Mexico's Wage Gap Charts

Wage gap charts for Mexico vis-à-vis developed and "emerging" selected economies and other selected economies, with available wage and PPP data (1975-2003)

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

- Classic Problem Scenario

  - With market liberalization, 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, manufacturing and marketing operations are *globalised* but their labour costs remain strategically very low in order to achieve maximum competitiveness at the expense of Third World 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. But, these wages still keep the 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 direct electricity

  - In this way, the huge differential in labour costs is added to the profit margin, keeping the part that should have provided the worker with an equivalent standard of living to that enjoyed by the same workers in the North. This difference is the part that workers should have received in the first place as their fair share of the income resulting from the economic activity

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

- The Argument
  - Workers performing the same or a 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
  - 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 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 sustainability of the market system –with the global economy enjoying a sustained growth, the environment reversing its degradation and poverty rapidly diminishing– if there is no sustained generation of aggregate demand through the gradual closing of the wage gap between North and South
  - The material quality of life can be 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

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

- 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 than $1 dollar buys in the U.S.; thus, the cost of living is lower
  - 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 equalized 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 equalization of wages, through small real-wage increases, needs to be reviewed annually

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

- A Classic Example in 2003
  - Equivalent manufacturing workers in Mexico and Brazil earn only 16% and 34%, 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 $21.37/hour whilst Mexican and Brazilian workers earn only $2.48/hour and $2.67/hour, respectively,
  - Since costs of living in PPPs terms in Mexico and Brazil are 69¢ and 36¢, respectively, for each $1 U.S. Dollar, equivalent Mexican and Brazilian manufacturing workers should be earning instead $15,24/hour and $7,96/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, is ahead (8%) of U.S. Counterparts, since nominal wage above of the equivalent wage needed to be at par, with a PPP of 81¢ per each $1 U.S. Dollar.

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

2003	Nominal Hourly Wage	PPP 2003	PPP Real Wage	Equalized Nominal Hourly Wage	Equalization Index
United States	$21,97	100	$21,97	$21,97	100
Canada	$19,28	81	$23,67	$17,89	108
	88%		108%	81%	
Mexico	$2,48	69	$3,57	$15,24	**16**
	11%		16%	69%	
Brazil	$2,67	36	$7,37	$7,96	**34**
	12%		34%	36%	

Sources:

U.S. Department of Labour, Bureau of Labor Statistics, November 2004.

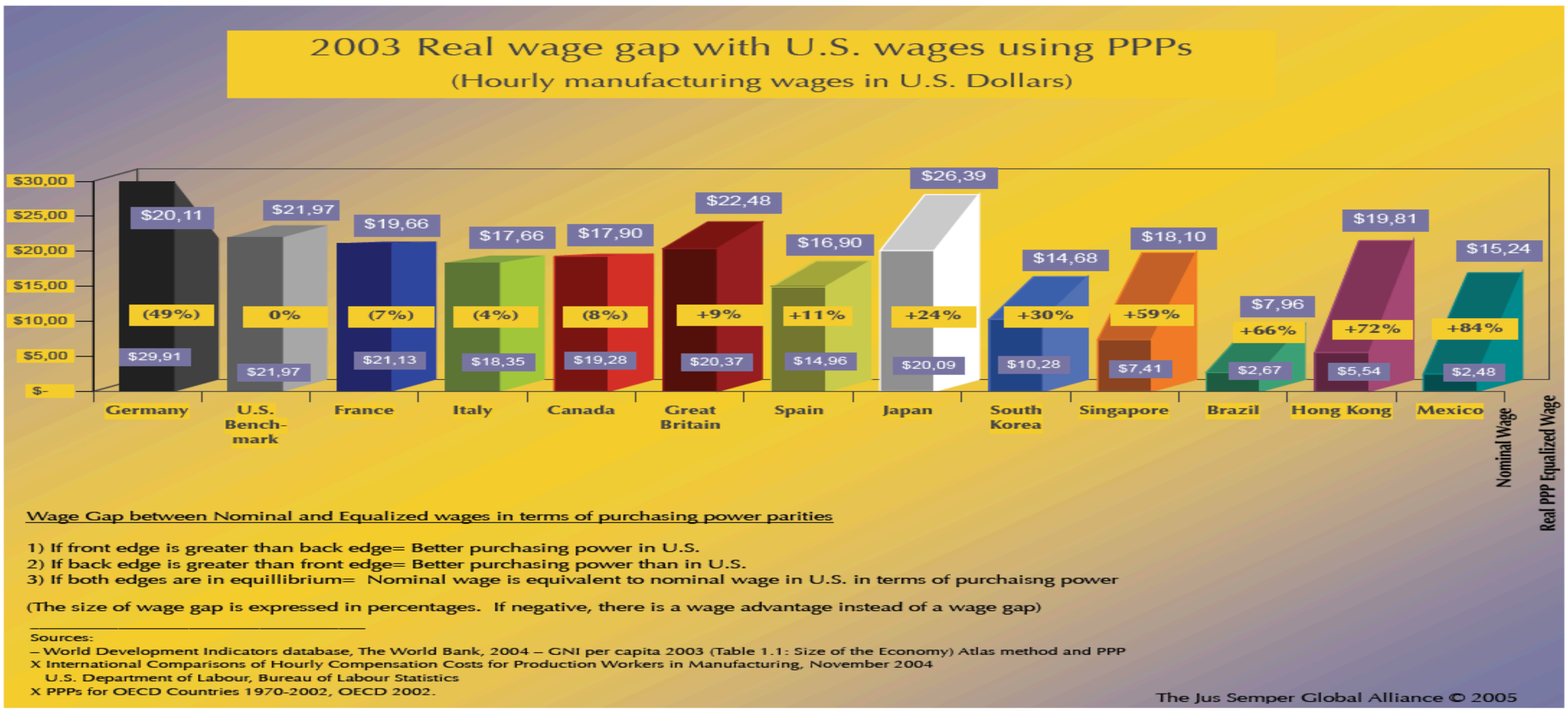
World Bank, World Development Indicators 2005, 1.1. Size of the Economy

- In 2003, Mexico continues to have the worst real purchasing power parities (PPPs) wage, for it has the greatest equalized wage gap with the U.S. (84%), when compared against other emerging economies and against eight developed economies,

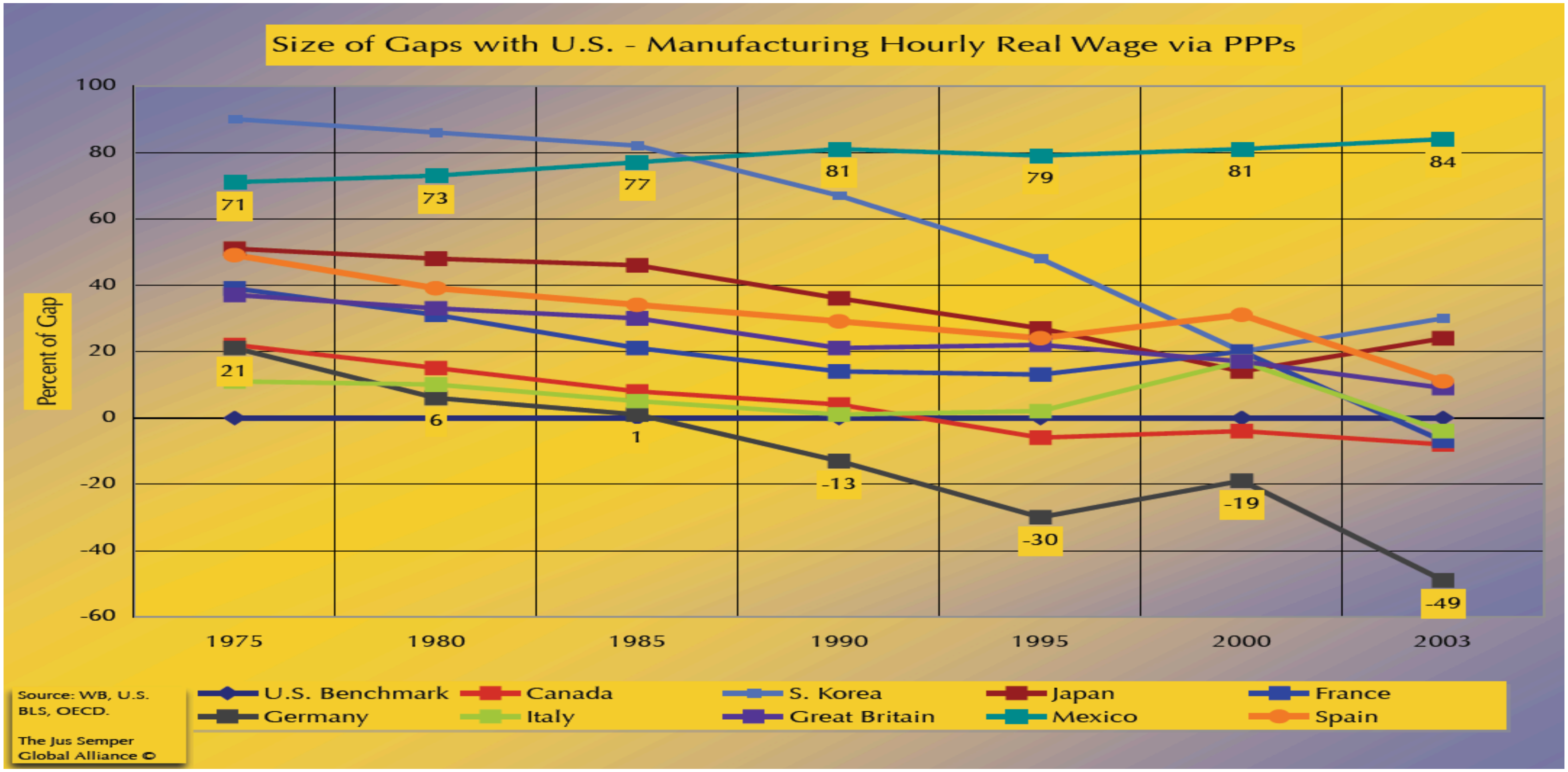
- In other words, a Mexican worker earns only 16% of the purchasing power (material quality of life) enjoyed by the equivalent U.S. counterpart,

- Even in Brazil's case –the most similar economy with available data– the wage gap is clearly less dramatic (66%) than in the Mexican case,

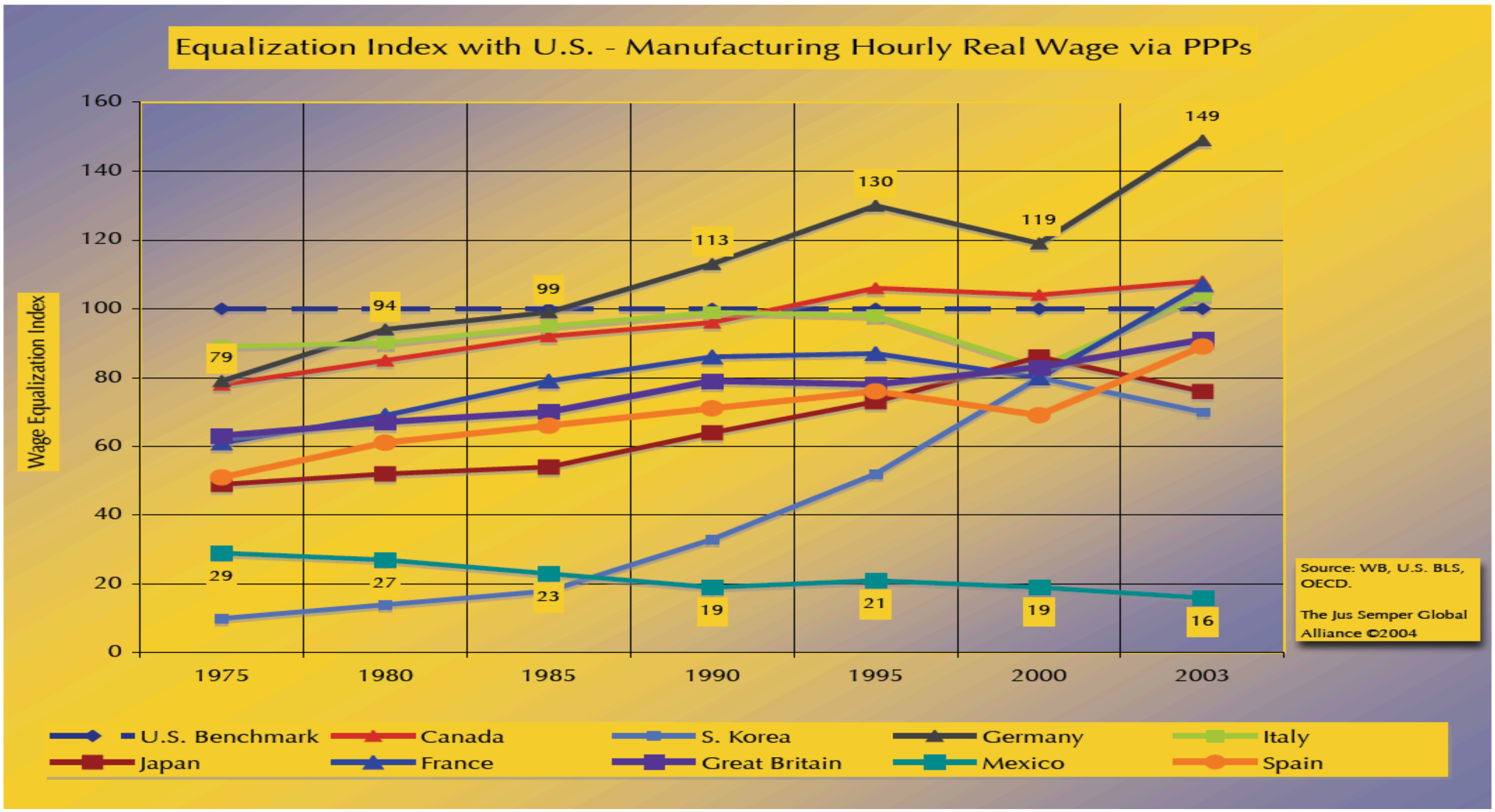
- Among Asian economies, all show higher nominal wages and smaller wage gaps than Mexico. South Korea, in particular, a country with a wage gap twice as large as Mexico’s in 1975– is now at a similar level with Japan, with a gap of only 30% in 2003.



- In the last 28 years, all the G7 nations, Spain and South Korea experienced a significant reduction of their PPP wage gaps equalized with equivalent U.S. jobs, whilst Mexico moved in the opposite direction. Mexico continued to increase its equalization gap with the U.S. to a dramatic 84%,
- South Korea, with a much lower development than Mexico 28 years ago, dramatically reduced its wage gap to put it at par with Japan. In contrast, Mexico increased the exclusion of a great part of its population by maintaining a labour market with hunger wages and, in consequence, an absence of generation of aggregate demand,
- The euro area countries significantly closed their wage gaps with the U.S., in 2003, after the first year of the changeover to the euro.



- Between 1975 and 2003, México worsened its equalization index from 29 to a meagre 16. Since 1975, there has been no improvement,
- In great contrast, South Korea dramatically improved its equalization index from a bleak 10 to a respectable 70, similar to Japan, a G7 power,
- Germany significantly increased its purchasing power, over the U.S., to 149, after the first year of the change over to the euro currency.



- **The state of manufacturing wages in Mexico is rather pathetic from any perspective. When comparing both developed and similar economies, Mexico bears the worst situation**

  - Beginning with a string of abrupt devaluations since 1976, real wages –relative to their equalization with the U.S. based on PPPs– initiate a constant loss of purchasing power, dropping by 45%, between 1975 and 2003, since employers adjust their prices but not wages.

  - Beginning with the great financial debacle of December 1994 and Mexico's entrance into the North American Free Trade Agreement, wages collapse losing more than ever their purchasing power. From that moment on, prices partially recover -vis-à-vis 1970s' levels, increasing the cost of living –in relation to the U.S.– 50% between 1995 and 2003, reaching a ratio of 69¢ against $1 dollar in the U.S. (PPP= 69), whilst wages suffer a null recovery. This generates a rather hard impoverishment of the population.

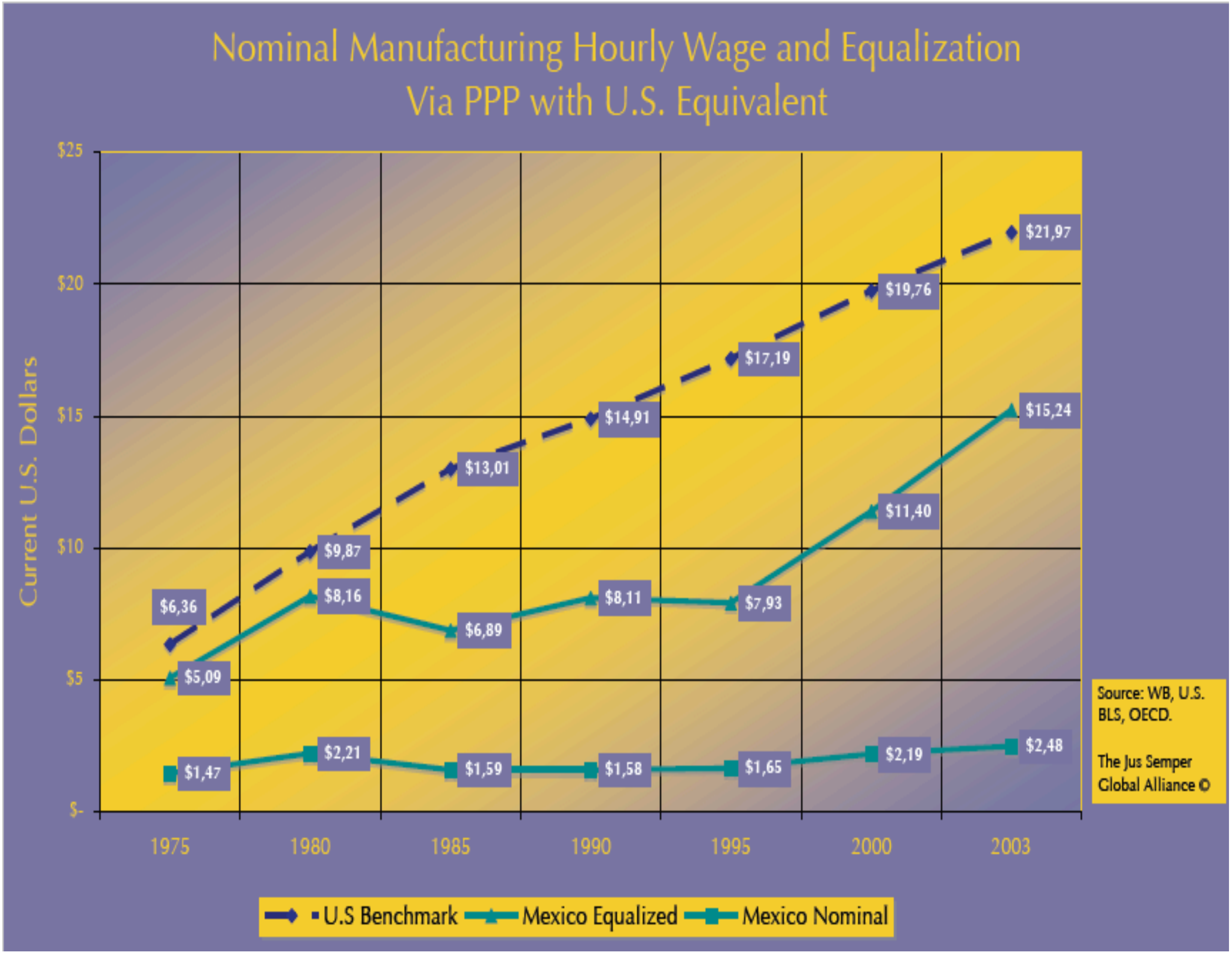
  - In Brazil's case, with a similar level of development, the wage gap has also increased, but not at the same rate and as dramatically as in Mexico (the wage-equalization index in 2003 is of 34 vs 16 for Mexico).

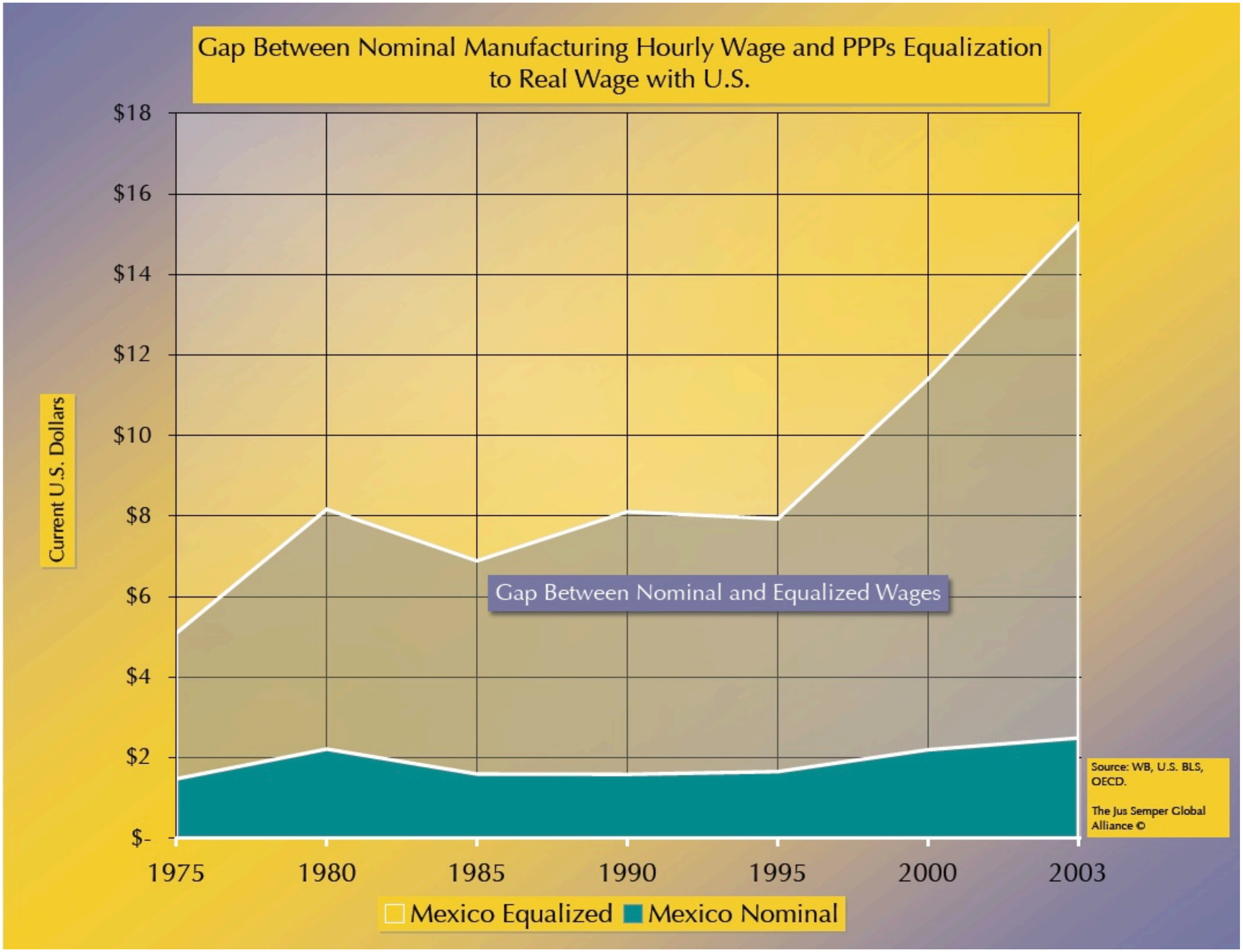
  - In the case of South Korea, a country that has given priority to the development of its domestic market –the opposite of Mexico's approach–, its wage gap is similar to Japan's and represents barely more than a third of Mexico's, when twenty years ago it was three times greater than the Mexican wage gap.

  - In the case of Spain, –a country with a cost of living similar to Mexico both in 1975 and in 2003, and like South Korea giving priority to the growth of the domestic market– its wage gap has moved from representing two thirds of Mexico's to little more than one eight in the span of 28 years, and today is clearly lower than the wage gaps of Japan and South Korea and and very close to those of the G7 countries

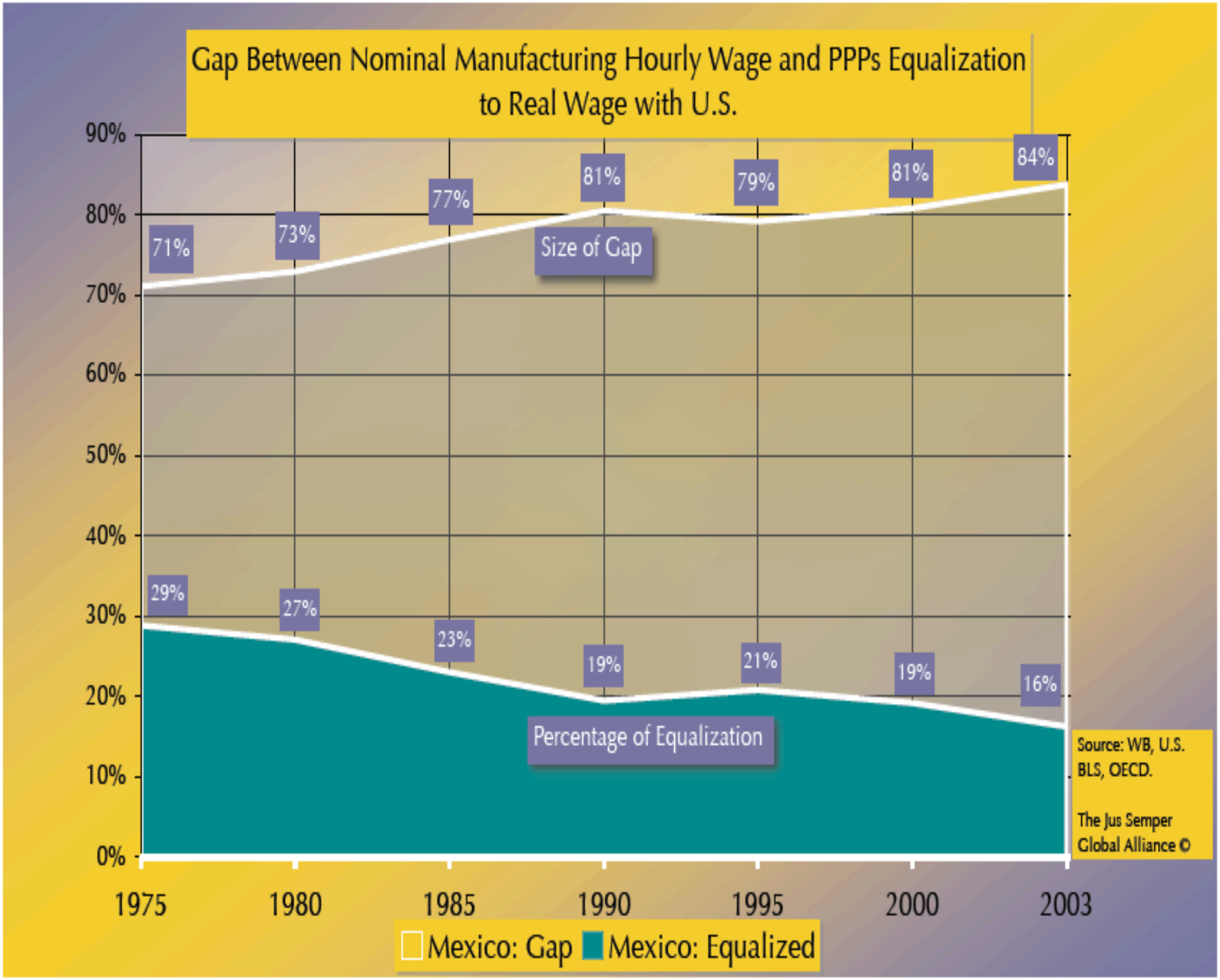
  - Canada had a wage gap with the U.S. of one fifth, but since 1990, in stark contrast with Mexico, the gap has oscillated between 4% and enjoying manufacturing real wages superior to those in the U.S., as is the case in 2003 where it has a wage surplus of 8%,

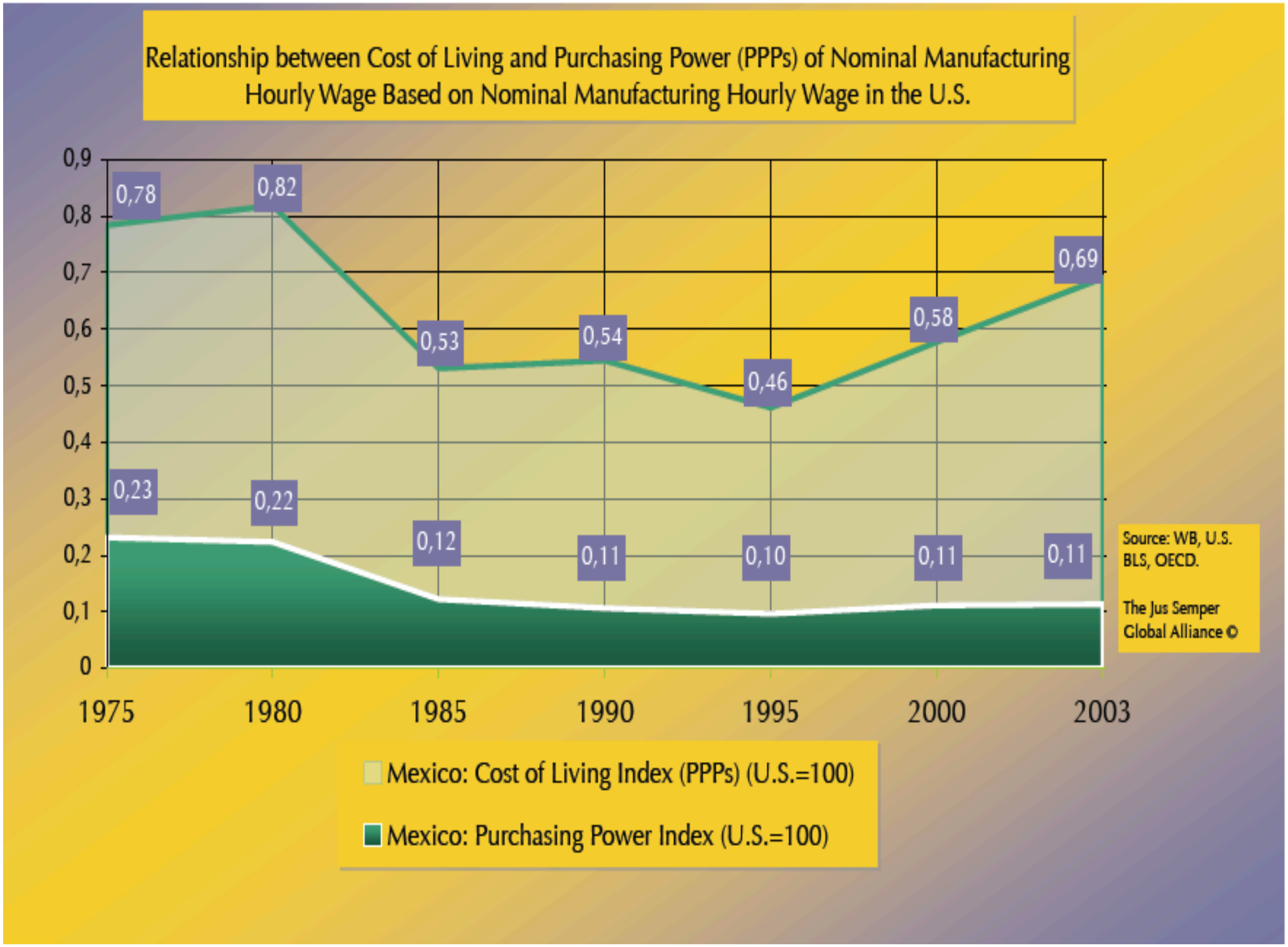
  - In sum, a quarter century of neoliberalism in Mexico exposes, overwhelmingly, a situation, based on manufacturing wages, of deep pauperization and of disadvantage in all cases and angles of comparison, and the worst thins is that there is no sign, whatsoever, of improvement nor of political will to change this trend by those who wiled power.

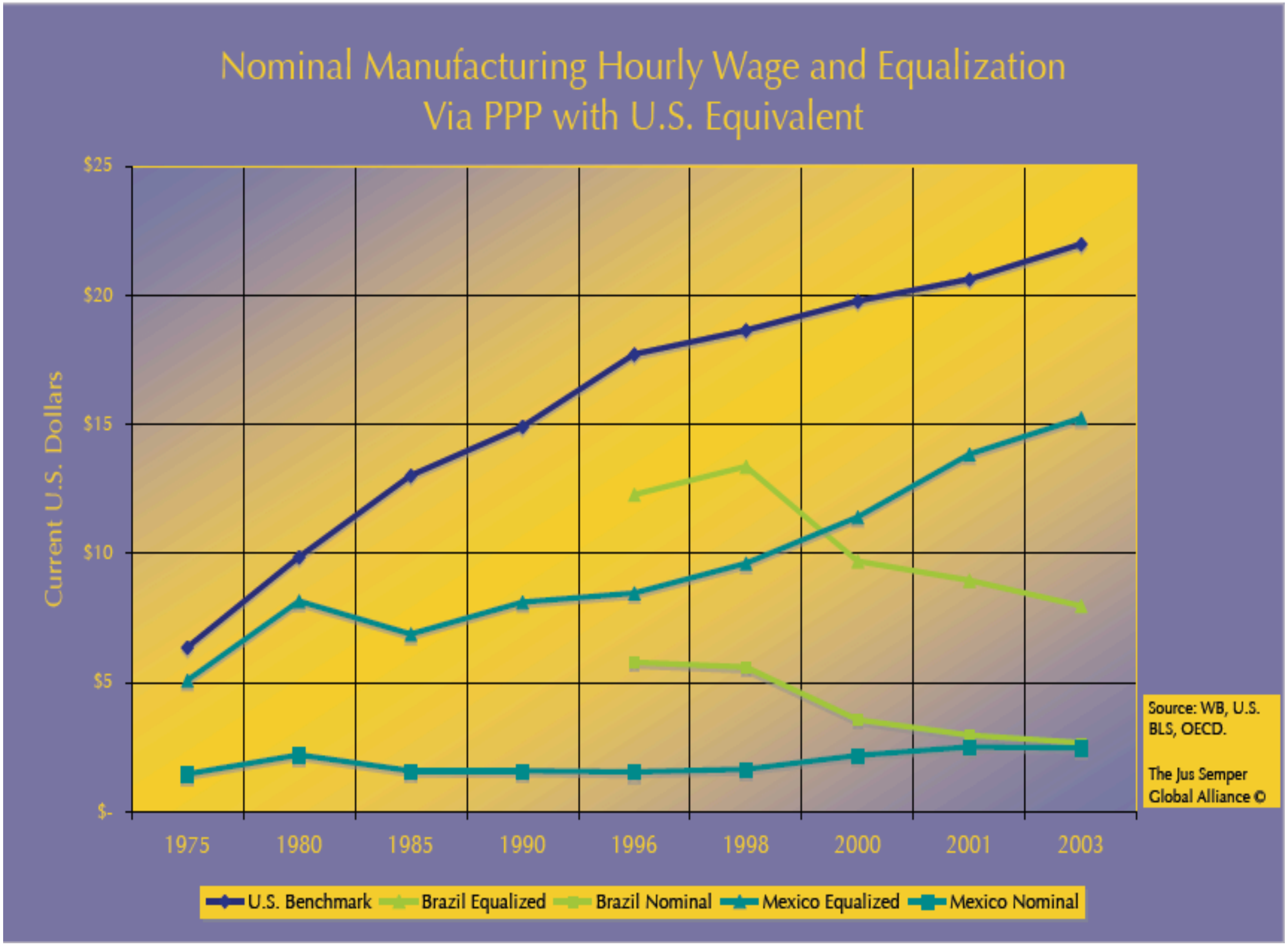

Nominal Manufacturing Hourly Wage and Equalization
Via PPP with U.S. Equivalent
Current U.S. Dollars
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1995
2000
2003
$6,36
$9,87
$13,01
$14,91
$17,19
$19,76
$21,97
$5,09
$8,16
$6,89
$8,11
$7,93
$11,40
$15,24
$1,47
$2,21
$1,59
$1,58
$1,65
$2,19
$2,48
U.S Benchmark
Mexico Equalized
Mexico Nominal
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©

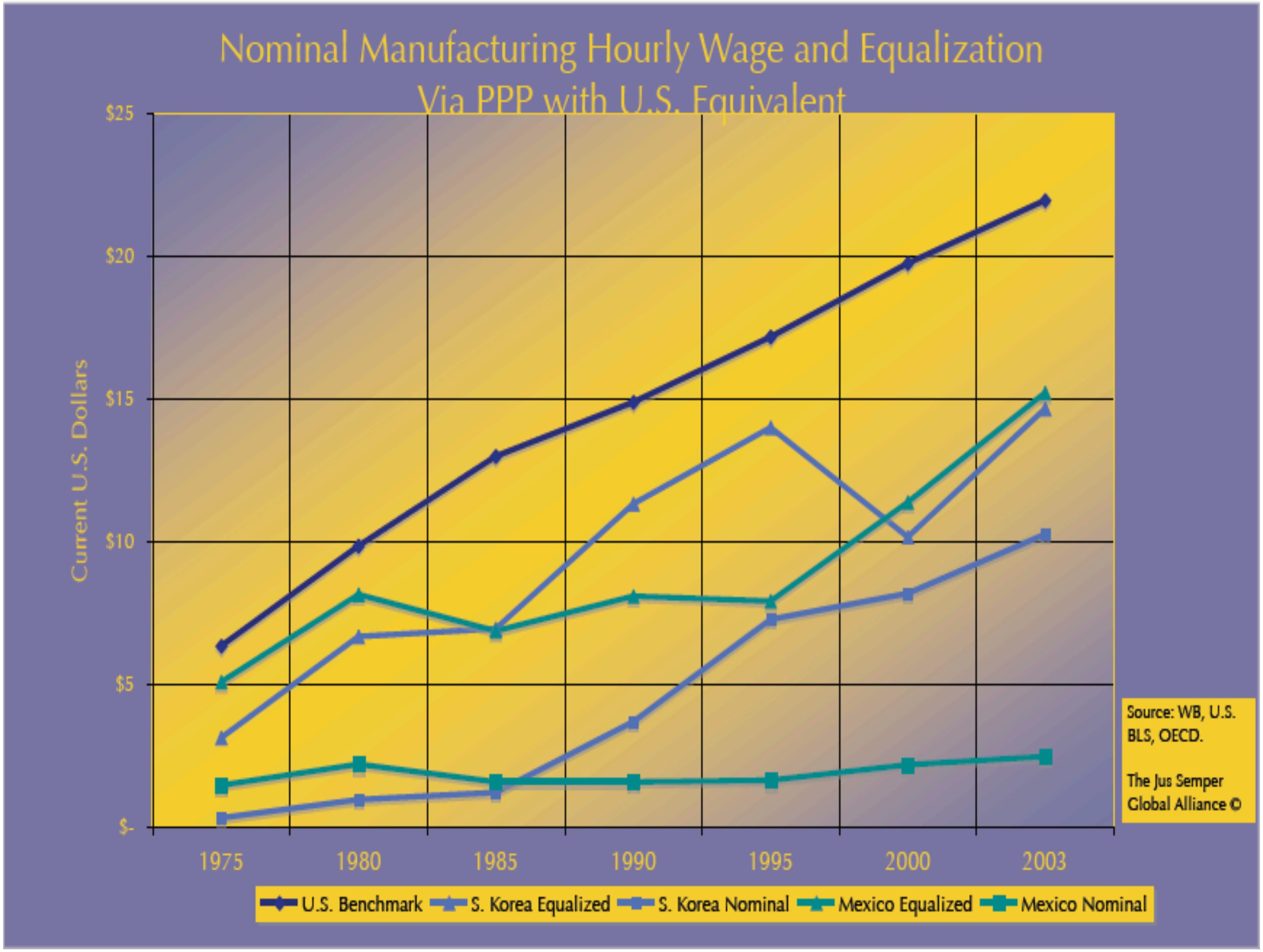


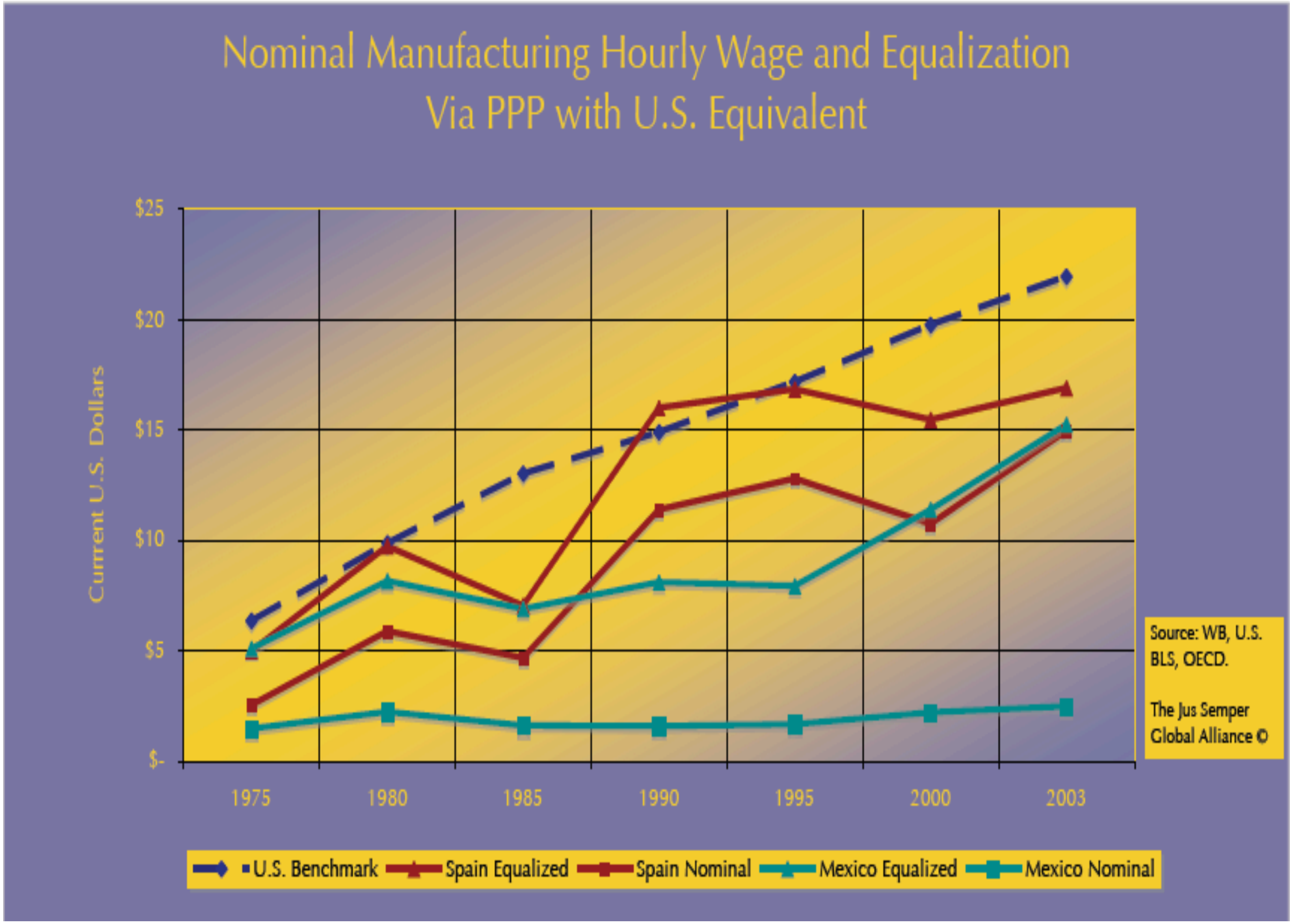
Gap Between Nominal Manufacturing Hourly Wage and PPPs Equalization to Real Wage with U.S.
$18
$16
$14
$12
$10
$8
$6
$4
$2
$-
Current U.S. Dollars
Gap Between Nominal and Equalized Wages
1975
1980
1985
1990
1995
2000
2003
Mexico Equalized
Mexico Nominal
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©


Gap Between Nominal Manufacturing Hourly Wage and PPPs Equalization to Real Wage with U.S.
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
71%
73%
77%
81%
79%
81%
84%
Size of Gap
29%
27%
23%
19%
21%
19%
16%
Percentage of Equalization
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©
1975
1980
1985
1990
1995
2000
2003
Mexico: Gap
Mexico: Equalized


Relationship between Cost of Living and Purchasing Power (PPPs) of Nominal Manufacturing Hourly Wage Based on Nominal Manufacturing Hourly Wage in the U.S.
0,9
0,8
0,7
0,6
0,5
0,4
0,3
0,2
0,1
0
0,78
0,82
0,53
0,54
0,46
0,58
0,69
0,23
0,22
0,12
0,11
0,10
0,11
0,11
1975
1980
1985
1990
1995
2000
2003
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©
Mexico: Cost of Living Index (PPPs) (U.S.=100)
Mexico: Purchasing Power Index (U.S.=100)


Nominal Manufacturing Hourly Wage and Equalization
Via PPP with U.S. Equivalent
Current U.S. Dollars
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1996
1998
2000
2001
2003
U.S. Benchmark
Brazil Equalized
Brazil Nominal
Mexico Equalized
Mexico Nominal
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©


Nominal Manufacturing Hourly Wage and Equalization
Via PPP with U.S. Equivalent
Current U.S. Dollars
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1995
2000
2003
U.S. Benchmark
S. Korea Equalized
S. Korea Nominal
Mexico Equalized
Mexico Nominal
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©


Nominal Manufacturing Hourly Wage and Equalization
Via PPP with U.S. Equivalent
Current U.S. Dollars
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1995
2000
2003
Source: WB, U.S. BLS, OECD.
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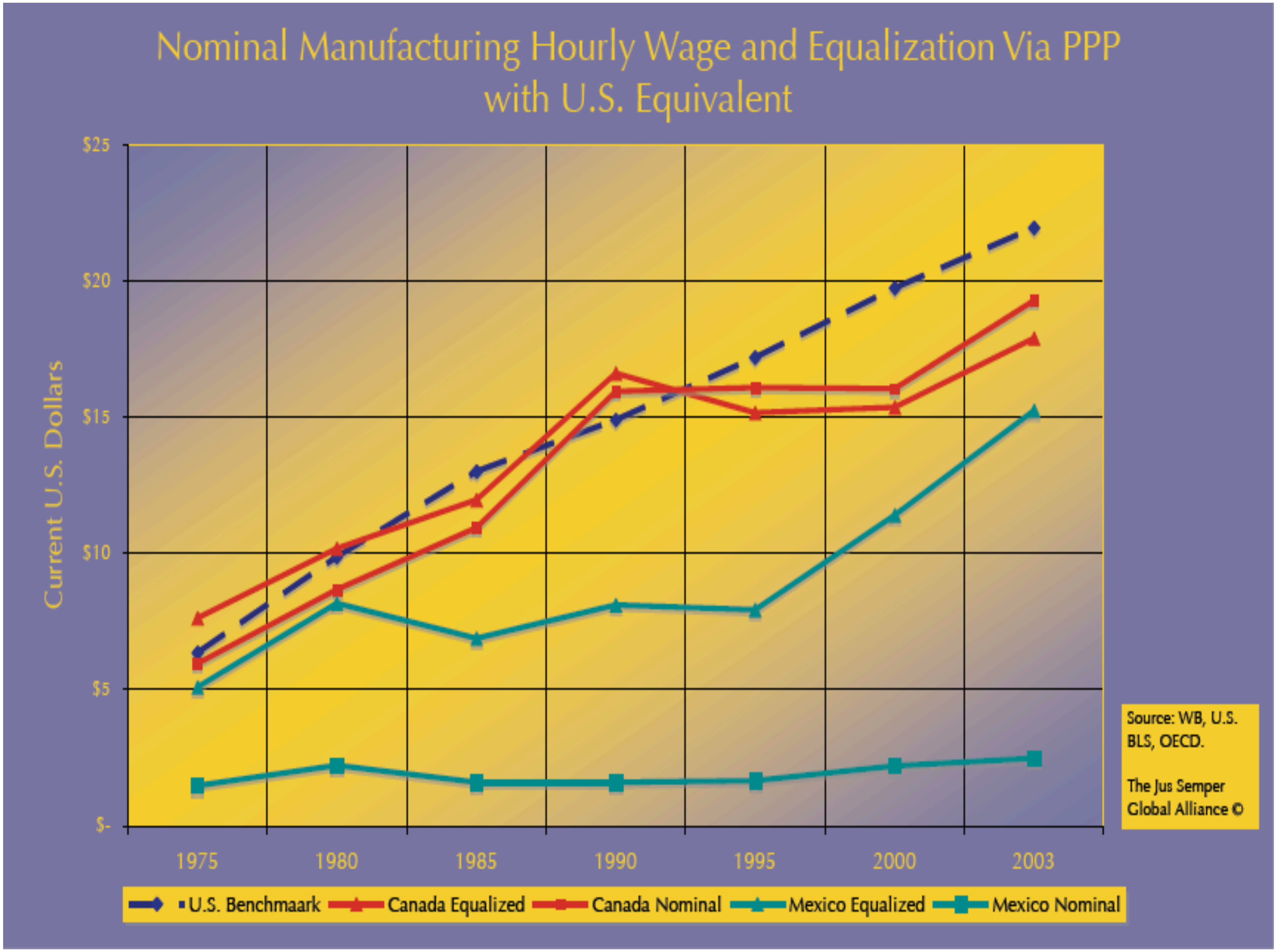
U.S. Benchmark
Spain Equalized
Spain Nominal
Mexico Equalized
Mexico Nominal


Nominal Manufacturing Hourly Wage and Equalization Via PPP with U.S. Equivalent
Current U.S. Dollars
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1995
2000
2003
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©
U.S. Benchmaark
Canada Equalized
Canada Nominal
Mexico Equalized
Mexico Nominal

- ## Sources and References:

  - The original sources of this analysis:

    - World Development Indicators 1998, 2000, 2002 and 2005, The World Bank, table 1.1
    - World Development Indicators database, The World Bank, August 2002 – GNI per capita 2001, Atlas method and PPP
    - X International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, November 2004, U.S. Department of Labour, Bureau of Labour Statistics (includes costs, indices and exchange rates)
    - Comparative Real Gross Domestic Product per Capita and per Employed Person, Fourteen Countries 1960-1998, U.S. Department of Labour, Bureau of Labour Statistics, Office of Productivity and Technology
    - 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 200

  - The base table for the construction of this analysis and the charts is Table 4 of International Comparisons Hourly Compensation Costs for Manufacturing Workers of the TJSGA, available also as a pdf file in the Labour Resources section of the Jus Semper portal