Reforming Wage Policy for Workers towards Living Wage in Vietnam

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Abstract—Currently, in Vietnam, wage policy is implemented through an important tool, the minimum wage. However, the reality shows that the use of the minimum wage to pay employees is still inadequate and far from reality. Instead of using the minimum wage, a number of developed countries have recently used a new concept in wage policy making, which is “living wage” with high efficiency. In line with the trend of international integration, a living wage needs to be recognized and researched and applied in practice in Vietnam to bring about more positive effects, ensuring the life of workers and the whole country the sustainable development of the business. The article uses information and secondary data to analyze the current situation of minimum wages, scientific basis for living wages and policy implications to aim at workers with a living wage in the future.

Keywords: living wages, minimum wages, salary, Vietnam, wage policy.

Introduction

Facing the trend of global integration, Vietnam has many favorable conditions for economic and social development. In recent years, our country's economy has continuously grown rapidly with a relatively high growth rate; besides, the country’s scientific and technical level is also growing, catching up with world science. In the process of economic renewal and development, our State always has policies to promote the full potential of individuals in the economy as well as to attract resources from abroad. Building a salary regime suitable to economic conditions in the new period will be the driving force to motivate employees to work more actively, thereby helping businesses and companies increase labor productivity respond to economic development (Anker & Anker, 2017).

However, along with the positive aspects of economic development and opening, the limitations of the market mechanism also create certain difficulties such as:
the gap between the rich and the poor, the high unemployment rate. In addition, more and more foreign companies invest in Vietnam with attractive salary policies to attract highly qualified workers (Xiao, 2002). This causes significant difficulties for the labor policy of domestic enterprises (Amadeo, 2020). Low income level is also a cause of brain drain problem in recent years, a rather difficult problem for our country.

Thus, the construction of a reasonable salary regime will ensure the life of workers, and at the same time help overcome the limitations of the market economy. The question is what salary is reasonable? Currently, we are applying “minimum wage” to employees. Minimum wage greatly affects the minimum standard of living of workers. However, over the years, it can be seen that the minimum wage has many limitations, mainly only to compensate for price slippage, and has not yet become the basic source of livelihood corresponding to the labor value of employees (Thompson & Chapman, 2006). According to actual survey data on wages, income and workers’ living conditions from the Vietnam General Confederation of Labor, in recent years, workers’ incomes have improved slightly, but most still having difficulty. Therefore, the requirement for reforming the wage policy for employees to ensure the minimum living needs of workers in Vietnam is now necessary (Gregg et al., 2016).

**Literature reviews**

**Minimum wage concept**

The concept of minimum wage is a familiar concept for a long time, has been stipulated in many legal documents and has been applied in countries all over the world. According to the international labor organization ILO: “Set minimum wages are mandatory for employers and workers concerned, such minimum wages cannot be lowered by employers (Brown, 1999; Lordan & Neumark, 2018). Workers and workers concerned, either individually or by collective contract, unless specifically authorized by the competent authorities. With this concept, all countries participating in the ILO must comply.

In Vietnam, the concept of minimum wage has been fully and comprehensively recognized in Article 91 of the Labor Code 2019: “Minimum wage is the lowest salary paid to an employee doing a job in the simplest form under normal working conditions in order to ensure the minimum standard of living of workers and their families, in accordance with the conditions of socio-economic development. The minimum wage is set by region, set by month and hour”.

Thus, the minimum wage is understood as the lowest amount paid to the employee corresponding to the simplest level of labor occurring in normal working conditions. This amount must ensure the minimum living needs necessary for themselves and the employee’s family.

From there, it can be seen that the minimum wage has the following characteristics: First, the minimum wage is determined corresponding to the simplest labor level, that is, the level "no training required", or In other words, it is a simple manual labor, without professional training and without complicated technical requirements. Second, the minimum wage is determined to correspond
to the intensity of light labor taking place under normal conditions. However, at present, our country does not have any specific regulations on labor intensity or normal working conditions to determine the minimum wage. Third, the minimum wage must ensure the minimum material and spiritual consumption needs so that workers and their families can survive and work. The minimum wage only meets the needs of employees and their relatives at the minimum necessary level, so the needs for security, hygiene, social contribution... are not included in the salary structure. Fourth, the minimum wage must correspond to the cost of subsistence mainly in the regions with the lowest prices. However, in different regions, there are different high and low cost of living. If prices in low areas are used as a standard for calculating the minimum wage, it will not satisfy the needs of workers, and at the same time limit the operation and efficiency of businesses. So the determination of the minimum wage to suit the workers' lives is still a rather complicated issue, the current way of calculating the minimum wage is still quite far from reality.

**Living wage concept**

Because of many inadequacies in the implementation and determination of minimum wages, in recent times, instead of making wage policies using the minimum wage regime, many labor experts have proposed a single approach (Gindling & Terrell, 2007). Another concept is “living wage”. Living wages have been recognized in developed countries and tend to emerge in developing countries through CSR organizations and multinational corporations (Mair et al., 2019).

The issue of living wages was mentioned in the charter of the international labor organization ILO in 1919: “It is the responsibility of the International Labor Organization to promote countries and international programs towards policies related to wages and income, working hours and conditions, ensuring a fair distribution of the fruits of labour, and a living wage for all workers” (Baten et al., 2010). At the same time, specifically mentioning the concept of a living wage, in the study Estimating a living wage: A methodological review (2011), Richard Anker, Economist A senior economist who worked at the ILO also said: “A living wage is a wage that is sufficient to ensure that workers and their families have a basic and sustainable life in accordance with the level of economic development in each country, region, locality”.

From the above concepts, the most general concept of a living wage can be drawn as follows: a living wage is the lowest amount paid to employees so that they can maintain an adequate standard of living for themselves and their families family. This is understood as a life that meets living needs such as food, food, housing, clothing, clean water, sanitation, medical care, education for children, transportation and a small amount of money for the prevention of arising in life; The living wage must be the rate paid for the specified working time, excluding overtime pay, and must be adjusted to keep pace with changes in prices and economic development.

Since 1994, the living wage movement has grown quite strongly in the United States in Baltimore to ensure that workers working in the city’s construction sites
are paid too low a salary, not enough security life for them and their families and was spread in many other cities. Currently, all 50 states in the US have announced a living wage, which is determined by the hour and serves as a basis to encourage and strengthen negotiations between workers and employers on wages. In the UK, influenced by the success of the living wage movement in the US, in 2001, the UK Living Wage Alliance (consisting of religious organizations, Trade Unions and social/community groups) was founded and initiated the campaign to fight for a living wage. By 2011, the Government had announced the living wage as a basis to encourage employers to pay living wages for employees (Gelman & Santilli, 2018). Since April 2016, the UK Government has established a living wage floor, also known as the "national living wage", which is a salary that is required by employers to pay equal or higher wages to employees. Employees 25 years and older. In the context of globalization, the living wage movement has also spread to other countries such as Canada, Newzeland, Bangladesh, Srilandca... through multinational corporations, suppliers and the participation of organizations NGOs, sustainability standards organizations.

In the study the economic impact of local living wage (2006), Jeff Thompson and Jeff Chapman have shown many positive effects of the application of sufficient wages live in America. The dropout rate at many businesses in Baltimore, Boston, Los Angeles and San Francisco can be mentioned, helping to increase the profits of companies in Los Angeles by 16% compared to before; morale, work discipline of the employees improved. Along with that, researchers at Queen Mary University, London in studying the impact of improving wages and conditions of low-income workers in urban areas: The case of the Royal London Hospital (The impact of improved pay and conditions on low-paid urban workers: The case of Royal London Hospital) (2006) also proved the positive influence of living wages on the lives of workers. Specifically: 30.2% of employees think that their life has been greatly improved; 23.8% of employees think that their life has been improved a lot; 33.3% of workers think that their life is slightly improved.

**Living wages: a new perspective on minimum wages**

From the above analysis, we see that minimum wage and living wage are two different concepts that are easily confused with each other. So it is necessary to make a clear distinction in order to have a general and correct view of these two concepts. The concept of minimum wage has been and is one of the real economic policies for many years, which is clearly stated in the laws of the Government and State to protect workers from exploitation. However, the reality shows that many workers with the current minimum wage are still living below the poverty line. Thus, we see that there are still many shortcomings in the calculation of the "minimum wage" because the increase in the minimum wage often does not correspond to the rate of increase in the cost of living (CPI), which leads to the have not yet met the minimum standard of living of workers and their families. On the contrary, the concept of "living wage" is highly practical but has not yet been specified in legal documents. It represents the salary earned by a worker in a standard working week (not exceeding 48 hours) sufficient to have a basic sustainable standard of living for himself and his family. This means that with a living wage, a worker can buy nutritious food for himself and his family, pay rent, utility bills, healthcare, transportation, sanitation, safety Children’s security and
education, along with a small amount of savings for future force majeure events...

There are different ways to estimate a living wage, but the two main methods available today are: The Asian Wage Floor (AFW) and the Global Living Wage Coalition (also known as the Anker method). The Asian wage floor method calculates a living wage based on Asia's general consumption pattern in dollar terms with purchasing power parity. Anker method calculates living wage based on the consumption pattern of domestic workers with domestic price survey, ensuring the living standard according to the analysis above. The method of calculating the living wage is superior to the calculation of the minimum wage because it is based on the rate of increase in the cost of living.

In summary, it can be affirmed that "living wage" is a new and superior approach to wages. First of all, from the connotation of the two phrases "minimum" and "sufficient living", it can be seen that there are very clear differences between the two concepts "minimum wage" and "living wage". The word “minimum” only refers to the minimum standard of living of workers, but as we all know, the minimum standard of living is also divided into the minimum standard of living for subsistence and the basic minimum standard of living. So the concept of "minimum wage" has not really approached the living standard of workers. In contrast, the concept of "living wage" has a more direct view of how wages are to ensure enough living for workers, not just for survival. Specifically, the living wage includes all expenses to meet a full and decent life for employees, and even save some money for the future, while the salary At least this is not clear. Obviously, the concept of "living wage" helps us to see more correctly about wages. In addition, when compared with the minimum wage, the living wage has a calculation approach based on the rate of increase in the cost of living, so it is closer to the real life of workers, helping to make policy decisions. The salary policy is more effective, meeting the basic sustainable living needs of employees and their families.

From the positive and effective effects that studies show when applying a living wage in some countries, we see that the current trend is to shift from the concept of "minimum wage" to the concept of "minimum wage". "a living wage". This is clearly a very new perspective, a more effective approach to wages that countries need to consider adopting. However, the application of "living wage" to wage policy making depends a lot on the capabilities and practical situation of each country (Lee & Saez, 2012; Postel-Vinay & Robin, 2004).

**Actual situation of salary policy for employees in Vietnam**

Salary is the most important factor and also causes the most conflicts in labor relations, and is always a factor of mutual concern between employers, employees and the Government.

*The process of adjusting salary policy for employees in Vietnam*

According to Article 90, the Labor Code (amended) in 2019 clearly states: “Wage is the amount of money that the employer pays the employee to perform the work as agreed. Salary includes salary according to the job or title, salary allowance and other supplements”.
The basic salary applied to cadres, civil servants, public employees and the armed forces is determined in the direction of gradually approaching the minimum standard of living, always adjusting to offset the salary according to the cost of living index and the growth rate economic chief. Wages in the public sector have been adjusted 12 times from 2004 - 2019 to increase from VND 290,000 to VND 1,490,000. Currently, the basic salary is applied to about 4.2 million employees who receive salary from the state budget.

Minimum wage is the lowest salary paid to employees who do the simplest jobs in normal working conditions in order to ensure a minimum standard of living for workers and their families, in line with development conditions socio-economic development (Kustina et al., 2019). Pursuant to the provisions of the labor law, the Government annually considers adjusting the regional minimum wage. Accordingly, the current minimum wage is divided into 4 regions, in the period from 2013 to 2020 the minimum wage increases by 10.4% on average. According to the provisions of the Labor Code 2012, the subject of application of the Labor Code only includes about 10 million employees with labor contracts (accounting for 18% of the labor force).

Minimum wage meets minimum needs

Regional minimum wages are adjusted over the years compared to CPI and GDP
In Vietnam, the monthly regional minimum wage is regularly adjusted to meet the minimum needs of workers (Sari & Sjah, 2016). After 8 years of establishment and operation, the Council has recommended 8 times to the Government the regional minimum wage plan; The Government basically agreed with the plan recommended by the Council.
The minimum wage has been adjusted gradually year by year, which has basically contributed to stabilizing the labor market and labor relations in enterprises. Meanwhile, the regional minimum wage growth rate in the last 8 years from 2013 to 2020 averaged over 10.4%/year, however, the CPI index in previous regional minimum wage increases is usually expected to be higher in the past 8 years. In fact, in particular, in 2014, the expected increase in CPI is 7%, the reality is only 4%, in 2015 it is expected to be 5%, it is only 0.63% in reality, in 2016 it is expected to increase CPI by 5%. In fact, it is only 4.74%, CPI in 2017 and 2018 is expected to increase by 4% but in reality it is only 3.53% and 3.54%. CPI in 2019 was expected to increase by 4% but in reality it was only 2.79%. Minimum wages in recent years have gradually approached GDP growth but are still more than double the CPI.

![Figure 2. Comparison of regional minimum wage adjustments with CPI and GDP (Source: compiled by VCCI)](image)

Minimum standard of living of workers

According to estimates from the report determining the minimum standard of living of the Technical Department reporting to the National Wage Council in 2018, the minimum standard of living in all regions by 2020 is expected to be as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>2018</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region 4</td>
<td>2,588</td>
<td>2,680</td>
<td>2,787</td>
<td>2,897</td>
<td>3,012</td>
</tr>
<tr>
<td>Region 3</td>
<td>2,968</td>
<td>3,073</td>
<td>3,194</td>
<td>3,320</td>
<td>3,451</td>
</tr>
<tr>
<td>Region 2</td>
<td>3,369</td>
<td>3,486</td>
<td>3,622</td>
<td>3,763</td>
<td>3,909</td>
</tr>
<tr>
<td>Region 1</td>
<td>3,769</td>
<td>3,899</td>
<td>4,049</td>
<td>4,205</td>
<td>4,367</td>
</tr>
</tbody>
</table>

(Source: Data from the joint report of the National Wage Council technical department)
Table 2
Average income and minimum living needs of workers

<table>
<thead>
<tr>
<th>Content</th>
<th>Base salary/Regional minimum wage I</th>
<th>Average income (Fourth quarter of 2019)</th>
<th>Minimum living needs 2020 (Region I)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Area</td>
<td>Government Area</td>
<td></td>
<td>4,205,000</td>
</tr>
<tr>
<td>Private area</td>
<td>4,420,000 * 7% * 5%</td>
<td>7,520,000</td>
<td>4,205,000</td>
</tr>
<tr>
<td>FDI sector</td>
<td>4,420,000 * 7% * 5%</td>
<td>7,380,000</td>
<td>4,205,000</td>
</tr>
</tbody>
</table>

(Source: Q4/2019 Molisa Labor Market Newsletter)

Average income in 2019 was nearly twice as high as the minimum standard of living of workers (average of all 4 regions in 2020). The CPI in the previous regional minimum wage increases was often expected to be higher than in reality, so when reassessed according to the actual CPI in 2019, the regional minimum wage in 2020 was already higher than the minimum living standard by 1.51% and is beyond the ability of some businesses to pay at the moment.

Reform of wage policy towards a living wage

Domestic and international context
The Covid-19 pandemic has had a great impact on labor and employment issues, with up to 85.7% of businesses nationwide being affected by the COVID-19 epidemic. When reassessed according to the actual CPI in 2019, the minimum wage in 2020 was 1.51% higher than the minimum living standard (Erceg et al., 2000).

The Prime Minister has just asked the National Assembly to consider and consider stopping the increase in the base salary in 2020 as planned from July 1, 2020 to have more resources for urgent and agreed-upon goals by the Politburo implement the adjustment of the base salary for cadres, civil servants, public employees, armed forces and pensions from July 1, 2020. This will affect the implementation of “Section 3.1.c, Part II of Resolution 27-NQ/TW, from 2021 will abolish the base salary and apply a specific salary to cadres, civil servants and employees. Position; this specific salary will be calculated based on the employment position of each subject. Thus, the salary of cadres, civil servants and public employees in 2021 will no longer be based on the current base salary, which will be calculated based on many factors, including the lowest average salary of all employees area of the business sector (Tung, 2021).

According to the provisions of the Labor Code 2019, the subjects of application of the Labor Code include employees, apprentices, apprentices and employees who do not have an employment relationship. There have not been any official studies from state management agencies or social partners. Not even the International Labor Organization (ILO) has come up with a clear methodology or criteria for calculating a living wage or for bringing the concept to life due to methodological difficulties and there are huge differences in conditions at the national and local levels.
The law stipulates that salary payment to employees must be based on the job position the employee undertakes, labor productivity, and work efficiency of the employee; Employers have the right to decide on their own how to distribute wages, to ensure that wages are paid in accordance with the quantity and quality of labor and the level of contributions of employees. Enterprises paying wages to employees must ensure fairness and equality. In addition, the law also stipulates that every year, based on production and business performance, enterprises reward employees according to their contribution to the overall performance of the enterprise, thus aiming for a higher salary (Tung, 2021). Sufficient living needs the attention of both state management agencies, businesses and social partners.

**Some opinions on wage reform towards a living wage**

*For State management agencies*

Improve the effectiveness and efficiency of the State management of wages, perfect the policies and laws related to wage policy such as narrowing the wage gap between the administrative and non-business sectors and the business sector, the law on social insurance ... To improve the mechanism to support the salary agreement in the enterprise through the establishment of a mechanism for dialogue, negotiation and agreement between the subjects in the labor relations.

*For enterprises and employers' representative organizations:*

For the employer, because wages constitute a large part of the costs that the employer has to spend (namely, most of the labor costs, so the employer is interested in the cost of labor), labor costs more than wages in general, and therefore all salary components are also important to employers, such as monetary or in-kind benefits or other factors. Both monetary and non-monetary factors affect the standard of living of workers, so when discussing a living wage, it is necessary to pay attention to the following contents:

- Increase responsibility in paying the right and sufficient salary.
- Ensure compliance with minimum wage regulations.
- Pay salary on time and fully on agreed salary.
- Ensure fair wages

Perspectives on living wages of workers and managers.
Knowledge of workers and managers about common wages in the same manufacturing industry and the same area.
Fair salary adjustment
Real wages will be adjusted based on the inflation rate and the cost of living through the consumer price index.
Based on production and business efficiency, labor productivity.
Based on training level, application of technology, change of production process or method.

*For employees and representative organizations of workers*

For employees, salary is the main source of income so salary is the basis for workers’ living standards but other sources of income other than basic salary, such as bonus or equal benefits other artifacts also play an important role in improving the living standards of workers.

The agreement mechanism in labor relations, including the salary agreement as stipulated in the labor law, has initially been implemented but has not been brought into full play. Disputes over wages often do not go through negotiation and agreement, but go straight to a strike. Therefore, it is necessary to promote a
mechanism for dialogue and information on wages and improve the capacity to negotiate and agree on wages through contracts employees, pay slips and information channels available at businesses.

* For the brands
Follow good responsible ordering practices.
Sharing benefits with factories to help factories have enough capacity to improve working conditions for workers, including increasing wages for workers.

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