# Mexico's Wage Gap Charts

*Manufacturing production-line wages*

Wage gap charts for Mexico vis-à-vis selected developed and "emerging" economies, with available wage and PPP data (1975-2007)

Wage gap charts for Mexico vis-à-vis selected developed and "emerging" economies, with available wage and PPP data (1975-2007).


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- 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 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.

# The Argument for Wage Equalisation 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 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 2007

- 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 $25,27/hour whilst Mexican and Brazilian workers earn only $2,92/hour and $5,96/hour, respectively,
- Since costs of living in PPPs terms in Mexico and Brazil are 68¢ and 64¢, respectively, for each $1 U.S. dollar, equivalent Mexican and Brazilian manufacturing workers should be earning instead $17,08/hour and $16,09/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 ($29,08) is 103% of the equivalent wage ($28,22) needed to be at par, with a PPP of $1,12 per each $1 U.S. dollar.

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

| 2007 | Nominal Hourly Wage | PPP 2006 | PPP Real Wage | Equalised Nominal Hourly Wage | Equalisation Index |
|---|---|---|---|---|---|
| United States | $25,27 | 100 | $25,27 | $25,27 | 100 |
| Canada | $29,08 | 112 | $26,04 | $28,22 | 103 |
| | 115% | | 103,0% | 112% | |
| Mexico | $2,92 | 68 | $4,32 | $17,08 | **17** |
| | 12% | | 17% | 68% | |
| Brazil | $5,96 | 64 | $9,36 | $16,09 | **37** |
| | 24% | | 37% | 64% | |

Sources:

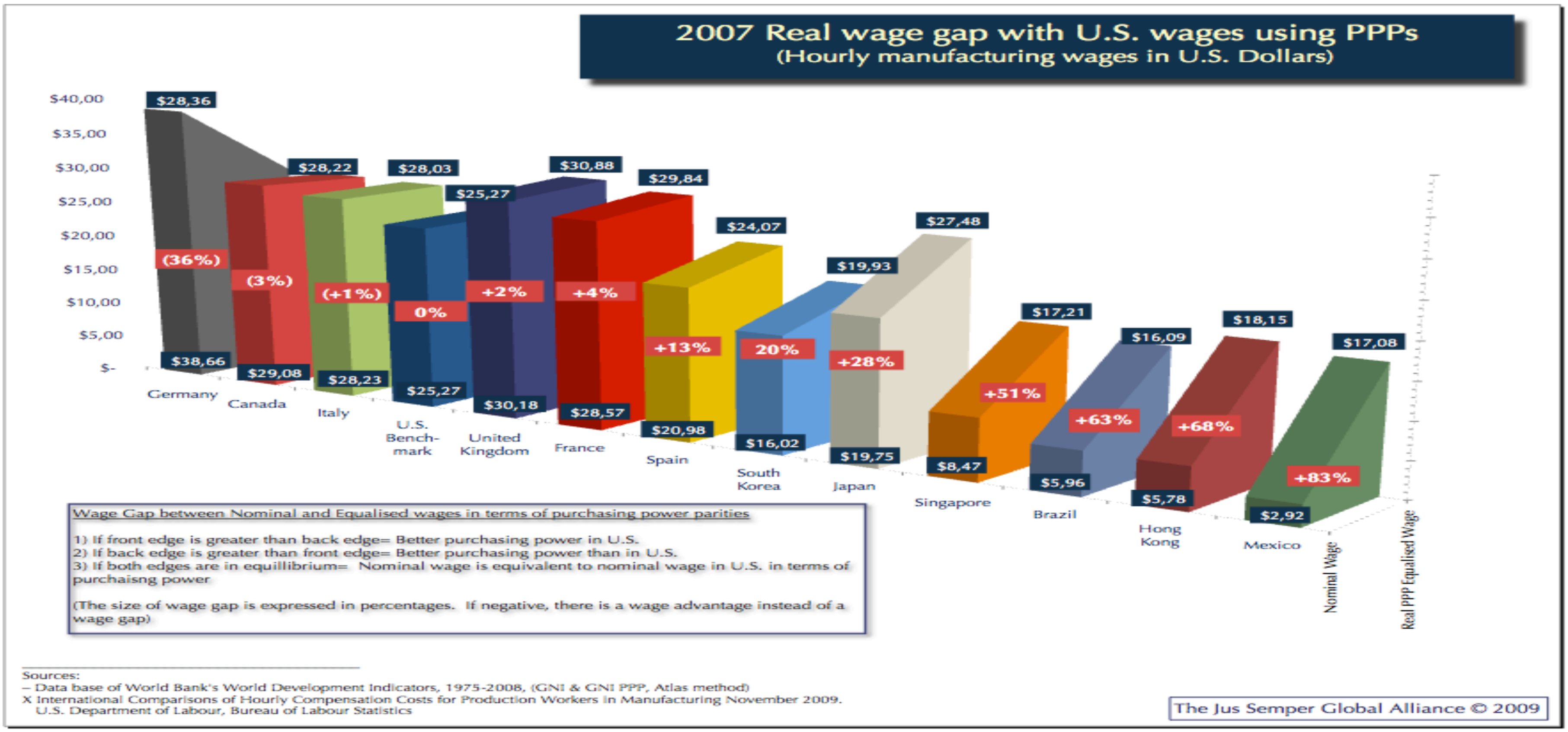
U.S. Department of Labour, Bureau of Labor Statistics, November 2009..

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

- Countries in the European Union and Canada converged in 2007 towards the equalisation of manufacturing production-line real wages with their U.S. counterparts. Germany and Canada maintained their already traditional competitive advantage –in PPP terms– over the U.S. Italy slightly crossed the equalisation threshold; the United Kingdom and France are a short step behind equalisation and Spain continued its upward trend, at only 13% away from the equalisation threshold. Similarly, South Korea outperformed Japan for a third consecutive year by cutting its living wage gap with the U.S. to only 20% vis-à-vis Japan's 28%.

- Hong Kong and Singapore are far from making their real wages living wages, for their gaps are still substantial (51% and 68% respectively) and they have not recorded any significant variations.

- In Iberian America, Brazil maintains an equalisation of little more than one-third (37%). In Mexico, the State policy that deliberately pauperises Mexican workers has imposed, for three decades, on manufacturing sector production-line workers, the endurance of the worst real wages, in PPP terms, of all countries assessed, with an abysmal living-wage gap wit the U.S. of 83%.

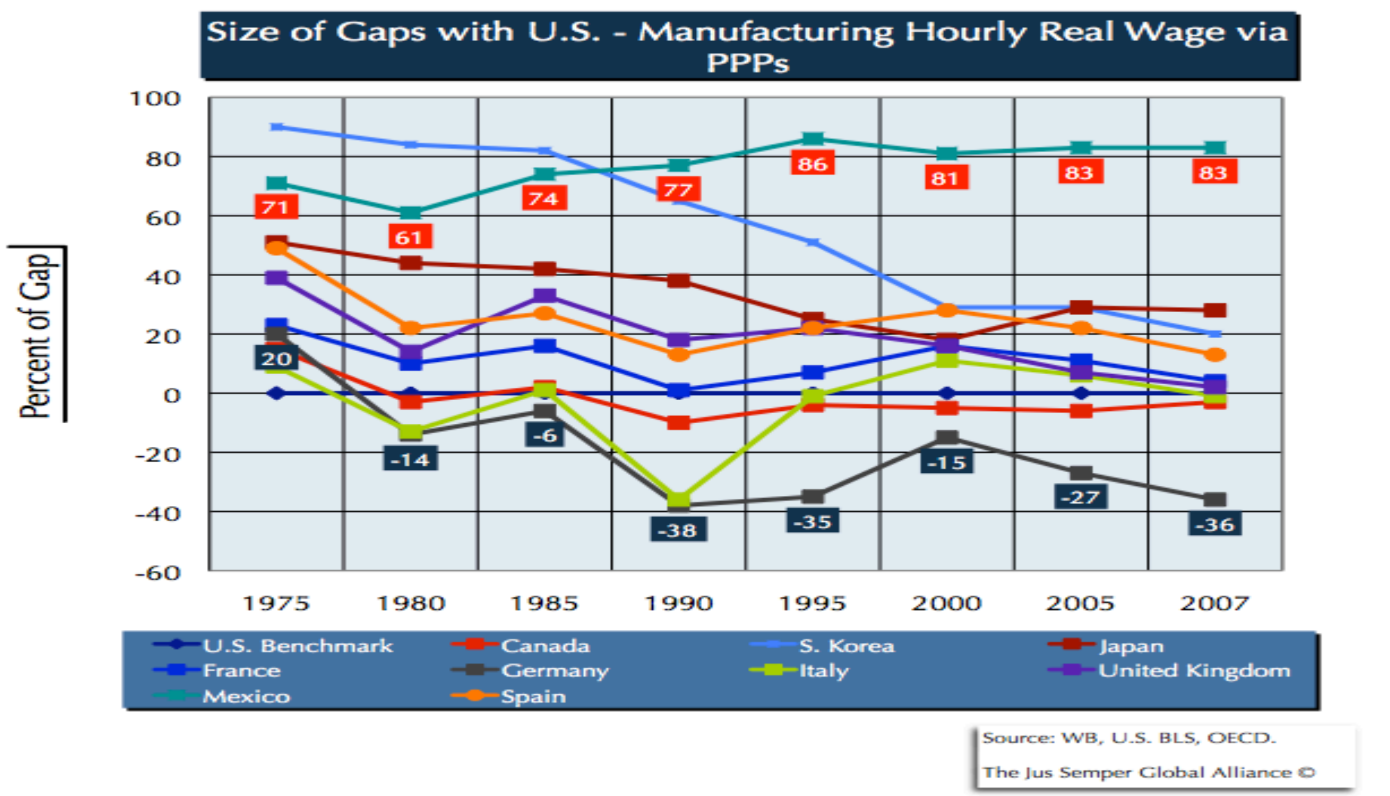


- In the last 32 years, whilst the major European Union economies, Canada, South Korea and Japan surpassed, eliminated or experienced a very significant reduction of their PPP wage gaps –equalised with equivalent manufacturing production-line U.S. jobs, Mexico moved in the opposite direction and corroborated for the nth time the deliberate and perverse State policy of wage pauperisation of the Mexican worker.

- In the five economies of the European Union, nominal wages have increased their true value above equivalent U.S. wages. In the €uro area, France, Germany, Italy and Spain recorded significant real wage increases between 2000 and 2007 relative to U.S. wages. Germany doubles its wage advantage; Italy closes its wage gap; France is 4 points away from closing it and Spain sustains its growing equalisation trend, reducing its gap to only 13 points. The United Kingdom maintains the same trend and has virtually closed the living-wage gap with the U.S., at only two points below the U.S. Canada sustains its competitive advantage over U.S. real wages.

- South Korea sustains its upward trend by reducing its gap to only 20 points, and for the third consecutive year is ahead of Japan, which stopped in 2007 the growth of its wage gap –at 28 points– that began in 2000.

- Mexico confirms the exploitative nature of the Mexican State, with real wages at their lowest level in 2007, with a huge wage gap of 83%. Mexico is the only country where wage equalisation is dramatically below its levels of more than a quarter century ago. It must be stressed that Mexican manufacturing real wages continue to be by far the most undignified of all countries analysed, and they are light years away from equalisation with the wages of their U.S. counterparts.



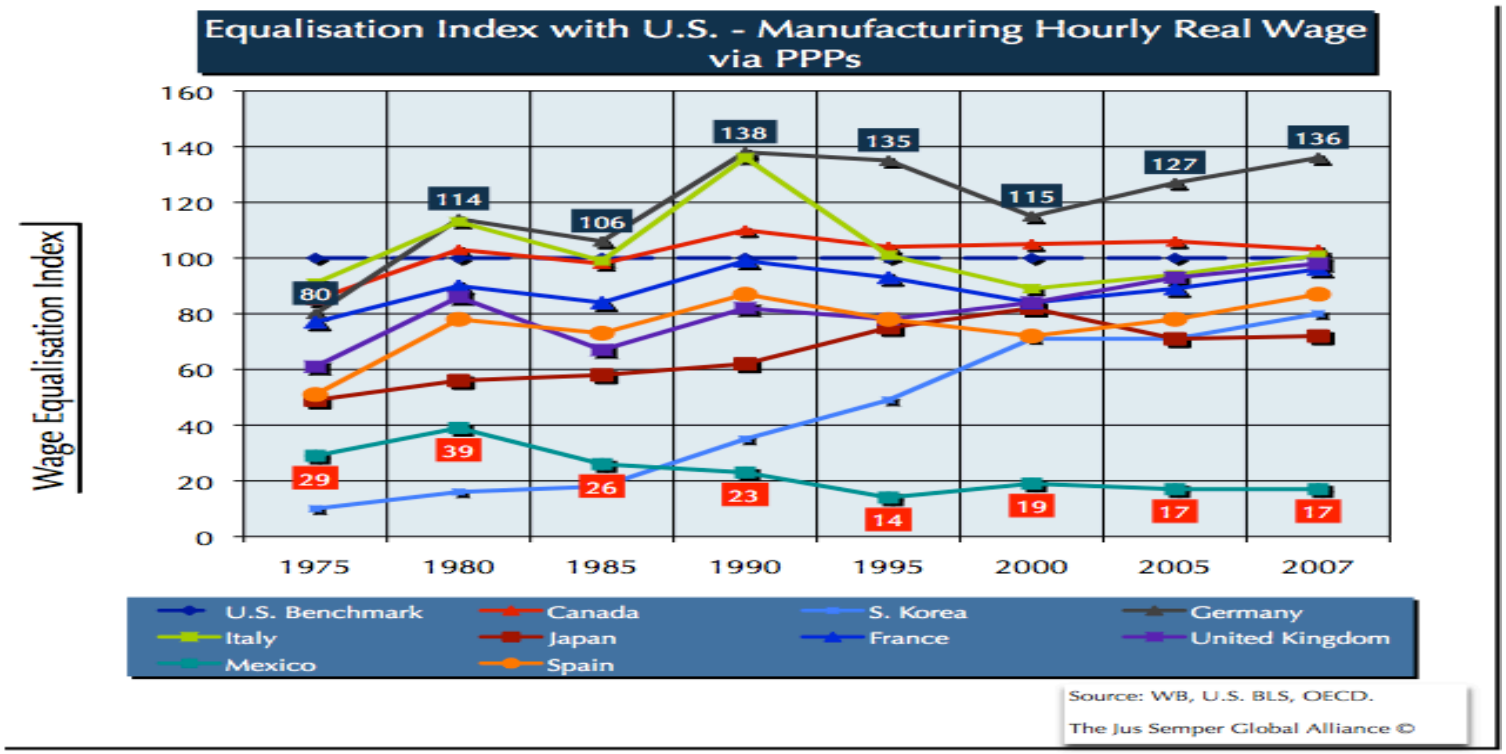
- From an equalisation perspective, between 1980 and 2007, México consistently worsened its index by 56%, from 39 in 1980 to a meagre 17, and with no improvement since 2000. Every year State policy systematically blocks any chance of real wage recovery by imposing wage increases that, in the best case, sustain real wages at a progressively pauperised level of more than half their value in 1980. The "modern slave work" system is the policy "par excellence" of the Mexican State in response to "market demands".

- Each year it merits to contrast the enormous paradox of Mexico's performance with that of South Korea. Whilst South Korea moves its wage equalisation index from 10 in 1975 to a respectable 80 in 2007, as a result of a deliberate policy to protect endogenous development through the generation of aggregate demand, Mexico does it in the opposite direction, moving from a 29 to a 17 wage index during the same period, and from a 39 index in 1980.

- Japan stops the fall of its equalisation index from 82 in 2000 to 72 in 2007, albeit it still has the lowest equalisation index with the U.S. of all major economies.

- Germany, Canada and Italy recorded a surplus in wage competiveness –in purchasing power terms– vis-à-vis their U.S. counterparts, with indices of 136, 103 and 101 respectively.

- The United Kingdom and France are a tip away from equalising their wages with their U.S. counterparts, with indices of 98 and 96 respectively. Spain continues increasing its equalisation, moving from 78 in 2005 to 87 in 2007.



## The Mexican State, still challenged for the lack of legitimacy of its election, has become an eminent case of open violation of the labour rights of its citizens

- Mexico's labour conditions are so deplorable that they merit describing their context. The exploitative and repressive nature of the group that overtook power thirty years ago, when it surrendered to the Washington consensus in order to remain in power, becomes transparent as more than three decades of wage data in the manufacturing sector keep piling up. This has engendered an environment that stands out on a global scale for the tremendous erosion of labour rights. The Mexican State, lacking legitimacy (opposes an election audit) and mafia prone, has imposed an ethos of labour bondage that takes the country back to the conditions prevailing before the social revolution of 1910. Among its most prominent features are:
- The worst wages in all economic sectors in more than a quarter century.
- Every year the State policy that sets wage benchmarks maintains real wages at their lowest level –if it does not further erode them– by refusing to allow any increase above inflation.
- To accomplish this, the State has unleashed a policy, increasingly more repressive, of labour rights violation.
- Repression has centred on the destruction of trade unions, harassing their leaders and blatantly violating labour law, given the state of absolute impunity prevailing in Mexico. ILO's core conventions, ratified decades ago by Congress, are violated customarily. Miners are among the trade unions who have endured one of the most dramatic repressions.
- In 2009 the most paradigmatic case of the State's labour policies is recorded, when the government made redundant –through an armed attack at midnight and the launching of a misinformation and libel campaign– 44 thousand jobs of the Mexican Electrical Worker's Union, from the State company Luz y Fuerza del Centro. The pretext: low productivity and high wages. The true reason: the privatisation of its fibre optic network of one thousand kilometres for its subsequent operation to market phone, internet and video services.
- The State's violation of labour rights has generated unusual condemnation internationally. The International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), with more than 20 million members worldwide, announced the launching of a campaign in 134 countries, and before representatives of the U.S. and Canadian governments, condemning the "anti-workers policies" of the Mexican State. The ICEM equates the policies of labour repression in Mexico to those prevalent in Myanmar and Zimbabwe, two countries that stand out among the most repressive and labour rights violators worldwide (La Jornada, 9 January 2010).
- At the core of these repressive policies lies the true motives of a, by all means, mafia State. The Mexican State abandoned decades ago any responsibility before its citizenry and openly acts as an agent of domestic and foreign capital, from where it obtains the legitimacy that it did not achieve in the electoral process. To bring this about, its economic policies have been inflexible for decades, designed for the exclusive benefit of institutional investors. They demand high rates of return, well above those offered by the leading financial markets, low inflation and a stable exchange rate to protect their investments. In this way, whilst real wages were reduced by more than 50% since the last century and the economy recorded one of the worst recessions worldwide (estimated at -7,1% of GDP in 2009), the State proudly brags about record foreign reserves of more than U.S. $90 billion (December 2009), resulting in a substantial portion from foreign investments in variable income instruments.
- In summary, the Mexican State works exclusively for institutional investors and, to this effect, has maintained for decades a recessive macroeconomic policy that, in the labour arena, requires a deliberate and perverse policy of pauperisation of real wages of the entire labour force and the violation of its labour rights.

# Main features of the manufacturing wage situation in Mexico

- The desertion of Mexico's governments, for the last three decades, of the basic responsibilities of any government that praises itself for being democratic, has imposed a "no-rule-of-law State": the collection of events that are engendered by the lack of social norms or their degradation; a sine qua non condition to act with complete impunity, thus, demolishing the State's responsibility to maintain a "rule-of-law State". This has allowed the State to maintain the vast majority of workers under modern slave work conditions. In this way, since 1980, (PPP) manufacturing real wages –vis-à-vis purchasing power equalisation with U.S. wages– initiate a consistent erosion, dropping 56% between 1980 and 2007, for employers adjust their prices –but not wages proportionally– supported by the full endorsement of the State through its customary policy of wage pauperisation.

- **Equalisation track**. Mexico achieves its least precarious wage equalisation in 1980, when production-line (PL) manufacturing wages reach an equalisation index of 39 over their 100 goal. Yet, starting in the 1980s the Mexican State surrenders to the guidelines of the World Bank and IMF, the institutions in charge of imposing the Washington consensus to governments –evidently undemocratic- wishing to obtain legitimacy through their recognition by the metropolis of global capitalism. As a result, manufacturing real wages endure a systematic policy of erosion that gradually makes them lose more than half their value. In 1995, after the debacle of the economic policies of the mafia State, real wages drop to their worst level since 1975, with an equalisation index of barely 14 with their U.S. counterparts. Subsequently, PL wages recover slightly (19) to then drop again to a 17 index since 2005. In this way, from a 39 index in 1980 to the 17 of 2005, 56% of the already meagre purchasing power equalisation of Mexican PL wages with their U.S. counterparts has been lost.

- **Comparison with Brazil**. Once a country with a development paradigm similar to Mexico's, Brazil records its highest wage equalisation index of 46 in 1996. Due to the end-of-century economic crisis, the index dropped to 28 in 2002, to then recover 32% (index 37) up to 2007 (pages 19 & 20). Yet, in contrast with Mexico, Brazil has announced a policy of strong wage recovery, applying the same TLWNSI concept. In 2010, Brazil increased the minimum wage 5,87% above inflation, or 9,68% in nominal terms. Even more important –and in full affinity with TLWNSI's concept– Brazil will send to Congress, before the end of first quarter 2010, a legislative project with three proposals of minimum wage adjustments, which cover up to 2023, with the clear intention to gradually close wage gaps with the major economies by 2023 (Folha Online, 23 December 2009).

- **Comparison with South Korea**. The case of South Korea, described in pages 10 and 11, dramatically exhibits how a State committed to social wellbeing can make real wages reach the ranks of those of the major economies. Instead of the guidelines of the Washington consensus, South Korea chose endogenous development by strengthening its domestic market's aggregate demand and selectively opening its economic sectors. The outcome cannot be more divergent with the Mexican reality, for its equalisation index is almost five times greater than Mexico's (80 over 17), when 32 years ago it was barely a third of Mexico's (pages 21 & 22).

# Main features of the manufacturing wage situation in Mexico

- **Comparison with Spain.** The world's eighth economy exhibits once again the decay of Mexican wages and the exploitative nature of Mexico's mafia State. In 1975 both countries had the exact same cost of living in PPP terms of $0,78 for U.S. $1. Equalisation indices then were 51 for Spain and 29 for Mexico. When Spain became democratic and joined the European Union, it favoured domestic market development, equalising living standards through the generation of aggregate demand, via the progressive increase of real wages and not through an exporting strategy anchored on the bequest of Spanish workers under conditions of modern slave work. In this way, Spain leaves Mexico behind, reaching in 2007 an 87 index, a 70% increase since 1975 (pages 23 & 24).

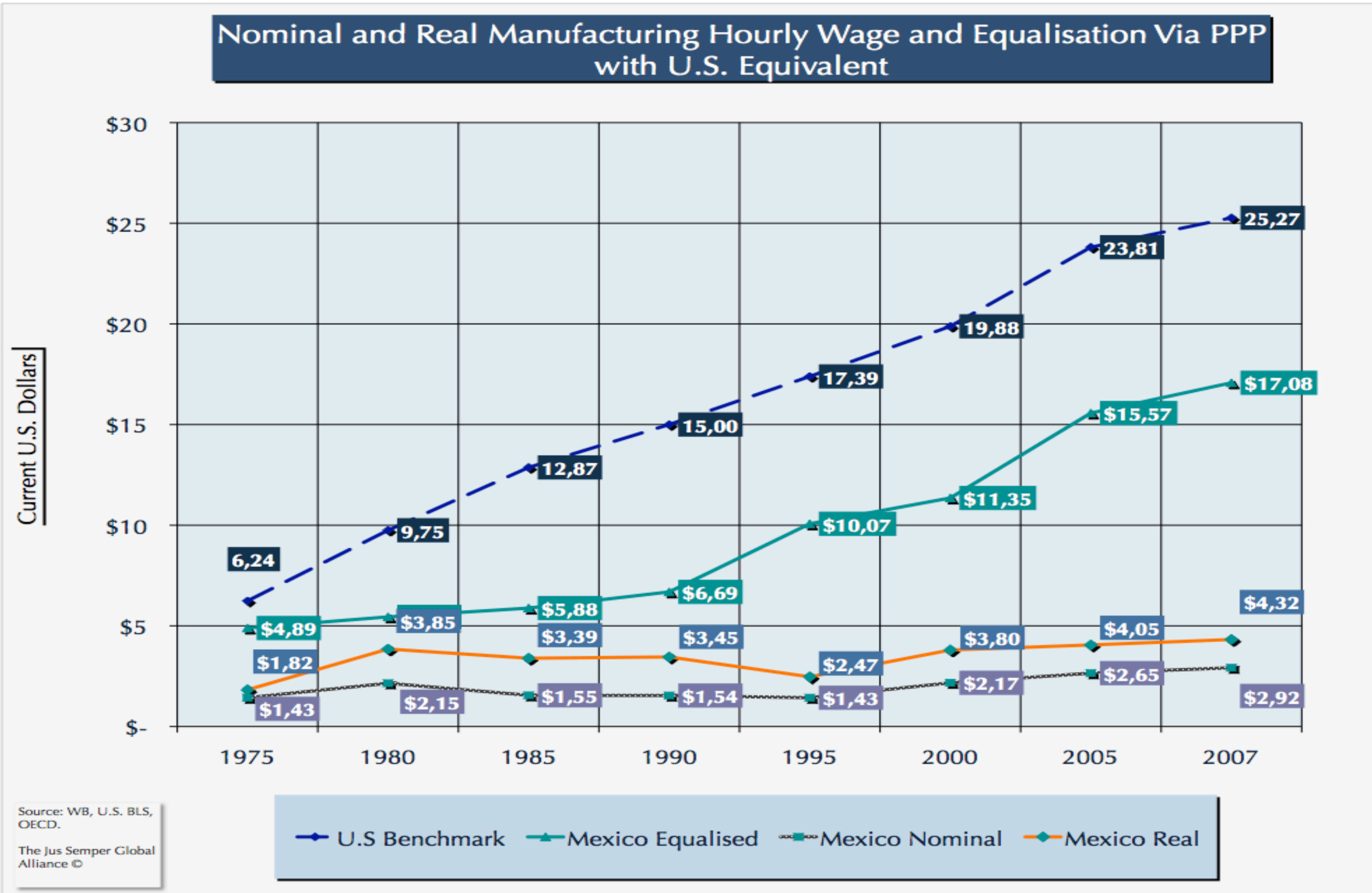
- **Comparison with Canada.** Canada had a wage gap with the U.S. of 15% in 1975, but since 1980 its PL manufacturing wages have generally enjoyed small competitive edges over their U.S counterparts (103 index in 2007), in a trend diametrically the opposite of that recorded by Mexico (page 25 and 26).

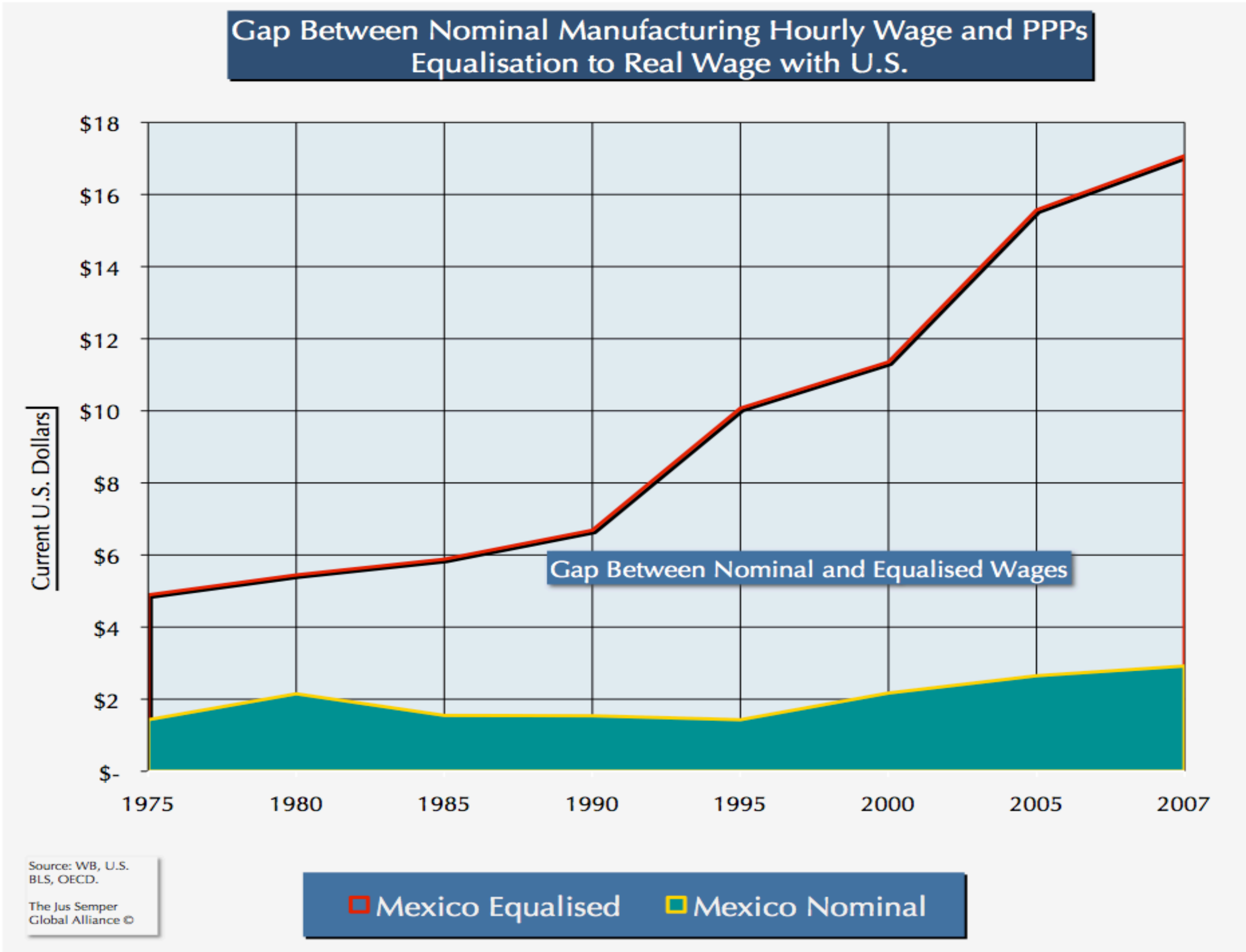
- **Prognosis.** The future of production-line manufacturing wages in Mexico is absolutely ominous unless society removes from power those who have imposed the mafia State and impose a citizen's government of real democracy. Every year the government's economic policies contain or further erode real wages. Additionally, the State has unleashed a policy of repression of the rights of freedom of association and to organise and collective bargaining previously mentioned. The deep impoverishment of Mexicans is a fact. Official data acknowledge that 81% of Mexicans are poor (Coneval 2009). By the same token, based on INEG's 2006 National Survey of Occupation and Employment, it is estimated that in 2006 the minimum wage could only afford 22,5% of the cost of the so-called basic basket of 40 goods (CBI) deemed essential for survival (Sánchez Juárez: 2006). Parting form these findings, it is estimated that 77% of the economically active population does not earn the wage required to acquire a CBI. Moreover, the government began 2010 with strong price increases in the energy sector, which guarantee a greater pauperisation of real wages.

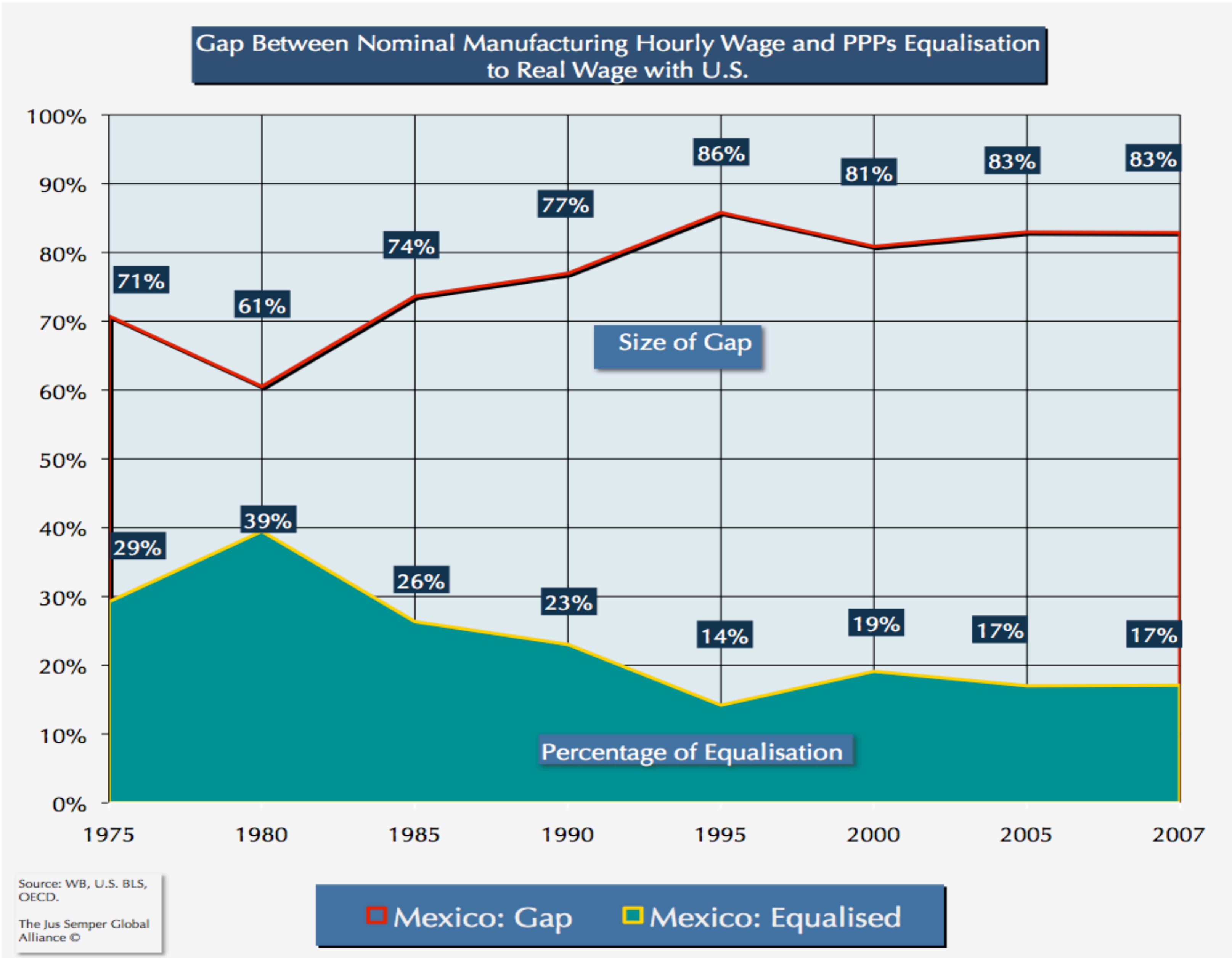
- Concurrently, in the U.S. –the benchmark for wage equalisation– the general minimum wage was increased 13,6% in 2007, 12% in 2008 and 10,7% in 2009 according to the U.S. Department of Labour. This ensures that Mexico's real wage equalisation with the U.S. will continue to get worse.

- In summary, more than a quarter century of predatory capitalism in Mexico exposes, decisively, a government's policy –from the perspective of manufacturing wages– of perverse and premeditated pauperization and exploitation of Mexican labour, for the only State policy of the mafia State is to govern for the benefit of domestic and foreign institutional investors and their corporations. In this way, as long as the "robber baron" elites currently in power remain in control, the deepening of the pauperisation of Mexico's population is more than guaranteed.

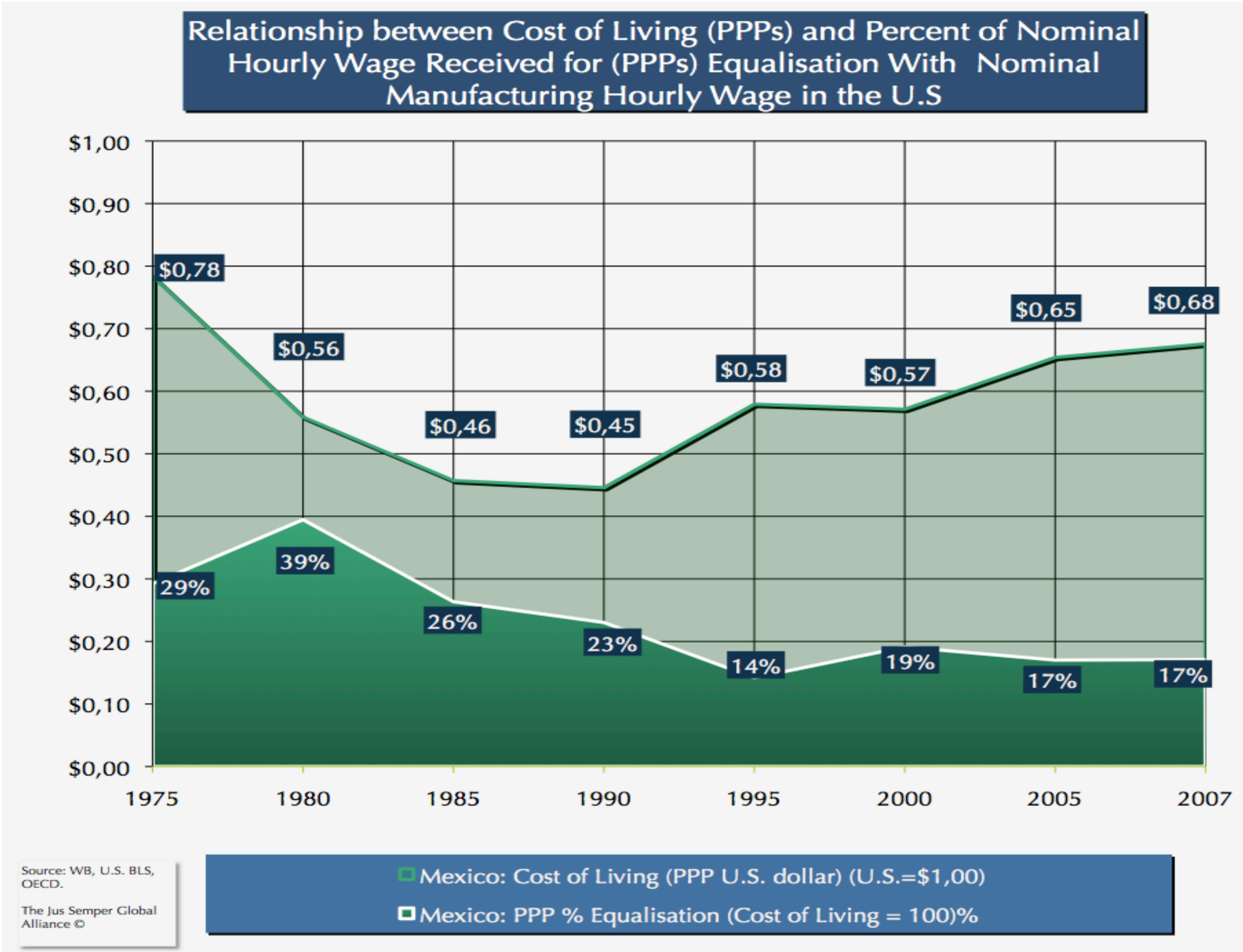
Between 1975 and 2007, the hourly equalised manufacturing Mexican wage –the wage required to receive an equivalent remuneration to that of their U.S. counterparts– increased 249%, due to the PPP cost of living increase in Mexico, going from $4,89 in 1975 to $17,08 U.S. dollars in 2006. Nonetheless, the hourly manufacturing Mexican wage increased nominally only 104%, from 1,43 in 1975 to only 2,92 U.S. dollars in 2007. This explains the drop by more than 50% in the level of equalisation previously discussed –given that equalisations levels increased 2,4 times more than the increase in nominal wages– and that Mexican manufacturing wages provide only 17% of what they should be providing in purchasing power if they were to be equalised.



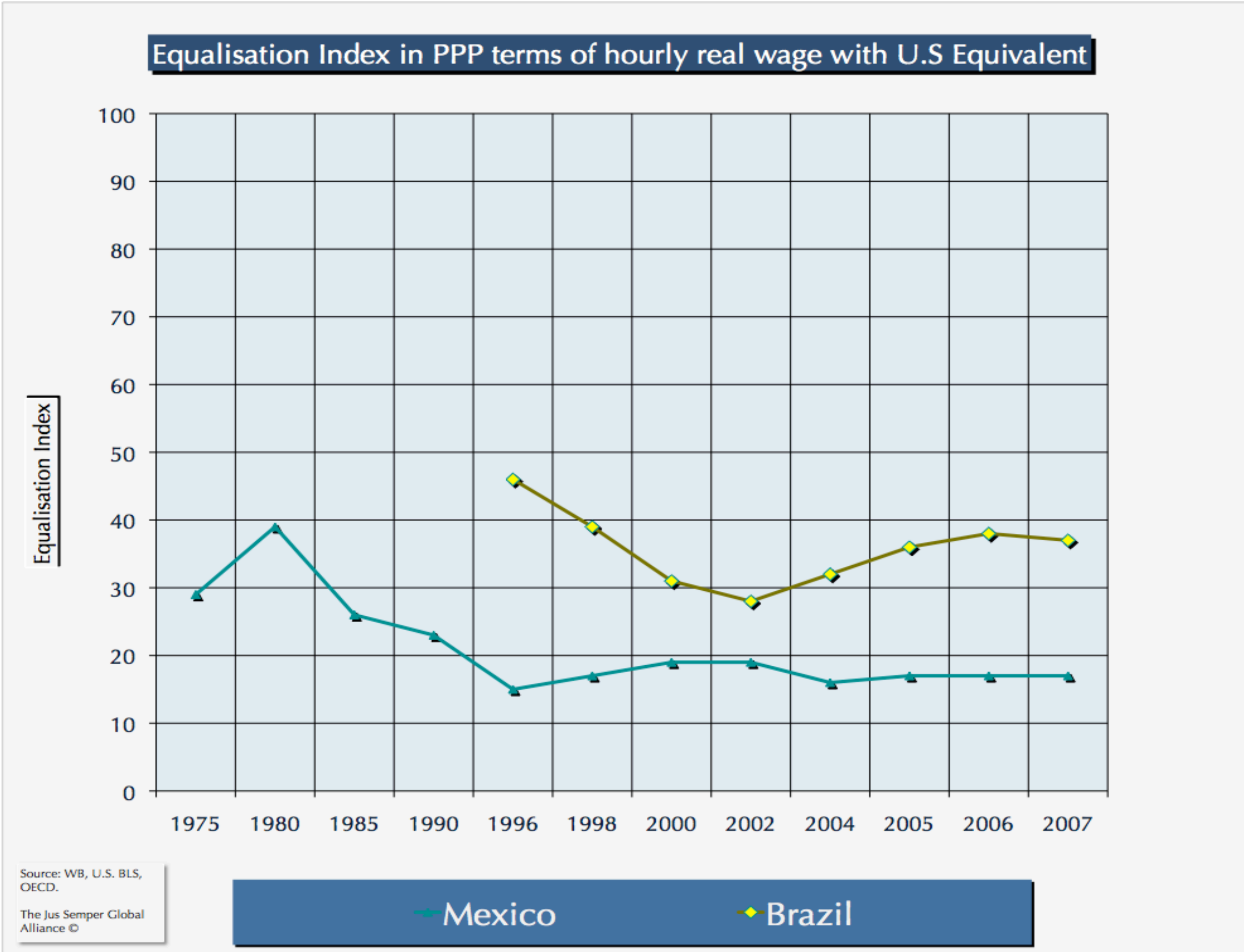

Gap Between Nominal Manufacturing Hourly Wage and PPPs Equalisation to Real Wage with U.S.
Current U.S. Dollars
$18
$16
$14
$12
$10
$8
$6
$4
$2
$-
1975
1980
1985
1990
1995
2000
2005
2007
Gap Between Nominal and Equalised Wages
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©
Mexico Equalised
Mexico Nominal

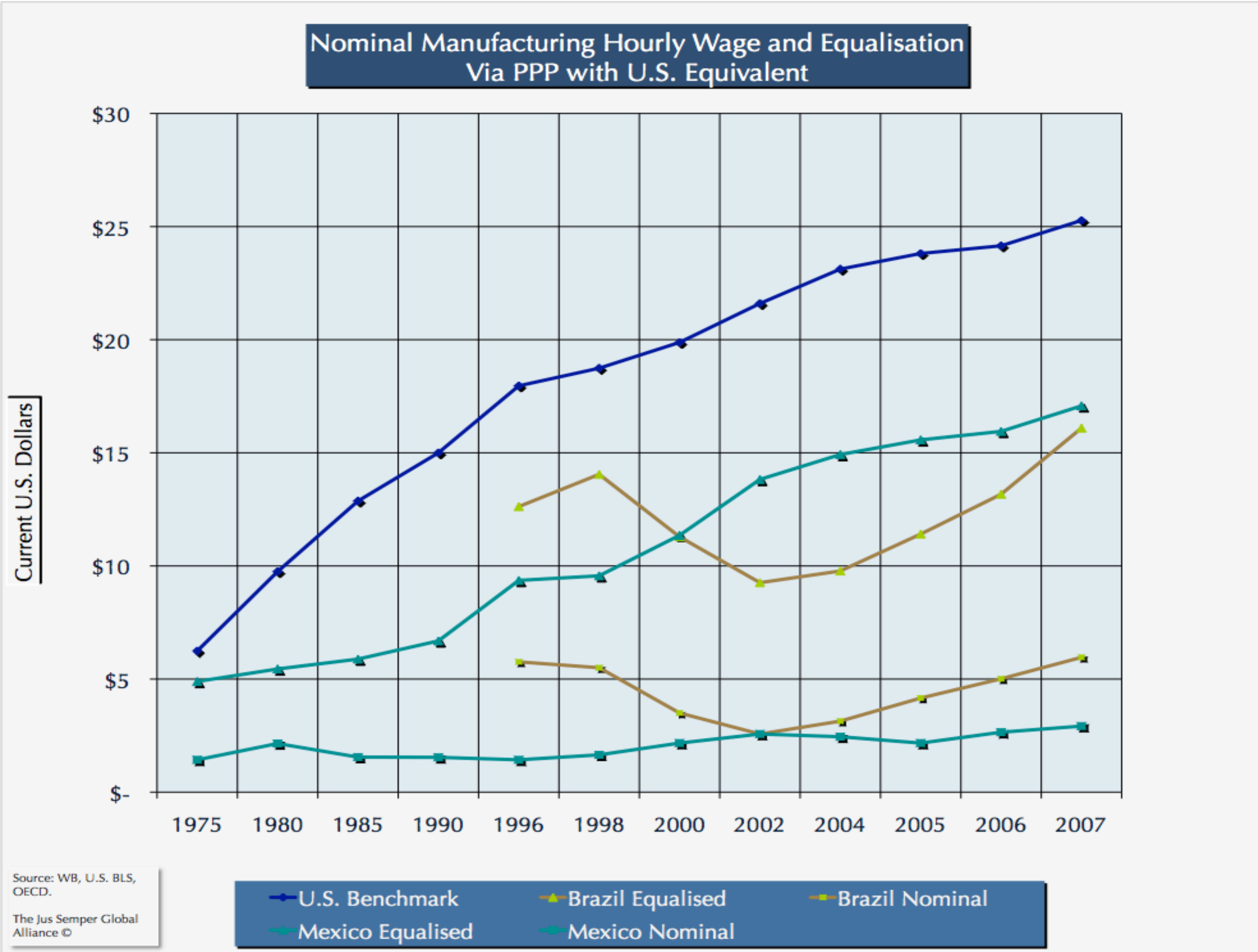


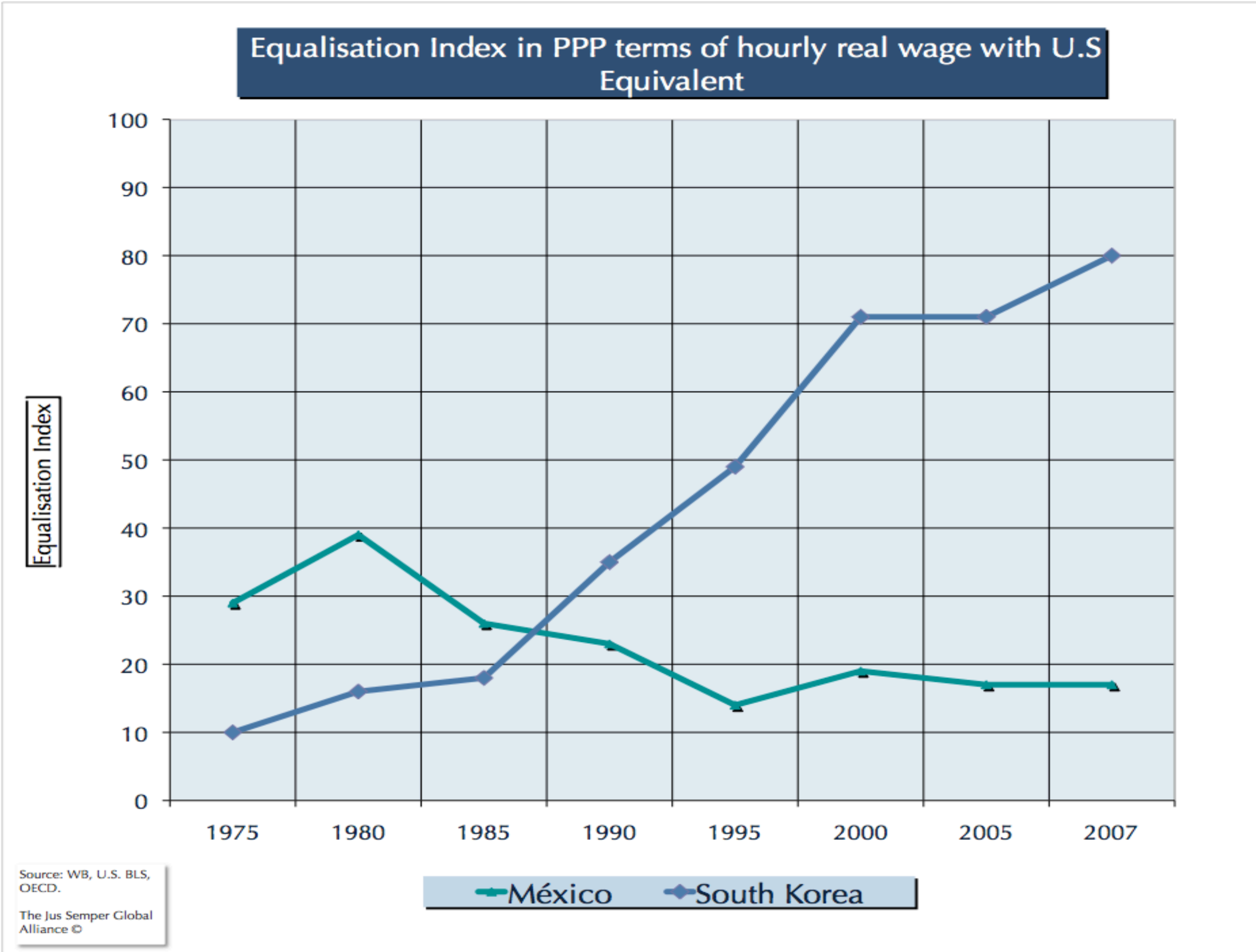
Gap Between Nominal Manufacturing Hourly Wage and PPPs Equalisation to Real Wage with U.S.
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1975
1980
1985
1990
1995
2000
2005
2007
71%
61%
74%
77%
86%
81%
83%
83%
29%
39%
26%
23%
14%
19%
17%
17%
Size of Gap
Percentage of Equalisation
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©
Mexico: Gap
Mexico: Equalised

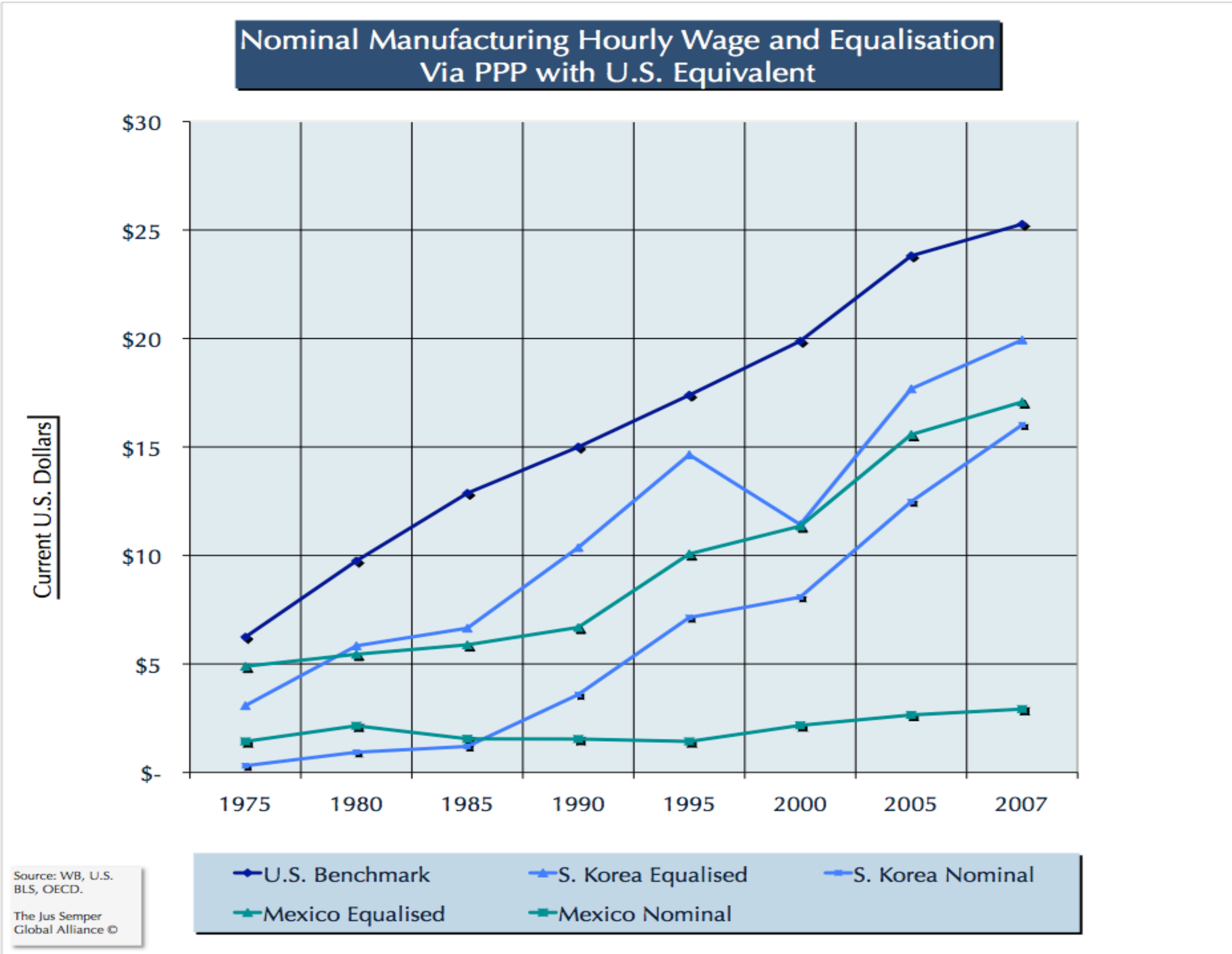


Relationship between Cost of Living (PPPs) and Percent of Nominal Hourly Wage Received for (PPPs) Equalisation With Nominal Manufacturing Hourly Wage in the U.S
$1,00
$0,90
$0,80
$0,70
$0,60
$0,50
$0,40
$0,30
$0,20
$0,10
$0,00
1975
1980
1985
1990
1995
2000
2005
2007
$0,78
$0,56
$0,46
$0,45
$0,58
$0,57
$0,65
$0,68
29%
39%
26%
23%
14%
19%
17%
17%
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©
Mexico: Cost of Living (PPP U.S. dollar) (U.S.=$1,00)
Mexico: PPP % Equalisation (Cost of Living = 100)%

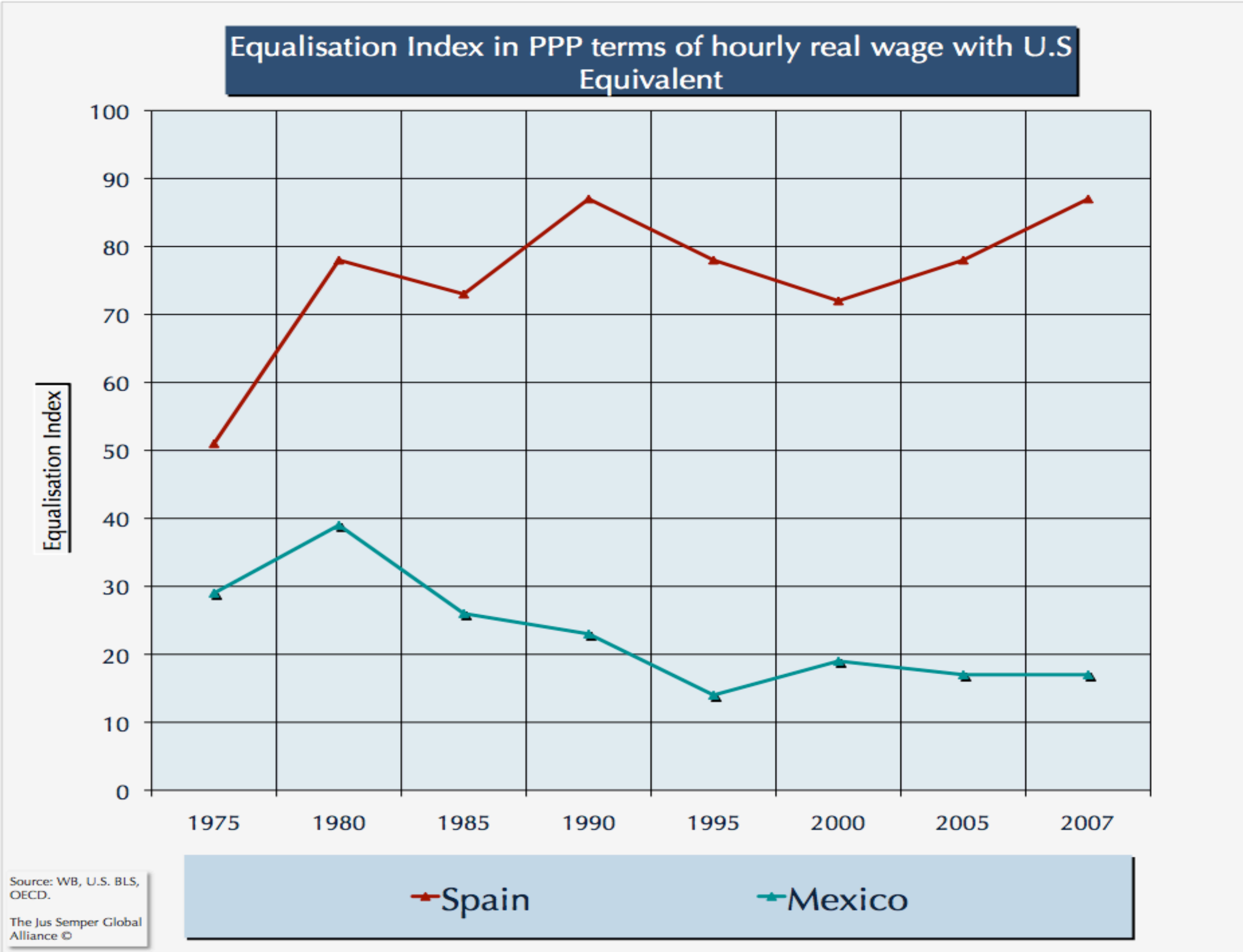

Equalisation Index in PPP terms of hourly real wage with U.S Equivalent
Equalisation Index
100
90
80
70
60
50
40
30
20
10
0
1975
1980
1985
1990
1996
1998
2000
2002
2004
2005
2006
2007
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©
Mexico
Brazil

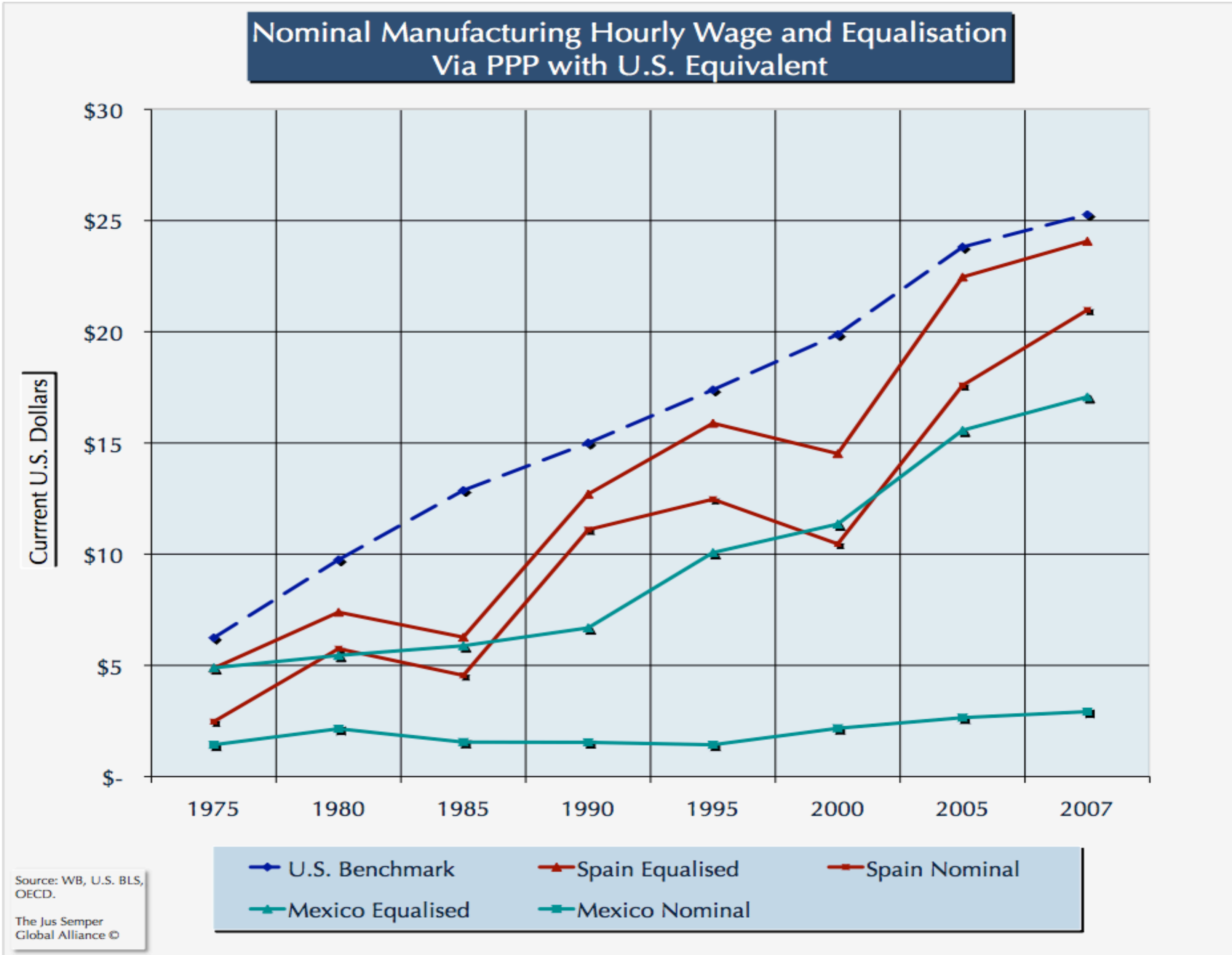

Nominal Manufacturing Hourly Wage and Equalisation
Via PPP with U.S. Equivalent
Current U.S. Dollars
$30
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1996
1998
2000
2002
2004
2005
2006
2007
U.S. Benchmark
Brazil Equalised
Brazil Nominal
Mexico Equalised
Mexico Nominal
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©

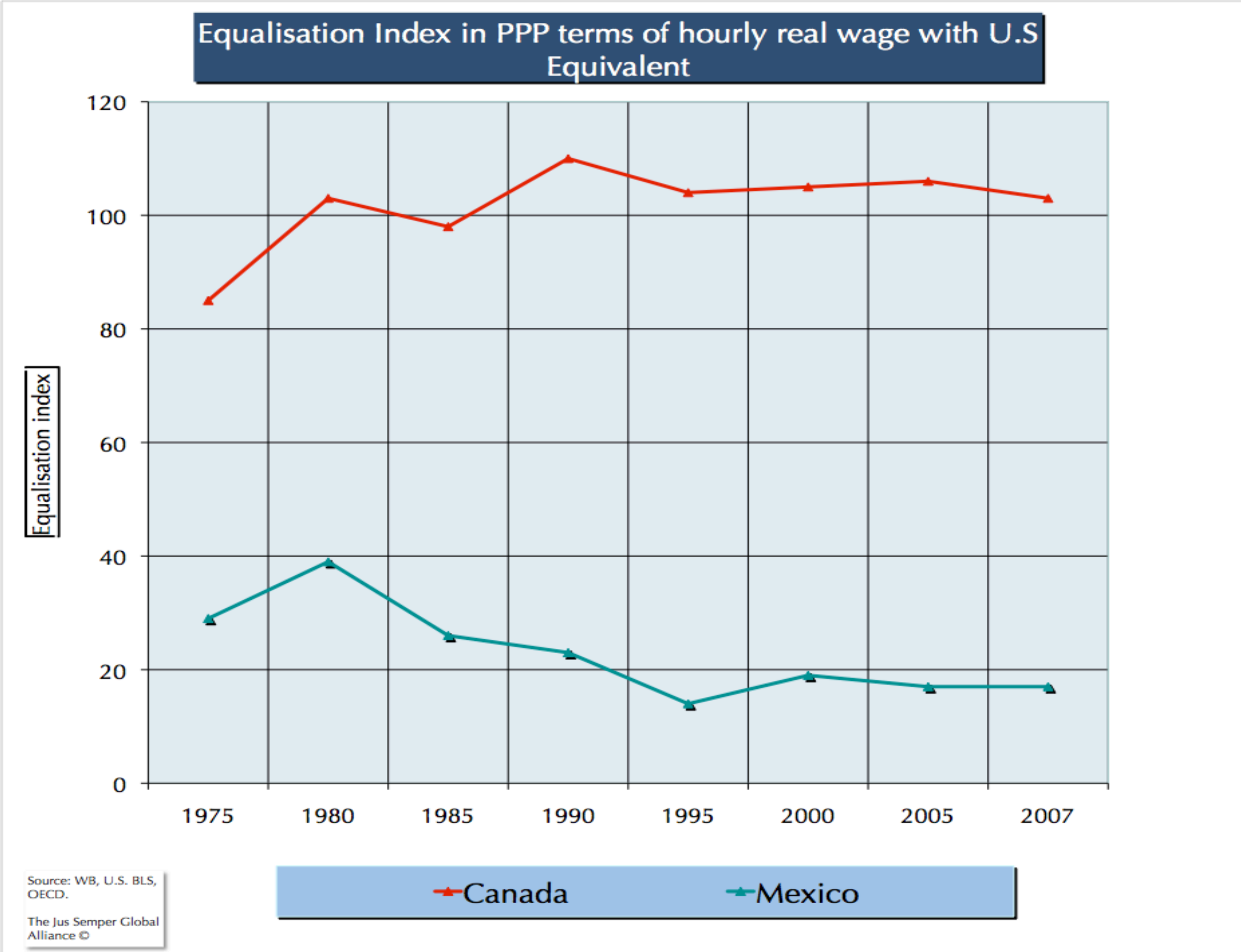

Equalisation Index in PPP terms of hourly real wage with U.S Equivalent
Equalisation Index
100
90
80
70
60
50
40
30
20
10
0
1975
1980
1985
1990
1995
2000
2005
2007
México
South Korea
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©

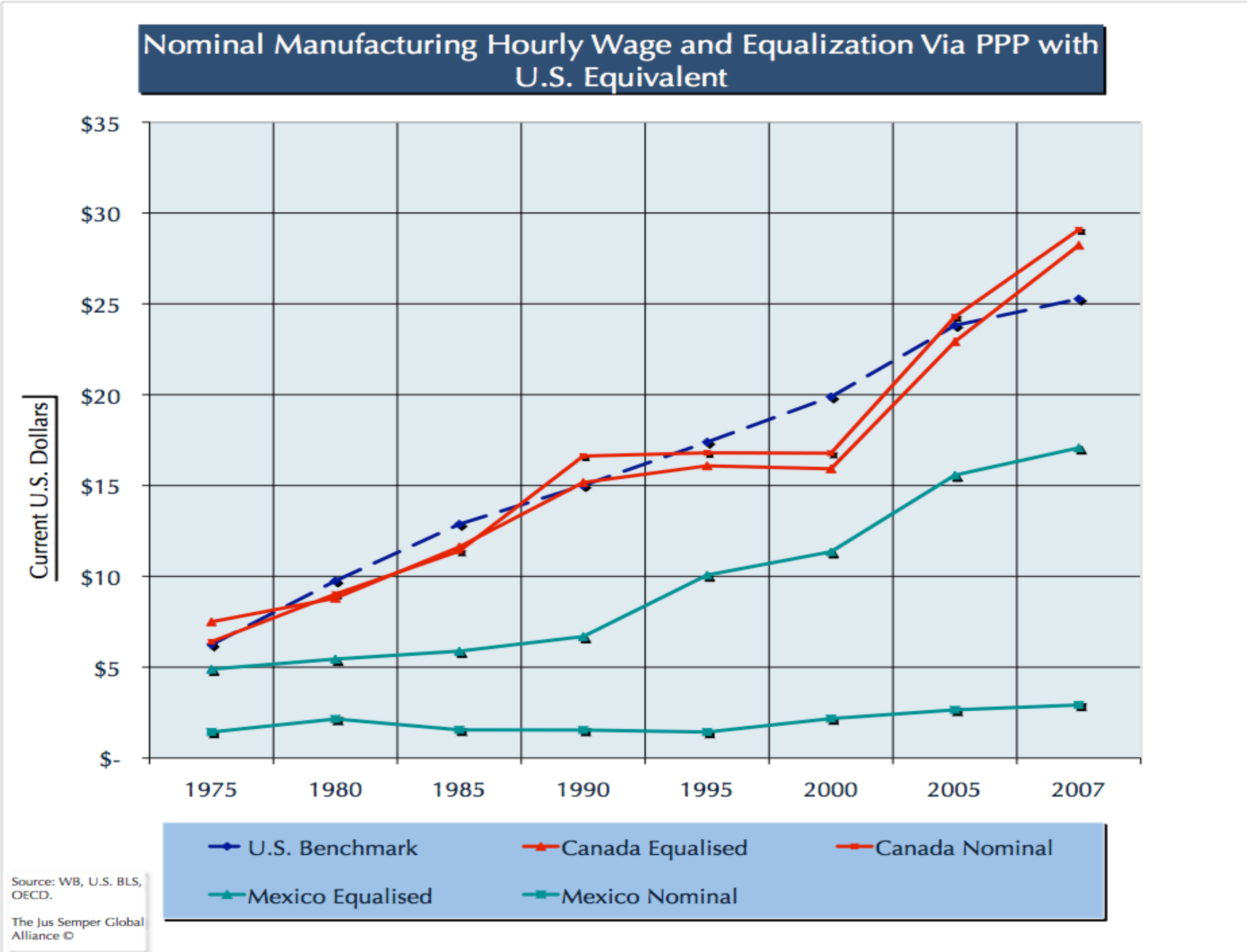


Nominal Manufacturing Hourly Wage and Equalisation Via PPP with U.S. Equivalent
Current U.S. Dollars
$30
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1995
2000
2005
2007
U.S. Benchmark
S. Korea Equalised
S. Korea Nominal
Mexico Equalised
Mexico Nominal
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©


Equalisation Index in PPP terms of hourly real wage with U.S Equivalent
Equalisation Index
100
90
80
70
60
50
40
30
20
10
0
1975
1980
1985
1990
1995
2000
2005
2007
Spain
Mexico
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©


Nominal Manufacturing Hourly Wage and Equalisation Via PPP with U.S. Equivalent
Current U.S. Dollars
$30
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1995
2000
2005
2007
U.S. Benchmark
Spain Equalised
Spain Nominal
Mexico Equalised
Mexico Nominal
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©


Equalisation Index in PPP terms of hourly real wage with U.S Equivalent
Equalisation index
120
100
80
60
40
20
0
1975
1980
1985
1990
1995
2000
2005
2007
Canada
Mexico
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©


Nominal Manufacturing Hourly Wage and Equalization Via PPP with U.S. Equivalent
$35
$30
$25
$20
$15
$10
$5
$-
Current U.S. Dollars
1975
1980
1985
1990
1995
2000
2005
2007
U.S. Benchmark
Canada Equalised
Canada Nominal
Mexico Equalised
Mexico Nominal
Source: WB, U.S. BLS, OECD.
The Jus Semper Global Alliance ©

| | | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2007 |
|---|---|---|---|---|---|---|---|---|---|
| **Benchmark** | **U.S. Hourly Production-line Rate** | 6,24 | 9,75 | 12,87 | 15,00 | 17,39 | 19,88 | 23,81 | 25,27 |
| **Canada** | GNI PPPs in country currency* | 1,222 | 1,055 | 1,233 | 1,180 | 1,270 | 1,190 | 1,167 | 1,198 |
| | Exchange rate | 1,017 | 1,169 | 1,366 | 1,167 | 1,373 | 1,486 | 1,212 | 1,073 |
| | GNI PPPs in US Dollars | $ 1,20 | $ 0,902 | $ 0,90 | $ 1,01 | $ 0,92 | $ 0,80 | $ 0,96 | $ 1,12 |
| | 2. Equalised PPP nominal compensation US $ | $ 7,50 | $ 8,80 | $ 11,62 | $ 15,17 | $ 16,08 | $ 15,92 | $ 22,92 | $ 28,22 |
| | 3. Actual Real compensation US $ | $ 5,33 | $ 10,00 | $ 12,62 | $ 16,44 | $ 18,16 | $ 20,95 | $ 25,23 | $ 26,04 |
| | 4. Actual Nominal compensation US $ | $ 6,40 | $ 9,02 | $ 11,39 | $ 16,62 | $ 16,80 | $ 16,78 | $ 24,29 | $ 29,08 |
| | Compensation Deficit in US $ (2 minus 4) | $ 1,10 | $ (0,22) | $ 0,23 | $ (1,45) | $ (0,72) | $ (0,86) | $ (1,37) | $ (0,86) |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,85 | 1,03 | 0,98 | 1,10 | 1,04 | 1,05 | 1,06 | 1,03 |
| **South Korea** | GNI PPPs in country currency* | 238,9 | 363,5 | 449,5 | 489,2 | 649,4 | 650,0 | 760,4 | 732,8 |
| | Exchange rate | 484 | 607,4 | 870 | 707,8 | 771,3 | 1131 | 1024 | 929 |
| | GNI PPPs in US Dollars | $ 0,49 | $ 0,60 | $ 0,52 | $ 0,69 | $ 0,84 | $ 0,57 | $ 0,74 | $ 0,79 |
| | 2. Equalised PPP nominal compensation US $ | $ 3,08 | $ 5,84 | $ 6,65 | $ 10,37 | $ 14,64 | $ 11,42 | $ 17,68 | $ 19,93 |
| | 3. Actual Real compensation US $ | $ 0,63 | $ 1,55 | $ 2,32 | $ 5,19 | $ 8,48 | $ 14,06 | $ 16,81 | $ 20,31 |
| | 4. Actual Nominal compensation US $ | $ 0,31 | $ 0,93 | $ 1,20 | $ 3,59 | $ 7,14 | $ 8,08 | $ 12,48 | $ 16,02 |
| | Compensation Deficit in US $ (2 minus 4) | $ 2,77 | $ 4,91 | $ 5,45 | $ 6,78 | $ 7,50 | $ 3,34 | $ 5,20 | $ 3,91 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,10 | 0,16 | 0,18 | 0,35 | 0,49 | 0,71 | 0,71 | 0,80 |
| **Japan** | GNI PPPs in country currency* | 286 | 225,9 | 199,7 | 194,4 | 167,4 | 144,0 | 138,2 | 128,1 |
| | Exchange rate | 296,7 | 225,7 | 238,5 | 145,0 | 94,0 | 107,8 | 110,1 | 117,8 |
| | GNI PPPs in US Dollars | $ 0,96 | $ 1,00 | $ 0,84 | $ 1,34 | $ 1,78 | $ 1,34 | $ 1,26 | $ 1,09 |
| | 2. Equalised PPP nominal compensation US $ | $ 6,01 | $ 9,76 | $ 10,78 | $ 20,11 | $ 30,99 | $ 26,56 | $ 29,89 | $ 27,48 |
| | 3. Actual Real compensation US $ | $ 3,06 | $ 5,43 | $ 7,45 | $ 9,34 | $ 13,10 | $ 16,24 | $ 16,98 | $ 18,16 |
| | 4. Actual Nominal compensation US $ | $ 2,95 | $ 5,43 | $ 6,24 | $ 12,52 | $ 23,34 | $ 21,69 | $ 21,31 | $ 19,75 |
| | Compensation Deficit in US $ (2 minus 4) | $ 3,06 | $ 4,33 | $ 4,54 | $ 7,59 | $ 7,65 | $ 4,87 | $ 8,58 | $ 7,73 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,49 | 0,56 | 0,58 | 0,62 | 0,75 | 0,82 | 0,71 | 0,72 |

## The Jus Semper Global Alliance – Production-line workers' Living-Wage-Gap Analysis in PPPs Comparison Terms 1975-2007

| | | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2007 |
|---|---|---|---|---|---|---|---|---|---|
| **Benchmark** | **U.S. Hourly Production-line Rate** | 6,24 | 9,75 | 12,87 | 15,00 | 17,39 | 19,88 | 23,81 | 25,27 |
| **France** | GNI PPPs in country currency* | 4,978 | 4,815 | 6,689 | 6,003 | 6,186 | 1,033 | 0,935 | 0,861 |
| | Exchange rate | 4,282 | 4,22 | 8,98 | 5,447 | 4,986 | 1,083 | 0,803 | 0,729 |
| | GNI PPPs in US Dollars | $ 1,16 | $ 1,14 | $ 0,74 | $ 1,10 | $ 1,24 | $ 0,95 | $ 1,16 | $ 1,18 |
| | 2. Equalised PPP nominal compensation US $ | $ 7,25 | $ 11,12 | $ 9,59 | $ 16,53 | $ 21,58 | $ 18,95 | $ 27,73 | $ 29,84 |
| | 3. Actual Real compensation US $ | $ 4,83 | $ 8,82 | $ 10,79 | $ 14,80 | $ 16,17 | $ 16,76 | $ 21,09 | $ 24,19 |
| | 4. Actual Nominal compensation US $ | $ 5,61 | $ 10,06 | $ 8,04 | $ 16,31 | $ 20,06 | $ 15,98 | $ 24,56 | $ 28,57 |
| | Compensation Deficit in US $ (2 minus 4) | $ 1,64 | $ 1,06 | $ 1,55 | $ 0,22 | $ 1,52 | $ 2,97 | $ 3,17 | $ 1,27 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,77 | 0,90 | 0,84 | 0,99 | 0,93 | 0,84 | 0,89 | 0,96 |
| **Germany** | GNI PPPs in country currency* | 3,062 | 1,986 | 2,039 | 1,692 | 1,832 | 1,076 | 0,887 | 0,818 |
| | Exchange rate | 2,455 | 1,815 | 2,942 | 1,617 | 1,432 | 1,083 | 0,803 | 0,729 |
| | GNI PPPs in US Dollars | $ 1,25 | $ 1,09 | $ 0,69 | $ 1,05 | $ 1,28 | $ 0,99 | $ 1,10 | $ 1,12 |
| | 2. Equalised PPP nominal compensation US $ | $ 7,78 | $ 10,67 | $ 8,92 | $ 15,70 | $ 22,25 | $ 19,75 | $ 26,29 | $ 28,36 |
| | 3. Actual Real compensation US $ | $ 5,02 | $ 11,11 | $ 13,65 | $ 20,74 | $ 23,52 | $ 22,81 | $ 30,33 | $ 34,44 |
| | 4. Actual Nominal compensation US $ | $ 6,26 | $ 12,16 | $ 9,46 | $ 21,71 | $ 30,10 | $ 22,66 | $ 33,49 | $ 38,66 |
| | Compensation Deficit in US $ (2 minus 4) | $ 1,52 | $ (1,49) | $ (0,54) | $ (6,01) | $ (7,85) | $ (2,91) | $ (7,20) | $ (10,30) |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,80 | 1,14 | 1,06 | 1,38 | 1,35 | 1,15 | 1,27 | 1,36 |
| **Italy** | GNI PPPs in country currency* | 539,5 | 636,1 | 1149,4 | 1166,2 | 1544,5 | 0,892 | 0,875 | 0,809 |
| | Exchange rate | 652,4 | 855,1 | 1909 | 1198 | 1629 | 1,083 | 0,803 | 0,729 |
| | GNI PPPs in US Dollars | $ 0,83 | $ 0,74 | $ 0,60 | $ 0,97 | $ 0,95 | $ 0,82 | $ 1,09 | $ 1,11 |
| | 2. Equalised PPP nominal compensation US $ | $ 5,16 | $ 7,25 | $ 7,75 | $ 14,60 | $ 16,49 | $ 16,37 | $ 25,93 | $ 28,03 |
| | 3. Actual Real compensation US $ | $ 5,68 | $ 11,04 | $ 12,74 | $ 20,46 | $ 17,62 | $ 17,65 | $ 22,35 | $ 25,45 |
| | 4. Actual Nominal compensation US $ | $ 4,70 | $ 8,21 | $ 7,67 | $ 19,92 | $ 16,71 | $ 14,53 | $ 24,33 | $ 28,23 |
| | Compensation Deficit in US $ (2 minus 4) | $ 0,46 | $ (0,96) | $ 0,08 | $ (5,32) | $ (0,22) | $ 1,84 | $ 1,60 | $ (0,20) |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,91 | 1,13 | 0,99 | 1,36 | 1,01 | 0,89 | 0,94 | 1,01 |
| **United Kingdom** | GNI PPPs in country currency* | 0,3802 | 0,372 | 0,535 | 0,547 | 0,634 | 0,657 | 0,640 | 0,610 |
| | Exchange rate | 0,4501 | 0,43 | 0,7708 | 0,5605 | 0,6335 | 0,6598 | 0,549 | 0,4995 |
| | GNI PPPs in US Dollars | $ 0,84 | $ 0,86 | $ 0,69 | $ 0,98 | $ 1,00 | $ 1,00 | $ 1,17 | $ 1,2220 |
| | 2. Equalised PPP nominal compensation US $ | $ 5,27 | $ 8,43 | $ 8,93 | $ 14,64 | $ 17,41 | $ 19,80 | $ 27,77 | $ 30,88 |
| | 3. Actual Real compensation US $ | $ 3,80 | $ 8,35 | $ 8,60 | $ 12,24 | $ 13,59 | $ 16,76 | $ 22,07 | $ 24,70 |
| | 4. Actual Nominal compensation US $ | $ 3,21 | $ 7,22 | $ 5,97 | $ 11,95 | $ 13,60 | $ 16,69 | $ 25,75 | $ 30,18 |
| | Compensation Deficit in US $ (2 minus 4) | $ 2,06 | $ 1,21 | $ 2,96 | $ 2,69 | $ 3,81 | $ 3,11 | $ 2,02 | $ 0,70 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,61 | 0,86 | 0,67 | 0,82 | 0,78 | 0,84 | 0,93 | 0,98 |
| **Spain** | GNI PPPs in country currency* | 44,83 | 54,308 | 82,781 | 86,358 | 113,841 | 0,791 | 0,758 | 0,694 |
| | Exchange rate | 57,39 | 71,64 | 170 | 102 | 124,6 | 1,083 | 0,803 | 0,729 |
| | GNI PPPs in US Dollars | $ 0,78 | $ 0,76 | $ 0,49 | $ 0,85 | $ 0,91 | $ 0,73 | $ 0,94 | $ 0,95 |
| | 2. Equalised PPP nominal compensation US $ | $ 4,87 | $ 7,39 | $ 6,27 | $ 12,70 | $ 15,89 | $ 14,52 | $ 22,46 | $ 24,07 |
| | 3. Actual Real compensation US $ | $ 3,16 | $ 7,59 | $ 9,34 | $ 13,11 | $ 13,65 | $ 14,32 | $ 18,65 | $ 22,02 |
| | 4. Actual Nominal compensation US $ | $ 2,47 | $ 5,75 | $ 4,55 | $ 11,10 | $ 12,47 | $ 10,46 | $ 17,59 | $ 20,98 |
| | Compensation Deficit in US $ (2 minus 4) | $ 2,40 | $ 1,64 | $ 1,72 | $ 1,60 | $ 3,42 | $ 4,06 | $ 4,87 | $ 3,09 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,51 | 0,78 | 0,73 | 0,87 | 0,78 | 0,72 | 0,78 | 0,87 |
| **Mexico** | GNI PPPs in country currency* | 9,80 | 12,83 | 117,4 | 1254,0 | 3,717 | 5,402 | 7,122 | 7,386 |
| | Exchange rate | 12,5 | 22,97 | 256,9 | 2813 | 6,419 | 9,459 | 10,89 | 10,93 |
| | GNI PPPs in US Dollars | $ 0,78 | $ 0,56 | $ 0,46 | $ 0,45 | $ 0,58 | $ 0,57 | $ 0,65 | $ 0,68 |
| | 2. Equalised PPP nominal compensation US $ | $ 4,89 | $ 5,45 | $ 5,88 | $ 6,69 | $ 10,07 | $ 11,35 | $ 15,57 | $ 17,08 |
| | 3. Actual Real compensation US $ | $ 1,82 | $ 3,85 | $ 3,39 | $ 3,45 | $ 2,47 | $ 3,80 | $ 4,05 | $ 4,32 |
| | 4. Actual Nominal compensation US $ | $ 1,43 | $ 2,15 | $ 1,55 | $ 1,54 | $ 1,43 | $ 2,17 | $ 2,65 | $ 2,92 |
| | Compensation Deficit in US $ (2 minus 4) | $ 3,46 | $ 3,30 | $ 4,33 | $ 5,15 | $ 8,64 | $ 9,18 | $ 12,92 | $ 14,16 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,29 | 0,39 | 0,26 | 0,23 | 0,14 | 0,19 | 0,17 | 0,17 |

## The Jus Semper Global Alliance – Production-line workers' Living-Wage-Gap Analysis in PPPs Comparison Terms 1975-2007

| | | 1996 | 1998 | 2000 | 2002 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Benchmark | U.S. Hourly Production-line Rate | 17,96 | 18,74 | 19,88 | 21,6 | 23,12 | 23,81 | 24,15 | 25,27 |
| Brazil | GNI PPPs in country currency* | 0,706 | 0,870 | 1,039 | 1,252 | 1,237 | 1,167 | 1,185 | 1,239 |
| | Exchange rate | 1,005 | 1,161 | 1,830 | 2,921 | 2,926 | 2,435 | 2,174 | 1,946 |
| | GNI PPPs in US Dollars | $ 0,70 | $ 0,75 | $ 0,57 | $ 0,43 | $ 0,42 | $ 0,48 | $ 0,55 | $ 0,64 |
| | 2. Equalised PPP nominal compensation US $ | $ 12,62 | $ 14,05 | $ 11,29 | $ 9,26 | $ 9,78 | $ 11,41 | $ 13,17 | $ 16,09 |
| | 3. Actual Real compensation US $ | $ 8,20 | $ 7,34 | $ 6,17 | $ 6,00 | $ 7,43 | $ 8,68 | $ 9,19 | $ 9,36 |
| | 4. Actual Nominal compensation US $ | $ 5,76 | $ 5,50 | $ 3,50 | $ 2,57 | $ 3,14 | $ 4,16 | $ 5,01 | $ 5,96 |
| | Compensation Deficit in US $ (2 minus 4) | $ 6,86 | $ 8,55 | $ 7,79 | $ 6,69 | $ 6,64 | $ 7,25 | $ 8,16 | $ 10,13 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,46 | 0,39 | 0,31 | 0,28 | 0,32 | 0,36 | 0,38 | 0,37 |

| | | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Benchmark | U.S. Hourly Production-line Rate | 9,75 | 12,87 | 15,00 | 17,39 | 19,88 | 23,81 | 24,15 | 25,27 |
| Hong Kong | GNI PPPs in country currency* | 4,24 | 4,61 | 5,59 | 7,81 | 7,80 | 6,14 | 6,46 | 5,60 |
| | Exchange rate | 4,976 | 7,791 | 7,790 | 7,736 | 7,792 | 7,788 | 7,768 | 7,802 |
| | GNI PPPs in US Dollars | $ 0,85 | $ 0,59 | $ 0,72 | $ 1,01 | $ 1,00 | $ 0,79 | $ 0,83 | $ 0,72 |
| | 2. Equalised PPP nominal compensation US $ | $ 8,32 | $ 7,62 | $ 10,77 | $ 17,55 | $ 19,91 | $ 18,77 | $ 20,09 | $ 18,15 |
| | 3. Actual Real compensation US $ | $ 1,76 | $ 2,92 | $ 4,48 | $ 4,77 | $ 5,44 | $ 7,17 | $ 6,95 | $ 8,05 |
| | 4. Actual Nominal compensation US $ | $ 1,50 | $ 1,73 | $ 3,22 | $ 4,81 | $ 5,45 | $ 5,65 | $ 5,78 | $ 5,78 |
| | Compensation Deficit in US $ (2 minus 4) | $ 6,82 | $ 5,89 | $ 7,55 | $ 12,74 | $ 14,46 | $ 13,12 | $ 14,31 | $ 12,37 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,18 | 0,23 | 0,30 | 0,27 | 0,27 | 0,30 | 0,29 | 0,32 |
| Singapore | GNI PPPs in country currency* | 1,31 | 1,35 | 1,148 | 1,25 | 1,20 | 1,10 | 1,06 | 1,03 |
| | Exchange rate | 2,141 | 2,200 | 1,813 | 1,417 | 1,725 | 1,664 | 1,588 | 1,507 |
| | GNI PPPs in US Dollars | $ 0,61 | $ 0,61 | $ 0,63 | $ 0,88 | $ 0,70 | $ 0,66 | $ 0,66 | $ 0,68 |
| | 2. Equalised PPP nominal compensation US $ | $ 5,99 | $ 7,89 | $ 9,50 | $ 15,36 | $ 13,88 | $ 15,80 | $ 16,05 | $ 17,21 |
| | 3. Actual Real compensation US $ | $ 2,52 | $ 4,19 | $ 6,02 | $ 8,71 | $ 10,51 | $ 11,12 | $ 13,12 | $ 12,44 |
| | 4. Actual Nominal compensation US $ | $ 1,55 | $ 2,57 | $ 3,81 | $ 7,70 | $ 7,34 | $ 7,38 | $ 8,72 | $ 8,47 |
| | Compensation Deficit in US $ (2 minus 4) | $ 4,44 | $ 5,32 | $ 5,69 | $ 7,66 | $ 6,54 | $ 8,42 | $ 7,33 | $ 8,74 |
| | Wage Equalisation index (4÷2 or 3÷1) | 0,26 | 0,33 | 0,40 | 0,50 | 0,53 | 0,47 | 0,54 | 0,49 |

***Definitions:**

❖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.

❖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 vice versa.

❖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.

❖Equal PPP compensation expresses the hourly U.S. dollar nominal rate required in a given country to equally compensate a local worker, in purchasing power terms, for equal work rendered, as the equivalent U.S. workers 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 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 March & November 2009. 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.