

The Jus Semper Global Alliance – Resource Department

International comparisons of hourly compensation costs for manufacturing workers between the US and selected developed and "emerging" markets, expose for Mexico a dire situation with the worst wage gap in PPPs terms.

In comparing 2003 against 2000, European economies continued to narrow their wage gap or increase their advantage for equivalent work against the US. This trend strengthened in 2003 with the adoption of the Euro among most EU members, as well as the UK. Canada's compensation advantage increased to its highest ever, whilst Japan and South Korea increased their wage gaps substantially. Among emerging markets, Singapore and Hong Kong showed little change, whilst Mexico and Brazil increased their gaps. Mexico continues to experience a consistent deterioration of its labour endowments with the worst wage gap of all. Since 2000 its equalization index has worsened 16%, from 19 to 16, its lowest since 1975 when it was 29. Since 1975 the collapse is of 45%.

- The Euro area countries, as well as the UK, continued to experience a closing of their wage gaps or to experience wage equalization advantages. This becomes more evident in the countries adopting the Euro. Germany's workers enjoyed, in 2003, a compensation 49% greater, in real terms, (PPPs) than US workers. France and Italy experienced for the first time, in 2003, a compensation advantage, with rates 7% and 4% better than US workers, respectively. The UK and Spain continued to reduce their wage gap with equalization indices of 91 and 89 respectively. This is a turn around, when compared with the gap increases these countries experienced (except the UK) between 1995 and 2000.

- Japan in contrast, experienced its first wage gap increase since 1975, increasing it 71% since 2000, from a 14 to 24 index. South Korea increased it 50%, from a 20 to a 30 index since 2000. In the same period, Hong Kong has remained stable and Singapore had a slight improvement in compensation equalization with US workers.

- In the Americas, Brazil reduced its equalization by 8%, since 2000, to a low index of 34 in 2003. In that year, Mexico continued the deterioration of its real purchasing power parities (PPPs) wage, for it has the greatest equalized wage gap with the US (84%), when compared against selected developed and emerging economies. South Korea, in particular, –a country with a wage gap twice as large as Mexico's in 1975– is now at the same level as Japan with a gap of only 30% in 2003. In great contrast, between 1975 and 2003, Mexico worsened its equalization index by 45%, from 29 to a meagre 16, with the consequent dramatic pauperization of the country and not the slightest sign of improvement.

		1975	1980	1985	1990	1995	2000	2003
Benchmark	U.S. Hourly rate	6,36	9,87	13,01	14,91	17,19	19,76	21,97
Canada	GDP PPPs in country currency*	1,222	1,206	1,256	1,3	1,212	1,156	1,141
	Exchange rate	1,017	1,169	1,366	1,167	1,373	1,486	1,401
	GDP PPPs in U.S. Dollars	\$ 1,20	\$ 1,03	\$ 0,92	\$ 1,11	\$ 0,88	\$ 0,78	\$ 0,81
	Equal PPP compensation in U.S. Cy.	\$ 7,64	\$ 10,18	\$ 11,96	\$ 16,61	\$ 15,17	\$ 15,37	\$ 17,90
	Actual Compensation in U.S. Cy.	\$ 5,96	\$ 8,67	\$ 10,95	\$ 15,95	\$ 16,10	\$ 16,04	\$ 19,28
	Compensation Deficit in U.S. Cy.	\$ 1,68	\$ 1,51	\$ 1,01	\$ 0,66	\$ (0,93)	\$ (0,67)	\$ (1,38)
	Compensation Equalization index	0,78	0,85	0,92	0,96	1,06	1,04	1,08
South Korea	GDP PPPs in country currency*	238,9	411,6	465	538	629	582,5	796,7
	Exchange rate	484	607,4	870	707,8	771,3	1131	1192
	GDP PPPs in U.S. Dollars	\$ 0,49	\$ 0,68	\$ 0,53	\$ 0,76	\$ 0,82	\$ 0,52	\$ 0,67
	Equal PPP compensation in U.S. Cy.	\$ 3,14	\$ 6,69	\$ 6,95	\$ 11,33	\$ 14,02	\$ 10,18	\$ 14,68
	Actual Compensation in U.S. Cy.	\$ 0,32	\$ 0,96	\$ 1,23	\$ 3,71	\$ 7,29	\$ 8,19	\$ 10,28
	Compensation Deficit in U.S. Cy.	\$ 2,82	\$ 5,73	\$ 5,72	\$ 7,62	\$ 6,73	\$ 1,99	\$ 4,40
	Compensation Equalization index	0,10	0,14	0,18	0,33	0,52	0,80	0,70
Japan	GDP PPPs in country currency*	286	243,9	213,6	195	172,9	141,8	139,4
	Exchange rate	296,7	225,7	238,5	145	94,0	107,8	116
	GDP PPPs in U.S. Dollars	\$ 0,96	\$ 1,08	\$ 0,90	\$ 1,34	\$ 1,84	\$ 1,32	\$ 1,20
	Equal PPP compensation in U.S. Cy.	\$ 6,13	\$ 10,67	\$ 11,65	\$ 20,05	\$ 31,63	\$ 25,99	\$ 26,39
	Actual Compensation in U.S. Cy.	\$ 3,00	\$ 5,52	\$ 6,34	\$ 12,77	\$ 23,19	\$ 22,34	\$ 20,09
	Compensation Deficit in U.S. Cy.	\$ 3,13	\$ 5,15	\$ 5,31	\$ 7,28	\$ 8,44	\$ 3,65	\$ 6,30
	Compensation Equalization index	0,49	0,52	0,54	0,64	0,73	0,86	0,76

		1975	1980	1985	1990	1995	2000	2003
Benchmark	U.S. Hourly rate	6,36	9,87	13,01	14,91	17,19	19,76	21,97
France	GDP PPPs in country currency*	4,978	5,559	6,559	6,61	6,49	7,009	0,791
	Exchange rate	4,282	4,22	8,98	5,447	4,986	7,105	0,8838
	GDP PPPs in U.S. Dollars	\$ 1,16	\$ 1,32	\$ 0,73	\$ 1,21	\$ 1,30	\$ 0,99	\$ 0,89
	Equal PPP compensation in U.S. Cy.	\$ 7,39	\$ 13,00	\$ 9,50	\$ 18,09	\$ 22,38	\$ 19,49	\$ 19,66
	Actual Compensation in U.S. Cy.	\$ 4,52	\$ 8,94	\$ 7,52	\$ 15,49	\$ 19,38	\$ 15,56	\$ 21,13
	Compensation Deficit in U.S. Cy.	\$ 2,87	\$ 4,06	\$ 1,98	\$ 2,60	\$ 3,00	\$ 3,93	\$ (1,47)
	Compensation Equalization index	0,61	0,69	0,79	0,86	0,87	0,80	1,07
Germany	GDP PPPs in country currency*	3,062	2,397	2,173	2,09	2,02	2,136	0,809
	Exchange rate	2,455	1,815	2,942	1,617	1,432	2,119	0,8838
	GDP PPPs in U.S. Dollars	\$ 1,25	\$ 1,32	\$ 0,74	\$ 1,29	\$ 1,41	\$ 1,01	\$ 0,92
	Equal PPP compensation in U.S. Cy.	\$ 7,93	\$ 13,03	\$ 9,61	\$ 19,27	\$ 24,25	\$ 19,92	\$ 20,11
	Actual Compensation in U.S. Cy.	\$ 6,29	\$ 12,21	\$ 9,50	\$ 21,81	\$ 31,57	\$ 23,68	\$ 29,91
	Compensation Deficit in U.S. Cy.	\$ 1,64	\$ 0,82	\$ 0,11	\$ (2,54)	\$ (7,32)	\$ (3,76)	\$ (9,80)
	Compensation Equalization index	0,79	0,94	0,99	1,13	1,30	1,19	1,49
Italy	GDP PPPs in country currency*	539,5	783	1184	1421	1556	1801	0,711
	Exchange rate	652,4	855,1	1909	1198	1629	2097	0,8838
	GDP PPPs in U.S. Dollars	\$ 0,83	\$ 0,92	\$ 0,62	\$ 1,19	\$ 0,96	\$ 0,86	\$ 0,80
	Equal PPP compensation in U.S. Cy.	\$ 5,26	\$ 9,04	\$ 8,07	\$ 17,69	\$ 16,42	\$ 16,97	\$ 17,66
	Actual Compensation in U.S. Cy.	\$ 4,67	\$ 8,15	\$ 7,63	\$ 17,45	\$ 16,04	\$ 14,15	\$ 18,35
	Compensation Deficit in U.S. Cy.	\$ 0,59	\$ 0,89	\$ 0,44	\$ 0,24	\$ 0,38	\$ 2,82	\$ (0,69)
	Compensation Equalization index	0,89	0,90	0,95	0,99	0,98	0,83	1,04
England	GDP PPPs in country currency*	0,3802	0,4928	0,5327	0,602	0,656	0,684	0,626
	Exchange rate	0,4501	0,43	0,7708	0,5605	0,6335	0,6598	0,612
	GDP PPPs in U.S. Dollars	\$ 0,84	\$ 1,15	\$ 0,69	\$ 1,07	\$ 1,04	\$ 1,04	\$ 1,02
	Equal PPP compensation in U.S. Cy.	\$ 5,37	\$ 11,31	\$ 8,99	\$ 16,01	\$ 17,80	\$ 20,50	\$ 22,48
	Actual Compensation in U.S. Cy.	\$ 3,37	\$ 7,56	\$ 6,27	\$ 12,70	\$ 13,88	\$ 16,96	\$ 20,37
	Compensation Deficit in U.S. Cy.	\$ 2,00	\$ 3,75	\$ 2,72	\$ 3,31	\$ 3,92	\$ 3,54	\$ 2,11
	Compensation Equalization index	0,63	0,67	0,70	0,79	0,78	0,83	0,91
Spain	GDP PPPs in country currency*	44,83	70,54	91,83	109,50	122,08	141,091	0,680
	Exchange rate	57,39	71,64	170	102	124,6	180,2	0,8838
	GDP PPPs in U.S. Dollars	\$ 0,78	\$ 0,98	\$ 0,54	\$ 1,07	\$ 0,98	\$ 0,78	\$ 0,77
	Equal PPP compensation in U.S. Cy.	\$ 4,97	\$ 9,72	\$ 7,03	\$ 16,01	\$ 16,84	\$ 15,47	\$ 16,90
	Actual Compensation in U.S. Cy.	\$ 2,53	\$ 5,89	\$ 4,66	\$ 11,38	\$ 12,80	\$ 10,74	\$ 14,96
	Compensation Deficit in U.S. Cy.	\$ 2,44	\$ 3,83	\$ 2,37	\$ 4,63	\$ 4,04	\$ 4,73	\$ 1,94
	Compensation Equalization index	0,51	0,61	0,66	0,71	0,76	0,69	0,89
Mexico	GDP PPPs in country currency*	9,80	18,80	136,4	1530	2,96	5,456	7,486
	Exchange rate	12,5	22,97	256,9	2813	6,42	9,46	10,79
	GDP PPPs in U.S. Dollars	\$ 0,78	\$ 0,82	\$ 0,53	\$ 0,54	\$ 0,46	\$ 0,58	\$ 0,69
	Equal PPP compensation in U.S. Cy.	\$ 4,99	\$ 8,08	\$ 6,91	\$ 8,11	\$ 7,93	\$ 11,40	\$ 15,24
	Actual Compensation in U.S. Cy.	\$ 1,47	\$ 2,21	\$ 1,59	\$ 1,58	\$ 1,65	\$ 2,19	\$ 2,48
	Compensation Deficit in U.S. Cy.	\$ 3,52	\$ 5,87	\$ 5,32	\$ 6,53	\$ 6,28	\$ 9,21	\$ 12,76
	Compensation Equalization index	0,29	0,27	0,23	0,19	0,21	0,19	0,16

		1996	1998	2000	2001	2003
Benchmark	U.S. Hourly rate	17,70	18,64	19,76	20,61	21,97
Brazil	GDP PPPs in country currency*	0,7595	0,8329	0,897	1,022	1,114
	Exchange rate	1,095	1,161	1,83	2,353	3,076
	GDP PPPs in U.S. Dollars	\$ 0,69	\$ 0,72	\$ 0,49	\$ 0,43	\$ 0,36
	Equal PPP compensation in U.S. Cy.	\$ 12,28	\$ 13,37	\$ 9,69	\$ 8,95	\$ 7,96
	Actual Compensation in U.S. Cy.	\$ 5,79	\$ 5,61	\$ 3,56	\$ 2,97	\$ 2,67
	Compensation Deficit in U.S. Cy.	\$ 6,49	\$ 7,76	\$ 6,13	\$ 5,98	\$ 5,29
	Compensation Equalization index	0,47	0,42	0,37	0,33	0,34

		1996	1998	2000	2001	2003
Benchmark	U.S. Hourly rate	17,70	18,64	19,76	20,61	21,97
Hong Kong	GDP PPPs in country currency*	7,75	8,82	7,89	7,73	7,02
	Exchange rate	7,74	7,75	7,79	7,80	7,79
	GDP PPPs in U.S. Dollars	\$ 1,00	\$ 1,14	\$ 1,01	\$ 0,99	\$ 0,90
	Equal PPP compensation in U.S. Cy.	\$ 17,72	\$ 21,21	\$ 20,01	\$ 20,42	\$ 19,81
	Actual Compensation in U.S. Cy.	\$ 5,14	\$ 5,57	\$ 5,64	\$ 5,98	\$ 5,54
	Compensation Deficit in U.S. Cy.	\$ 12,58	\$ 15,64	\$ 14,37	\$ 14,44	\$ 14,27
	Compensation Equalization index	0,29	0,26	0,28	0,29	0,28

Singapore	GDP PPPs in country currency*	1,71	2,00	1,71	1,69	1,53
	Exchange rate	1,50	1,67	1,73	1,79	1,74
	GDP PPPs in U.S. Dollars	\$ 1,14	\$ 1,19	\$ 0,99	\$ 0,94	\$ 0,88
	Equal PPP compensation in U.S. Cy.	\$ 20,10	\$ 22,25	\$ 19,63	\$ 19,39	\$ 18,10
	Actual Compensation in U.S. Cy.	\$ 8,32	\$ 7,72	\$ 7,61	\$ 7,55	\$ 7,41
	Compensation Deficit in U.S. Cy.	\$ 11,78	\$ 14,53	\$ 12,02	\$ 11,84	\$ 10,69
	Compensation Equalization index	0,41	0,35	0,39	0,39	0,41

*Definitions

- PPPs stands for Purchasing Power Parities, which reflect the currency units in a giving 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.
- GDPs PPPs in country currency express the number of country currency units required to buy the same goods and services a U.S. dollar can buy in the U.S.
- Exchange rate is nominal exchange rate
- GDP PPPs in U.S. Dollar 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 greater than 1, a U.S. Dollar can buy more in the country in question because the cost of living is lower and viceversa.
- The PPP, expressed in national currency, reflects the exchange rate in comparison with the market exchange rate, which does not reflect the ratio of prices.
- Equal PPP compensation expresses the hourly U.S. dollar nominal rate required in a given country to equally compensate a local worker, in terms of purchasing power, for equal work rendered, as the equivalent U.S. workers is compensated.
- Actual Compensation is the nominal hourly wage paid in a given country
- Compensation deficit expresses the wage gap between the hourly rate paid and the equivalent PPP rate that should be paid for equal work.
- Compensation equalization index expresses the ratio of actual pay to equivalent PPP pay

Sources: This analysis was prepared by TJSKA using the sources below. Sources with X indicate that some of their data is directly incorporated in the table:

- World Development Indicators 1998, 2000, 2002 and 2004, The World Bank, table 1.1
- World Development Indicators database, The World Bank, August 2002 – GNI per capita 2001, Atlas method and PPP
- X International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, May 2004
U.S. Department of Labour, Bureau of Labour Statistics
- X Comparative Real Gross Domestic Product per Capita and per Employed Person, Fourteen Countries 1960-1998
U.S. Department of Labour, Bureau of Labour Statistics, Office of Productivity and Technology.
- X PPPs for OECD Countries 1970-2002, OECD 2002 and GDP PPPs historical series 1970-1999.
- Purchasing Power parities – Measurement and Uses by Paul Schreyer and Francette Koehlin, OECD Statistical briefs, March 2002