

# ACT

## Action Collaboration Transformation

### ECONOMICS OF THE ACT APPROACH

#### COORDINATED WAGE SETTING

Every worker has the right to just and favourable remuneration ensuring for herself and her family an existence worthy of human dignity. Making this aspiration of the Human Rights Declaration a reality for all workers in the garment, textile and footwear industry requires a transformation of wage setting in the industry. In many manufacturing regions adequate wage growth is hindered by the oversupply of labour in comparison to the available number of jobs. In such a labour market the mismatch of supply and demand keeps wages low.

Without a coordinated wage setting mechanism, downward pressure on wages as a variable cost factor will continue. By setting wages through collective bargaining at industry level supported by international purchasing practices this wage competition can be replaced by productive competition based on efficiency, innovation, design and creativity. In a global economy, national efforts to achieve higher wages in the garment sector need to be complemented by the coordinated support of international brands.

#### COMPETITION, PRODUCTIVITY AND WAGES

Manufacturers as well as international brands are operating under persistent competitive pressure that limits any possibility for raising prices along the supply chain. Hence there is a constant need to raise efficiency and minimise costs. Global competition makes it impossible for individual manufacturers, brands or countries to establish alternative solutions alone.

With far more workers than jobs in many garment and footwear producing countries real wages are largely determined independently of productivity in the sector. As the skills requirements can be acquired comparatively quickly, additional workers can easily be recruited from the large pool of job-seeking people living in poverty. Without a wage setting mechanism, it is the low level of income in a society at large and not the productivity of the sector that sets the competitive wage rate.



The distribution of the added value generated within global supply chains between international brands, intermediate suppliers, manufacturers, financial investors, consumers and workers depends on overall market conditions. Highly competitive retail markets, for example, benefit consumers while intensifying cost pressure along the supply chain.

As most producing countries are largely export-oriented, the main beneficiaries of lower retail prices are consumers in other countries while higher wages would contribute to the development of the internal demand and the local economy.

In the current economic environment, increasing the output per worker (raising productivity) will therefore not automatically raise wages. It needs to be complemented by minimum wages and collective bargaining at industry level to ensure that workers also benefit from productivity growth and that a larger share of the added value stays with workers in the producing countries.

## INCREASING THE WAGE SHARE

In many garment and footwear producing countries, wages have not grown in line with productivity in the past. This is where improved purchasing practices of international brands can play a vital role in ensuring wages increase in line with productivity growth. To raise wages in line with productivity, the unit labour costs paid by buyers for a piece of garment have to remain constant despite productivity increases. This means that efficiency and productivity gains cannot be expected to translate into lower purchasing prices. Sharing productivity gains requires the price of a labour minute to increase with the rate of productivity growth.

To close the living wage gap in a reasonable period of time, wages need to grow faster than inflation and productivity until a living wage level agreed by the employers and trade unions at country level is reached. This means that the unit labour costs for garments will have to rise. This cost increase will need to be absorbed by lower margins of suppliers and/or brands, higher consumer prices or lower fixed costs per unit of output resulting from the increased efficiency.

Higher wages will increase overall internal demand and growth prospects in the economy. In largely export oriented countries the potential inflationary pressure on the overall price level will be insignificant as higher wages will largely impact export prices and not local consumer prices. Empirical evidence shows that countries substantially increasing the wages of garment workers did not experience higher inflation.

## THE EFFECT OF A WAGE FLOOR AT INDUSTRY LEVEL

Setting a wage floor through a collective bargaining agreement at industry level obliges all manufacturers to pay the same wage rate across the sector. Taking wages out of competition will allow for higher wages. Better paid and nurtured workers will in turn be healthier, more motivated and more productive. A wage increase will therefore partly pay for itself.

Furthermore, a wage standard at industry level will stimulate a shift towards higher productivity in the whole sector. The greater the productivity of a worker, the lower the cost impact of higher wages on the price per unit and the stronger the competitiveness of the manufacturer. Companies will have a strong incentive to invest in efficiency and industrial upgrading.

Dynamic wage growth will be a major driver for productivity as companies with stagnating productivity will lose the option of staying in the market through downward wage flexibility. For the industry as a whole, an incentive structure that rewards and stimulates productivity growth is the best way to ensure long-term success in the global market.

Policy-makers aiming at developing the garment, textiles and footwear sector in their country will welcome the increase in wages as it improves living standards and motivates businesses to compete through innovation, product quality and streamlined production processes. They will, however, be concerned about the international competitiveness of the national industry.

## INTERNATIONAL COMPETITION

Collective bargaining at industry level can take labour costs out of competition nationally, but not internationally. For a transitional period, moving towards a living wage carries the risk of an international competitive disadvantage. Manufacturers, workers and governments in producing countries will understandably be reluctant to be pioneers in this process without support from international brands. They will be concerned that countries without a wage floor will continue to create downward pressure on prices. That is why ACT is engaging with manufacturers, trade unions and governments in key garment producing countries. In the medium and long run the commitments of international brands and the productivity enhancing role of dynamic wage growth will give the pioneering countries a competitive advantage in modernising their industry. Special engagement and support from international brands will be indispensable to support the pioneering countries in leading this transformation.

## ACT COUNTRY SUPPORT COMMITMENTS

**1. Preferred destination of sourcing**

ACT brands will make countries with a collective bargaining agreement at industry level a preferred destination for sourcing and investment for a defined period of time. Based on a consultation process, ACT will agree specific sourcing commitments for each country that have high priority for suppliers and can be implemented by buyers.

**2. Support of and compliance with collective bargaining agreement**

ACT brands will ask their suppliers to actively support the collective bargaining process. Compliance with the standards of the collective bargaining agreement at industry level will be requested from suppliers.

**3. Improve purchasing practises**

ACT brands will undertake self-assessments and share these findings with suppliers to identify and change purchasing practises that are an obstacle for suppliers to move towards a living wage. They are committed to improve their purchasing practices including terms of payment, forecasting and planning.

**4. Strengthen long-term partnerships**

ACT brands will ensure that their purchasing practices support long term partnerships with manufacturers which enable and reward progress to paying a living wage.

**5. Incorporate higher wages into purchasing price calculations**

ACT brands will incorporate the higher wages as a cost item in their purchasing price calculations.

**6. Engage with governments**

ACT members (brands and trade unions) will work with governments to promote the idea that the full respect for freedom of association and the implementation of a living wage is supported through different government policies.

## REQUIREMENTS

These country support commitments will become effective upon signature of a collective bargaining agreement at industry level negotiated between independent employers' organisations and trade unions at country level that meets the following basic requirements:

- a. Wage growth covering inflation plus productivity growth and a negotiated collective bargaining component;
- b. Full respect of freedom of association;
- c. A robust monitoring and enforcement mechanism .

## ADVANTAGES FOR COUNTRIES ENGAGING WITH ACT

1. The collaboration with international brands and retailers offers opportunities for long-term investment and industrial upgrading.
2. Workers enjoying better wages and improved working conditions are more motivated and more productive.
3. Collective bargaining at industry level enables employers and workers to negotiate tailor-made, fair and efficient wage structures that recognise skills, responsibilities and performance.
4. Equal wage growth across the sector creates a level playing field and replaces low-wage competition by innovation and productivity growth as the main engines for business success.
5. Through collective bargaining at industry level, conflicts and discontent can be transformed into agreed solutions that ensure predictability, stability and social peace.
6. Countries ensuring progress towards full compliance with human rights at work, including fair remuneration, will enjoy strong reputational gains and become a more attractive destination for international business that is faced with growing consumer demands for socially and environmentally sustainable products.
7. Products produced under fair conditions can potentially receive a price premium at the market or become the quality standard that consumers will increasingly expect from all competitors.
8. Establishing a fair and efficient wage-setting system will become a benchmark for the industry and public opinion, consumers and workers will expect other countries and companies to follow positive examples.
9. Pioneering the ACT approach has the potential to simultaneously improve business opportunities, working conditions and consumer satisfaction.

## TOWARDS A SUSTAINABLE INDUSTRY

ACT member brands recognise their role and responsibility in ensuring progress towards living wages through improved purchasing practices. But purchasing practices alone cannot improve wages. Moving towards a sustainable and productive garment industry based on good wages and working conditions will also require the willingness:

- of country-level actors to engage in genuine collective bargaining;
- of governments to provide a conducive legal and institutional environment for collective bargaining at industry level;
- of industrialised countries to reward the efforts of producing countries to ensure full respect of human rights at work and living wages through their trade policies.

Finally, consumers can also play an important role by accepting that living wages and better working conditions come at a price. For many years, companies, campaigners and trade unions have focussed on fair and responsible behaviour in the market.

Creating a level playing field through negotiated industry-wide wages supported by international purchasing practices would provide fair rules ensuring responsible behaviour by everyone.