Spain's Wage Gap Charts

Wage gap charts for Spain vis-à-vis developed and "emerging" selected economies, with available wage and PPP data (1975-2002)

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

- Classic Problem Scenario

  - With market liberalization, MNCs sell their products in, both the host countries and in all other markets where they are active, including their home country, at the same or at a very similar sales price

  - They achieve maximum profitability when the manufacturing process in their developing countries' operations is at par in quality and production efficiency with the standards used in their home operations but their cost of labour is dramatically lower

  - The MNCs' markets, manufacturing and marketing operations are *globalised* but their labour costs remain strategically very low in order to achieve maximum competitiveness at the expense of Third World workers

  - The resulting situation is one where MNCs get all the benefit. Sometimes the salaries that they pay are higher than the legal minimum wage in the host country. But, these wages still keep the workers in dire poverty. A minimum wage does not make a living wage even in the most developed economies

  - What has occurred, with market globalisation, is the dramatic widening of the gap between wages in the North and in the South

  - While the standard of living of a worker in the North provides the basic means to make a living and afford a basic standard of comfort, a worker working for the same company, doing the exact same job with the same level of quality and efficiency, lives in a shanty town in a cardboard house with no sewage, water and direct electricity

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

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

- The Argument
  - Workers performing the same or a equivalent job for the same business entity, in the generation of products and services that this entity markets at global prices in the global market, must enjoy an equivalent remuneration
  - The premise is that workers must earn equal pay for equal work in terms of material quality of life for obvious reasons of social justice but also, and equally important, for reasons of long-term global economic, environmental and social sustainability
  - The proposal is to make workers in the South earn living wages at par with those of the First World in terms of PPPs in the course of a generation (thirty years)
  - There will not be any real progress in the sustainability of the market system –with the global economy enjoying a sustained growth, the environment reversing its degradation and poverty rapidly diminishing– if there is no sustained generation of aggregate demand through the gradual closing of the wage gap between North and South
  - The material quality of life can be defined in terms of purchasing power so that equal pay occurs when purchasing power is equal
  - Purchasing power is determined using purchasing power parities (PPPs)
  - Purchasing power parities (PPPs) are the rates of currency conversion that eliminate the differences in price levels between countries

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

- Concept of Living Wage Using PPPs
  - The concept of a living wage using PPPs is straightforward. To determine real wages in terms of purchasing power of any country in question, the PPPs of this country are applied to nominal wages. These are the real wages for each country
  - Purchasing power parities reflect the amount in dollars required in a given country to have the same purchasing power that $1 U.S. Dollar has in the United States; e.g.: if the PPP index in one country is 69, then $0.69 dollars are required in that country to buy the same than $1 dollar buys in the U.S.; thus, the cost of living is lower
  - To calculate a living wage, the real wage of a specific category of U.S. workers is used as the benchmark, and the PPPs of a country in question is then applied to the U.S. wage
  - This provides the equivalent living wage that a worker in the country in question should be earning in order to be at par in terms of purchasing power to the material quality of life enjoyed by the equivalent U.S. worker. This is the equalized wage in terms of purchasing power
  - In this way, the comparison between the actual real wage of the country in question exposes the gap, in real terms, between the current real wage of the worker of the country in question and the living wage it should be earning, in order to be equally compensated in terms of PPPs
  - In practice, since the PPPs vary annually, due to the dynamics of economic forces, the pace of the gradual equalization of wages, through small real-wage increases, needs to be reviewed annually

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

▪A Classic Example in 2002

- Equivalent manufacturing workers in Mexico and Brazil earn only 18% and 32%, respectively, of what they should be making in order to be compensated at par with U.S. counterparts in terms of purchasing power
- U.S. Workers earn $21.37/hour whilst Mexican and Brazilian workers earn only $2.61/hour and $2.58/hour, respectively
- Since costs of living in PPPs terms in Mexico and Brazil are 67¢ and 38¢ , respectively, for each $1 U.S. Dollar, equivalent Mexican and Brazilian manufacturing workers should be earning instead $14.38/hour and $8.12/hour, respectively, in order to enjoy equal purchasing power compensation
- The difference is the wage gap that employers wrongly keep to increase profits
- Canada, in contrast, is almost at par (97%) with U.S. Counterparts, since nominal wage is very close to the equivalent wage needed to be at par, with a PPP of 77¢ per each $1 U.S. Dollar

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

2002	Nominal Hourly Wage	PPP 2002	PPP Real Wage	Equalized Nominal Hourly Wage	Equalization Index
United States	$21.37	100	$21.37	$21.37	100
Canada	$16.02	77	$20.70	$16.54	97
	75%		97%	77%	
Mexico	$2.61	67	$3.88	$14.38	**18**
	12%		18.2%	67.3%	
Brazil	$2.58	38	$6.79	$8.12	**32**
	12%		31.8%	38.0%	

Sources:

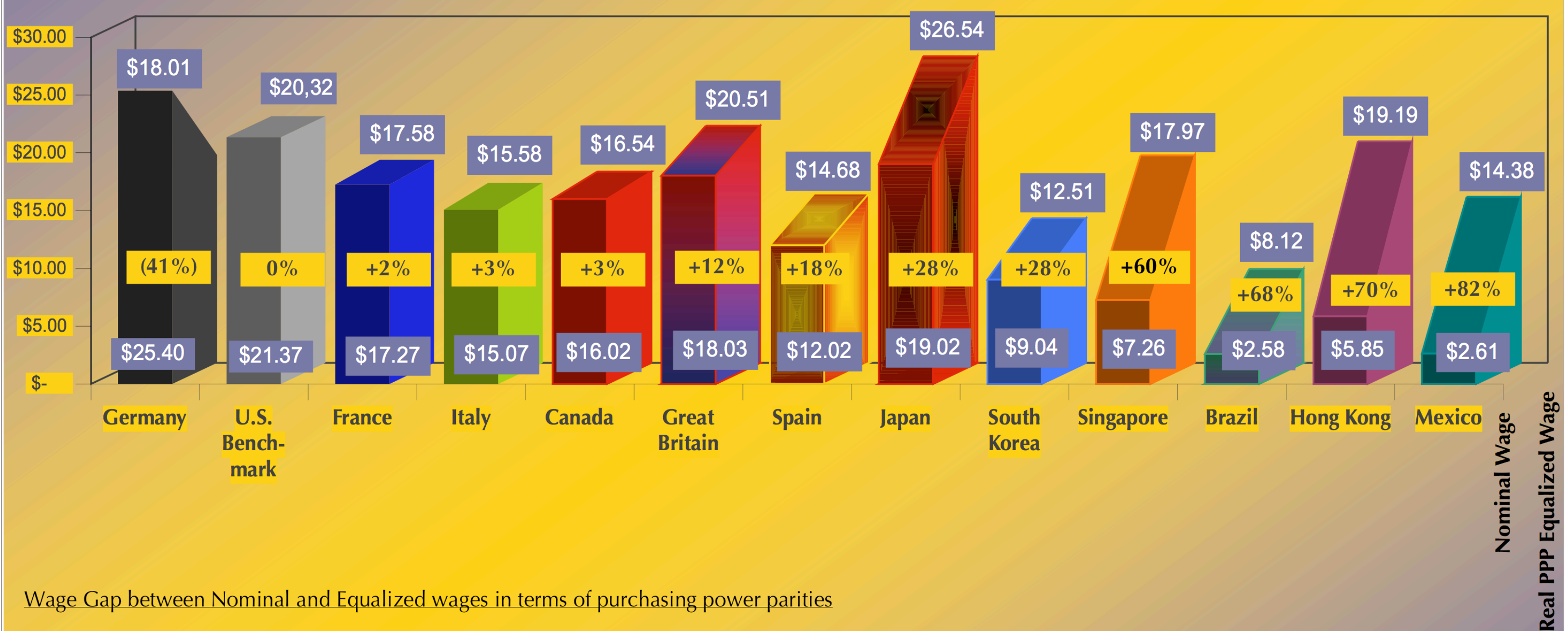
U.S. Department of Labour, Bureau of Labor Statistics, May 2004 (current U.S. Dollars).

World Bank, World Development Indicators 2004, 1.1. Size of the Economy

- In 2002, real manufacturing wages for Spain already resemble those of the G7 countries, with a PPP equalisation wage gap with the U.S. of only 18%, near that of Great Britain with only 12%, and above Japan's wage gap of 28%.

2002 Real wage gap with U.S. wages using PPPs

(Hourly manufacturing wages in U.S. Dollars)



<u>Wage Gap between Nominal and Equalized wages in terms of purchasing power parities</u>

1) If front edge is greater than back edge= Better purchsing power in U.S.
2) If back edge is greater than front edge= Better purchasing power than in U.S.
3) If both edges are in equillibrium= Nominal wage is equivalent to nominal wage in U.S. in terms of purchaisng power

(The size of wage gap is expressed in percentages)

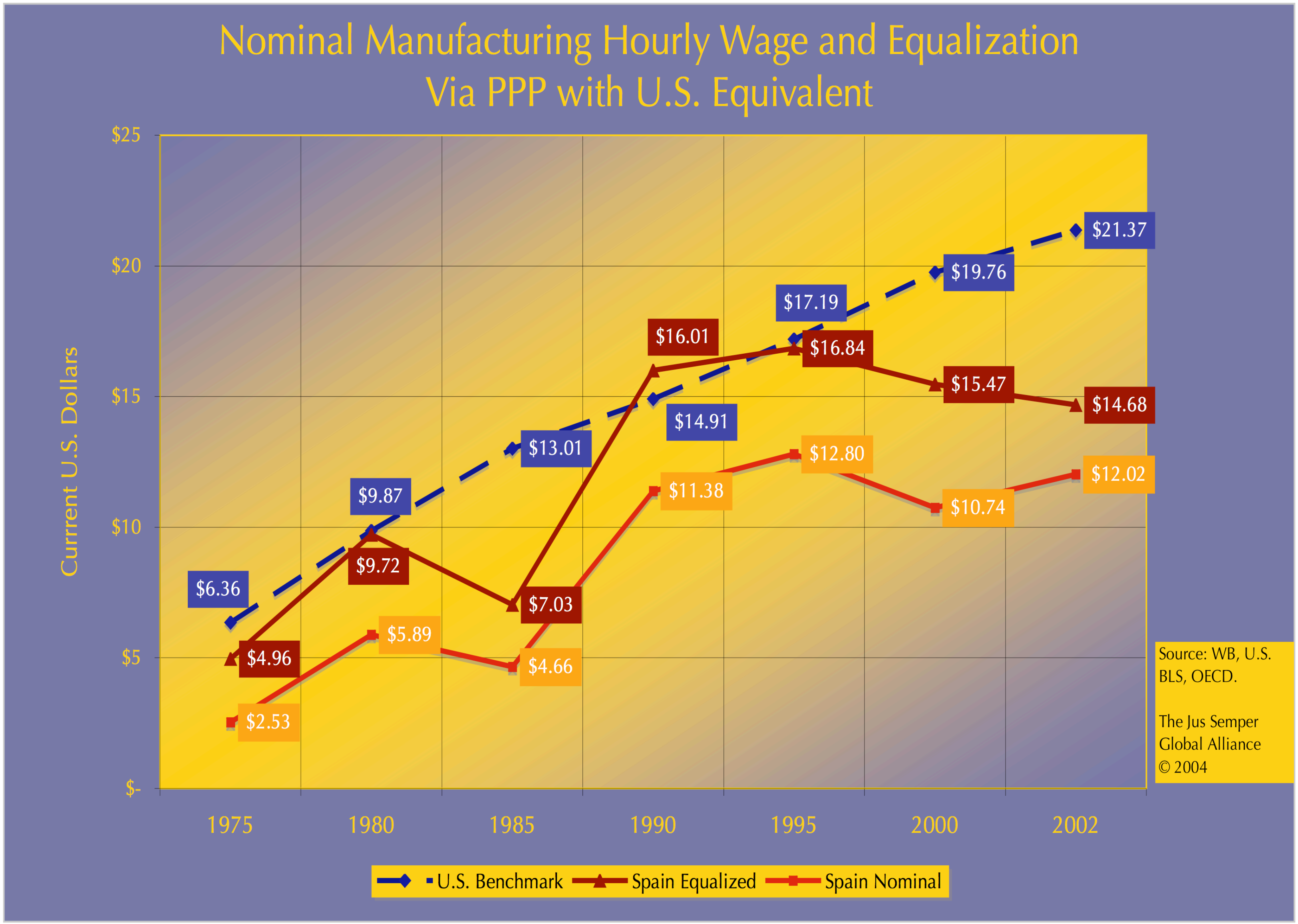
Sources:
– World Development Indicators database, The World Bank, April 2004 – GNI per capita 2002, Atlas method and PPP
X International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, May 2004
U.S. Department of Labour, Bureau of Labour Statistics
X PPPs for OECD Countries 1970-2002, OECD 2002.

- The situation of manufacturing wages in Spain clearly shows sustained progress and approaching PPP equalization with the U.S, in terms of purchasing power

  - Since 1975 real wages improved 61% up to 2002 –relative to their equalization with the United States based on PPP– regardless of price levels and exchange rate fluctuations during this period

  - In this way, the gap between nominal and equalized wages based on PPP is reduced in a sustained manner, dropping from 49% to 18% amounting to a reduction of 63%. That is, between 1975 and 2002, Spanish nominal manufacturing wages increase 375%, from $2.53 to $12.02/hour, whilst the cost-of-living PPP index drops 12%, from 78 a 69. As a result of the combination of the fact that nominal manufacturing wages in the U.S. grow only 236%, below Spain's wages, from $6.36 to $21.37/hour in the same period, and the cost-of-living PPP index drops, the PPP wage equalization increases to the level of 82%.

  - In 1975 Mexico and Spain had the same PPP cost-of-living index (78). Although during that period price levels behaved very different, twenty-seven years later they almost coincide again (69 in Spain and 67 in Mexico). However, the entrance of Spain into the European Union and of Mexico into the North American Free Trade Agreement have drawn dramatically different results. The hard facts are that Spain's economic strategy gives sustained support to aggregate demand and Mexico's depresses it. While nominal manufacturing wages increase almost four fold in Spain, in Mexico they grow only 77% –well below the growth of wages in the U.S., its main trading partner. Thus, the Spanish economy joins fully the group of developed economies whilst Mexico backtracks into poverty levels that precede, at the very least, the levels prevalent three decades ago


Nominal Manufacturing Hourly Wage and Equalization
Via PPP with U.S. Equivalent
Current U.S. Dollars
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1995
2000
2002
$6.36
$9.87
$13.01
$14.91
$17.19
$19.76
$21.37
$4.96
$9.72
$7.03
$16.01
$16.84
$15.47
$14.68
$2.53
$5.89
$4.66
$11.38
$12.80
$10.74
$12.02
U.S. Benchmark
Spain Equalized
Spain Nominal
Source: WB, U.S. BLS, OECD.
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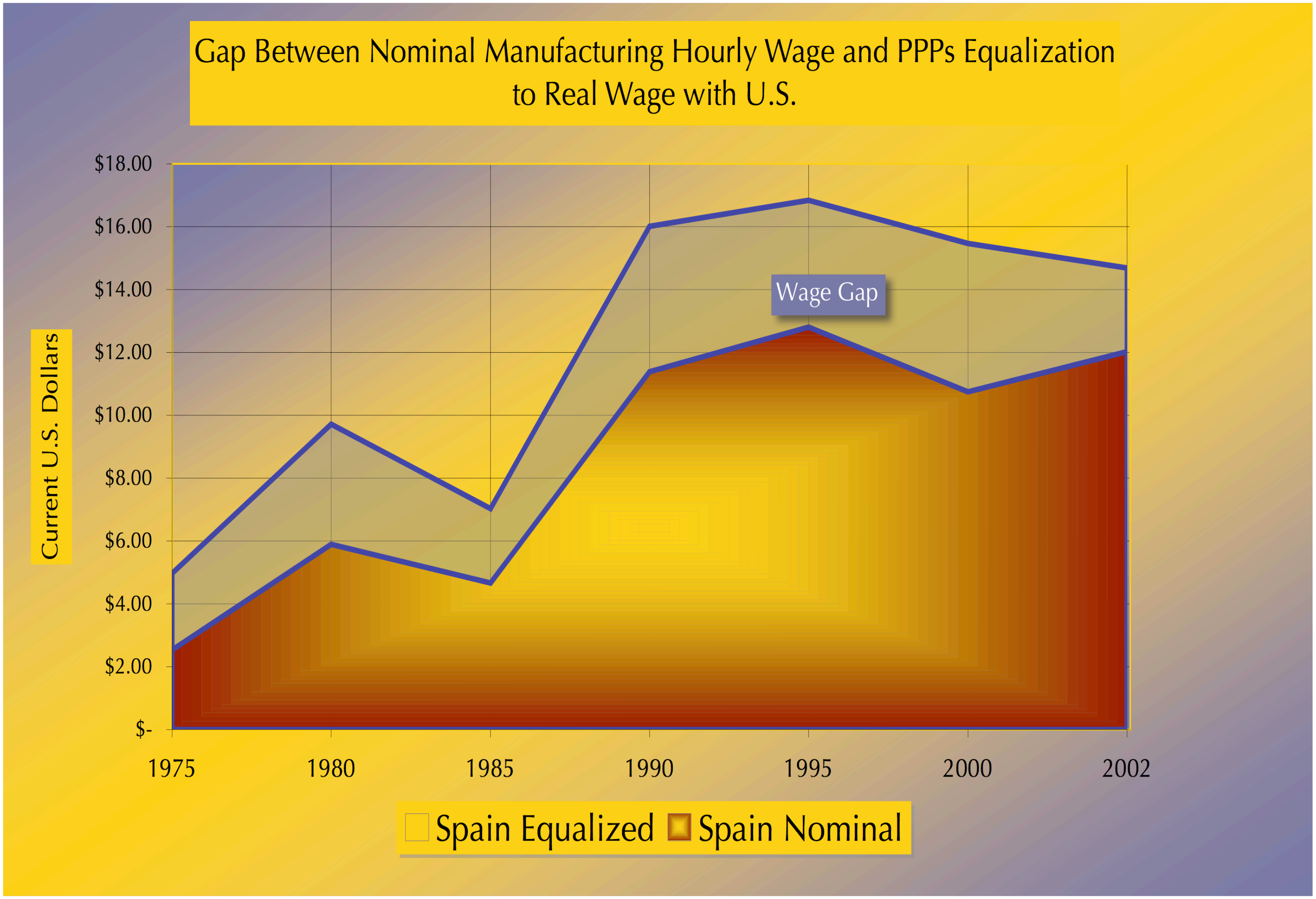
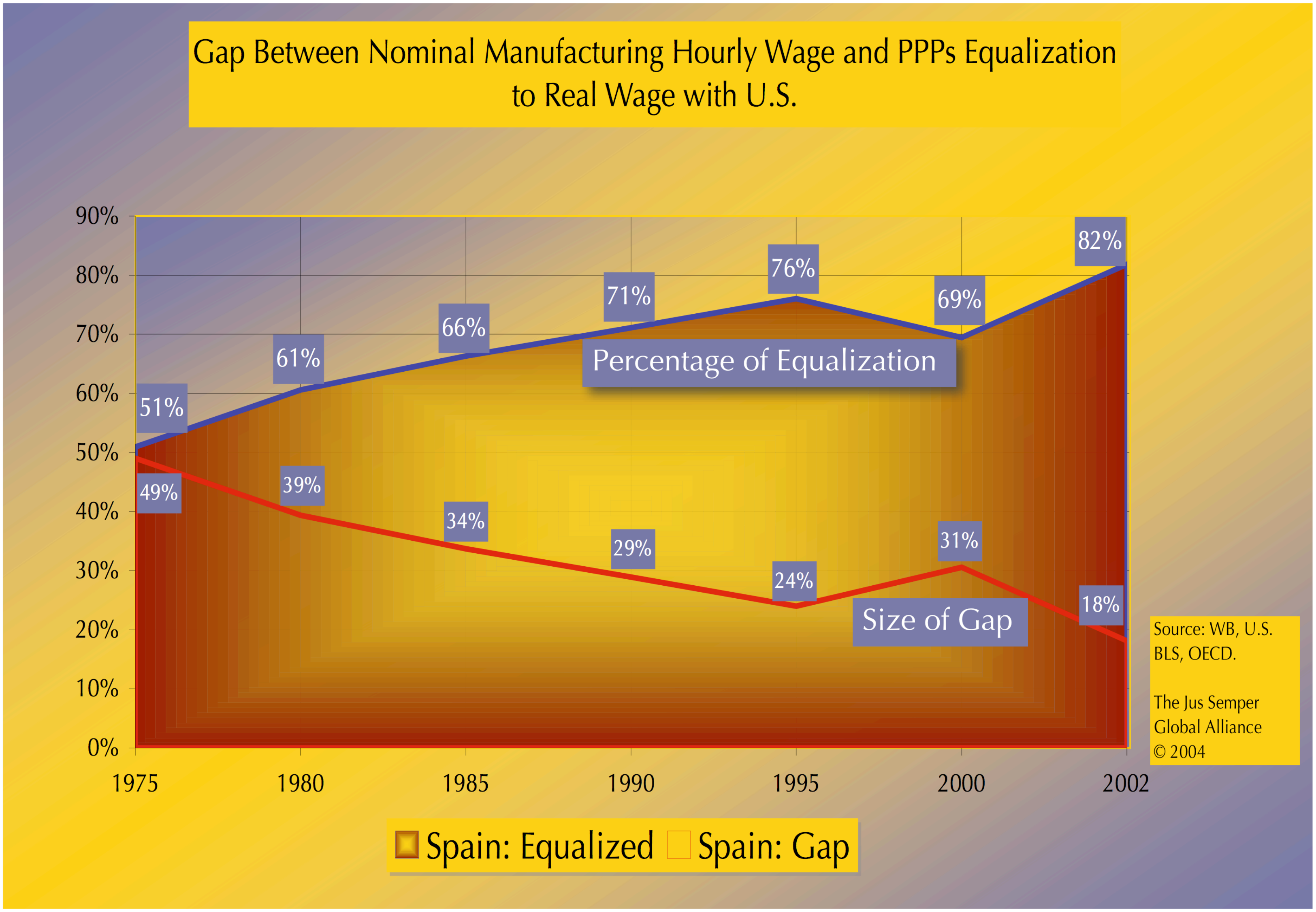

Gap Between Nominal Manufacturing Hourly Wage and PPPs Equalization to Real Wage with U.S.
Current U.S. Dollars
$18.00
$16.00
$14.00
$12.00
$10.00
$8.00
$6.00
$4.00
$2.00
$-
1975
1980
1985
1990
1995
2000
2002
Wage Gap
Spain Equalized
Spain Nominal


Gap Between Nominal Manufacturing Hourly Wage and PPPs Equalization to Real Wage with U.S.
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1975
1980
1985
1990
1995
2000
2002
51%
61%
66%
71%
76%
69%
82%
49%
39%
34%
29%
24%
31%
18%
Percentage of Equalization
Size of Gap
Source: WB, U.S. BLS, OECD.
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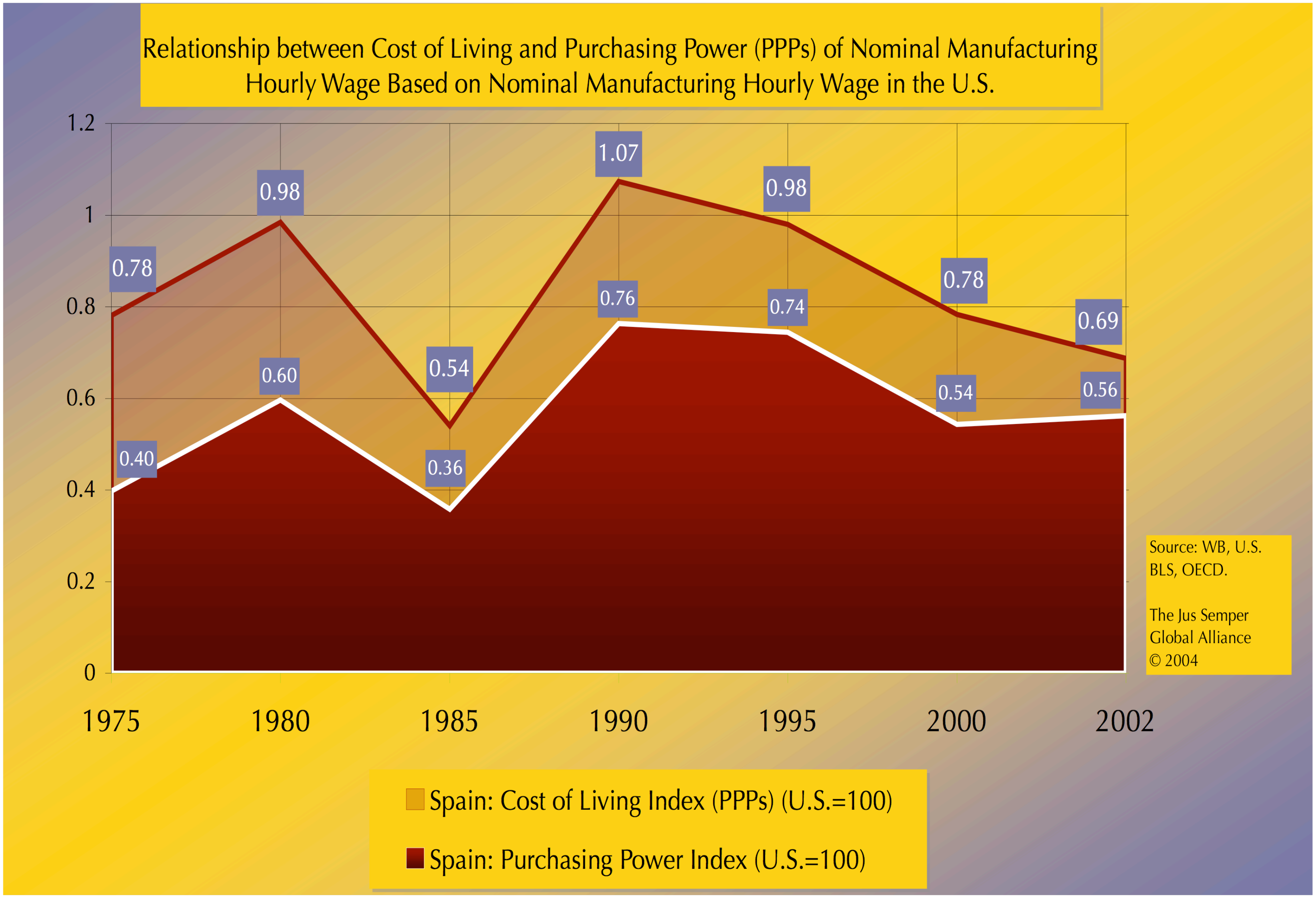
Spain: Equalized
Spain: Gap


Relationship between Cost of Living and Purchasing Power (PPPs) of Nominal Manufacturing Hourly Wage Based on Nominal Manufacturing Hourly Wage in the U.S.
1.2
1
0.8
0.6
0.4
0.2
0
0.78
0.98
0.54
1.07
0.98
0.78
0.69
0.40
0.60
0.36
0.76
0.74
0.54
0.56
1975
1980
1985
1990
1995
2000
2002
Source: WB, U.S. BLS, OECD.
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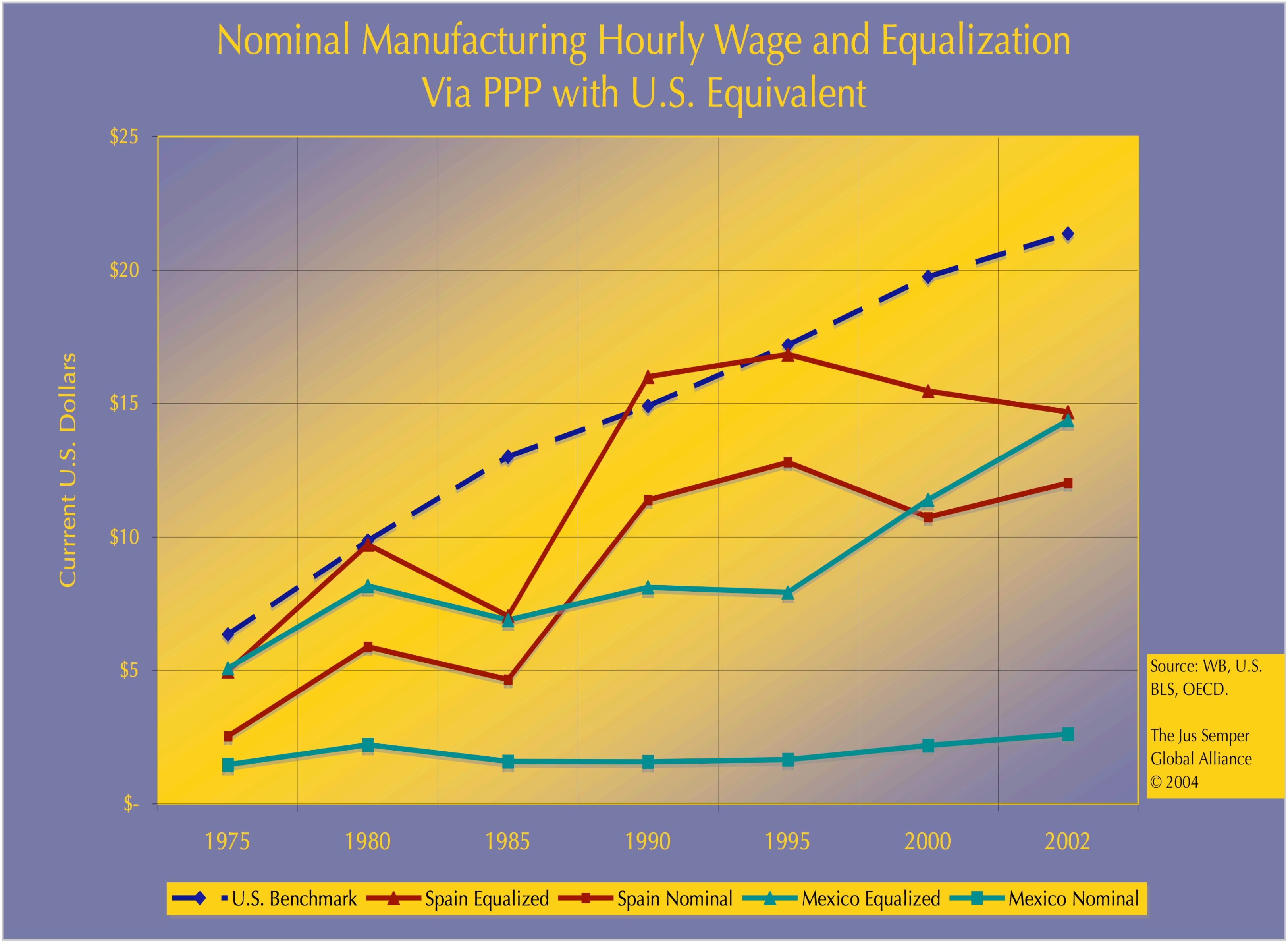
Spain: Cost of Living Index (PPPs) (U.S.=100)
Spain: Purchasing Power Index (U.S.=100)


Nominal Manufacturing Hourly Wage and Equalization
Via PPP with U.S. Equivalent
Current U.S. Dollars
$25
$20
$15
$10
$5
$-
1975
1980
1985
1990
1995
2000
2002
U.S. Benchmark
Spain Equalized
Spain Nominal
Mexico Equalized
Mexico Nominal
Source: WB, U.S. BLS, OECD.
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- ## Sources and References:

  - The original sources of this analysis:

    - 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 (includes costs, indices and exchange rates)
    - Comparative Real Gross Domestic Product per Capita and per Employed Person, Fourteen Countries 1960-1998, U.S. Department of Labour, Bureau of Labour Statistics, Office of Productivity and Technology
    - PPPs for OECD Countries 1970-2002, OECD 2002 and GDP PPPs historical series 1970-1999
    - Purchasing Power parities – Measurement and Uses by Paul Schreyer and Francette Koechlin, OECD Statistical briefs, March 200

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