Brazil's Wage Gap Charts

Manufacturing production-line wages

Wage gap charts for Brazil vis-à-vis selected developed and "emerging" economies, with available wage and PPP data (1996-2008)

Wage gap charts for Brazil vis-à-vis selected developed and "emerging" economies, with available wage and PPP data (1996-2008).

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- **Classic Problem Scenario**

  - With market liberalisation, MNCs sell their products in both the host countries and in all other markets where they are active, including their home country, at the same or at a very similar sales price,

  - They achieve maximum profitability when the manufacturing process in their developing countries' operations is at par in quality and production efficiency with the standards used in their home operations but their cost of labour is dramatically lower,

  - The MNCs' markets and their manufacturing and marketing operations are *globalised* but their labour costs remain strategically very low in order to achieve maximum competitiveness and shareholder value at the expense of the South's workers,

  - The resulting situation is one where MNCs get all the benefit. Sometimes the salaries that they pay are higher than the legal minimum wage in the host country. Yet, these wages still keep workers in dire poverty. A minimum wage does not make a living wage even in the most developed economies,

  - What has occurred, with market globalisation, is the dramatic widening of the gap between wages in the North and in the South,

  - While the standard of living of a worker in the North provides the basic means to make a living and afford a basic standard of comfort, a worker working for the same company, doing the exact same job with the same level of quality and efficiency, lives in a shanty town in a cardboard house with no sewage, water and legal electricity,

  - In this way, the huge differential in labour costs is added to the profit margin, keeping the part (the surplus value) that should have provided the worker with an equivalent standard of living to that enjoyed by the same workers in the North. This surplus value from the labour factor is the part rightfully belonging to workers, and that they should have received from inception, as their fair share of the income resulting from the economic activity.

The Argument for Wage Equalisation
Using Purchasing Power Parities (PPPs)

- **The Argument**

  - In true democracy the purpose of all governments is to procure the welfare of every rank of society, especially of the dispossessed, with the only end of all having access to a dignified life in an ethos where the end of democratic societies is the social good and not the market. The market is just one vehicle to generate material wellbeing,

  - In this ethos, and with markets globalised, workers performing the same or an equivalent job for the same business entity, in the generation of products and services that this entity markets at global prices in the global market, must enjoy an equivalent remuneration,

  - This equivalent remuneration is considered a living wage, which is a human right,

  - A living wage provides workers in the South with the same ability to fulfil their needs, in terms of food, housing, clothing, healthcare, education, transportation, savings and even leisure, as that enjoyed by equivalent workers in the North, which we define in terms of the purchasing power parities (PPP) as defined by the World Bank and the OECD,

  - The definition of a living wage of The Jus Semper Global Alliance is as follows: *A living wage is that which, using the same logic of ILO's Convention 100, awards "equal pay for work of equal value" between North and South in PPPs terms,*

  - The premise is that workers must earn equal pay for equal work in terms of material quality of life for obvious reasons of social justice, but also, and equally important, for reasons of long-term global economic, environmental and social sustainability.

The Argument for Wage Equalisation
Using Purchasing Power Parities (PPPs)

- **The Argument**

  - The argument of an equivalent living wage is anchored on two criteria:

    ➡ Article 23 of the UN Universal Declaration of Human Rights, on the following points:
    a. Everyone, without any discrimination, has the right to equal pay for equal work,
    b. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
    ➡ ILO´s Convention 100 of "equal pay for work of equal value', which is applied for gender equality, but applied in this case to North-South equality, using PPPs as the mechanism,

  - The proposal is to make workers in the South earn living wages at par with those of the First World in terms of PPPs in the course of a generation (thirty years),

  - There will not be any real progress in the true sustainability of people and planet –reversing environmental degradation and significantly reducing poverty– if there is no sustained growth, in that period, in the South's quality of life, through the gradual closing of the North –South wage gap; attacking, in this way, one of the main causes of poverty, and pursuing concurrently sustainable development –rationally reducing consumption in the North and rationally increasing it to dignified levels in the South, thus reducing our ecological footprint on the planet,

  - Just as the International Labour Organisation's Decent Work Agenda states, the decent work concept has led to an international consensus that productive employment and decent work are key elements to achieving poverty reduction,

  - The material quality of life in Jus Semper's The Living Wages North and South Initiative (TLWNSI) is defined in terms of purchasing power, so that equal pay occurs when purchasing power is equal,

  - Purchasing power is determined using purchasing power parities (PPPs),

  - Purchasing power parities (PPPs) are the rates of currency conversion that eliminate the differences in price levels between countries.

▪ Concept of Living Wage Using PPPs

- The concept of a living wage using PPPs is straightforward. To determine real wages in terms of purchasing power of any country in question, the PPPs of this country are applied to nominal wages. These are the real wages for each country,

- Purchasing power parities reflect the amount in dollars required in a given country to have the same purchasing power that $1 U.S. dollar has in the United States; e.g.: if the PPP index in one country is 69, then $0,69 dollars are required in that country to buy the same that $1 dollar buys in the U.S.; thus, the cost of living is lower. If the PPP were to be higher than 100, say 120, then $1,20 is required in that country to buy the same that $1 dollar buys in the U.S.; the cost of living is, thus, higher,

- To calculate a living wage, the real wage of a specific category of U.S. workers is used as the benchmark, and the PPPs of a country in question is then applied to the U.S. wage,

- This provides the equivalent living wage that a worker in the country in question should be earning in order to be at par in terms of purchasing power to the material quality of life enjoyed by the equivalent U.S. worker. This is the equalised wage in terms of purchasing power,

- In this way, the comparison between the actual real wage of the country in question exposes the gap, in real terms, between the current real wage of the worker of the country in question and the living wage it should be earning, in order to be equally compensated in terms of PPPs,

- In practice, since the PPPs vary annually, due to the dynamics of economic forces, the pace of the gradual Equalisation of wages, through small real-wage increases, needs to be reviewed annually.

- It must be pointed out that this rationale does not even take into consideration that the neoliberal paradigm of staunch support for supply-side economics has consistently depressed for three decades the purchasing power of real wages in the U.S., the benchmark country for wage equalisation. This has been attempted to be resolved by women joining the work force and, fictitiously, through over indebtedness, which eventually has brought us down to the great implosion of capitalism in 2008. In this way, this equalisation analysis is made in the context of a course set forth during three decades of global depression of real wages in favour of international financial capital.

The Argument for Wage Equalisation
Using Purchasing Power Parities (PPPs)

▪ A Classic Example in 2008

- Equivalent manufacturing workers in Mexico and Brazil earn only 17% and 37%, respectively, of what they should be making in order to be compensated at par with U.S. counterparts in terms of purchasing power,
- U.S. Workers earn $25,65/hour whilst Mexican and Brazilian workers earn only $3,12/hour and $6,93/hour, respectively,
- Since costs of living in PPPs terms in Mexico and Brazil are 70¢ and 72¢, respectively, for each $1 U.S. dollar, equivalent Mexican and Brazilian manufacturing workers should be earning instead $17,86/hour and $18,59/hour, respectively, in order to enjoy equal purchasing power compensation,
- The difference is the wage gap that employers perversely keep to increase profits,
- Canada, in contrast has a surplus with its U.S. counterparts, since its nominal wage ($29,78) is 103% of the equivalent wage ($28,92) needed to be at par, with a PPP of $1,13 per each $1 U.S. dollar.

Nominal Wage, Real Wage and Wage Equalisation for Manufacturing Workers by Using Purchase Power Parities (PPPs) Benchmark

2008	Nominal Hourly Wage	PPP 2006	PPP Real Wage	Equalised Nominal Hourly Wage	Equalisation Index
United States	US$ 25,65	100	US$ 25,65	US$ 25,65	100
Canada	US$ 29,78	113	US$ 26,41	US$ 28,92	103
	116%		103,0%	113%	
Mexico	US$ 3,12	70	US$ 4,48	US$ 17,86	**17**
	12%		17%	70%	
Brazil	US$ 6,93	72	US$ 9,56	US$ 18,59	**37**
	27%		37%	72%	

Sources:

U.S. Department of Labour, Bureau of Labor Statistics, November 2009..

Data base of World Bank's World Development Indicators, 1975-2008, (GNI & GNI PPP, Atlas method)

- **A Classic Example in 2008**

  - From a graphic perspective, the first pie chart shows the U.S. real wage for production-line workers in the manufacturing sector, which is always the benchmark. In the case of Brazil, the pie chart exhibits the nominal wage earned, the nominal wage equalised with the U.S. wage –always in purchasing power parity terms, and the difference retained inappropriately (deliberately).
  - The nominal equalised wage of $18,59 is what the Brazilian production-line worker should earn to be equally remunerated (in purchasing power terms) for performing an equivalent task. Yet, the worker only earns $6,93 instead of $18,59, thus the employer deliberately retains $11,66, which constitutes the greater part of the surplus value that legitimately belongs to the Brazilian worker, according to TLWNSI's concept.
  - In this way, the second pie chart shows how the employer retains inappropriately 63% of labour's surplus value by only allocating to the worker 37% of what he/she is entitled to.

US$ 25,65

US$ 6,93

US$ 11,66

US$ 18,59

63%

37%
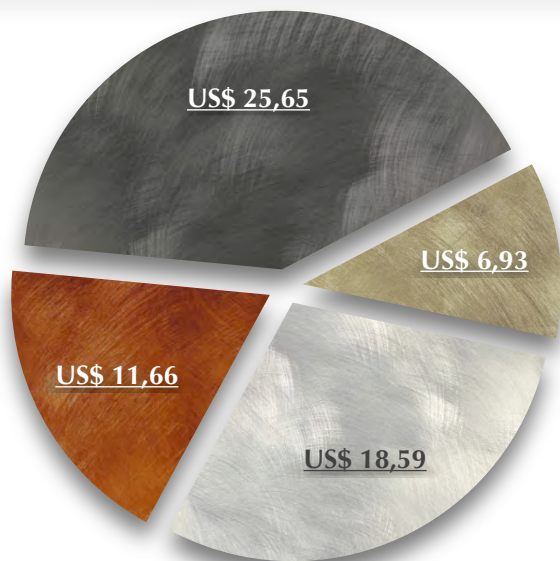
- ● Nominal wage earned
- ● Equalised nominal wage
- ● Difference inappropriately retained by the employer
- ● U.S. equivalent wage (benchmark for equalisation)
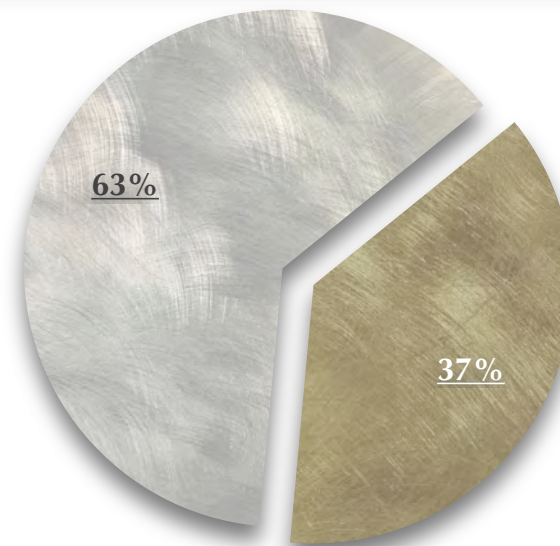
- ● Nominal wage earned
- ● Difference inappropriately retained by the employer

Sources: WB, U.S. BLS, OECD – © The Jus Semper Global Alliance

Wage gap comparisons for selected economies

- In 2008, the shock of the greatest depression of global capitalism since 1929 is not reflected yet in the real wages of production line manufacturing workers relative to their equalisation with the real wages of their U.S. counterparts. Germany, Italy and Canada enjoy nominal wages that are superior in value to that required to be at par with those of their U.S. counterparts.

- Euro area real wages continue their ascending trend. This is reflected in the increase of indices above wage equalisation in Germany and Italy, the near equalisation of French wages and the continuity of Spain's equalisation trend, which now has surpassed the UK. In contrast, real wages in the latter endure a drastic drop of 10%.

- In Asia, Japan reverts a stagnation trend in its equalisation level, which had been dragging since 2001, now surpassing South Korea, which carried a consistent equalisation trend since 1975, and that now suffers a strong devaluation and a drop of real wages of 16%. Hong Kong does not report any significant change. Singapore experiences some improvement, albeit still below its best position of 2006.

- In the Americas, Brazil's wage recovery continued stagnated in 2008. In 2009, Brazil instituted an annual minimum wage increase –from 2010 forward– that results from the sum of the inflation index and GDP growth. This should reflect, beginning that year, a strong appreciation of manufacturing wages. Canada maintains almost invariable its small surplus. Mexico maintains its rigid and deliberate pauperisation policy that keeps wages stagnated since 2000. Worst of all, it is expected that, beginning in 2009, with an economy completely dependant on the U.S., real wages will deepen their pauperisation to the level recorded in 1995 or even worse. The subjection of Mexican wages to conditions of modern slave work, instead of bringing them closer to the U.S. benchmark, it is dangerously bringing them closer to the wages of China and India, which due to the sheer size of their labour forces, are representative of the worst misery wage indices.

2008 gaps between nominal and equalised wages with U.S. wage using PPPs
(Hourly manufacturing compensation costs in U.S. Dollars)

Wage Gap between Nominal and Equalised wages in terms of purchasing power parities

1) If front bar is greater than back bar= Nominal wage is superior to wage required to be at par with U.S.
2) If back bar is greater than front bar= Nominal wage is less than wage required to be at par with U.S.
3) If both bars are in equillibrium= Nominal wage is equivalent to nominal wage in U.S. in terms of purchasing power

(The size of wage gap is expressed in percentages. If negative, there is a wage advantage instead of a wage gap for nominal wage is superior to wage required to be at par with U.S.. Comparisons are in terms of hourly compensation costs as explained in T4.)

Sources:
– Data base of World Bank's World Development Indicators, 1975-2008, (GNI & GNI PPP, Atlas method)
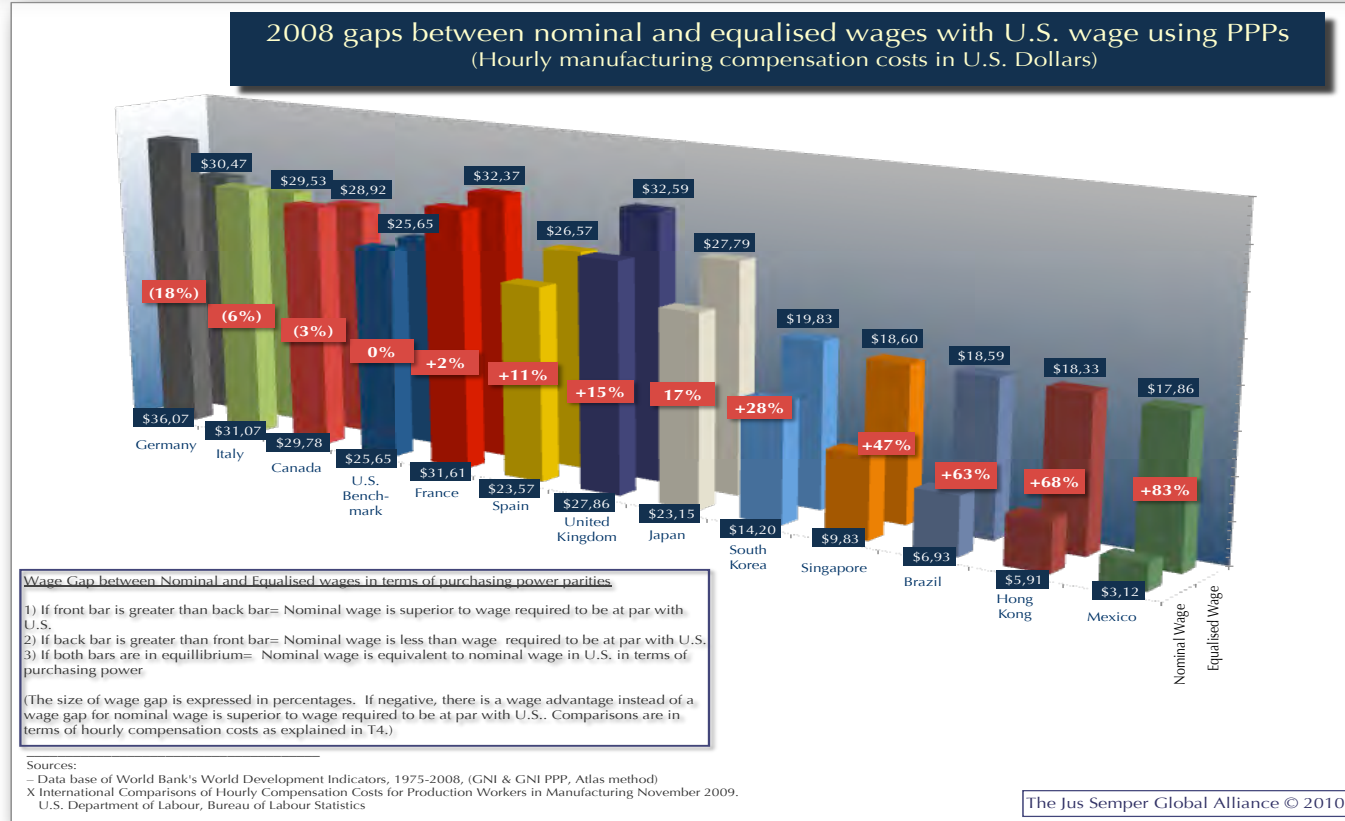X International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing November 2009.
   U.S. Department of Labour, Bureau of Labour Statistics

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Brazil's recovery of production-line manufacturing wages remains idle in 2008. Yet, there are plans for a strong long-term equalisation.

- Since 1996 –first year with comparable manufacturing wage data available– real wages lose 39% up to 2002 –relative to their PPP equalisation with the U.S. Cost of living drops with the 1999 crisis but wages do even more; thus real wages collapse during the period.

- The gap between nominal and PPP equalised wages deepens, growing from 54% to 72% between 1996 and 2002. That is, although the PPP cost of living drops 38,6% –from 70¢ to 43¢ against $1 in the U.S.– nominal wages drop 55,4%. Thus, the true value of Brazilian PPP wages (relative to their U.S. counterparts) drops from a 46 to a 28 index, for wages drop even more than does the cost of living –real wages fall.

- Nonetheless, between 2003 and 2006 Brazil records a strong wage recovery. This increases equalisation by 39% (from a 28 to a 39 index), due to strong growth of nominal wages, averaging annually 25% between 2002 and 2006, for a total growth of 95% during the period, quite above the PPP cost of living of 25,6% during the same interval. In this way, real wages recover 53,8% in that course of time. In 2007, however, the cost of living increases 16,7%, and 14,3% in 2008, for a strong total increase of 33,3% in just two years, relative to 2006. In contrast, during the same period, nominal wages grow 38,6%, thus real wages grow 3,6% whilst U.S. real wages grow twice as much (7,1%). This makes the equalised wage to increase 43,3%, thus the equalisation index drops to 37 since 2007 and remains the same in 2008.

- Nevertheless, the future of Brazil's wage policy is being redefined by clearly establishing a commitment to not only the recovery of its 1996 wage level but to the equalisation with equivalent wages in the U.S. That is, showing strong affinity with TLWNSI's concept –of the gradual closing of wage gaps through annual real wage increments (increments of several points over inflation)– a system of annual real minimum wage increases is planned. This plan is described in the following section as well as a projection to close the wage gap for manufacturing wages in the span of thirty years, based on the Brazilian plan for the minimum wage.

- Between 1996 and 2008, the Brazilian equalised manufacturing hourly wage –the wage required to receive an equivalent remuneration to that of their U.S. counterparts– increases 48,5%, relative to the relationship between the PPP cost of living of Brazil and the U.S., going from $12,22 in 1996 to $18,59 U.S. dollars in 2008. Yet, given that Brazil's hourly manufacturing wages grow only 20,3%, from $5,76 in 1996 to $6,93 U.S. dollars in 2008, Brazil's 1996 wage equalisation index of 46 has not yet been recovered and remains stagnated since 2007 with a 37 index, which is 20% below 1996.

Gap between manufacturing hourly wage and PPP equalisation index with real U.S. wage

U.S. current dollars

Equalisation Index values: 46, 39, 31, 28, 32, 32, 39, 37, 37

U.S. Benchmark values: 17,82, 18,59, 19,73, 21,42, 22,92, 23,60, 23,94, 25,13, 25,65

Brazil Nominal Wage values: 5,76, 5,49, 3,50, 2,57, 3,14, 4,16, 5,00, 5,95, 6,93

Years: 1996, 1998, 2000, 2002, 2004, 2005, 2006, 2007, 2008

Legend:
- Equalisation Index
- U.S. Benchmark
- Brazil Equalised Wage
- Brazil Nominal Wage
- Brtazil Real Wage
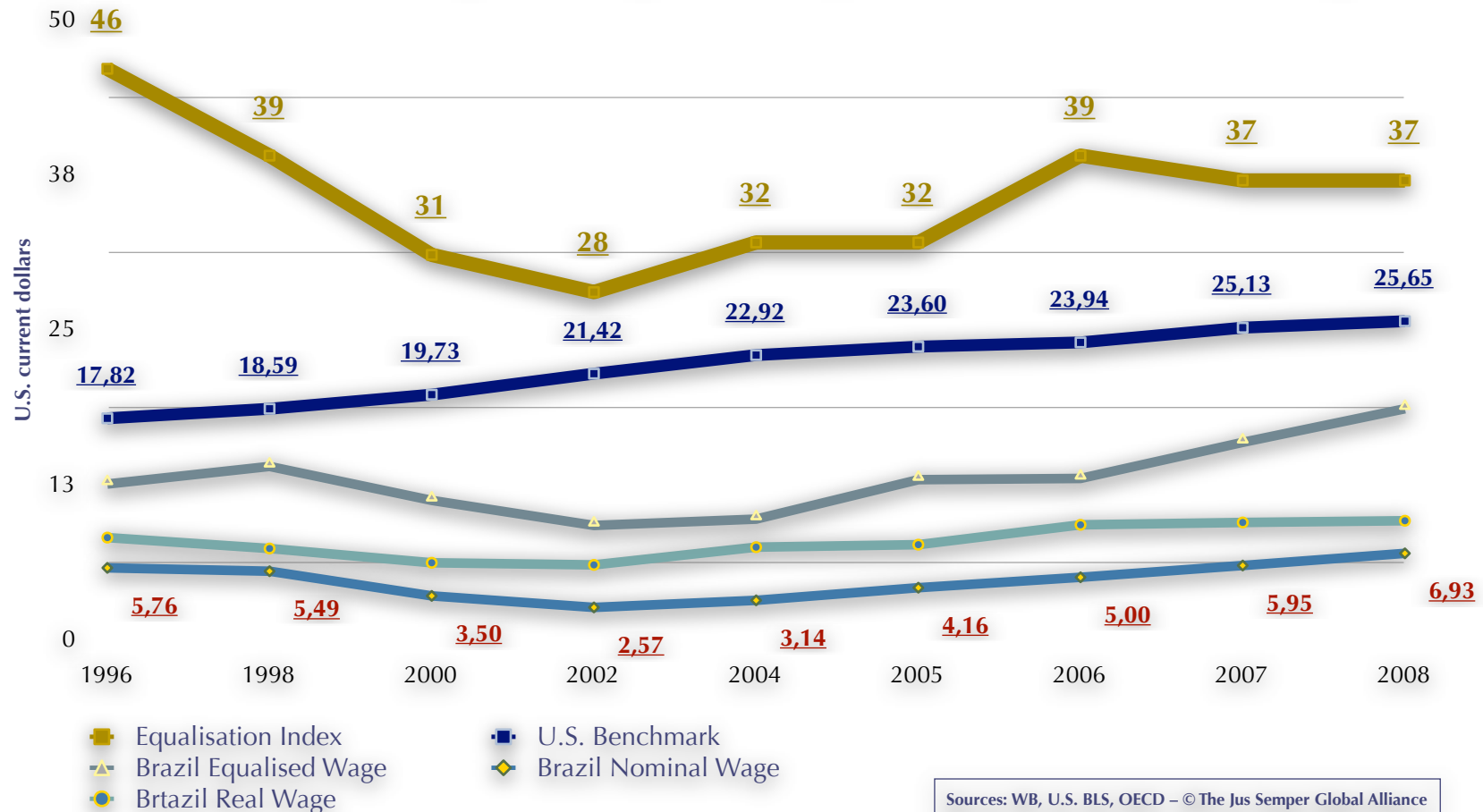
Gap Between nominal manufacturing hourly wage and equalised wage in PPP terms with equivalent U.S. real wage (current dollars)

Size of gap between nominal and equalised wage

◆ Brazil Equalised Wage
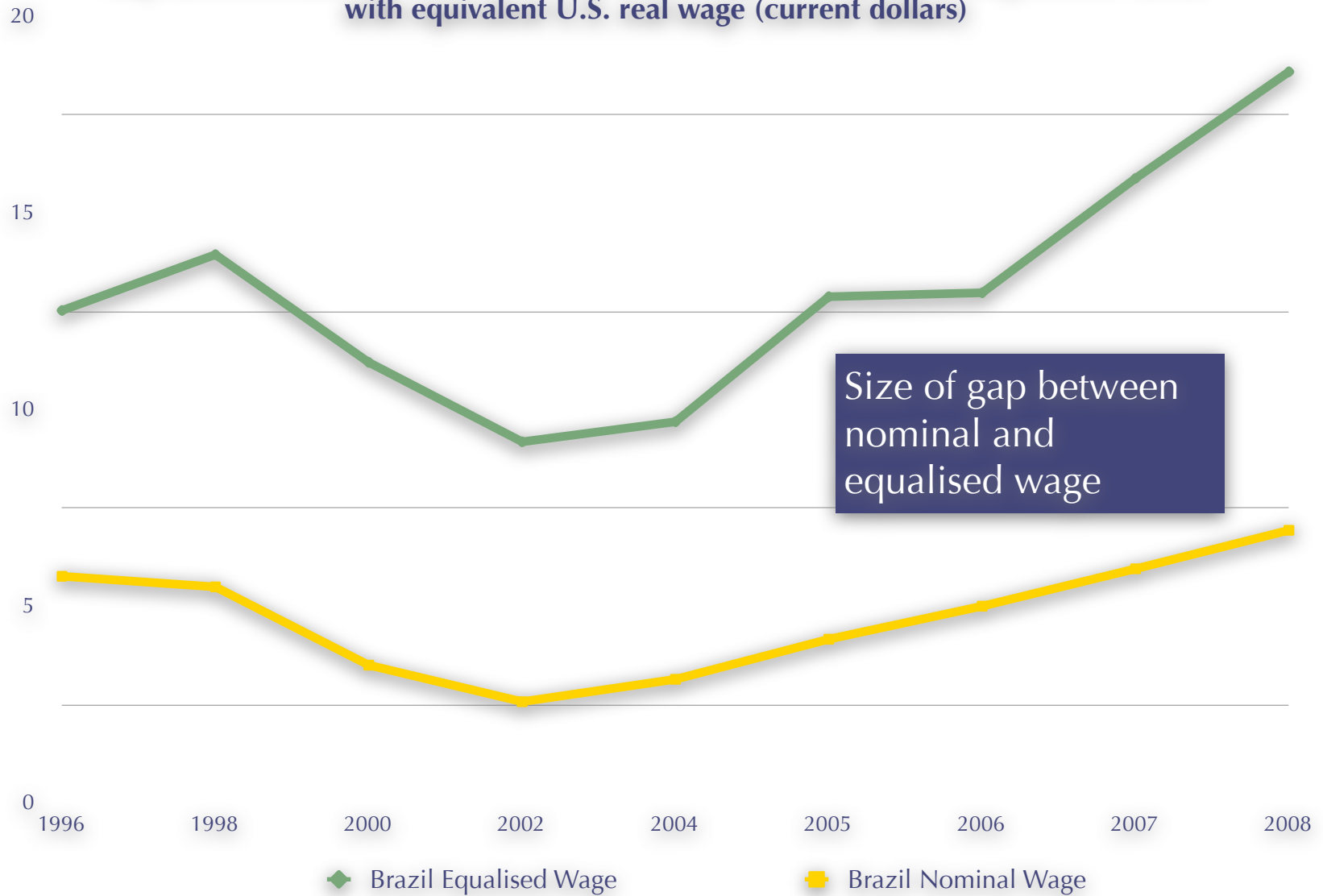
Brazil Nominal Wage

Gap between equalisation index and size of manufacturing hourly real wage gap in Brazil vis-à-vis U.S. real wage
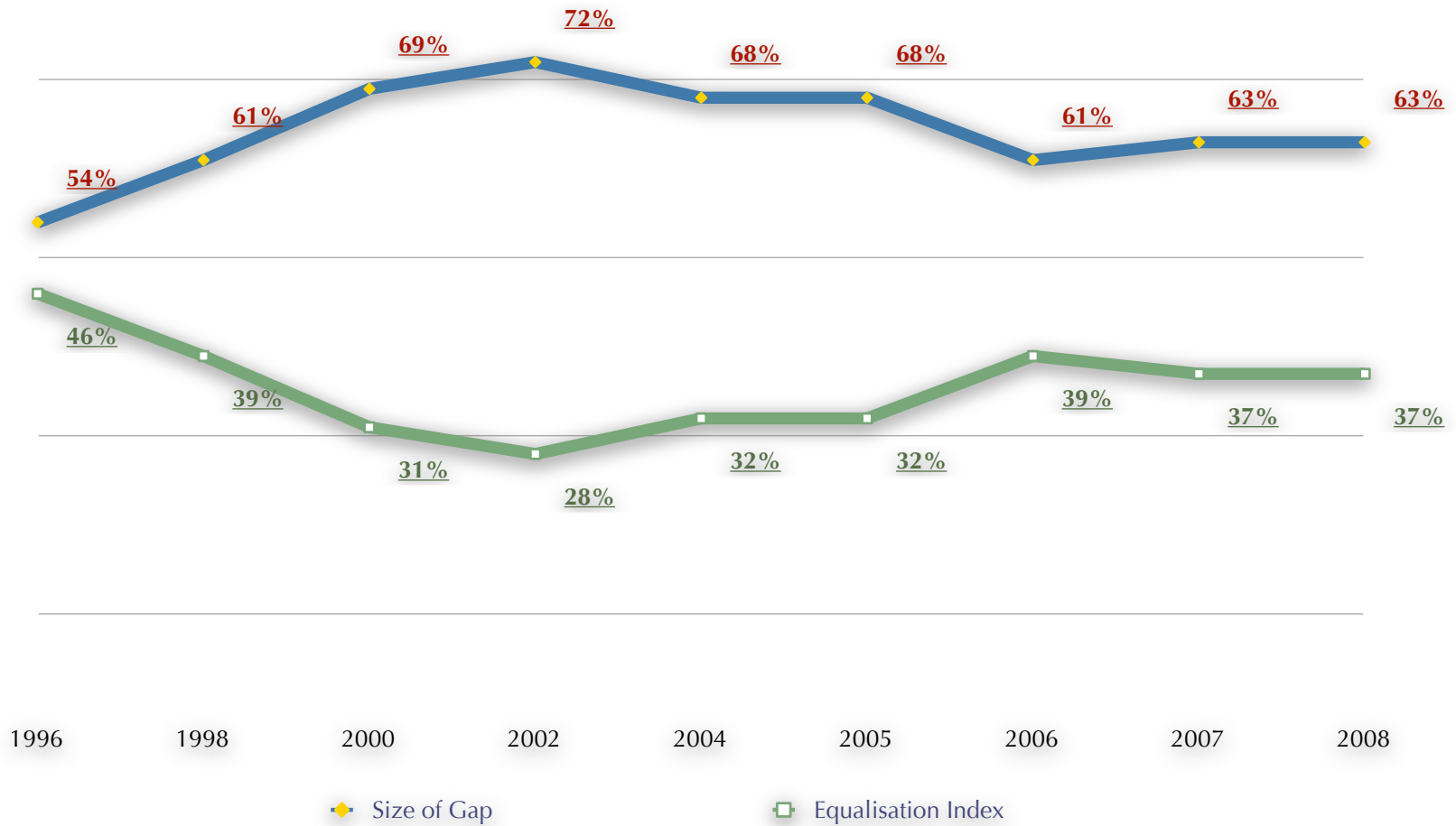
72%

69%

68%   68%

63%   63%

54%   61%   61%

46%

39%   39%

31%   32%   32%   37%   37%

28%

1996   1998   2000   2002   2004   2005   2006   2007   2008

◆ Size of Gap   ▢ Equalisation Index

Performance of equalisation indices of Brazil's PPP manufacturing hourly real wage vis-à-vis U.S. counterparts and behaviour of Brazil's purchasing power parity indices (cost of living in PPP terms – U.S.= 100)

Brazil PPP cost of living data points: 70 (1996), 75 (1998), 57 (2000), 43 (2002), 42 (2004), 55 (2005), 54 (2006), 63 (2007), 72 (2008)

Equalisation Index data points: 46 (1996), 39 (1998), 31 (2000), 28 (2002), 32 (2004), 32 (2005), 39 (2006), 37 (2007), 37 (2008)

◆ Brazil PPP cost of living ▫ Equalisation Index
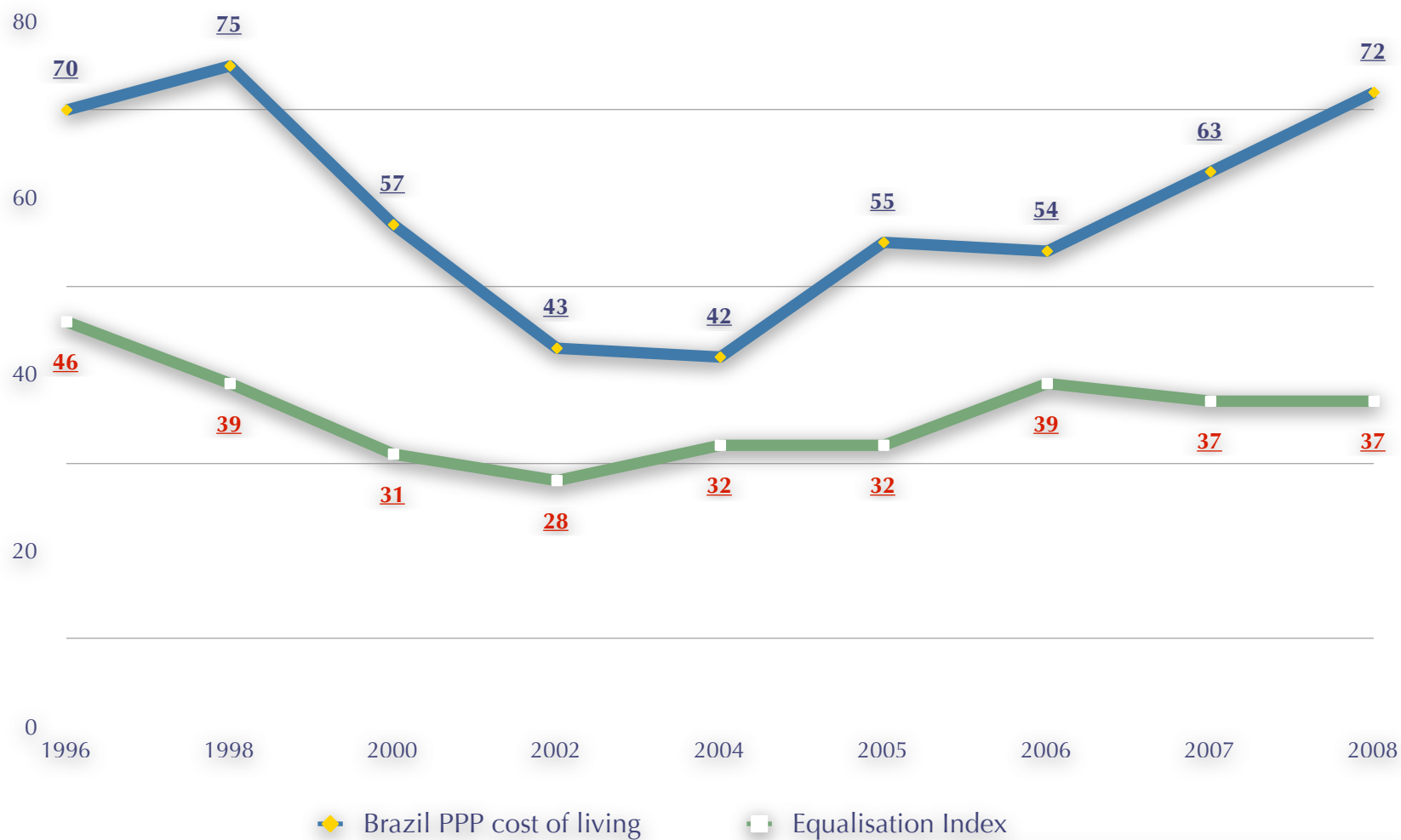
- When comparing Brazil's manufacturing sector real wages with those of their Mexican counterparts, the former amounted to three times the value of the latter in 1996 to then drop more than 50% during the end of century crisis. Subsequently, Brazilian wages have been recovering ground vis-à-vis their Mexican counterparts until 2006, to then remained stagnated.

Behaviour of comparative indices of Brazil's manufacturing hourly real wages vis-à-vis the equivalent Mexican wage (Mexico = 100)

332

214   213   213

188

163

△ Brasil*

1996   2000   2005   2006   2007   2008

*1996 Brazil data has been compared with 1995 Mexico data.

Sources: WB, U.S. BLS, OECD – © The Jus Semper Global Alliance

- The comparison of the performance of wage equalisation indices and their relationship with the cost of living between Brazil and Mexico, clearly exhibits that the Mexican wage gap is far greater than the Brazilian, despite both countries having an almost identical PPP cost of living. In 1996 Brazil had a much higher PPP than Mexico, which had endured the worst devaluation in many decades. Then, Brazil experienced a recession and devaluation. Yet, while Brazil has been able to recover some of the ground lost in wage equalisation during the preceding crisis, Mexico remains stagnated at the same gap level since 1995.
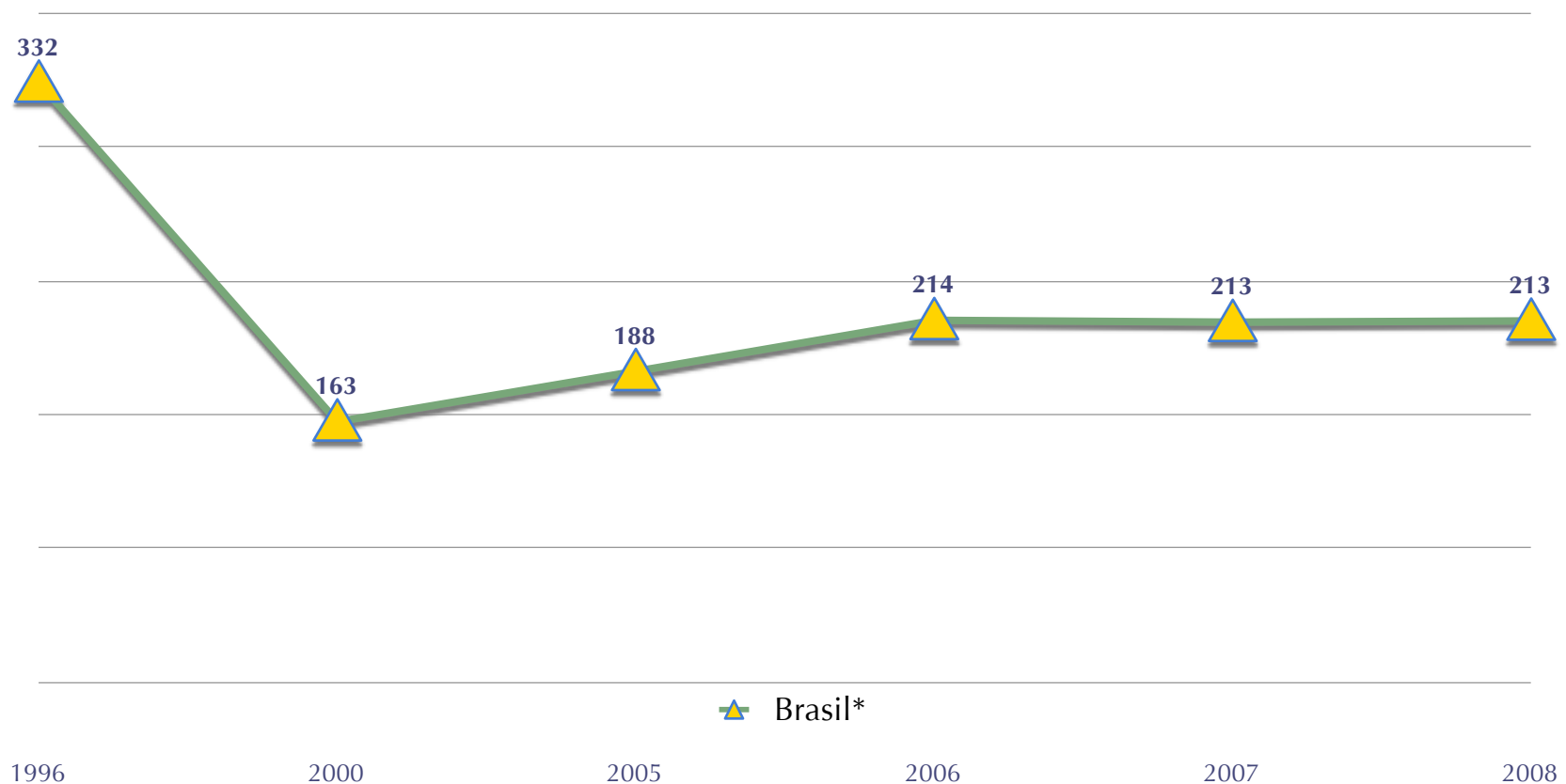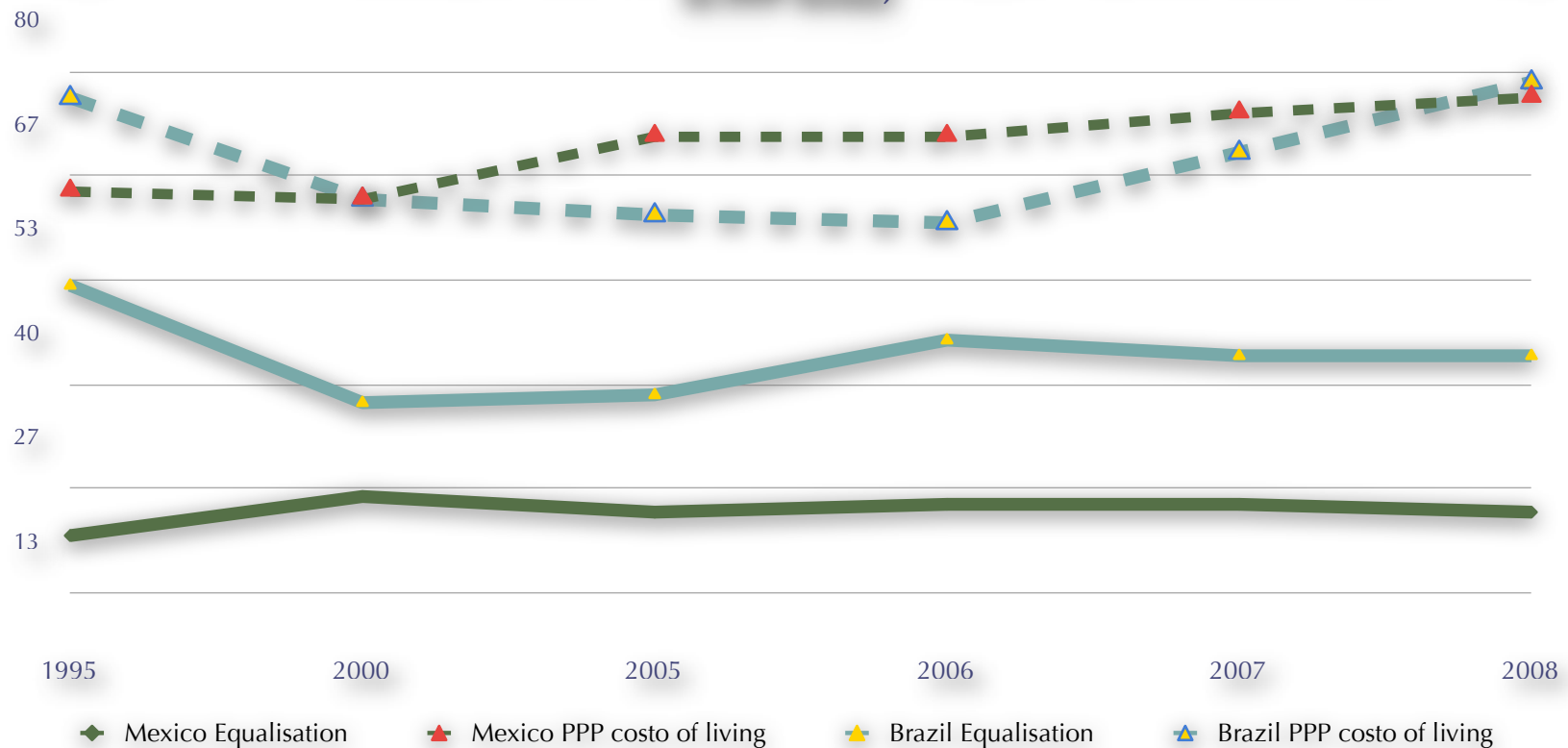
Performance of equalisation indices of Brazil's* and Mexico's PPP manufacturing hourly real wage vis-à-vis U.S. counterparts and behaviour of purchasing power parity indices (cost of living in PPP terms)

Legend:
- ◆ Mexico Equalisation
- ▲ Mexico PPP costo of living
- ▲ Brazil Equalisation
- △ Brazil PPP costo of living

*1996 Brazil data has been compared with 1995 Mexico data.

Sources: WB, U.S. BLS, OECD – © The Jus Semper Global Alliance

Projection of real wage equalisation in the manufacturing sector for production-line workers between Brazil and the United States in the term of thirty years, based on TLWNSI's concept

- **Background.** At the end of 2009, the Brazilian State makes the decision to redefine the future of its wage policy by clearly establishing a commitment not just with the return of wages to their 1996 level –when they recorded their best position vis-à-vis the U.S.– but with their equalisation with the equivalent wages in the main economies of the system. Beginning in 2010 a plan for the annual increase of the minimum wage –described by the government as the "minimum wage appreciation policy"– is put in place (Media Provisória No 474, de 23 de dezembro de 2009: Dispõe sobre o salário mínimo a partir de 1o de janeiro de 2010 e estabelece diretrizes para a política de valorização do salário mínimo entre 2011 e 2023). As is the case in most countries, the minimum wage operates as the benchmark to assess the wage level of all jobs in the economy. Thus, every increase to the minimum way induces an increase in all other wage racks. In this way, for 2010, the Brazilian government increased the minimum wage 5,87% above inflation. The increase amounts, in nominal terms, to an increase of 9,68%. The measure constitutes a direct action of real wage recovery, regardless of business performance. Inevitably, this will transfer income from employers to workers, thus increasing the labour endowments within the economic activity. The measure transfers wealth from capital to labour, consequently moving forward towards a living wage ethos.

- Even of more importance, Brazil's government sent to Congress in 2010 a legislative project with three proposals to adjust the minimum wage, for the periods 2012 to 2015, 2016 to 2019 and 2020 to 2023. The plan clearly shows the intention of gradually closing the wage gap with the wages of the major economies up to 2023. The specific formula used by Brazil –to be applied in 2011– is the sum of the national consumer price index plus the variation of the GDP, if it is positive. For example, if a year's inflation is 5% and GDP grows 4%, the nominal increase will be 9% and the real growth 4%. Some expert assessments –rather optimistic in our opinion– reckon that Brazil could eliminate extreme poverty and produce social indicators that are close to those of rich countries by 2016. This is the opinion of the Institute of Applied Economic Research (IPEA in Portuguese), associated with the Ministry of Strategic Affairs of Brazil's presidential office. The institute argues that if Brazil succeeds in keeping the pace of performance achieved between 2003 and 2008, the goal of reducing poverty to 4% by 2016 is realistic, as well as the reduction of inequality to a Gini index below 0,4, which would put Brazil in the level of rich countries. IPEA considers that a meaningful part of the progress achieved with poverty and inequality are due to the permanence of monetary stability, greater economic expansion, the strengthening of minimum wage real growth and the expansion of social credit (Mariana Sallowicz: Brasil pode zerar miséria e se igualar a países ricos em 2016, diz Ipea, FolhaOnline, 12 de janeiro de 2010). In this respect, there are sound indicators that clearly exhibit progress in poverty reduction. One of the strongest evidence is the reduction in the number of hours needed to buy the basic basket of goods, which in 2009 dropped to the lowest number of hours since 1970, according to the Statistics and Socioeconomic Studies Inter trade Union Institute (Dieese in Portuguese) (FolhaOnline: Tempo de trabalho necessário para comprar cesta básica é o menor desde 1970, 11 de janeiro de 2010). A trend which is exactly the opposite, for example, to what Mexico is experiencing, where the State has been doggedly fixated, for more than three decades, on depressing real wages.

- Nonetheless, IPEA's assessment appears optimistic. The core element in the reduction of poverty is, undoubtedly, the transformation of Brazilian wages from their current undignified condition into living wages, through the equalisation of real wages in the entire economy with those of their counterparts in the most developed economies. The scope of the Brazilian plan of wage appreciation is set up to 2023. Thus, it seems unlikely that poverty would be eliminated by 2016, seven years before the extent of Brazil's plan of wage appreciation. Moreover, as we shall see ahead, our analysis indicates that it is highly improbable that Brazilian wages would be equalised –in purchasing power parity terms– with those of their U.S. counterparts –the international benchmark– in the term of fourteen years (2010 to 2023). Yet, it is possible to place the wages of some major economic sectors –such as manufacturing– by 2023 in ranks not too distant, and even similar, to those of economies regarded today as developed, such as South Korea and Spain. The plan up to 2023 will materialise the goal of converting a great deal of labour compensations into living wages, and this will constitute a great breakthrough in the reduction of poverty, but the time span will not be enough to fully close the wage gaps between Brazil and the major economies, as is indicated ahead.

Thirty-year projection of the closing of the real wage equalisation gap

- **Affinity with TLWNSI"s concept.** Brazil's wage appreciation concept uses two criteria that are practically identical to TLWNSI's criteria. In order to determine the increase to be applied to the minimum wage, Brazil uses the sum of the inflation index or "national consumer price index (NCPI)" (INPC in Portuguese) of the immediately preceding year and the growth of GDP recorded two years prior. TLWNSI's conceptual framework also uses the sum of the inflationary index of the immediately preceding year plus several percentage points. The exact amount of additional points depends on the size of the gap and the term that each government imposes on itself to fulfil the goal of closing the wage gap. TLWNSI's goal is the equalisation of wages –in purchasing power parity terms– of developing countries with their U.S. counterparts in the term of not more than thirty years or a generation. TLWNSI's research indicates that, to fulfil the goal –in the maximum term of thirty years– most economies need to increase wages annually an average of 5% (+/- 2%) above inflation. Thus, if inflation averages 5%, wages would increase nominally an average of 10% to reach its goal.

- **Projection layout.** Using as benchmarks production-line manufacturing wages for Brazil and the U.S. in 2008, following is a thirty-year projection for the equalisation of Brazilian real wages with those of their U.S. counterparts. The projection parts from the fact that the Brazilian State has made the decision to increase minimum wages annually. It is assumed, with a great degree of confidence, that real wages for workers in all sectors of the economy will increase at a similar pace to that the Brazilian State imbues on the minimum wage – based on the inflationary index and GDP growth. This is so given that the minimum wage operates as the benchmark for the wage increases applied –or not– to all other wage racks. If real minimum wage increases take place, employers will feel compelled to raise other wages at a similar pace to maintain their competitiveness in the labour market.

- The purpose of this projection is to assess what would happen in the future to manufacturing wages as Brazil raises the minimum wage in line with its plan for minimum wage appreciation. In the same way, and in the same projection, TLWNSI's concept of raising nominal wages several percentage points above inflation to close wage gaps is applied. As it has been argued previously, both criteria are practically identical. Therefore, by applying Brazil's criteria of NCPI + GDP, TLWNSI's criteria of applying NCPI + various points above is fulfilled. In this way, the projection lets us observe with precision what is the wage equalisation index at the end of fourteen years, as the Brazilian plan is set out to reach. Moreover, if the gap has not been closed, it determines the number of additional years that would be required to reach wage equalisation with the United States.

- Furthermore, given that nominal manufacturing wages for 2009, for both countries, are not yet available, the projection assumes that the start of the Brazilian plan takes place in 2009 –instead of 2010. Hence the benchmark used is the wages recorded for 2008 for production-line manufacturing sector workers. As in the case of all previous charts, the analysis uses as its source the nominal wage data reported by the U.S. Department of Labour. Moreover, to calculate the cost of living and the size of the wage gap, the purchasing power parities that the World Bank estimates annually and applies to many economic indicators are applied herein as well. This analysis uses the differential between GNI (Gross National Income) and PPP GNI for Brazil, generated by the World Bank's economic indicators database.

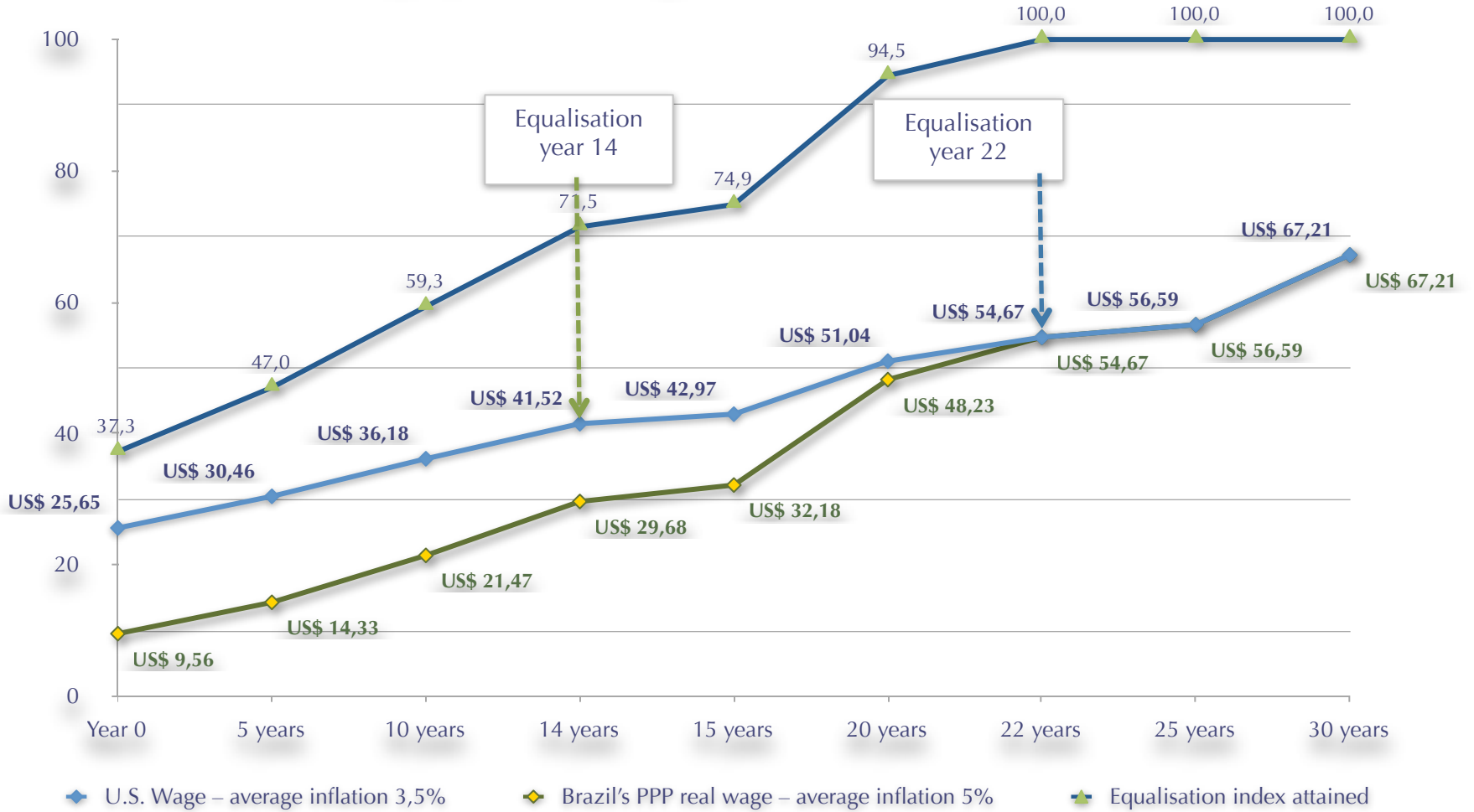## Thirty-year projection of the closing of the real wage equalisation gap

- **Criteria used in the projection:**

  ➡ Average U.S. inflation: 3,5%, (currently 2%).

  ➡ Average Brazilian inflation: 5% for the entire 30 years of the projection, (average of 6,9% between 2001 and 2009 and of 4,6% since 2006).

  ➡ Brazil's average GDP growth: 5%, (average of 3,2% between 2001 and 2009 and of 5,0% since 2006).

  ➡ Average nominal increase of Brazilian wages (NCPI + GDP) of 10% until year 21, then 6,05% for year 22, and 5% until year 30.

  ➡ Real value of wages in the U.S. remains constant, increasing annually their nominal value 3,5% to neutralise inflation.

  ➡ The benchmarks –and starting point– used in this projection are the real manufacturing wages for both economies for the year 2008 (Brazil: $9,56 and United States: $25,65). This thirty-year projection covers the 2009 to 2038 span of time.

- **Results of the thirty-year projection:**

  ➡ At the end of the fourteen-year term covered by the Brazilian plan, the closing of the wage gap has not been met, albeit there has been a dramatic progress, reaching an equalisation index of 71.

  ➡ For Brazilian wages to be fully equalised with the wages of their counterparts in the United States, it is necessary to maintain the same pace of annual nominal wage increases of 10%, for a real wage annual increment of 5% during 21 years and of 6,0605% in year 22. In this way, wage equalisation with the U.S. would take 22 years of real wage increments at this pace to be fulfilled.

  ➡ From year 23 to year 30 it is assumed the same inflation rate of 5%, 1,5% above the U.S. inflation level, and nominal wages are only increased at the same pace of inflation, so as to maintain their real value and the parity already equalised with the wages of their U.S. counterparts.

Thirty-year projection of real wage equalisation in the manufacturing sector for Brazil's production-line workers with their U.S. counterparts, at an annual average nominal increase of 10% (5% in real terms)

100,0   100,0   100,0

94,5

Equalisation year 14

71,5   74,9

Equalisation year 22

US$ 67,21

US$ 67,21

59,3

US$ 56,59

US$ 54,67

US$ 56,59

47,0

US$ 51,04

US$ 54,67

US$ 41,52   US$ 42,97

32,3

US$ 48,23

US$ 36,18

US$ 30,46

US$ 25,65

US$ 32,18

US$ 29,68

US$ 21,47

US$ 14,33

US$ 9,56

Year 0   5 years   10 years   14 years   15 years   20 years   22 years   25 years   30 years

◆ U.S. Wage – average inflation 3,5%   ◆ Brazil's PPP real wage – average inflation 5%   ▲ Equalisation index attained

Not a forecasting analysis. This projection at no time pretends to forecast what would be the inflationary indices or the rates of wage increase that will occur in Brazil in the future. For this projection, the average behaviour of these indicators has been established in a discretionary manner – based on the data recorded in the last few years– with the only purpose of projecting the level of nominal wage increase in the context of the minimum wage appreciation plan that the Brazilian government in implementing.

Sources: WB, U.S. BLS, OECD – © The Jus Semper Global Alliance

Prospectus

- Parting from the implications carried by the plan of the Brazilian government to increase in a sustainable manner minimum wages up to 2023 –and using as the benchmark Brazil's production-line workers in the manufacturing sector– it can be asserted that the policy to be applied will generate, in all certainty, rather meaningful social and economic benefits. Following the most relevant benefits are depicted:

- Although Brazil's plan will hardly close the wage gap with the United States by 2023, it will undoubtedly embody a great improvement that will trigger different multiplying effects that will generate the endogenous development of Brazil. This will place it far much closer to the socioeconomic indicators of developed countries than of developing ones. Moreover, it is to be expected that once the benefits to be obtained are attested, the new government of Dilma Rousseff –Lula's successor and Cabinet Chief– and future govenrments will maintain the same policy with the intention of sustaining the same growth until the degree of development becomes attuned with that of the major economies.

- The previous projection proves that, if the assumptions used materialise, Brazil would be able to equalise its wage endowments in approximately 22 years. Nonetheless, although this is a projection that most likely will not occur as stated, Brazil would undoubtedly reach equalisation in the term of thirty years –in the worst case scenario– as proposed by TLWNSI's concept. This would be the case, as long as the social pressure and the political will necessary to sustain the wage policy that Brazil has launched this year combine to make this happen. As a reference, Spain and South Korea began to close their wage gaps since at least 1975, and albeit they have achieved tremendous progress and their wages already have clearly evolved into a living wage ethos, they still record small wage equalisation gaps (11% and 28% respectively).

- Brazil's demand-side economic policy will generate multiplying effects that will consolidate social development, anchored on the generation of aggregate demand. This will increase not just wages, but formal employment, tax revenue, the sustainability of the social security system, economies of scale and the competitiveness of the Brazilian economy in the global context, among others. These effects notwithstanding, the greatest benefit will be the drastic decrease of poverty and an abatement of innumerable social problems engendered by poverty and exclusion. In this way, Brazil will move ahead and approach, meaningfully, the making of an ethos where the majority of Brazilians –albeit not so for a considerable segment– will have full access to the enjoyment of a broad array of human rights instrumental in the development of their capacities to carve a dignified life. Unfortunately, it is necessary to emphasise that these assumptions are made in the context of a market dominated ethos, which, by definition, is unsustainable, for the additional consumption to be generated is unsustainable in the long term.

- One of the greatest benefits of the appreciation of real wages of any country –in the context of a living wage ethos– is the direct impact on the eradication of the conditions of inequality and exclusion; conditions that have prevailed in Brazil in a customary and rather brazen manner. Thus, if Brazil seriously commits long-term to the materialisation of this central objective of social justice, it will accomplish the transformation of its society into one where equality and a high degree of wellbeing prevail –the sine qua non attributes of truly democratic societies. Yet, for these ethos to become sustainable in the long term, eventually, consumer societies will have to transform into societies with a new paradigm centred on the welfare of people and planet and not the market.

- Lula is about to end his second term. The likelihood that this policy is maintained with Rousseff is very high, for social support of Lula's government is extremely high. According to the last survey from Latinobarómetro, Brazil's current government has an 84% approval rating, the highest in Iberian America along with Chile's. Therefore, the social timing could not be better to sustain Brazil's wage policy. To be sure, there is no guarantee to be expected from future governments. In any case, the responsibility for making sure that this policy remains falls directly on society, which bears the full load for making Brazil's future governments feel compelled to consolidate this objective. Hence, it is indispensable that Brazilians become fully aware about the need to permanently get involved in the public matter to make sure that future governments work for the benefit of society and not for the owners of the market and their very private interests.

- On the other hand, Brazil has to resolve a common dilemma regarding the appreciation of the minimum wage. The current Brazilian minimum wage is 510 reales a month, which is tantamount to U.S. $280. However, the cost of living in Brazil –in purchasing power parity terms– was, in 2008, 72% of the cost of living in the U.S. The hourly minimum wage in the U.S. is currently $7,25, which amounts to barely $1.257 dollars a month. Thus –assuming the same cost of living in 2010– Brazil's minimum wage in 2010 would need to be $804 U.S. to be equalised with the U.S. minimum wage. As a reference, in 2009 Brazil's minimum wage was barely enough to buy 49,5% of the basic basket of goods and services. Yet, in many developed economies, the minimum wage does not constitute a living wage. This is the case of the United States, where the minimum wage is a rather insufficient compensation to live a dignified life in such economy. Still, the majority of –legal– workers in the U.S. earn more than the minimum wage. In this way, the U.S. minimum wage acts primarily as an indicator for the wage endowments of many economic sectors. When the minimum wage is raised, the other wage racks tend to increase as well. For this reason, the future equalisation of Brazil's real minimum wage with its equivalent in the U.S. would not make the former a living wage in real terms. Thus Brazil's dilemma is to determine whether the wage appreciation policy will set as its long-term goal to make the minimum wage a living wage. If that is not the objective, then, to equalise –in real terms– Brazil's wage remunerations with their U.S. equivalents, the vast majority of workers would need to earn clearly more than a minimum wage, as in the U.S., to enjoy a dignified life, and the minimum wage would need to operate only as the benchmark for the allocation of true wage levels, as in the U.S.

The Jus Semper Global Alliance – Living-Wage-Gap and Equalisation analysis (vis-à-vis the U.S.) for PL manufacturing workers in purchasing power parity terms 1975-2008

		1975	1980	1985	1990	1995	2000	2005	2006	2007	2008
Benchmark	**U.S. Hourly Production-line Rate**	6,19	9,67	12,76	14,88	17,24	19,73	23,6	23,94	25,13	25,65
Canada	GNI PPPs in country currency*	1,222	1,055	1,233	1,180	1,270	1,190	1,167	1,146	1,198	1,202
	Exchange rate	1,017	1,169	1,366	1,167	1,373	1,486	1,212	1,134	1,073	1,066
	GNI PPPs in US Dollars	US$ 1,20	US$ 0,902	US$ 0,90	US$ 1,01	US$ 0,92	US$ 0,80	US$ 0,96	US$ 1,01	US$ 1,12	US$ 1,13
	2. Equalised PPP nominal compensation US $	US$ 7,44	US$ 8,73	US$ 11,52	US$ 15,05	US$ 15,95	US$ 15,80	US$ 22,72	US$ 24,19	US$ 28,07	US$ 28,92
	3. Actual Real compensation US $	US$ 5,33	US$ 10,00	US$ 12,62	US$ 16,44	US$ 18,16	US$ 20,95	US$ 25,23	US$ 25,85	US$ 26,04	US$ 26,41
	4. Actual Nominal compensation US $	US$ 6,40	US$ 9,02	US$ 11,39	US$ 16,62	US$ 16,80	US$ 16,78	US$ 24,29	US$ 26,12	US$ 29,08	US$ 29,78
	Compensation Deficit in US $ (2 minus 4)	US$ 1,04	US$ (0,29)	US$ 0,13	US$ (1,57)	US$ (0,85)	US$ (0,98)	US$ (1,57)	US$ (1,93)	US$ (1,01)	US$ (0,86)
	Wage Equalisation index (4÷2 or 3÷1)	0,86	1,03	0,99	1,10	1,05	1,06	1,07	1,08	1,04	1,03
South Korea	GNI PPPs in country currency*	238,9	363,5	449,5	489,2	649,4	650,0	760,4	734,5	737,7	849,8
	Exchange rate	484	607,4	870	707,8	771,3	1131	1024	954,3	929,0	1099
	GNI PPPs in US Dollars	US$ 0,49	US$ 0,60	US$ 0,52	US$ 0,69	US$ 0,84	US$ 0,57	US$ 0,74	US$ 0,77	US$ 0,79	US$ 0,77
	2. Equalised PPP nominal compensation US $	US$ 3,06	US$ 5,79	US$ 6,59	US$ 10,28	US$ 14,52	US$ 11,34	US$ 17,52	US$ 18,42	US$ 19,96	US$ 19,83
	3. Actual Real compensation US $	US$ 0,67	US$ 1,64	US$ 2,63	US$ 5,50	US$ 8,97	US$ 14,86	US$ 17,78	US$ 19,91	US$ 21,34	US$ 18,37
	4. Actual Nominal compensation US $	US$ 0,33	US$ 0,98	US$ 1,36	US$ 3,80	US$ 7,55	US$ 8,54	US$ 13,20	US$ 15,32	US$ 16,95	US$ 14,20
	Compensation Deficit in US $ (2 minus 4)	US$ 2,73	US$ 4,81	US$ 5,23	US$ 6,48	US$ 6,97	US$ 2,80	US$ 4,32	US$ 3,10	US$ 3,01	US$ 5,63
	Wage Equalisation index (4÷2 or 3÷1)	0,11	0,17	0,21	0,37	0,52	0,75	0,75	0,83	0,85	0,72

		1975	1980	1985	1990	1995	2000	2005	2006	2007	2008
Benchmark	**U.S. Hourly Production-line Rate**	**6,19**	**9,67**	**12,76**	**14,88**	**17,24**	**19,73**	**23,6**	**23,94**	**25,13**	**25,65**
Japan	GNI PPPs in country currency*	286	225,9	199,7	194,4	167,4	144,0	138,2	136,8	128,1	112,0
	Exchange rate	296,7	225,7	238,5	145,0	94,0	107,8	110,1	116,3	117,8	103,4
	GNI PPPs in US Dollars	US$ 0,96	US$ 1,00	US$ 0,84	US$ 1,34	US$ 1,78	US$ 1,34	US$ 1,26	US$ 1,18	US$ 1,09	US$ 1,08
	2. Equalised PPP nominal compensation US $	US$ 5,97	US$ 9,68	US$ 10,69	US$ 19,95	US$ 30,72	US$ 26,36	US$ 29,62	US$ 28,16	US$ 27,33	US$ 27,79
	3. Actual Real compensation US $	US$ 3,06	US$ 5,43	US$ 7,45	US$ 9,34	US$ 13,10	US$ 16,24	US$ 16,98	US$ 17,00	US$ 18,18	US$ 21,37
	4. Actual Nominal compensation US $	US$ 2,95	US$ 5,43	US$ 6,24	US$ 12,52	US$ 23,34	US$ 21,69	US$ 21,31	US$ 19,99	US$ 19,77	US$ 23,15
	Compensation Deficit in US $ (2 minus 4)	US$ 3,02	US$ 4,25	US$ 4,45	US$ 7,43	US$ 7,38	US$ 4,67	US$ 8,31	US$ 8,17	US$ 7,56	US$ 4,64
	Wage Equalisation index (4÷2 or 3÷1)	0,49	0,56	0,58	0,63	0,76	0,82	0,72	0,71	0,72	0,83
France	GNI PPPs in country currency*	4,978	4,815	6,689	6,003	6,186	1,033	0,935	0,930	0,861	0,857
	Exchange rate	4,282	4,22	8,98	5,447	4,986	1,083	0,803	0,796	0,7293	0,679
	GNI PPPs in US Dollars	US$ 1,16	US$ 1,14	US$ 0,74	US$ 1,10	US$ 1,24	US$ 0,95	US$ 1,16	US$ 1,17	US$ 1,18	US$ 1,26
	2. Equalised PPP nominal compensation US $	US$ 7,20	US$ 11,03	US$ 9,50	US$ 16,40	US$ 21,39	US$ 18,81	US$ 27,48	US$ 27,96	US$ 29,68	US$ 32,37
	3. Actual Real compensation US $	US$ 4,02	US$ 8,11	US$ 10,43	US$ 14,49	US$ 15,93	US$ 16,53	US$ 21,16	US$ 21,81	US$ 24,16	US$ 25,05
	4. Actual Nominal compensation US $	US$ 4,67	US$ 9,25	US$ 7,77	US$ 15,97	US$ 19,77	US$ 15,76	US$ 24,64	US$ 25,48	US$ 28,53	US$ 31,61
	Compensation Deficit in US $ (2 minus 4)	US$ 2,53	US$ 1,78	US$ 1,73	US$ 0,43	US$ 1,62	US$ 3,05	US$ 2,84	US$ 2,48	US$ 1,15	US$ 0,76
	Wage Equalisation index (4÷2 or 3÷1)	0,65	0,84	0,82	0,97	0,92	0,84	0,90	0,91	0,96	0,98
Germany	GNI PPPs in country currency*	3,062	1,986	2,039	1,692	1,832	1,076	0,887	0,897	0,831	0,807
	Exchange rate	2,455	1,815	2,942	1,617	1,432	1,083	0,803	0,796	0,7293	0,679
	GNI PPPs in US Dollars	US$ 1,25	US$ 1,09	US$ 0,69	US$ 1,05	US$ 1,28	US$ 0,99	US$ 1,10	US$ 1,13	US$ 1,14	US$ 1,19
	2. Equalised PPP nominal compensation US $	US$ 7,72	US$ 10,58	US$ 8,84	US$ 15,57	US$ 22,06	US$ 19,60	US$ 26,06	US$ 26,97	US$ 28,64	US$ 30,47
	3. Actual Real compensation US $	US$ 5,02	US$ 11,11	US$ 13,65	US$ 20,74	US$ 20,45	US$ 19,75	US$ 25,93	US$ 26,37	US$ 28,82	US$ 30,36
	4. Actual Nominal compensation US $	US$ 6,26	US$ 12,16	US$ 9,46	US$ 21,71	US$ 26,17	US$ 19,62	US$ 28,64	US$ 29,70	US$ 32,85	US$ 36,07
	Compensation Deficit in US $ (2 minus 4)	US$ 1,46	US$ (1,58)	US$ (0,62)	US$ (6,14)	US$ (4,11)	US$ (0,02)	US$ (2,58)	US$ (2,73)	US$ (4,21)	US$ (5,60)
	Wage Equalisation index (4÷2 or 3÷1)	0,81	1,15	1,07	1,39	1,19	1,00	1,10	1,10	1,15	1,18
Italy	GNI PPPs in country currency*	539,5	636,1	1149,4	1166,2	1544,5	0,892	0,875	0,879	0,809	0,782
	Exchange rate	652,4	855,1	1909	1198	1629	1,083	0,803	0,796	0,7293	0,679
	GNI PPPs in US Dollars	US$ 0,83	US$ 0,74	US$ 0,60	US$ 0,97	US$ 0,95	US$ 0,82	US$ 1,09	US$ 1,10	US$ 1,11	US$ 1,15
	2. Equalised PPP nominal compensation US $	US$ 5,12	US$ 7,19	US$ 7,68	US$ 14,49	US$ 16,35	US$ 16,24	US$ 25,70	US$ 26,43	US$ 27,87	US$ 29,53
	3. Actual Real compensation US $	US$ 5,68	US$ 11,04	US$ 12,74	US$ 18,50	US$ 17,62	US$ 17,65	US$ 22,36	US$ 22,81	US$ 25,47	US$ 27,25
	4. Actual Nominal compensation US $	US$ 4,70	US$ 8,21	US$ 7,67	US$ 18,01	US$ 16,71	US$ 14,53	US$ 24,35	US$ 25,19	US$ 28,25	US$ 31,37
	Compensation Deficit in US $ (2 minus 4)	US$ 0,42	US$ (1,02)	US$ 0,01	US$ (3,52)	US$ (0,36)	US$ 1,71	US$ 1,35	US$ 1,24	US$ (0,38)	US$ (1,84)
	Wage Equalisation index (4÷2 or 3÷1)	0,92	1,14	1,00	1,24	1,02	0,89	0,95	0,95	1,01	1,06
United Kingdom	GNI PPPs in country currency*	0,3802	0,372	0,535	0,547	0,634	0,657	0,640	0,653	0,596	0,685
	Exchange rate	0,4501	0,43	0,7708	0,5605	0,6335	0,6598	0,549	0,5420	0,4995	0,5392
	GNI PPPs in US Dollars	US$ 0,84	US$ 0,86	US$ 0,69	US$ 0,98	US$ 1,00	US$ 1,00	US$ 1,17	US$ 1,21	US$ 1,19	US$ 1,27
	2. Equalised PPP nominal compensation US $	US$ 5,23	US$ 8,36	US$ 8,86	US$ 14,53	US$ 17,26	US$ 19,65	US$ 27,53	US$ 28,86	US$ 30,01	US$ 32,59
	3. Actual Real compensation US $	US$ 3,88	US$ 8,50	US$ 8,76	US$ 12,48	US$ 13,54	US$ 16,75	US$ 21,17	US$ 21,24	US$ 24,36	US$ 21,93
	4. Actual Nominal compensation US $	US$ 3,28	US$ 7,35	US$ 6,08	US$ 12,18	US$ 13,55	US$ 16,68	US$ 24,70	US$ 25,60	US$ 29,09	US$ 27,86
	Compensation Deficit in US $ (2 minus 4)	US$ 1,95	US$ 1,01	US$ 2,78	US$ 2,35	US$ 3,71	US$ 2,97	US$ 2,83	US$ 3,26	US$ 0,92	US$ 4,73
	Wage Equalisation index (4÷2 or 3÷1)	0,63	0,88	0,69	0,84	0,79	0,85	0,90	0,89	0,97	0,85

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		1975	1980	1985	1990	1995	2000	2005	2006	2007	2008
Benchmark	**U.S. Hourly Production-line Rate**	**6,19**	**9,67**	**12,76**	**14,88**	**17,24**	**19,73**	**23,6**	**23,94**	**25,13**	**25,65**
Spain	GNI PPPs in country currency*	44,83	54,308	82,781	86,358	113,841	0,791	0,758	0,772	0,695	0,703
	Exchange rate	57,39	71,64	170	102	124,6	1,083	0,803	0,796	0,7293	0,679
	GNI PPPs in US Dollars	US$ 0,78	US$ 0,76	US$ 0,49	US$ 0,85	US$ 0,91	US$ 0,73	US$ 0,94	US$ 0,97	US$ 0,95	US$ 1,04
	2. Equalised PPP nominal compensation US $	US$ 4,84	US$ 7,33	US$ 6,21	US$ 12,60	US$ 15,75	US$ 14,41	US$ 22,26	US$ 23,21	US$ 23,94	US$ 26,57
	3. Actual Real compensation US $	US$ 3,16	US$ 7,59	US$ 9,34	US$ 13,11	US$ 13,65	US$ 14,32	US$ 18,61	US$ 19,06	US$ 21,98	US$ 22,85
	4. Actual Nominal compensation US $	US$ 2,47	US$ 5,75	US$ 4,55	US$ 11,10	US$ 12,47	US$ 10,46	US$ 17,56	US$ 18,48	US$ 20,94	US$ 23,67
	Compensation Deficit in US $ (2 minus 4)	US$ 2,37	US$ 1,58	US$ 1,66	US$ 1,50	US$ 3,28	US$ 3,95	US$ 4,70	US$ 4,73	US$ 3,00	US$ 2,90
	Wage Equalisation index (4÷2 or 3÷1)	0,51	0,78	0,73	0,88	0,79	0,73	0,79	0,80	0,87	0,89
Mexico	GNI PPPs in country currency*	9,80	12,83	117,4	1254,0	3,717	5,402	7,122	7,124	7,385	7,759
	Exchange rate	12,5	22,97	256,9	2813	6,419	9,459	10,89	10,91	10,93	11,14
	GNI PPPs in US Dollars	US$ 0,78	US$ 0,56	US$ 0,46	US$ 0,45	US$ 0,58	US$ 0,57	US$ 0,65	US$ 0,65	US$ 0,68	US$ 0,70
	2. Equalised PPP nominal compensation US $	US$ 4,85	US$ 5,40	US$ 5,83	US$ 6,63	US$ 9,98	US$ 11,27	US$ 15,43	US$ 15,63	US$ 16,98	US$ 17,86
	3. Actual Real compensation US $	US$ 1,82	US$ 3,87	US$ 3,39	US$ 3,45	US$ 2,47	US$ 3,78	US$ 4,05	US$ 4,32	US$ 4,43	US$ 4,48
	4. Actual Nominal compensation US $	US$ 1,43	US$ 2,16	US$ 1,55	US$ 1,54	US$ 1,43	US$ 2,16	US$ 2,65	US$ 2,82	US$ 2,99	US$ 3,12
	Compensation Deficit in US $ (2 minus 4)	US$ 3,42	US$ 3,24	US$ 4,28	US$ 5,09	US$ 8,55	US$ 9,11	US$ 12,78	US$ 12,81	US$ 13,99	US$ 14,74
	Wage Equalisation index (4÷2 or 3÷1)	0,29	0,40	0,27	0,23	0,14	0,19	0,17	0,18	0,18	0,17

		1996	1998	2000	2002	2004	2005	2006	2007	2008
Benchmark	**U.S. Hourly Production-line Rate**	**17,82**	**18,59**	**19,73**	**21,42**	**22,92**	**23,6**	**23,94**	**25,13**	**25,65**
Brazil	GNI PPPs in country currency*	0,706	0,870	1,039	1,252	1,237	1,328	1,178	1,230	1,329
	Exchange rate	1,005	1,161	1,830	2,921	2,926	2,435	2,174	1,946	1,833
	GNI PPPs in US Dollars	US$ 0,70	US$ 0,75	US$ 0,57	US$ 0,43	US$ 0,42	US$ 0,55	US$ 0,54	US$ 0,63	US$ 0,72
	2. Equalised PPP nominal compensation US $	US$ 12,52	US$ 13,94	US$ 11,20	US$ 9,18	US$ 9,69	US$ 12,87	US$ 12,97	US$ 15,88	US$ 18,59
	3. Actual Real compensation US $	US$ 8,20	US$ 7,32	US$ 6,17	US$ 6,00	US$ 7,43	US$ 7,63	US$ 9,23	US$ 9,42	US$ 9,56
	4. Actual Nominal compensation US $	US$ 5,76	US$ 5,49	US$ 3,50	US$ 2,57	US$ 3,14	US$ 4,16	US$ 5,00	US$ 5,95	US$ 6,93
	Compensation Deficit in US $ (2 minus 4)	US$ 6,76	US$ 8,45	US$ 7,70	US$ 6,61	US$ 6,55	US$ 8,71	US$ 7,97	US$ 9,93	US$ 11,66
	Wage Equalisation index (4÷2 or 3÷1)	0,46	0,39	0,31	0,28	0,32	0,32	0,39	0,37	0,37

The Jus Semper Global Alliance – Living-Wage-Gap and Equalisation analysis (vis-à-vis the U.S.) for PL manufacturing workers in purchasing power parity terms 1975-2008

		1980	1985	1990	1995	2000	2005	2006	2007	2008
Benchmark	**U.S. Hourly Production-line Rate**	**9,67**	**12,76**	**14,88**	**17,24**	**19,73**	**23,6**	**23,94**	**25,13**	**25,65**
Hong Kong	GNI PPPs in country currency*	4,24	4,61	5,59	7,81	7,80	6,14	5,754	5,605	5,565
	Exchange rate	4,976	7,791	7,790	7,736	7,792	7,788	7,768	7,802	7,786
	GNI PPPs in US Dollars	US$ 0,85	US$ 0,59	US$ 0,72	US$ 1,01	US$ 1,00	US$ 0,79	US$ 0,74	US$ 0,72	US$ 0,71
	2. Equalised PPP nominal compensation US $	US$ 8,25	US$ 7,55	US$ 10,68	US$ 17,40	US$ 19,76	US$ 18,60	US$ 17,73	US$ 18,05	US$ 18,33
	3. Actual Real compensation US $	US$ 1,76	US$ 2,92	US$ 4,48	US$ 4,77	US$ 5,44	US$ 7,17	US$ 7,80	US$ 8,05	US$ 8,27
	4. Actual Nominal compensation US $	US$ 1,50	US$ 1,73	US$ 3,22	US$ 4,81	US$ 5,45	US$ 5,65	US$ 5,78	US$ 5,78	US$ 5,91
	Compensation Deficit in US $ (2 minus 4)	US$ 6,75	US$ 5,82	US$ 7,46	US$ 12,59	US$ 14,31	US$ 12,95	US$ 11,95	US$ 12,27	US$ 12,42
	Wage Equalisation index (4÷2 or 3÷1)	0,18	0,23	0,30	0,28	0,28	0,30	0,33	0,32	0,32
Singapore	GNI PPPs in country currency*	1,31	1,35	1,148	1,25	1,20	1,10	1,054	1,017	1,025
	Exchange rate	2,141	2,200	1,813	1,417	1,725	1,664	1,588	1,507	1,414
	GNI PPPs in US Dollars	US$ 0,61	US$ 0,61	US$ 0,63	US$ 0,88	US$ 0,70	US$ 0,66	US$ 0,66	US$ 0,67	US$ 0,73
	2. Equalised PPP nominal compensation US $	US$ 5,94	US$ 7,82	US$ 9,42	US$ 15,23	US$ 13,78	US$ 15,66	US$ 15,89	US$ 16,95	US$ 18,60
	3. Actual Real compensation US $	US$ 2,54	US$ 4,21	US$ 6,05	US$ 8,76	US$ 10,51	US$ 11,14	US$ 13,17	US$ 12,60	US$ 13,56
	4. Actual Nominal compensation US $	US$ 1,56	US$ 2,58	US$ 3,83	US$ 7,74	US$ 7,34	US$ 7,39	US$ 8,74	US$ 8,50	US$ 9,83
	Compensation Deficit in US $ (2 minus 4)	US$ 4,38	US$ 5,24	US$ 5,59	US$ 7,49	US$ 6,44	US$ 8,27	US$ 7,15	US$ 8,45	US$ 8,77
	Wage Equalisation index (4÷2 or 3÷1)	0,26	0,33	0,41	0,51	0,53	0,47	0,55	0,50	0,53

- ❖ PPPs stands for Purchasing-Power Parities, which reflect the currency units in a given currency that are required to buy the same goods and services that can be purchased in the base country with one currency unit. This analysis uses the U.S. and the U.S. dollar as the benchmark and assumes that the U.S. wage is a living wage.

- ❖ The hourly production-line rate is the "hourly compensation cost" as defined by the U.S. Department of Labour, Bureau of Labour Statistics: This includes (1) hourly direct pay and (2) employer social insurance expenditures and other labour taxes. Hourly direct pay includes all payments made directly to the worker, before payroll deductions of any kind, consisting of pay for time worked and other direct pay. Social insurance expenditures and other labour taxes refers to the value of social contributions incurred by employers in order to secure entitlement to social benefits for their employees.

- ❖ GNI (Gross National Income) PPPs in country currency express the number of country currency units required to buy the same goods and services a U.S. dollar can buy in the U.S.

- ❖ Exchange rate is nominal exchange rate.

- ❖ GNI PPPs in U.S. Dollars expresses the U.S. dollar units required in a given country to buy the same goods and services a U.S. dollar can buy in the U.S. If the PPP is less than 1, a U.S. dollar can buy more in the country in question because the cost of living is lower, and viceversa.

- ❖ The GNI PPP, expressed in national currency, reflects the exchange rate in comparison with the market exchange rate, which does not reflect the ratio of prices.

- ❖ Equalised PPP nominal compensation is the hourly U.S. dollar nominal rate required to equally compensate a worker in a country, in purchasing power terms, for equal work rendered, as the equivalent U.S. worker is compensated. This analysis assumes the U.S. wage to be a living-wage. A living wage is a human right in accordance with Article 23 of the UN Universal Declaration of Human Rights. ILO's Convention 100 of "equal pay for equal work", for men and women is hereby applied in a global context.

- ❖ Actual Real Compensation is the hourly wage paid in a given country in purchasing power terms.

- ❖ Actual Nominal Compensation is the nominal hourly wage paid in a given country.

- ❖ Compensation deficit expresses the wage gap between the hourly nominal rate paid (4) and the equalised PPP hourly rate that should be paid for equal work (2).

- ❖ Compensation equalisation index expresses the ratio of actual nominal pay to equivalent PPP hourly pay (4 between 2): or the ratio of actual real pay (3) to the hourly nominal pay benchmark (1) (3 between 1).

- ❖ Note: Variations in previous years are due to revisions made by the sources, including the World Bank's new 2005 PPP benchmarks, which replaced the previous 1993 benchmarks.

- ❖ According to the World Bank, the 2005 PPPs are the most comprehensive for developing countries since 1993, and reveal that the size of their economies were often overestimated.

Sources: The Jus Semper Global Alliance analysis is performed using the sources below. (Sources with X indicate that some of their data is directly incorporated in the table:)

– Data base of World Bank's World Development Indicators, 1975-2008, (GNI & GNI PPP, Atlas method)

X Hourly Compensation Costs for Production Workers in Manufacturing (34 Country Tables), updated on August 2010. U.S.

  Department. of Labour, Bureau of Labour Statistics.

– International Comparison of Manufacturing Productivity and Unit Labour Cost trends. U.S. Department of Labour, Bureau of Labour

  Statistics, October 2009.

X Comparative Real GDP per Capita and per Employed Person, Fourteen Countries 1960-2008, July 2009. U.S. Department of Labour, Bureau

  of Labour Statistics.

– Global Purchasing Power Parities and Real Expenditures. 2005 International Comparison Program. World Bank 2008.

X PPPs for OECD Countries 1970-2002, OECD 2002 and GDP PPPs historical series 1970-1999.

– Purchasing Power parities – Measurement and Uses by Paul Schreyer and Francette Koechlin, OECD Statistical briefs, March 2002.

Note regarding the new 2005 PPC round:

Since 1970 the International Comparison Program (ICP) of the World Bank has conducted eight rounds of PPP estimates for the major components of countries' gross domestic product (GDP)—the most recent for 2005. According to the World Bank, the PPP process calls for the systematic collection of price data on hundreds of representative and carefully defined products and services consumed in each country. Purchasing power parities are needed because similar goods and services have widely varying prices across countries when converted to a common currency using market exchange rates.

The PPPs previously published in World Development Indicators and used to estimate international poverty rates were extrapolated from the benchmark results of the 1993 ICP or from the Eurostat 2002 and then extrapolated forward and backward. The extrapolation method assumes that an economy's PPP conversion factor adjusts according to the different rates of inflation for its economy and the base economy, the United States. A good approximation in the short run, but over a longer period changes in the relative prices of goods and services and in the structure of economies—what they produce and consume—distort this relationship, and new measurements must be made. New methods of data collection, differences in country participation, and changes in analytical methods all add to the differences between new PPPs and old.

The major finding, in the 2005 round of PPP estimates, is that, under the new PPPs, the aggregate GDP of developing economies in 2005 is 21 percent smaller than previously estimated, corresponding to a 7 percentage point reduction in their share of world GDP—from 47 percent to 40 percent. The United States—as the base country, unaffected by any revision—increased its share from 20,6 percent to 22,1 percent.

The Jus Semper Global Alliance