini; Chris de Neubourg (January 2012). [Relative Income Poverty among Children in Rich Countries](#) (PDF) (Report). Innocenti Working Paper. Florence, Italy: UNICEF Innocenti Research Centre. [ISSN 1014-7837](#).

consume fewer calories and only one house is needed (instead of four homes for a four-person family).

There are different ways to account for differences in consumption and economies of scale. One example of an adjustment formula is:  $E = (A + \alpha K)^\theta$  where A represents the number of adults, K is the number of dependent children,  $\alpha$  represents the spending of a child relative to an adult, and  $\theta$  captures the economies of scale in a given household.<sup>6</sup> Another option is to use the OECD equivalence scale, which assigns a value of 1 to the first household member, of 0.7 to each additional adult and of 0.5 to each child.

### **Labour force participation rates: how many people work in a household?**

How many people work in a household? This question is important to determine how many people's needs should be met through one minimum wage. The answer is of course different if two adult members earn a minimum wage as opposed to only one adult.

When minimum wage policies were introduced at the beginning of the twentieth century, the labour force was mainly composed of male workers, with only one breadwinner per household. This has changed in recent times and labour force participation rates among women have generally increased. In developed countries, female labour force participation averaged around 53 per cent in 2013, compared to about 67 per cent for men.<sup>7</sup> In developing and emerging economies, labour force participation rates vary across regions, and gaps still remain between men and women. For example, in Latin America, female labour force participation in 2013 was about 54 per cent (compared to about 80 per cent for men), while in the Middle East it was only about 19 per cent (compared to 75 per cent for men).

Changes in the labour force participation rates of women over time increase the likelihood that families may have more than one income. This is equally true for youth that may postpone their transition out of the family home. At the same time, in many parts of the world there has been an increase in the number of mono-parental households, which still depend on only one income. The amount of income earners per household is very much related to the income distribution, which can vary across the distribution. For example, high-income families may have one, two or more incomes, while at the lower end of the distribution poorer families may have only one income earner.

#### *Hours worked*

It is also important to take into consideration the number of hours worked, as the minimum wage usually corresponds to the amount obtained when working full time. Part-time workers are only entitled to the proportion of the minimum wage that corresponds to the hours worked.

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<sup>6</sup>Deaton, A.; Zaidi, S. 2002. [Guidelines for constructing consumption aggregates for welfare analysis, Living Standards Measurement Study Working Paper 135 \(Washington DC, World Bank\)](#); Also see [OECD, "What are equivalence scales"](#).

<sup>7</sup>[ILO, Key Indicators of the Labour Market \(KILM\)](#).

Therefore, when estimating the number of workers per household it is important to adjust the figures to the equivalent full-time worker (i.e. 1.5 full-time equivalent workers implies one person working full time and one working part time).<sup>8</sup>

Given all these different situations, as well as the methodological aspects, what is the most appropriate way to estimate the number of income earners per household for purposes of the minimum wage fixing process? Four possible model scenarios are presented here:

- Only one full-time worker, in order to ensure that a household covers its basic needs with one minimum wage.
- All working-age adults in a household work full time. For example, in a family with two adults and two children, the two adults would work full time.
- The average at the national level, taking into consideration that in many households there is more than one income earner and that not all workers work full time.
- The average among lower-income families, in case the number of workers differs from the average family.

### **Estimating the needs of workers and their families in practice – an illustration**

To illustrate the effects of applying the different alternatives, we have selected data from Costa Rica. In Costa Rica, the minimum wage is set for nine skill levels (unskilled worker, semi-skilled worker, and so on); and for selected occupations (such as domestic workers and coffee pickers among others). The minimum wage for unskilled workers is known as the *salario minimo minimorum*. It acts as the floor for all workers, except those with specific rates (like domestic workers).

In 2011 Costa Rica estimated the cost of a basic basket of foods on the basis of the National Survey of Incomes and Expenditure. This basket, known as “canasta básica de alimentos” (CBA), contains the food necessary to satisfy the caloric needs of an average household (at the monthly market price). Non-food basic needs are also included and estimated to be 12 per cent above the CBA. In addition, the average size of the household was estimated at 3.4 people, while the average size of the poorest 50 per cent of households was 3.8 people. The average number of full-time equivalent workers per household was estimated to be 1.48, while in the poorest 50 per cent of households the average number of full-time equivalent workers was 1 per household.

#### *Lowest minimum wage example*

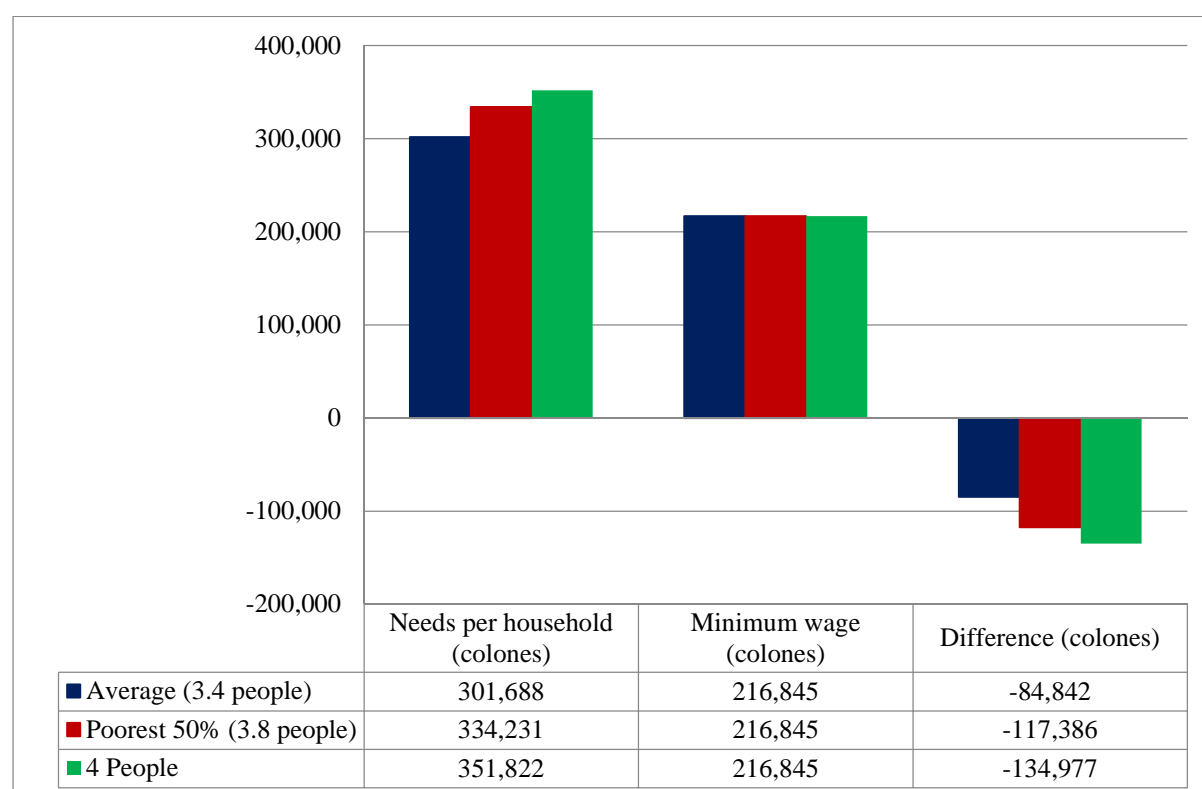
In order to estimate a potential minimum wage that is high enough to lift households out of poverty, first we consider the situation of a family with only one minimum wage earner (which corresponds to the reality of the poorest 50% of households). We estimated whether the lowest

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<sup>8</sup> [Fagan, C.; Norman, H.; Smith, M.; and Gonzalez Menendez, M. “In search of good quality part-time employment”, Conditions of Work and Employment Working Paper Series No.43, \(ILO INWORK, Geneva\).](#)

minimum wage (the *salario minimo minimorum* for unskilled workers), provided below in local currency (Costa Rican colones), was enough to cover the basic needs of a family of three alternative sizes: 3.4 people (national average), 3.8 people (poorest 50 per cent) and four people (the size guaranteeing reproduction). For this comparison we considered the minimum wage net of mandatory contributions to social security (9.2 per cent less than the gross minimum wage). In all three cases, there is a gap between the needs requirement and the minimum as illustrated by the difference column in the chart (it is negative for all household sizes). Therefore, in all three cases, the lowest minimum wage (*salario minimo minimorum*) is insufficient to cover the needs of workers and their families, using the national poverty line as a basis.

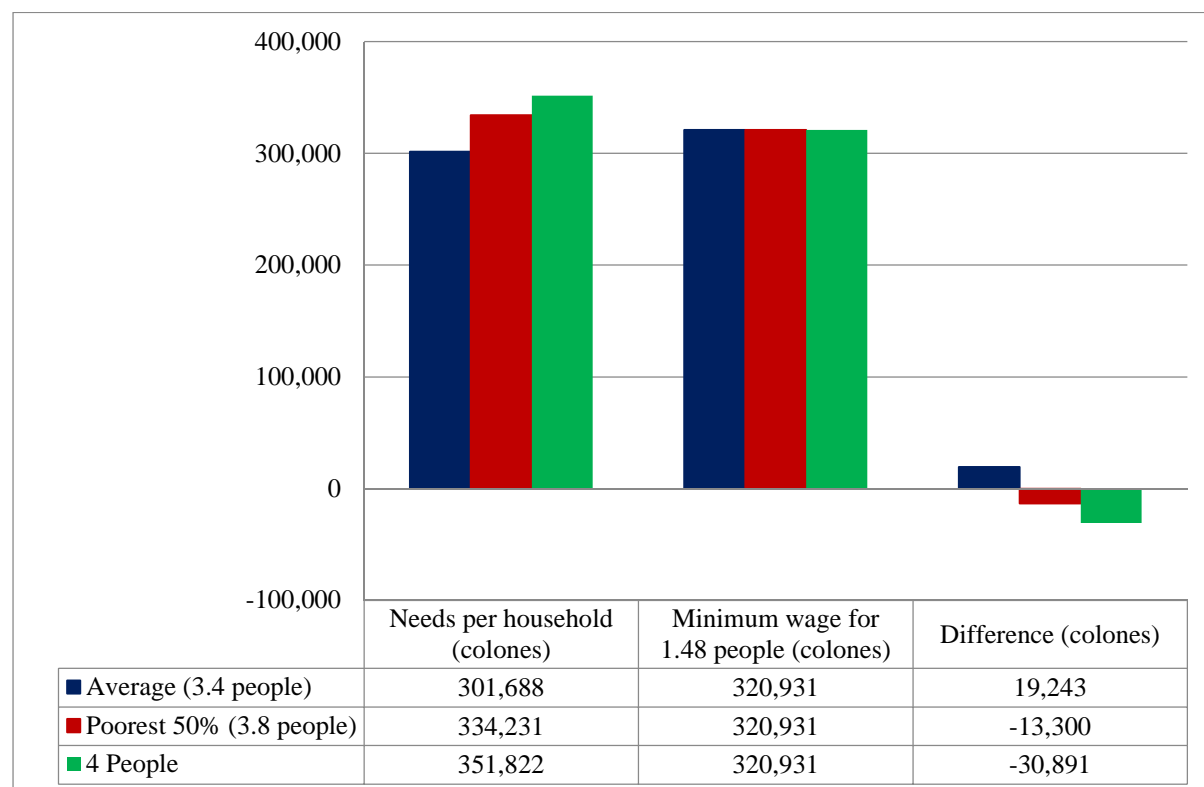
**Figure 1: Meeting the needs of workers and their families with one minimum wage, by household size (2012)**



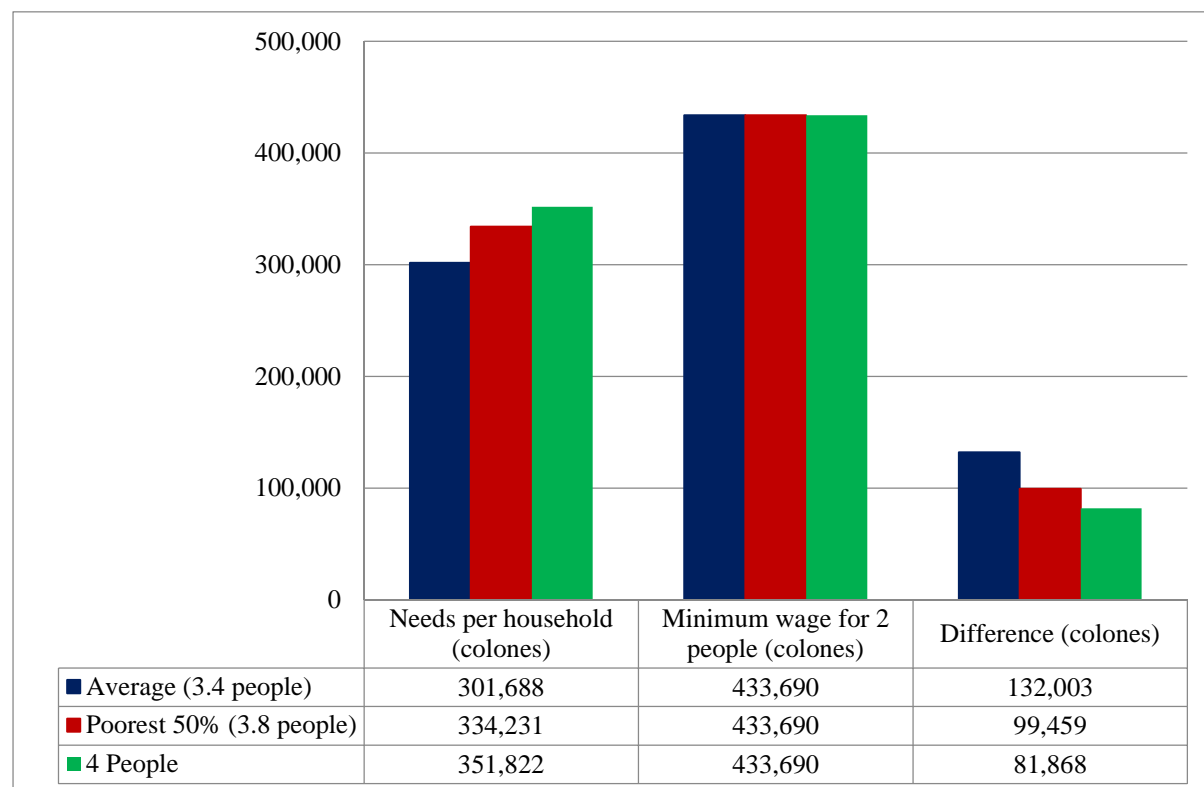
### *Examples with multiple minimum wages*

By contrast, as can be seen in Figure 2, if we consider the average number of workers per household to be 1.48, the national average, the gap between the minimum wage and the needs of the household disappears for the average 3.4 person household. However, the small gap remains for households with 3.8 and four people. Finally, Figure 3 shows the case where two people work full time. In all family types, the minimum wage earned by two full-time workers meets their needs and those of their families. This can be seen by the positive difference column.

**Figure 5.2 Costa Rica: Meeting the needs of workers and their families with 1.48 minimum wages, by household size (2012)**



**Figure 5.3 Costa Rica: Meeting the needs of workers and their families with two minimum wages, by household size (2012)**



## **A short conclusion**

Our discussion shows that there are no unambiguous ways to determine whether a minimum wage meets the needs of workers and their families. The answer will always depend on what criteria are used to determine the needs of workers and their families in a given country, the household size of workers, as well as the number of workers per household. It is important for policy makers, however, to have a clear understanding of the living standard that minimum wage earners can afford, and to try to agree on minimum income benchmarks that should be reached through minimum wages and other policies such as income transfers.