Argentina’s Wage Gap Charts

Wage rates for all employed in manufacturing

2018 Report
Wage gap charts for Argentina vis-à-vis selected developed and “emerging” economies, with available wage and PPP data (1996-2016)

(see definitions and sources at the end of report)
Wage gap charts for Argentina vis-à-vis selected developed and “emerging” economies, with available wage and PPP data (1996-2016).

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

A Classic Example in 2016

- Equivalent manufacturing workers in Mexico and Argentina earn only 18% and 48%, 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 $39.03/hour whilst Mexican and Argentinian workers earn only $3.91/hour and $16.77/hour, respectively,
- Since costs of living in PPP terms in Mexico and Argentina are 54¢ and 89¢, respectively, for each $1 US dollar, equivalent Mexican and Argentinian manufacturing workers should be earning instead $21.15/hour and $34.74/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 ($30.08) is 75% of the equivalent wage rate ($39.91) needed to be at par, with a PPP of $1.02 per each $1 US dollar.

<table>
<thead>
<tr>
<th></th>
<th>Nominal Hourly</th>
<th>PPP</th>
<th>PPP</th>
<th>Equalised Hourly</th>
<th>Equalisation</th>
</tr>
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<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>United States</strong></td>
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<td>100</td>
<td></td>
<td>$39.03</td>
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<tr>
<td><strong>Canada</strong></td>
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<td></td>
<td>$29.41</td>
<td>75</td>
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<tr>
<td></td>
<td>77 %</td>
<td></td>
<td>75 %</td>
<td>102 %</td>
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</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>$3.91</td>
<td>54</td>
<td></td>
<td>$7.22</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>10 %</td>
<td></td>
<td>18 %</td>
<td>54 %</td>
<td></td>
</tr>
<tr>
<td><strong>Argentina</strong></td>
<td>$16.77</td>
<td>89</td>
<td></td>
<td>$18.84</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>43 %</td>
<td></td>
<td>48 %</td>
<td>89 %</td>
<td></td>
</tr>
</tbody>
</table>

Sources:
Data base of World Bank's World Development Indicators, 1975-2016, (private consumption PPP indicator)
The Argument for Wage Equalisation Using Purchasing Power Parities (PPPs)

A Classic Example in 2016

- 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 $34,74 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 102% the cost in the US). Yet, workers only earn $16,77 instead of $34,74, thus the employer deliberately retains $17,97, 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 52% of labour’s surplus value, or labour share of income, by only allocating to the worker 48% of what he/she is entitled to.
Wage rate gap comparisons for selected economies

- Nominal wage rates in dollars continued to decrease in 2016 at the same rate as in 2014, averaging a drop of 12.5%, vis-à-vis 12.6% in 2014. This is due to a great extent to the devaluation of these currencies against the dollar. Furthermore, most wage rates in local currencies increased at a lower rate than the 5.4% increase of the US hourly wage rate. As a result, most equalisation indices continued dropping. Only Italy and South Korea sustained their 2014 indices and Singapore was the only one of the twelve economies selected that was able to increase its index in 2016. Since 2012 only three economies did not increase their equalisation gaps. Germany kept the same index and Italy and Singapore improved their equalisation. Of the twelve selected economies, four are worse off than in 1996, Brazil did not change and seven are better off than in 1996. Overall, East Asia economies have fared far better than the rest.

- Among East Asian countries, Singapore has been improving steadily since 2010, increasing its living wage equalisation with the US from 66 to 81 in 2016. South Korea has not been able to recover its highest index (71) in 2014, but at least remained at the same level as in 2014 (68). Japan has not been able to sustain the closing of its wage gap, since its equalisation index dropped two points to 69, from its highest index ever achieved in 2014.

- Outside of East Asia, only Italy, Spain, France and Australia recorded a higher equalisation index in 2016 than twenty years earlier. However, among these countries, only Italy managed to increase its index since 2012, albeit its index remained the same between 2014 and 2016. Canada, Brazil, Mexico, France, United Kingdom, Spain and Australia recorded lower equalisation indices both in 2014 and 2016 than in 2012. Australia is just one point above its equalisation index in 2016 versus 1996 (68 vs. 81). However, Australia dropped the most points in equalisation since 2014, from 90 to 82.

- Brazil has increased its wage gap since 2014 due to the devaluation of its currency since 2010 under a sustained recession. Brazil’s government under Dilma Rousseff continued complying with its minimum wage appreciation law, which increased its nominal value 72.5% between 2010 and 2016 vis-à-vis a 49.7% increase of its consumer price index. However, after she was impeached, the new neoliberal government of Michele Temer passed a law that puts a freeze on public spending effectively ending compliance with the minimum wage appreciation law. Consequently, in 2017 and 2018 the minimum wage was increased at a slightly lower rate than the NCPI. Mexico is at the bottom as usual.

- After the 2002 economic crisis, Argentina experienced a steady improvement of real wages. The living wage equalisation index (Eq-Idx) increased 83% between 2002 and 2012 to then lose some ground in 2014. However, beginning in 2016 the staunchly neoliberal new government reversed many of the demand-side policies of the previous government and contrary to its vow to reduce inflation it increased in 2016 from 26.8% to 39.2%. Inflation was directly fuelled by a drastic devaluation of 37% in 2016, and despite this, the cost of living in purchasing power parity terms barely decreased 3%. This caused a meaningful loss of the Eq-Idx of 6 points between 2015 and 2016 (54 vs. 48).
Main features of the state of manufacturing wage rate equalisation in Argentina

With the new staunchly neoliberal new government, Argentina is reverting the impressive progress achieved in living-wage equalisation in the manufacturing sector of more than one decade

- Between 2010 and 2016, Argentina's nominal wages increased by 397% in local currency, 31% in US dollars and 5,6% in real PPP terms. Argentina's peso depreciated 74% since 2010 whilst the PPP indicator (directly influenced by the exchange rate and inflation) increased 24%, from $0,72 to $0,89, or about 89% the cost of living in the US. 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 2010, clearly outpaced the strong growth of the PPP fuelled by inflation (397% versus 326%). Thus, despite high inflation and currency devaluations since 2010, PPP real wages still grew in US dollars by 5,6%, albeit they have not grown since 2013 (a drop of 6% in 2014, an increase of 3% in 2015 and a drop of 4,7% in 2016). Since 2013, PPP real wages have declined 7,6%.

- Prior to Argentina's foreign debt crisis of 2002, which toppled several governments in a matter of weeks, Argentina's best manufacturing living wage equalisation position since 1996 –the oldest available comparable data- occurred in 2001, with a 35 wage equalisation index, (not shown on table T5). By 2002, in the midst of the crisis, the wage-equalisation index had dropped to 30 (see table T5 in page 26). However, this was not a significant drop, considering the depth of the crisis, for Argentina's governments since then made a central point of their economic recovery policies to recover real wages across all sectors, until a new neoliberal government took power at the end of 2015.

- In this way, in the twenty-one year period (1996-2016) 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 2013, 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 2013 (not shown on table T5), and at a far higher level than the preceding period's zenith (56 vs. 35). However, a third event begins to unfold in 2014. As with the vast majority of the 34 economies in our assessments, real wages have stagnated given the recessionary state of the unsustainable prevailing economic paradigm, and even more so in Argentina’s case, due to the rise of inflationary pressures that pushed the previous government to hide the true inflationary indices beginning in 2008. Even so, after applying true inflation, the preceding government managed to lose just one point at the end of its term in 2015, from its 56 Eq-Idx zenith in 2013. Nonetheless, in the case of Argentina, there is an actual regression which is directly a result of the change of the preceding governments’ (Kirchner and Fernández) demand-side policies to the Macri government’s supply-side policies, implemented immediately after taking power in December 2015. This is reflected in the loss of four Eq-Idx points in just one year, from a 52 index in 2015 to a 48 index in 2016.

- In local currency, (not shown in table T5), Argentina's nominal manufacturing wages improved 24,1%, during the first period of 1996-2002; but although wages dropped 59,5% in US dollars, the PPP real wages in dollars managed to increase 15%, for the PPP indicator dropped 65% (from $1,05 to $0,37). There was no inflation between 1996-2001; yet the impact of an inflation of almost 26% and the devaluation of 67% in 2002, cut the equalisation index 14% from 35 to 30 between 2001-2002. For the period 2003-2013, Argentina's nominal wages in local currency (not shown in table T5) increased 935% –an annual average rate of 26,4%– and 449,9% in dollars –an annual average rate of 18,9%, with PPP real wages in dollars increasing 141,7%—an annual average rate of 9,5%. This pushed up Argentina's living-wage equalisation in the manufacturing sector strongly, from the low 30 to the 55 index, a powerful 83% surge, despite a currency devaluation of 46% and an annual average inflation rate of 17% for the period (inflation between 2008 and 2015 is assessed using MIT's estimates), which triggered a 164% surge of the PPP indicator (from $0,37 to $0,98).

- The third event that began to unfold in 2014, has turned into an actual regression. As soon as Macri's new government took power, sheer neoliberal policies were resumed, switching to a complete supply-side paradigm. This has triggered a clear regression of Argentina's living-wage equalisation performance. In just the first year of the new government, its Eq-Idx lost four points, from 52 in 2015 to a mere 48 in 2016. This is because the nominal wage rate increase in local currency of 32,7% was not enough to offset the steep devaluation of 37% and the increase of the US wage rate, for the same period. Indeed, with the change of government, Argentina is returning to a clearly supply-side neoliberal economic approach, including a return to the IMF’s deliberate predatory directives and a surrender to the demands of the vulture funds. Thus, the economic policy to increase real wages has stopped. In this way, real wages will most likely continue to suffer a drastic erosion in the years to come ,and millions of Argentinians will rejoin the ranks of the precariat.

- Indeed, economic conditions have clearly changed in 2017 and 2018. The Argentinian peso has further devalued, and drastically, against the US dollar. Between the end of 2016 and the summer of 2018, the Argentinian peso has dropped 63% (from 14,76 to 39,87 on 1 September, 2018). Inflation is forecast to pass the 30% threshold for the year. According to the Instituto Gino Germani, poverty has increased since the end of 2015 from 24% to 36%, adding 4,8 million people to the ranks of the precariat. Thus, after a great improvement in the reduction of the living-wage gap in the manufacturing sector, Argentina is now clearly regressing to times that were assumed to had been overcome. The IMF (after previous governments settled their debt and completely distanced their finances from it) is now in direct control after the Macri government requested emergency support. Yet conditions appear to continue worsening. In a desperate move to stop further erosion of the peso, the government has raised interest rates to 60% and there is now talk of a potential default.
The chart below provides a complete illustration of the behaviour 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 2013, the US rate grew 28%, but Argentina’s PPP real wages increased 142%, the nominal rate did by 450%, with the equalised rate growing by only 181% due to the steep climb of the PPP cost of living. Nonetheless, the Eq-Idx improved twenty-six points since 2003. Then a decline began in 2014 with the nominal wage dropping 16%, the PPP real wage nearly 8% and the Eq-Idx losing eight points or 14% by 2016.
Gap between hourly nominal and equalised wage rates in PPP terms for all employed in manufacturing with equivalent US real wage (current dollars)

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Sources: WB, US BLS, TCB, OECD – © The Jus Semper Global Alliance
Gap between equalisation index and size of manufacturing hourly real wage rate gap in Argentina vis-à-vis US real wage rate

Sources: WB, US BLS, TCB, OECD – © The Jus Semper Global Alliance
Since 2003 Argentina has experienced a sharp increase in its cost of living due to a sustained growth of inflation. The NCPI averaged annually 20.8% between 2003 and 2016 (and 27.1% between 2008 and 2016), whilst it averaged 2.09% 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.

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)

Sources: WB, US BLS, TCB, OECD – © The Jus Semper Global Alliance
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 1.64 times the value of the latter in 1996 to then drop 12% at the lowest point of its recession in 2002. Since then, Argentina’s manufacturing wage rate equalisation indices have recovered and nearly doubled their ratio with Mexico, despite the emerging crises.

**Behaviour of comparative equalisation indices of Argentina’s manufacturing hourly real wage rate vis-à-vis the equivalent Mexican wage rate index (Mexico = 100)**

Sources: WB, US BLS, TCB, OECD – © The Jus Semper Global Alliance
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, and yet Mexico exhibits almost a flat, but eroding, 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 after 2002 and yet its equalisation index recovers, surpasses that of Mexico and reaches its highest point in 2013, leaving Mexico’s index far behind.

Performance of equalisation indices of PPP manufacturing hourly real wage rates of Argentina and Mexico with US counterparts and behaviour of purchasing power parity indices (cost of living in PPP terms – US = 100)
Behaviour of comparative equalisation indices of manufacturing hourly real wage rates of selected countries vis-à-vis the equivalent Argentina wage rate (Argentina = 100)

Australia

Canada

South Korea

Sources: WB, US BLS, TCB, OECD – © The Jus Semper Global Alliance
Behaviour of comparative equalisation indices of manufacturing hourly real wage rates of selected countries vis-à-vis the equivalent Argentina wage rate (Argentina = 100)

Sources: WB, US BLS, TCB, OECD – © The Jus Semper Global Alliance
Projections of the closing of Argentina’s real wage equalisation gap

Projections 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

- **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 27.1% in local currency, 15.9% in dollar terms, with PPP real wages in dollars averaging an annual growth rate of 7.6% for the 2003-2015 period. By contrast, the nominal minimum wage increased 21.43% (datosmacro.com accessed on 24/X/2016) for the same period (since 2003), thus manufacturing wages increased on average 26.5% more than the minimum wage. As a result, real wages in the manufacturing sector did not only recover but increased by 73% their equalisation position at the lowest point 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 previous pages. To this respect, Argentina’s real wages in the manufacturing sector have already clearly surpassed 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 18, 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.

- Argentina’s powerful growth of its equalisation index put wages in the manufacturing sector on a path that, if the country could sustain it, 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 for at least 2017-2019, if not more years before the erosion is stopped and another government with the political will to return to demand-side policies is able to reach power.

- The challenge in order to resume Argentina’s recent wage appreciation policy is to cope with all the pressures exerted by a variety of actors both domestic and foreign. This currently appears to be clearly unrealistic given the change to a supply-side economics government and the failure, since the previous government, to cope with a variety of both foreign and domestic factors to reduce inflation. Yet, 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 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 are two projections for the closing of the wage gap for both mid-inflationary and high-inflationary scenarios, which, as could be expected, draw clearly different results.
Projections of the closing of Argentina’s real wage equalisation gap

- **Projections’ layout.** Using as the benchmark the wages for all manufacturing employees in the US and Argentina in 2016 and Argentina’s minimum wage, inflation and devaluation rates experienced for 2017 and so far in 2018, the following projection charts illustrate the time span required to close the real wage gap between Argentina’s workers in the sector and their US counterparts, in PPP and dollar terms, at different inflation rates.

- **Medium-inflation projection.** This projection assesses what would happen in the future to manufacturing wages if Argentina raises nominal hourly wages in local currency at an average rate of 25%. To calculate the cost of living and the size of the wage gap, 10% and 2.5% inflation rates for Argentina and the US, respectively, are applied annually (from 2020-2025 for Argentina) starting from the PPPs for private consumption reported in the World Bank’s development indicators database for 2016. The Argentina peso exchange rate is assumed to devalue 5% on average annually except for 2019 (15%) and 2020 (8%). For 2017 it devalued 10.9% and for 2018 it is expected to devalue about 62%. The average devaluation for the 2003-2016 period was 9.7% and since 2008 it was 15.1%. The minimum wage increased on average 24.1% between 2014-2016 and manufacturing wages increased on average 31.2% or 29.5% more than the minimum wage during the same period. The minimum wage increased 33% in 2017 (January 2016 to January 2017) and 17.9% (January 2017 to January 2018). Thus we are conservatively assuming 33% and 18% increases for 2017 and 2018 for manufacturing wages respectively, given that these wages increased nearly 30% more than the minimum wage for the 2014-2016 period. Subsequently, we lowered the annual increase of manufacturing wages to 25% assuming inflation is cut down to 15% in 2019 and 10% thereafter. We also included the recorded inflation of 25.3% for 2017, and an estimated inflation of 35% for 2018.

- **High-inflation projection.** This projection assesses what would happen in the future to manufacturing wages if Argentina raises nominal hourly wages in local currency at an average rate of 25% with a much higher inflation rate. To calculate the cost of living and the size of the wage gap, 17% and 2.5% inflation rates for Argentina and the US, respectively, are applied annually (from 2020-2032 for Argentina) starting from the PPPs for private consumption reported in the World Bank’s development indicators database for 2016. The Argentina peso exchange rate is assumed to devalue 10% on average annually except for 2019 (15%). For 2017 it devalued 10.9% and for 2018 it is expected to devalue about 62%. The average devaluation for the 2003-2016 period was 9.7% and since 2008 it was 15.1%. The minimum wage increased on average 24.1% between 2014-2016 and manufacturing wages increased on average 31.2% or 29.5% more than the minimum wage during the same period. The minimum wage increased 33% in 2017 (January 2016 to January 2017) and 17.9% (January 2017 to January 2018). Thus we are conservatively assuming 33% and 18% increases for 2017 and 2018 for manufacturing wages respectively, given that these wages increased nearly 30% more than the minimum wage for the 2014-2016 period. Subsequently, we lowered the annual increase of manufacturing wages to 25% assuming inflation is cut down to 20% in 2019 and to 17% thereafter. We also included the recorded inflation of 25.3% for 2017, and an estimated inflation of 35% for 2018.

- Both projections use 2016 as the benchmark. The benchmark used is the wage rate in dollar terms recorded for 2016 for all employed in the manufacturing sector for both US and Argentina. 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). Specifically, this analysis uses as its PPP wage rate benchmark the PPP conversion factor for private consumption (LCU per international $ –pa.nus.prot.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. We also use the World Banks exchange rates for the 1996-2017 period. Subsequently we applied the INDEC inflation rate for 2017 and the estimated exchange rates and inflation rates described above.
Projections of the closing of Argentina’s real wage equalisation gap

- Specific criteria applied in both projections:
  - Average US CPI (inflation): 2.5% (US average of 2.06% between 2001 and 2017).
  - Average Argentinian CPI: 10% for the medium-inflation projection and 17% for high-inflation projection (2017 recorded inflation at 25.3% and 2018 estimated at 35%).
  - Because of the problem of underreporting of inflation, the World Bank does not provide PPPs for Argentina. Thus we rely on the estimated CPIs reported by MIT’s “Billion Prices Project” to estimate the PPPs for the 2008-2015 period. Beginning with 2016, Argentina’s INDEC inflation data is considered reliable and the World Bank is now publishing inflation data for Argentina. In this way, we incorporated a discretionary inflation rate of 15% for 2019 and 10% thereafter for the mid-inflation projection. By the same token, we incorporated a discretionary inflation rate of 20% for 2019 and 17% thereafter for the high-inflation projection.
  - Average annual nominal increase of Argentina’s wages in local currency is projected at 33% for 2017, and 18% for 2018 for both projections, based on the government’s labour data from INDEC for the minimum wage, and 25% thereafter for both projections.
  - 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 both projections are the nominal manufacturing wage rates in US dollars for the year 2016 (Argentina: $16.77 and United States: $39.03).
  - Argentina’s exchange rate with the US dollar is the recorded rate of AR$ 16.56/ US $1 for 2017, and an estimated rate of AR $44/ $1 US for 2018 for both projections. Subsequently it is assumed to erode 15% in 2019, 8% in 2020 and 5% thereafter for the mid-inflation projection. For the high-inflation projection, it is assumed to erode 15% in 2019 and 10% thereafter.
  - Argentina’s average GDP growth: 2.5% or more, (average of 4.1% between 2003 and 2016).
  - These projections at no time pretend 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 these projections, 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 maintaining the appreciation of real wages as a fundamental element of its economic policies.

- Results of the mid-inflation projection:
  - Chart 1 shows the behaviour of real wages for both the US and Argentina over a nine-year period. Results indicate that, at the 25% annual growth of nominal wages in local currency, it would take Argentina nine years from 2017 —after incorporating inflation and exchange rates for 2017 and partially for 2018— or seven years from 2019-2025 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 10% inflation).
  - Compared with our last year’s projection, which started in 2016, it would take a total of nine instead of seven years to close the wage gap due to a strong inflationary pressure and a steep devaluation for the 2016-2018 period. Between 2015 and 2017, the CPI has increased 80.6% and is slated to grow more than 30% in 2018. The Argentinian peso has devalued about 77% since 2015.
  - Nominal wages in local currency were increased 33% in 2017, 18% in 2018, an average of 25% for six years and 19,25% on the last year (2025).
  - Not shown on the chart, the projection made Argentina’s cost of living for private consumption in PPP terms on year 2025 equivalent to 49,8% of the US cost of living, whereas it was 89% in 2016 –the combined result of Argentina’s clearly higher inflation rate relative to the US, and of the previously-described annual erosion of the exchange rate.
  - Closing the wage gap would cover the 2017 to 2025 span of time.
  - Average annual nominal increase of Argentinian wages (total compensation cost) of 8,05% in dollar terms over the period.
  - Real wage figures are shown at constant prices, reflecting future purchasing power after adjusting for inflation.

- Results of the high-inflation projection:
  - Chart 2 shows the behaviour of real wages for both the US and Argentina over a sixteen-year period. Results indicate that, at the 25% annual growth of nominal wages in local currency, it would take Argentina sixteen years from 2017 —after incorporating inflation and exchange rates for 2017 and partially for 2018— or fourteen years from 2019-2032 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 17% inflation).
  - Compared with our last year’s projection, which started in 2016, it would take sixteen instead of eleven years to close the wage gap due to a strong inflationary pressure and a steep devaluation for the 2016-2018 period. Between 2015 and 2017, the CPI increased 80.6% and is slated to grow more than 30% in 2018. The Argentinian peso has devalued about 77% since 2015.
  - Nominal wages in local currency were increased 33% in 2017, 18% in 2018, an average of 25% for thirteen years and 22,06% on the last year (2032).
  - Not shown on the chart, the projection made Argentina’s cost of living for private consumption in PPP terms on year 2032 equivalent to 73,1% of the US cost of living, whereas it was 89% in 2016 –the combined result of Argentina’s clearly higher inflation rate relative to the US and of the previously-described annual erosion of the exchange rate.
  - Closing the wage gap would cover the 2017 to 2032 span of time.
  - Average annual nominal increase of Argentinian wages (total compensation cost) of 6,06% in dollar terms over the period.
  - Real wage figures are shown at constant prices, reflecting future purchasing power after adjusting for inflation.
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.

Sources: WB, US BLS, TCB, OECD – © The Jus Semper Global Alliance
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) can no longer assume that Argentina’s government will continue to regard the appreciation of real wages as a fundamental element of its economic policy. Unfortunately, with the Macri government, as we expected, we are already witnessing the opposite, given that its economic policies are clearly supply-side and completely committed to resuming 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 two and a half years, inflation and devaluation have exploded, the country is nearly in default and real wages have collapsed. We are confident that the equalisation index for 2018 will drop very meaningfully and extend the number of years that it will take to close the living wage gap with equivalent workers in the US. In our report, the gap would have been closed in our mid-inflation projection by 2022, now it would take until 2025. As for the high-inflation the gap would have been closed by 2026, now it would take until 2032.

The above notwithstanding, the two projections included in this analysis clearly show that Argentina can achieve a living-wage equalisation in the manufacturing sector within fourteen years or less, “if” it is able to control inflation and generate a minimally meaningful economic growth, as outlined in the criteria applied in both projections.

To be sure, the probability of reducing inflation to at least a 17% 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 quite unlikely at this time, due to the reasons and events already described and an evident inability in Macri’s government to make the right economic policy decisions, even for its own self interest. Critics, such as Stiglitz, point 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). The current situation is so bad that the country is on the brink of a new bankruptcy and of the explosion of social unrest. A general strike is rapidly brewing. The Macri government is currently renegotiating under great despair and weakness with the IMF in an attempt to reschedule the servicing of Argentina’s debt and possibly a reduction of it. Yet, if achieved, it will cost dearly to Argentinians for years to come.

Parting from this rather negative context, if inflation is not reduced to less than half of its present level (+35%), real wage appreciation will not be sustainable. 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 10%, (chart 1), tacitly containing currency devaluation and increasing wages several points above inflation. As previously asserted, this is rather unlikely with a neoliberal government. Hopefully, as in the case of de la Rua’s presidency at the start of this century, Macri will have the political will and integrity to resign and allow for new elections, hoping as well that this time around the lesson will be truly learned.

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 (Roxana Maurizio: Labour formalization and declining inequality in Argentina and Brazil in 2000s: ILO Research Paper No.9, February 2014). Therefore, unless there is an almost miraculous and radical change in power and policy, the plight for the common citizen will continue for the foreseeable future.

It must be clear, however, that with both the previous and the current 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.
Table-T5 – Living-Wage-Gap and Equalisation analysis (vis-à-vis the U.S.) for all employed in the manufacturing sector in PPP for private consumption terms 1996-2016 (Americas)

Beginning with the 2012 living-wage gap assessments, the purchasing power parities (PPPs) used refer to private consumption (i.e., household final consumption expenditure), as opposed to the PPPs for Gross Domestic Product previously applied. The PPP for GDP includes prices for the entire economy and not just for the private consumption of consumer households. This change enables Jus Semper to deliver a more accurate metric of all the indicators that we used in our methodology to assess the wage gaps between actual and equalised wage rates. The PPPs for private consumption have therefore been revised for all years beginning in 1996.

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The Jus Semper Global Alliance – Living-Wage-Gap and Equalisation analysis (vis-à-vis the US) for all employed in manufacturing in purchasing power parity terms for private consumption 1996-2016

August 2018

The Jus Semper Global Alliance
WGArg 96/16
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 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.

- 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).

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: <http://www.jussemper.org/Resources/Labour%20Resources/Resources/PLWvsAEM_wage_rates96-09.pdf>

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

- Database of World Bank’s World Development Indicators, 1975-2016.
**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.