Argentina’s Wage Gaps

Wage rates for all employed in manufacturing

2019 Report

Manufacturing wage gaps for Argentina vis-à-vis selected developed and “emerging” economies, with available wage and PPP data (1996-2017)

(see definitions and sources at the end of report)
Manufacturing wage gaps for Argentina vis-à-vis selected developed and “emerging” economies, with available wage and PPP data (1996-2017).

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

- **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

- 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

The argument of an equivalent living wage is anchored on three 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.

- Article 7 of the UN’s International Covenant of Economic, Social and Cultural Rights of 1966: (i) Fair wages and equal remuneration for work of equal value without distinction of any kind, in particular women being guaranteed conditions of work not inferior to those enjoyed by men, with equal pay for equal work; (ii) A decent living for themselves and their families;

- 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 concept of a living wage using PPPs is straightforward. To determine real wages in terms of the 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 US has in the United States; e.g.: if the PPP index in one country is 69, then $0.69 are required in that country to buy the same that $1 buys in the US; 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 buys in the US; the cost of living is, thus, higher,

To calculate a living wage, the real wage of a specific category of US workers is used as the benchmark, and the PPPs of a country in question are then applied to the US 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 US 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 US, 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.
A Classic Example in 2017

- Equivalent manufacturing workers in Mexico and Argentina earn only 23% and 50%, respectively, of what they should be making in order to be compensated at par with their US counterparts in terms of purchasing power.
- US Workers earn $39.36/hour whilst Mexican and Argentinian workers earn only $4.95/hour and $19.48/hour, respectively.
- Since costs of living in PPP terms in Mexico and Argentina are 54¢ and 99¢, respectively, for each $1 US dollar, equivalent Mexican and Argentinian manufacturing workers should be earning instead $21.15/hour and $38.97/hour, respectively, in order to enjoy equal purchasing power compensation.
- The difference is the wage rate gap that employers perversely keep to increase profits.
- Canada, in contrast, has a much smaller gap with its US counterparts, since its nominal wage rate ($33.63) is 83% of the equivalent wage rate ($40.63) needed to be at par, with a PPP of $1.03 per each $1 US dollar.

<table>
<thead>
<tr>
<th>Nominal, Real and Equalisation Wage Rate for All Employed in Manufacturing by Using Purchase Power Parities (PPPs) Benchmark</th>
<th>2017</th>
<th>2016</th>
<th>PPP</th>
<th>PPP</th>
<th>Equalised Nominal Hourly</th>
<th>Equalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
<td>39.36 US$</td>
<td>100</td>
<td>39.36 US$</td>
<td>39.36 US$</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>33.63 US$</td>
<td>103</td>
<td>32.58 US$</td>
<td>40.63 US$</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td></td>
<td>85 %</td>
<td>83 %</td>
<td>103 %</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>4.95 US$</td>
<td>54</td>
<td>9.21 US$</td>
<td>21.15 US$</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13 %</td>
<td>23 %</td>
<td>54 %</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Argentina</strong></td>
<td>19.29 US$</td>
<td>99</td>
<td>19.48 US$</td>
<td>38.97 US$</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td></td>
<td>49 %</td>
<td>50 %</td>
<td>99 %</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources:
- International Observatory of Living Wages 2019.
- Data base of World Bank’s World Development Indicators, 1975-2017, (private consumption PPP indicator)
A Classic Example in 2017

- From a graphic perspective, the first pie chart shows the US real wage rate for all employed in the manufacturing sector, which is always the benchmark. In the case of Argentina, the pie chart exhibits the nominal wage rate earned, the nominal wage rate equalised with the US wage rate –always in purchasing power parity terms, and the difference retained inappropriately (deliberately).

- The nominal equalised wage rate of $38.97 is what all employed in Argentina’s manufacturing sector should earn to be equally remunerated (in purchasing power terms) for performing an equivalent task (because Argentina’s PPP cost of living is 99% the cost in the US). Yet, workers only earn $19.29 instead of $339.97, thus the employer deliberately retains $19.68, which constitutes more than half of the surplus value that legitimately belongs to Argentinian workers, according to TLWNSI’s concept.

- In this way, the second pie chart shows how the employer retains inappropriately 50% of labour’s surplus value, or labour share of income, by only allocating to the worker 50% of what he/she is entitled to.
Wage rate gap comparisons for selected economies

- **2017** is the first year in the 22-year span in this report that US hourly wage rates dropped (0.9%). This enabled the vast majority of countries to reduce their comparative wage gaps or increase their surpluses in their manufacturing wage Eq-Index or at least keep their position.

- Argentina's position in 2017 looks unexpectedly rosy, but a new crisis that is as bad as during the 2002 economic crisis, has ensued as the direct result of sheer neoliberal policies imposed by Macri's government, with deep deteriorating consequences for the vast majority of Argentinians. Despite real inflation averaging +25% between 2008 and 2017, Argentina's manufacturing wage rates and inflation combined in a way that equalised wage rates and managed to remain at least at 50%, except for 2016. In 2017, manufacturing hourly rates increased 29.1% in pesos and 15% in US dollars, while the US hourly rate dropped almost 1%. This allowed Argentina's manufacturing hourly wage rates to increase its equalisation index by three points to a 50 Index vis-à-vis the 47 index of 2016. However, with inflation close to 48% and a devaluation of 41% in 2018, Argentina's hourly rates and their equalisation index with comparative US rates are certain to drop dramatically in 2018, with CPI and exchange rate indicators looking even worse for 2019.

- In 2017 Japan has reversed the downward trend in living-wage equalisation (Eq-Idx) that began in 2013, increasing its Eq-Idx by three points, to a 69 index. This is the result of the combination of the drop of the US hourly rate, an increase of Japan's hourly rate in local currency and the drop of PPP cost of living, despite a decrease of its hourly rate in US dollars. South Korea sustained the growing trend of its Eq-Idx that resumed in 2014 after a brief downturn in 2013, and it is now at 71, three points below its highest index in 2012. This is the result of the combination of the drop of the US equivalent rate, an increase of the local currency rate, and a currency revaluation that produced a 4% increase of its hourly rate in US dollars. South Korea has also been able to remain ahead of Japan's Eq-Idx. A strong drop of Singapore's hourly rate in local currency produced a 1 point loss in its Eq-Idx.

- In the euro zone, Spain, Germany and France stopped their downturn that began in 2012, after steady and stronger growth of the US hourly rate vis-à-vis the growth of their comparative hourly rates in euros. In the case of France and Germany, they recovered some ground in their equalisation due to the revaluation of the euro in 2017 and no change in their PPP cost of living, despite the drop of their hourly rates in local currency. In the case of Spain the revaluation of the euro combined with a +2% growth of its hourly rate in euros and again no growth of the PPP cost of living, enabled it to gain four points in its Eq-Idx. In contrast, Italy's drop of its hourly rate of almost 4% in local currency and 2% in US dollars, produced further erosion of its Eq-Idx that began in 2014.

- The United Kingdom reversed the sustained erosion of its Eq-Idx that began in 2008 and gained four points from its 2016 position. This resulted from the devaluation of its currency and a drop of its PPP cost of living, combined with a 2.2% growth of its hourly rate in local currency and the nearly 1% drop of the US rate. In contrast, Australia continued to decrease its Eq-Idx that began in 2014, with 4.4% drop of its hourly rate in local currency and a 1.9% increase in the PPP cost of living. In the case of Canada, the combination of its hourly rate increase in Canadian dollars of 9.4%, its currency revaluation of 2.2% and the 0.9% US rate decrease, produced an 11.8% increase of its hourly rate in US dollars between 2016 and 2017. This enabled its living wage equalisation index (Eq-Idx) to grow 10.2%, from 75 to 83, its highest since 2010.

- After Brazil widened its manufacturing wage gap in 2014 and 2016, due to the devaluation of its currency since 2010 under a sustained recession, it managed to remain stable in 2017, despite the fact that the neoliberal government of Michele Temer passed a law that put a freeze on public spending effectively ending compliance with the minimum wage appreciation law. Minimum wage policy serves as an indicator for all other wages and directly influences manufacturing wages. Consequently, with a 2.1% inflation rate in 2017, the manufacturing hourly rate increased 1.4% in local currency units, effectively dropping in real terms. However, the appreciation of Brazil's real and the drop of the US hourly manufacturing rate, allowed its equalisation index to remain at 33. Hourly rates and the Eq-Idx are bound to drop in 2018 and 2019, given that Bolsonaro's new government is deepening the anti-labour policies initiated by the Temer government.

- Mexico's track record since 1996 exposed a deliberate state policy of maintaining modern-slave-work real wages between 1996 and 2015. However, wage policy appears to have changed in 2017 after the execution of consistent supply-side policies over more than three decades. For the first time the Federal minimum wage was increased above inflation in 2017 and 2018. Through a so-called "Independent Recovery Amount", the minimum wage for 2017 was increased arbitrarily by 9.6%, including 3.9% to offset the estimated CPI inflation rate. The same criterion was applied for 2018, for a total minimum wage increase of 10.4%, including a 3.9% increase to offset CPI inflation. In 2019, Mexico's new government, touting to implement a strong minimum wage recovery policy, increased the minimum wage by 16.2%, including a 5% increase to offset inflation. The change of policy has had a direct positive impact on manufacturing wages in real terms and on its equalisation with comparative US wages. Between 2014 and 2017 the hourly rate in local currency increased 41.2%, but the peso experienced a steep devaluation of 29.8%. Thus the hourly rate in US dollars decreased slightly by 0.8%. However, due to the devaluation of the Mexican peso and low inflation, the PPP conversion factor dropped 23.6% for the same period. This allowed the Eq-Idx to gain four points, to 23, both in 2016 and 2017, the highest recorded index in the 22 year span of time. Yet, Mexico continues to have one of the widest living-wage gaps among the 41 countries included in all our reports, just ahead of China, India and the Philippines.
2017 gaps between nominal and equalised wage rates with US wage rates using PPPs for private consumption
(Total hourly manufacturing compensation costs in US dollars – US is benchmark)

Gap between nominal and equalised wages rates in terms of purchasing power parities

1) If lighter bar is greater than darker bar = Nominal wage rate is superior to rate required to be at par with U.S.
2) If darker bar is greater than lighter bar = Nominal wage rate is less than wage required to be at par with U.S.
3) If both bars are in equilibrium = 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 rate is superior to rate required to be at par with U.S. Comparisons are in terms of hourly compensation costs as explained in T5.)

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)

- The Jus Semper Global Alliance: Living Wage Gaps Analysis in the manufacturing sector using:
- The Living Wages North and South Initiative (TLWNSI) using “Equal Pay for Work of Equal Value” Methodology.
- The Conference Board (TCB) — International Comparisons of Manufacturing Productivity and Unit Labor Costs 2017, July 2018
With the staunchly neoliberal Macri government, Argentina reverted the impressive progress achieved in living-wage equalisation in the manufacturing sector of more than one decade. Repairing the damage will be a daunting task of the upcoming Fernández government, if it has the political and economic skill to materialize it (for full detail see Table T5, starting on page 26).

- Argentina is once again in the midst of an extreme economic crisis, as it was in 2002, as the direct result of the deep neoliberal economic policies that were reinstated by the Macri government to return to supply-side economics that depletes labour's share of income. After the 2002 economic crisis, Argentina experienced a steady improvement of real wages. The Eq-Idx increased 93% between 2002 and 2012 to then drop gradually 19% to 2016. Macri's government, claiming that their new economic plan would stop the unrelenting increase of inflation and stabilize the economy, did everything it could to reverse the demand-side policies of the preceding Kirchner and Fernández governments. These governments' policies were instrumental in recovering Argentina's economy, and, all the more important, much of the standard of living enjoyed prior to the 2002 “corralito crisis”, when Argentinians were unable to have free access to their private funds in their bank accounts for a full year, could not exchange their funds for other currencies, and could only withdraw a very limited amount on a weekly basis. As can be observed in Table 5 on page 26, prior to Macri's government, manufacturing wages and their equalisation with US equivalent wages began to recover at a fast pace after 2002. The equalisation with equivalent wages in the US increased at an unprecedented pace, reaching a 58 Eq-Idx in 2012, almost twice the 30 index of 2002. This made Argentina's manufacturing compensation cost the highest in Iberian America by a large margin. However, the steep increase of both the minimum wage and manufacturing wages, which, for the period 2003-2012, increased an average of 27.5% and 25%, respectively, in local currency, were faced with a corresponding inflation average of 16.3% for the same period, that Argentinian governments were unable to control and that subsequently exploded. The race to outperform inflation became unattainable and in 2014, inflation reached 38.6% whilst manufacturing wages increased only 30.3%. In 2015, the last year of the Fernández government, inflation dropped to 26.8%, but then, with Macri, jumped to 39.2% in 2016, dropped again to 24.8% in 2017, exploded to 47.6% in 2018, and it reached 53.5% in the last twelve months (September 2019) and it is expected to reach 57% in 2019.

- In 2017, just before the supply-side staunchly neoliberal economic policies of the new government began to dramatically reverse the gains in real wages and labour's share of income previously delivered, there was a slight recovery that was not sustained. The Argentine peso eroded with the dollar by only 10.9% in 2017 ($16.6 x $1); but then lost 41% in 2018 ($28.1 x $1) and then completely collapsed in the first nine months of 2019 by 51.4% ($57.9 x $1). Consequently, a new economic crisis has exploded closely resembling the 2002 collapse, and all wages have dropped dramatically. In 2017, in local currency, the minimum wage managed to increase by 17.2% in nominal terms but inflation grew by 24.8%. In 2018 the minimum wage increased 20.8% but inflation reached 47.8%. In 2017, manufacturing hourly rates increased 29.1% in pesos and 15% in US dollars, whilst the US hourly rate dropped almost 1%. This combination of factors allowed Argentina's manufacturing hourly wage rates to increase its equalisation index by three points to a 50 Index. However, with inflation close to 48% and a devaluation of 41% in 2018, Argentina's hourly rates and their equalisation index with comparative US rates, are certain to drop dramatically in 2018. And with the CPI and exchange rate indicators looking much worse for 2019, as previously explained, the equalisation index is consequently bound to drop even more for this year.

- In assessing the performance of Argentina's equalisation of manufacturing hourly wage rates with equivalent US rates between 2002 and 2017, Argentina's nominal wages increased by 3365% in local currency, 541% in US dollars and 139% in real PPP terms. Argentina's peso depreciated 81.5% since 2002 whilst the PPP indicator (directly influenced by the exchange rate and inflation) increased 168%, from $0.37 to $0.99, or nearly the same cost of living as in the US at 99%. The calculation of the PPPs incorporates the “Billion Prices Project” from MIT, the leading estimate of true inflation in Argentina –to be at 24.02% in 2011, 25.98% in 2012, 23.3% in 2013, 38.6% in 2014 and 26.8% in 2015. We use this estimate given that INDEC, the official Argentinian statistics bureau responsible for this metric, had consistently underreported by more than 50% Argentina's real inflation. With the change of government in December 2015, the INDEC began publishing a new credible inflation index in 2016, which was 39.2% for the year. Argentina's powerful growth of its manufacturing nominal wage rate in local currency, since 2002, clearly outpaced the strong growth of the PPP fuelled by inflation (3365% versus 1350%). Thus, despite high inflation and strong currency devaluations since 2002, PPP real wages still grew in US dollars by 139%, albeit they have been below their 2013 level ($20.40) (a drop of 6% in 2014, an increase of 3% in 2015, a drop of 4.7% in 2016 and an increase of 3.4% in 2017). Thus, between 2013 and 2017, PPP real wages have declined 4.5%. In terms of the key indicator of Eq-Idx, Argentina reaches its highest point in 2012 at 58, but then starts to gradually erode to 56 in 2013, 52 in 2014 and 54, 2015, 2016 and 2017, to then recover the aforementioned three points in 2017.

- In this way, in the twenty-two year period (1996-2017) assessed in table T5, we can observe three events with respect to real wages and living wages. The first event covers 1996 to 2002, the period of Argentina's brief neoliberal economic boom –with its living-wage equalisation zenith occurring between 1996 and 2001– to then collapse and reach its nadir in 2002. The second event covers 2003 until 2012, the period of Argentina's economic steady recovery, with a very visible hand from the State and antithetical to neoliberal orthodoxy –which demands the erosion of labour rights as the norm, with real wages in the front line of attack. In contrast with neoliberalism, Argentina's manufacturing living-wage equalisation during this period reaches its highest point ever in 2012 and at a far higher level than the preceding period's zenith in 2001 (58 vs. 35). However, a third event begins to unfold in 2013 as a direct result of Argentina's economic structures, convoluted by the unsustainable prevailing global economic paradigm. Thus, except for the Eastern European economies, East Asia and China, Argentina and the remaining economies real wages have stagnated. But this is far more evident in Argentina's case due to the rise of inflationary pressures that pushed the previous government to hide the true inflation beginning in 2008. Even so, after applying real inflation rates, the preceding government managed to maintain its Eq-Idx at 52 in 2014 and 2015. This situation clearly changes with the new government in 2016 with a steep five point drop in Eq-Idx to 47 that, despite the recovery to 50 in 2017, will certainly drop dramatically in 2018 and 2019. Indeed, our assessment for 2018 indicates a loss of 8 points hovering around a 42 Eq-Idx. Thus, we predict a rather strong regression during the remainder of Macri's government to 2019 that can put Argentina's equalization index hovering in the low 30s, a level similar to what was recorded during the previous crisis.

- This crisis has already had a profound and direct consequence. Argentinians have just elected a new government to take office in December 2019, from the same Peronist coalition that preceded the current government. The result of this election, where Alberto Fernández defeated Macri by a landslide, clearly indicates a complete rejection of neoliberal economics. Macri is the first incumbent president in Argentina's history to lose his reelection bid. To be sure, there is no guarantee that the new government will return to demand side policies and that real wages will recover, but this is the overwhelming reason the recovery of Argentina's economy, which has been in a recessionary trend since 2019, is now under direct control after the Macri government requested emergency support; a situation that must be addressed as a top priority by the new government.
The chart below provides a complete illustration of the behavior of Argentina’s wage rates vis-à-vis US wage rates since 1996. Between 1996 and 2002, the US hourly wage rate increased 22%, but Argentina’s PPP real wage increased only 15%, whilst the nominal rate dropped by 59% and its equalised nominal rate by 57%. As a result, the Eq-Idx dropped from 32 to 30. Then, between 2003 and 2012, the US rate grew 24%, but Argentina’s PPP real wages increased 142%, the nominal rate did by 530%, with the equalised rate growing by only 224% due to the steep climb of the PPP cost of living. Nonetheless, the Eq-Idx improved twenty-eight points since 2003, to 58. Then, a decline began in 2013 with the nominal wage increasing to 2017 (barely 2%), but the PPP real wage dropping 1% and the Eq-Idx losing eight points or 14% by 2017. Due to an explosive inflation, the cost of living has been so high since 2012, despite the local currency devaluation, that nominal and PPP (cost of living) wage rates are rather similar. Since 2012 there is a widening gap between nominal and equalised rates similar to the 1996-2002 period, paralleling the preceding crisis.

Sources: WB, U.S. BLS, TCB, IOLW

IOLW – WGArg 96/17
Gap between hourly nominal and equalised wage rates in PPP terms for all employed in manufacturing with equivalent US real wage (current dollars)

Size of gap between nominal and equalised wage rates

Sources: WB, U.S. BLS, TCB, IOIW

November 2019
Equalisation index and the directly corresponding size of gap in manufacturing hourly real wage rates in Argentina vis-à-vis US real wage rate

Sources: WB, U.S. BLS, TCB, IOLW

Size of Gap

Equalisation Index
Performance of equalisation indices of Argentina’s PPP manufacturing hourly real wage rate vis-à-vis US counterparts and behaviour of Argentina’s purchasing power parity indices (cost of living in PPP terms – US = 100)

Since 2003 Argentina has experienced a sharp increase in its cost of living due to a sustained growth of inflation. The NCPI averaged annually 25% between 2003 and 2017 whilst it averaged 2.1% in the US. Every increase in the PPP increases a country’s equalised nominal wage rate vis-à-vis the US. To sustain equalisation, Argentina’s PPP must decrease with lower inflation rates –ideally below the 10% threshold– and real wage rate growth must be sustained. That has not happened at all and even more so in the last ten years.

Sources: WB, U.S. BLS, TCB, IOLW
When comparing the equalisation indices of Argentina’s manufacturing sector real wage rates —vis-à-vis the US— with those of Mexico, the second largest economy in Iberian America, the former amounted to 1.68 times the value of the latter in 1996 to then drop 15% at the lowest point of its recession in 2002. Since then, Argentina’s manufacturing wage rate equalisation indices have recovered and their ratio with equivalent wages in Mexico remain much higher than in 1996, despite the growing crisis.

Sources: WB, U.S. BLS, TCB, IOLW
When comparing the relationship between the PPP cost of living and the Eq-Idx achieved by Argentina and Mexico, the latter, in stark contrast with Argentina, does not experience a steep surge of its PPPs but an actual decline and low inflation, and yet Mexico exhibits almost a flat line in its Eq-Idx, which is due to a well-documented deliberate policy of wage contention. Conversely, Argentina’s Eq-Idx is affected by the steep increase in the PPP, due to high inflation after 2002 and yet its equalisation index recovers, increases its advantage over that of Mexico and reaches its highest point in 2012, leaving Mexico’s index far behind.
Behaviour of comparative equalisation indices of manufacturing hourly real wage rates of selected countries vis-à-vis the equivalent Argentina wage rate (Argentina = 100)

As shown in the examples in this and the following page, Argentina’s Eq-idx consistently improved at a faster rate than the rest of the economies included in our reports and in all cases its index has a higher ratio in 2017 vis-à-vis the rest of the economies than it had in 1996.

Sources: WB, U.S. BLS, TCB, IOLW
Behaviour of comparative equalisation indices of manufacturing hourly real wage rates of selected countries vis-à-vis the equivalent Argentina wage rate (Argentina = 100)


- Spain
- Portugal
- Italy
- Czech Republic

Sources: WB, U.S. BLS, TCB, IOIW

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Projection of real wage rate equalisation for all employed in the manufacturing sector between Argentina and the United States using different inflation assumptions, based on TLWNSI’s concept of “equal pay for equal work of equal value”

**Background.** After Argentina’s economic collapse at the start of the century, economic policy made, as its essential point of its recovery, to bring back past real wages across all sectors; the opposite of what practically all governments do after an economic crash with high inflation and a deep devaluation. Nominal manufacturing wages increased on average annually 26.8% in local currency, 14% in dollar terms, with PPP real wages in dollars averaging an annual growth rate of 6.3% for the 2003-2017 period. By contrast, the equivalent US nominal wage rate increased 2.5% for the same period (since 2003). As a result, real wages in the manufacturing sector did not only recover but increased by 93% their equalisation position at their highest point in 2012 and remain 67% above their lowest point position in 2002-2003 with equivalent US wages. Moreover, they clearly surpassed the living-wage equalisations of Brazil and Mexico, the largest economies in Iberian America, and began to approach the positions of European economies long regarded as developed economies, such as Spain and Italy, as can be observed in the preceding pages. To this respect, Argentina’s real wages in the manufacturing sector have surpassed or are at similar levels than the equalisation of European emerging economies both in the West, such as Portugal, as well as in the economies that were part of the Eastern block, such as the Czech Republic, as shown in the preceding page. Lastly, since 2003, as shown on page 19, its equalisation also improved at a faster pace than the real wage equalisation of South Korea, the country that has recorded one of the most explosive economic growths in the world for over half a century. This trend has evidently changed for the worse, particularly with the new neoliberal government in 2016.

Argentine’s powerful growth of its equalisation index put wages in the manufacturing sector on a path that, if the country could sustain it, would make Argentina’s wages the kind observed in economies long considered as developed. The recovery of its real wages could enable Argentina to sustain its growth and close its living-wage gap with equivalent US wages in less than a decade. Unfortunately, the return to supply-side neoliberal policies with the Macri government, has made this impossible for the next few years at the very least. We predict an even stronger downturn in living-wage equalisation at least until 2020, before the erosion is stopped if the new government has the political will to return to demand-side policies and is able to control the explosive inflationary pressures that have prevailed for most of this century.

If inflation were to be cut down significantly (not more than 10%), to control the PPP cost of living, and GDP growth resumes and reaches at least 2.5% annually, Argentina would be able to sustain the growth of its equalisation index. This implies that if inflation is cut substantially, the exchange rate would also stop the fast erosion experienced since 2008. This seems completely unrealistic at this time, given that the government is desperately working to prevent an actual default on its foreign debt commitments, as a result of hyper-inflation, a huge public debt of more than 80% of GDP, a deep currency devaluation, and both foreign and domestic capital flight (Argentina: una gran crisis. Dossier, Jorge Altamira y Rolando Astarita, Sin Permiso, 2 September, 2018.). In doing so, it has returned to the IMF, and now the IMF is in command and will impose the customary strict recessionary and neoliberal supply-side policies, which cannot be completely abandoned until the government fully pays off all the loans recently received from the IMF, which will take years to complete.

The above notwithstanding, following is one projection, which we considered to be realistic for the closing of the wage gap under a relatively high-inflationary scenario, albeit substantially less than half the current inflationary rates that have averaged +42% during the 2016-2019 Macri government.
Projections’ layout. Using as the benchmark the wages for all employed in manufacturing in the US and Argentina in 2018 and Argentina’s minimum wage, inflation and devaluation rates experienced for 2018 and so far in 2019, the following projection chart illustrates the time span required to close the real wage gap between Argentina’s workers in the sector and their US counterparts, in PPP dollar terms, at a 15% high inflationary rate. In previous reports, in addition to projecting a high inflationary scenario, we also incorporated a medium inflationary scenario projection of 10%. However, we regard such scenario at this time to be a futile exercise for being completely unrealistic, given the dire state of the key economic indicators with a direct effect on living-wage equalisation and their track record since 1996.

High-inflation projection. The projection assesses what would happen in the future to manufacturing wages if Argentina raises nominal hourly wages in local currency at an average annual rate of 20% with an average high inflation rate of 15%. vis-à-vis a 2.5% average nominal wage rate increase and also 2.5% average inflation rate for the US on a yearly basis. Since we already have the hourly manufacturing rate for 2018, these rates are applied annually (from 2019-2041 for Argentina) starting from the PPPs for private consumption reported in the World Bank’s development indicators databank for 2018. The Argentina peso exchange rate is assumed to devalue 10% on average annually except for 2019 where we apply a 55% loss and for 2020, where we apply a 20% devaluation. For 2018 it devalued 41% and for 2019 so far it has devalued 53% (exchange rate of PS9 x $1US in mid-November). The average devaluation for the 2003-2019 period was 14.2% and since 2008 it was 21.7%. In local currency, the minimum wage increased on average 26.7% between 2014-2018 and manufacturing wages increased on average 29.8% or 11.6% more than the minimum wage during the same period. The minimum wage increased 20.8% in 2018 to P10,700 (July 2017 to September 2018) and 46% in 2019 to P15,625 (September 2018 to September 2019). Thus we are conservatively assuming a 50% increase for 2019 for manufacturing wages in local currency, given that these wages increased nearly 12% more than the minimum wage for 2014-2018 period. Subsequently, we lowered the annual increase of manufacturing wages to 30% assuming inflation is cut down to 25% in 2020 and to a 20% nominal increase thereafter assuming that inflation is cut down to 15%.

This projection uses 2018 as the benchmark. This analysis uses as its source the nominal wage data reported by The Conference Board (TCB) (The Conference Board, International Labor Comparisons program, April 2018) to 2016 and the Annual Report from Argentina’s Ministry of Production and Labour on remunerations of registered workers 2018 (Boletín de remuneraciones de los trabajadores registrados serie anual año 2018). Specifically, this analysis uses as its PPP wage rate benchmark the PPP conversion factor for private consumption (LCU per international $ –pa.nus.pvt.pp_indicator_en_excel_v2) published by the World Bank’s development indicators database for the period 1996-2007, the MIT estimates for 2008-2015 and Argentina’s government agency INDEC’s inflation rate for 2016-2019. We also use the World Banks’ exchange rates for the 1996-2018 period.
Specific criteria applied in this projection:

- Average US CPI (inflation): 2.5% (US average of 2.08% between 2001 and 2018).
- Average Argentinian CPI: For 2019 we are applying a 55% inflation rate, for 2020 a 25% inflation rate and a 15% inflation rate thereafter.
- Average annual nominal increase of Argentina’s wages in local currency is projected at 50% for 2019, 30% for 2020 and 20% thereafter.
- Real value of wages in the US remains constant, increasing annually 2.5% their nominal value to neutralise annual inflation of also 2.5%.
- The benchmarks –and starting point– used in this projection is the estimated nominal manufacturing wage rates in US dollars for the year 2018 (Argentina: $14.34 and United States: $39.53), based on the data obtained from both governments’ labour statistics bureaus.
- Argentina’s exchange rate with the US dollar is the recorded rate of AR$ 52.43/ US $1 for 2019, which is tantamount to a 55% devaluation. Subsequently it is assumed to erode 20% in 2020, 10% thereafter.
- Argentina’s average GDP growth: 2.5% or more, (average of 3.6% between 2003 and 2018, but recorded a GDP average of -0.6% for the 2016-2018 period, and when the IMF projects drops of -3.9% in 2019 and -1.3% in 2020).
- This projection at no time pretends to forecast what would be the inflationary indices, exchange rates or the wage rate increases that will occur in Argentina or the US in the future. For this projection the average behaviour of these indicators has been established by making assumptions in a discretionary manner –based on the data recorded since 1996– with the only purpose of projecting what could be Argentina’s level of PPP real wage increase, the equalisation indices and the time span for equalisation in the context of Argentina supporting the appreciation of real wages and the increase of labour’s share of income as fundamental elements of its economic policies.

Results of the high-inflation projection:

- Chart 1 shows the behaviour of real wages for both the US and Argentina over a twenty-three year period. Results indicate that, at a 50% increase of nominal wages in local currency in 2019, 30% in 2020 and 20% average increase thereafter, it would take Argentina twenty-three years from 2018 —after incorporating inflation and exchange rates for 2018 and 2019— or twenty-three years beginning on 2019 (year 1) - 2041 (year 23) to close the wage gap of all of its manufacturing employees with their counterparts in the US after applying the criteria previously described, (prominently a 15% inflation rate).
- Compared with our last year’s projection, which started in 2017, it would take seven more years, since we previously projected sixteen years to close the wage gap. Now, due to the explosive inflationary pressure and the corresponding steep devaluations for the 2018 (41%) and 2019 (nearly 55%) period it will take considerable more years to close the gap. The Argentinian peso has devalued about 92.4% since 2012.
- Nominal wages in local currency were increased 50% in 2019, 30% in 2020, an average of 20% for twenty years and 15.4% on the last year (2041)
- Closing the wage gap would cover the 2019 to 2041 span of time.
- Average annual nominal increase of Argentinian wages (total compensation cost) of 5.9% in dollar terms over the 23-year period, including the drop of 32.5% for 2019 or of an increase of 7.6% without including it.
- Real wage figures are shown at constant prices, reflecting future purchasing power after adjusting for inflation.
Twenty-three year projection of “PPP real wage equalisation” for all employed in manufacturing in Argentina’s with wages of its US counterparts, at a 20% average annual nominal wage growth rate and a 15% average annual inflation rate after 2020.

Not a forecasting analysis. This projection at no time pretends to forecast what would be the inflationary indices, exchange rates or the wage rate increases that will occur in Argentina or the US in the future. For this projection, the average behaviour of these indicators has been established by making assumptions in a discretionary manner –based on the data recorded since 1996– with the only purpose of projecting what could be Argentina’s level of PPP real wage increase, the equalisation indices and the time span for equalisation in the context of Argentina making the appreciation of real wages a fundamental element of its economic policies.
Our analysis of Argentina's living wages in the manufacturing sector from a global perspective (purchasing power parities) no longer assumes that Argentina's government will continue to regard the appreciation of real wages as a fundamental element of its economic policy. As expected, the Macri government did everything possible to resume the old centre-periphery relationship that applies a neocolonial ethos to Argentina's economic policies. Unfortunately for him, his economic policies have proven disastrous, and in his four years, inflation and devaluation have exploded, the country fell into default of its sovereign debt, real wages collapsed and poverty increased very meaningfully. Critics, such as Stiglitz, pointed to the policies that: 1) cut real wages, 2) cut taxes that increased profits for agri-business whilst the loss in public revenue increased the public deficit, 3) increase interest rates to attract speculative investments and 4) surrender to the demands of the vulture funds, as the specific decisions that elicited another major crisis (Stiglitz le pone un aplazo a Macri, Página 12, 6 September 2018).

One clear direct consequence is that the equalisation indices for 2018 and 2019 will drop dramatically, from the 50 in 2017 to the most 40, which is tantamount to the index of 2005.

The above notwithstanding, our projection in this analysis clearly shows that Argentina can achieve a living-wage equalisation in the manufacturing sector within twenty-three years or less, “if” it is able to control inflation and generate a minimally meaningful economic growth, as outlined in the criteria applied in this projection. Needless to say that, as economic conditions have been gradually deteriorating over the past seven years, it is becoming increasingly difficult to achieve living wage equalisation. A case in point: in our 1996-2012 report, despite a 25% inflation, Argentina's real wages were still growing, and at that time it would take seven to ten years to achieve equalisation if the prevalent trends at that point in time sustained. Unfortunately, inflation has been completely unmanageable, destroying many sectors. One case in particular has been the stark deterioration of the banking lending sector, both for the domestic mortgage market as well as for commercial and businesses lending. With high and volatile inflation, people are reluctant to buy a home or car with a loan and businesses are quite reluctant to take the big risk of borrowing from their banks and then finding themselves unable to service their loans when rates are pushed up by powerful inflationary pressures.

To be sure, the probability of reducing inflation to at least a 15% average and of averaging an annual GDP of 2,5% or more depends to a great extent on successfully neutralising the pressure of all the factors that feed inflation and devalue the peso. This appears to be a big question mark at the time. Inflation has proven unmanageable by both the demand-side and supply-side governments of Kirchner-Fernández and Macri, which points at the need of major structural reforms both in the public and private sectors, such as the current recessionary monetary and fiscal policies and the heavy dependency for economic growth on the meat and agribusiness sector due to the lack of a healthy economic diversification. A case in point: in 2018 Argentina's GDP dropped 2,5%, influenced primarily by the worst drought in many decades that slashed the harvests of soybeans and corn, long considered, along with meat exports, to be the backbone of Argentina's economy. Structural reforms take time and the new government of Alberto Fernández will have to deal first with the successful management of the public debt with the IMF and an effective control of monetary policy to successfully reduce inflation. Repairing the damage to living wage equalisation in the manufacturing sector will be a daunting task of the upcoming Fernández government, and only if it has the resolve and the political and economic skill to materialise it.

Parting from this rather negative context, if inflation is not reduced to not more than 15% by 2021 (OECD inflation forecast is 25% for 2020) real wage appreciation will not be sustainable and equalisation indices can further drop to the low 30s that prevailed during the turn of the century crisis. This would turn into a loss of two decades. This would entail a colossal hardship particularly for the lower ranks of society. Consequently, unless nominal wages sustain their growth a few points above inflation, equalisation will stop and could easily drop. Thus, the only way to sustain the equalisation of wages in PPP terms in the long term is by cutting down inflation to at least 15%, (chart 1), tacitly containing currency devaluation and increasing wages several points above inflation. It remains to be seen if the new government is capable of performing a successful balancing act between the different variables in a rather complex scenario. 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 Argentina for many decades and were only reduced substantially between 2004 and 2015 (Rosana Mautzitz: Labour formalisation and declining inequality in Argentina and Brazil in 2000s: ILO Research Paper No.9, February 2014).

It must be clear, however, that with both the previous Macri administration and the upcoming Fernández governments, Argentina's economy has always been anchored on the market-centric paradigm, which is intrinsically unstable and completely unsustainable economically, socially and environmentally given its unbridled profit-driven nature, which defeats any possibility of building a sustainable and balanced system. It is the nature of capitalism that destroys all possibilities of humankind and the environment from enjoying a long-term sustainable and balanced interdependence. As a result, the concept of the living wage is at odds with marketocracy, for it requires a system of balanced interdependence of resources and of all participants in the economic activity, and such design is antithetical to the current system. Therefore, establishing an ethos of living wages in Argentina or elsewhere is directly contingent on transcending the market through a paradigm transition to an ethos that has as its only purpose the pursuit of the welfare of people and planet and not the market. Needless to say that concepts such as GDP, salary, demand-side economics and other social policies in and on themselves would no longer make any sense in a truly sustainable paradigm.
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<th>Country</th>
<th>PPP conversion factor (country currency x $1)</th>
<th>Exchange rate</th>
<th>PPP conversion factor (in U.S. dollars)</th>
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<th>Actual PPP Real wage rate US $</th>
<th>Actual Nominal wage rate US $</th>
<th>Compensation Deficit in US $ (2 minus 4)</th>
<th>Wage Equalisation index (4+2 or 3+1)</th>
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Table-T5: Living-Wage-Gap and Equalisation analysis (vis-à-vis the U.S.) for selected economies of the Americas – for all employed in the manufacturing sector – in PPP for private consumption terms 1996-2017, based on the methodology of Jus Semper’s “The Living Wages North and South Initiative (TLWNSI)”, following the principle of “Equal pay for equal work of equal value” of UN and ILO’s international conventions.
Table-T5: Living-Wage-Gap and Equalisation analysis (vis-à-vis the U.S.) for 14 Selected Economies – for all employed in the manufacturing sector— in PPP for private consumption terms 1996-2017 (based on the methodology of Jus Semper’s “The Living Wages North and South Initiative (TLWNSI)”, following the principle of “Equal pay for equal work of equal value” of UN and ILO’s international conventions).

**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.
- The hourly manufacturing wage 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.
- PPP conversion factor, (private consumption) in country currency expresses the number of country currency units required to buy the same good and services a U.S. dollar can buy in the U.S.
- Exchange rate is nominal exchange rate.
- PPP conversion factor, private consumption 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 PPP for private consumption, 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 wage rate 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 PPP Real wage rate is the hourly wage paid in a given country in purchasing power terms.
- Actual Nominal wage rate is the nominal hourly wage paid in a given country.
- Compensation deficit expresses the wage gap between the hourly nominal wage 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 equalised PPP hourly pay (4 between 2): or the ratio of actual real pay (3) to the hourly nominal pay benchmark (1) (3 between 1).
- India and China data gathered by the BLS and TCB are not fully comparable to the rest of countries due to some inconsistencies in methodology. However, given that in both cases the BLS argues that this work does not substantially affect the hourly compensation estimates, rough comparisons can still be made. For further reference on the description of each country see TCB’s Country Notes.
- Note: Variations in previous years are due to revisions made by the sources, including the World Bank's new 2011 PPP benchmarks, which replaced the previous 2005 benchmarks.
- Since 2010 the international comparison of hourly compensation costs (hourly wage rates) between the U.S. and selected developed and “emerging” markets refers to all employed in the manufacturing sector and no longer will be available for production workers only. Production-line wage rates are on average 20% below wage rates for all employed in manufacturing, including production workers, for the 1996-2009 period, for all countries included in the assessment. For further reference see wage-gap assessment of trends and differences between production-line and all employed in manufacturing in compensation cost terms here:
  - Wage Gap Analysis of PLW versus All employed 1996-2009

**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):
- The Jus Semper Global Alliance: Living Wage Gaps Analysis in the manufacturing sector using;
  - The Living Wages North and South Initiative (TLWNSI) using “Equal Pay for Work of Equal Value” Methodology.
  - The Conference Board (TCB) — International Comparisons of Manufacturing Productivity and Unit Labor Costs 2017, July 2018

**Note regarding the new 2011 PPC round:**

The International Comparison Program (ICP) released new data showing that the world economy produced goods and services worth over $90 trillion in 2011, and that almost half of the world’s total output came from low and middle income countries.

Under the authority of the United Nations Statistical Commission, the 2011 round of ICP covered 199 economies - the most extensive effort to measure Purchasing Power Parities (PPPs) across countries ever. ICP 2011 estimates benefited from a number of methodological improvements over past efforts to calculate PPPs.

The ICP’s principal outputs are PPPs for 2011 and estimates of PPP-based gross domestic product (GDP) and its major components in aggregate and per capita terms. When converting national economic measures (e.g. GDP), into a common currency, PPPs are a more direct measure of what money can buy than exchange rates.

Limitations in the use of the data
PPPs are statistical estimates. Like all statistics they are subject to sampling errors, measurement errors, and errors of classification. Therefore, they should be treated as approximations to true values. Because of the complexity of the process used to collect the data and calculate the PPPs, it is not possible to directly estimate their margins of error. Therefore, small differences in the estimated values between economies should not be considered significant.