



**PRESENTATION
ON
WAGES AND THE PURCHASING POWER INDEX**

by

Ruth Rosenbaum, TC, Ph.D.

Working Paper No. 41

**CREA: Center for Reflection, Education and Action, Inc.
PO Box 2507, Hartford, CT 06146-2507**

TEL: 860-586-0705 FAX: 860-233-4673 e-mail: crea-inc@concentric.net

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WAGES AND THE PURCHASING POWER INDEX

**LIVING WAGE CONFERENCE
University of Wisconsin-Madison
November 18-21, 1999**

Ruth Rosenbaum, TC, Ph.D.
Executive Director
CREA, Inc., Hartford, CT

INTRODUCTION

Many footwear and apparel companies have been the recipient of criticism from many sources during recent years because of the growing awareness and concern of consumers about the conditions under which some of the products they purchase are made. In the present state of the globalized economy, many companies, in many industries, arrange for the production and assembling of their products in countries where they can pay low wages and where they do not have to meet stringent regulations regarding workers' rights or environmental hazards. Such an arrangement increases the companies' profits considerably.

While the increased profits please Boards of Directors and most shareholders, some shareholders, especially those from the religious and socially responsible investing community, have joined in the criticism. Concerned about exploitation of workers, many of whom are young women or even children, these shareholders express to the management of companies that they do not wish to profit from human or environmental exploitation. In the past year, we have seen an outpouring from students, consumers, and others who are concerned with the on-going problem of low wages in contract supplier plants around the world.

In addition to their concern from a moral basis, these shareholders think that it is good business to improve the workers' conditions. They know that as workers' economic condition improves, these workers also become consumers able to purchase the companies' products, thereby actually increasing the market and future profits. They are convinced that the present state of the globalized economy is not an inevitable permanent state, but one that can be changed by human decisions so that more persons can share in the goods of our one Earth.

The Purchasing Power Index (PPI) is presented as an objective, verifiable tool that can be utilized by anyone interested in determining what wage levels would enable workers to live in human dignity, able to provide for the growth and development of their families and their communities. The PPI is available to companies, consumers, educational institutions and others concerned about workers any place in the world. The PPI is trans-cultural, and so makes this measurement possible no matter what country is being studied. As such, it can be used to facilitate positive change in the globalized economy.

Discussions about workers' wages call forth strong human emotions because wages affect the ability of workers to provide the basic needs of themselves and their dependents, most especially their children. Each stakeholder in the discussion brings to the dialogue a given set of values and a different perspective on the responsibility of companies for the workers' conditions in the facilities operated by their suppliers, vendors, or subcontractors. In addition, each stakeholder brings to the discussion a set of terms (words or phrases) as well as his or her personal, internal understanding of the meaning and connotations of those terms.

Discussion about wages has to begin with a set of commonly understood terms. This requires the willingness of all participants to allocate sufficient time to reach a mutual understanding of the terms. An agreement to give this time is crucial if the discussion is to be clear both in content and purpose. As a contribution to the building of common understanding, the various sections of this presentation are designed to include the explanation of the specific terms and values that are being used.

It is the hope and trust of the author that this presentation entitled *Wages and the Purchasing Power Index* will lead to constructive action that helps to create a more just globalized economy.

Section I: WAGES AS LEGAL, ETHICAL, MORAL OR JUST

In structuring this section, we propose terms that are helpful in talking about wages:

- wage as legal
- wage as ethical
- wage as moral
- wage as just.

1. Legal Wages

Legal minimum wage means what companies can pay their workers without violating the law of a particular country. Legal minimum wages are not predicated on nutritional needs, or any other needs workers have on an on-going basis. Often, they are based on the need to attract businesses to a country or a region within a country in order to create jobs. When this happens, workers' wages become a competitive advantage or disadvantage, depending upon one's viewpoint. Corporations seek production sites where wages are kept as low as possible by the legal standards, so that the corporation itself may become more "profitable." We see this reflected in the numerous codes of conduct which individual corporations and industries are producing. These public corporate standards assert that what the company is doing is legal, that the company adheres to the minimum wage laws of the countries in which it operates. The legal minimum wage then becomes normative, despite the negative effect on workers.

Several institutions within society can affect legal wage levels. Unions and legislative bodies are also actors in the establishment of minimum wage laws. Where workers are able to organize independently and effectively, they can be positive agents of change in their negotiations with companies since contracts are legally binding agreements. Therefore the right to organize and the right to collective bargaining are critical aspects of determining a legal minimum wage. Where legislative bodies are responsive to the needs of citizens, they can create laws that raise the minimum wage. Whether these *legal* wage levels enable a worker to meet basic needs is a separate question.

2. Ethical Wages

Leaving aside the philosophical discussion of the meaning of ethics, it is important to recognize that business ethics, medical ethics, etc, have become colloquially understood as a behavioral standard which is acceptable within a particular group or industry. This is also the dictionary definition of ethics.

Therefore, business ethics, or the ethics within a particular business segment, can be understood as the self-defined and self-accepted standard of practice of that industry or business segment. In other words, what the industry says about itself as acceptable practice becomes the accepted public standard.

We see this reflected in codes of conduct in which a company states that its wages are “the prevailing industry wage.” This ethical standard for workers’ wages is, then, based on the wages that keep the corporation competitive. Again, the question as to whether these *ethical* wage standards enable a worker to meet basic needs for his/her family is a separate question.

At the opposite poles of corporate organizations, we see CEO salaries increasing at incredible rates while workers at the bottom of the corporate structure are often forced by the system to compete in a race to the bottom. The CEO and top management salaries are also determined within the industry to be ethical, since the Boards of Directors in the industry say they are necessary to attract the best talent and the best management for the company. This also is a statement of “prevailing industry wage (or salary).”

3. Moral Wages:

The moral dimension of actions pertains to the established standards of goodness and badness of behavior. It implies that the standards arise from human conscience.

When we raise moral questions about wages, we are immediately forced to raise the question as to the purpose of wages. As a moral standard, the wages of workers should reflect the contributions they make to the corporations in which they are employed. Likewise, workers should be able to meet their own needs and the needs of their dependents. It is important in this context to define need, not as “bare minimum” but as those needs which allow the worker and his/her family to be productive, contributing members of their communities. Moral wage levels allow a worker to be a functional member of his/her community in a socially appropriate manner that takes into consideration the cultural norms of a society. A simple example would be the exchange of gifts at Christmas or Chanukah or Kwaanza in the U.S.

From a religious perspective, moral questions regarding wages proceed from the belief that each and all human beings are made in the image and likeness of their God. Human beings are not to be seen as machines, which need a minimum of fuel and maintenance in order to produce.

From a humanistic perspective, to be a human being means to be both an individual person and a person in relationship. Therefore, the demands of work-for-wages should take into consideration the amount of time needed for these relationships, such as significant time to spend with one’s family, and a work -day short enough for people to serve their communities. Wage levels themselves should be sufficient to contribute not only to the needs of the individual and his/her family, but also to the sustainable growth of human communities.

4. Just Wages:

When we speak about wages in terms of justice, we raise the question of the distribution of benefits resulting from the production and sale of products and services by any corporation. Wages are examined not only as a measure of compensation for individual workers, but also as a measure of the goods and services coming into and leaving a community because of corporate activity. Will the community be sustainable because the ripple effect of the worker's wages benefits other community members and contributes to the development of the community? Is there a spreading out of the benefits resulting from the production and sale of products and services or is there a concentration of wealth in the hands of the few? Will the community suffer as diminished wages result in diminished resources for other community activities and development?

Just wages will also allow for the development of a sufficient tax base so as to provide for the *Common Good* through the development of adequate physical and social infrastructure for a community.

Justice also requires that stakeholders in economic operations consider the issue of the ongoing concentration of wealth throughout the world in the hands of the few within each country, and in the hands of some countries more than others. The unequal concentration of wealth in the hands of a few deprives the vast majority of persons the benefit of Earth's resources.

Section II: DEFINITIONS OF WAGE LEVELS

The following are the working definitions of wage levels that CREA uses to describe the purchasing power that workers are able to earn. Agreement on these definitions could be helpful to discussions about wages.

Level 1: Marginal Survival Wage

Wage level does not provide for adequate nutritional needs. Starvation is prevented, but malnutrition, illnesses, and early deaths are the result.

Level 2: Basic Survival Wage

Wage level allows for meeting immediate survival needs including basic food, used clothing, minimal shelter, fuel for cooking.

Level 3: Short Range Planning Wage

Wage level meets basic survival needs.
Possibility of small amount of discretionary income allows for minimal planning beyond living from paycheck to paycheck.
Allows for occasional purchase of needed item(s) as small amounts can be set aside from meeting basic survival needs

Level 4: Sustainable Living Wage

Wage level meets basic needs including food, clothing, housing, energy, transportation, healthcare, and education.
Ability to participate in culturally required activities (including births and related celebrations, weddings, funerals and related activities).
Also allows for the setting aside of small amounts of money (savings) to allow for planning for the future purchase of items and meeting of needs.

Level 5: Sustainable Community Wage

In addition to meeting basic needs and allowing worker to set aside money for future purchases, allows for the availability of enough discretionary income to allow worker to support the development of small businesses in a local community, including the support of cultural and civic needs of the community.
Wage levels allow for long range planning and participation.

While many higher wage levels exist, CREA has found that these levels are the most helpful in discussions about wages at the present time.

Section III: A REVISED STAKEHOLDER MODEL AND THE ISSUE OF WAGES

Traditionally, the concept of stakeholders has been defined in terms of the interest of the corporation. This has been true even as the corporation has developed from local through national, international, multi-national or transnational permutations. This is reflective of the importance which corporations have come to hold in the lives of communities throughout the world. According to business management terminology, the various stakeholders in a corporation are the constituencies upon which a corporation must depend in order to function. Among the entries on a stakeholder list might be governments, labor, consumers, suppliers, etc. without whom the company could not function. A second definition includes in the stakeholder lists those persons or groups which are affected by the manner and means in which a corporation functions. Both of these stakeholder definitions start with the corporation; it is the interests of the corporation, which are at their center. However, both of these definitions are based upon the idea that stakeholders exist because they have an interest in shaping the functioning of the corporation.

There has been little evidence that this system of stakeholderhood serves to hold a corporation to accountability in manner that would allow for the development and maintenance of sustainable communities. (Included in the understanding of a sustainable community would have to be the payment by the corporation of sustainable community level wages.) I believe that this is because the very definition of stakeholderhood is flawed by virtue of putting the corporation at the center of the definition. By placing the corporation at the center of the conversation and by demanding that all the stakeholders assist the corporation in doing what it ought to be doing for itself, this model of stakeholderhood will never provide for accountability which will lead to sustainable community level wages and, by extension, sustainable communities.

If we re-define the definition of stakeholder, its center is now the creation and maintenance of sustainable communities. Within this definition, the corporation is one of the stakeholders in the movement towards sustainability. In this inverted design, if a corporation is allowed to operate in a community, it must see itself as part of a system in which community sustainability is the aim. Therefore the corporation will be led to a system of mutuality and accountability which was the original aim of the responsibilities assigned to a corporation in return for the privilege of incorporation.

In this new definition, the sustainable community is the aim. It is the community that is "at stake". In order to achieve this, the first step would be the recognition of the membership in the two main groups of stakeholders: the internal stakeholders and the external stakeholders.

Part A: The Internal Stakeholders:

The internal stakeholders would be those actually in the community. The list of internal stakeholders would recognize each and all of the groups that interact within the community. While it is obvious that some persons would belong to more than one group,

in order to safeguard all, the importance of all the constituencies must be recognized. Included in this group, but not limited to them, would be families, workers, educators, healers (medical), peacekeepers, women, men, children, the elderly, teenagers, ministry persons, sanitation workers, etc. In addition, there would be the need to recognize the various ethnic and racial groups that might be present in a community. As members of a given community change, mechanisms would be needed to ensure that new member groups could be represented.

The inclusiveness of the list would, by its very nature, be reflective of the recognition of the importance of each of these member groups within the community. The importance of this aspect is not to be underestimated. As various governmental actions operating in the United States as well as in other countries proceed with their agendas, more and more groups are moved to the position of marginalization. It would seem that one of the requirements of a system for sustainability would be the prevention of marginalization of any group within the community.

Part B: The External Stakeholders:

The second group would be the external stakeholders. By definition, external stakeholders will be coming from outside the community and will be removing something from the community. What is removed might be products, services, labor or natural resources. It is necessary to recognize that what is added or exchanged for what is removed must be in proportion to the value of what has been removed.

External stakeholders would be groups recognized as impacting on a community but not being a direct part of the community. Among those included in the external stakeholders would be three important groups: national government, corporations and shareholders in corporations. In the case of national government, there would be the requirement that national activities be respectful of the needs and processes of local communities. Among other indicators, taxes could be used as a measurement of exchange between the local community and the national government, again with the measurement of balance being between the taxes paid and the services or substance received in return.

Corporations would need to re-define themselves and their activities to see themselves as entering into a community upon which all corporate activities will have impact. This impact may have both harmful and beneficial effects. It would be a requirement of integration of the corporation as a stakeholder that the benefits of corporate presence might be further developed and any harm caused by corporations would be minimized.

The key role that corporations play in a community is that of providing jobs which yield wages. As has been seen, it is possible for wages to be paid which, while legal, still do not meet the basic standard of sustainable community level wages. This is not to say that wages should not rise above this level; rather that sustainable community level wages should be the minimum wage level paid to workers.

The ripple effect that occurs from the presence of discretionary income at the sustainable community wage level is crucial to the stability of a community. By giving workers a sense of control and choice over their purchases, the ripple effect also allows for the support of small businesses. The presence of other businesses besides the corporation is crucial for the community. The more broad-based the economic stability of a community is, the greater chance that the movement of any one company into or out of a community will not have destructive effects. This is not to say that any job loss is not a negative effect. Rather, it is that the broader the base of economic support, the greater stability a community will have in times of economic change.

Shareholders will also have to see themselves as stakeholders in the communities where the corporations in which they are invested are operating. This is critically important. At the present time, shareholders are passive recipients of the resources of a community through the corporation's activities in that community. Where shareholders were originally part of the granting of incorporation and the required functioning in terms of the good of the community, they are now passive recipients of the productivity of the company. In the past, it has been argued that shareholder benefits in the forms of interest and/or dividend were the return to the shareholder for the "risk" that was involved in investing in the corporation in the first place. Now, however, the whole work of the financial management industry is to minimize or even remove that risk.

In addition, shareholder investors no longer hold equities for extended periods of time. Stocks are bought and sold with only the interest of the investor being taken into account. Even bonds, traditionally a longer-term investment, are now bought, sold and traded with a rapidity and flexibility never before the practice. Because both of these investment vehicles are no longer seen in terms of investing in a corporation which in turn is invested in a community and its welfare, shareholders can now be described as passive recipients of the profits of the company with no return to the community from which those profits are derived.

Even those involved in socially responsible investing can be considered external stakeholders. It is true that socially responsible investors raise questions regarding various aspects of corporate functioning. It is also true that socially responsible investors have been raising issues regarding corporate functioning in numerous countries throughout the world. However, it is only recently that investors involved in the SRI movement have begun to raise issues related to sustainability. In the time since the stakeholder model was re-designed, it has been used in several works. These include the Principles for Global Corporate Accountability, the global code of conduct for corporations proposed by interfaith organizations in the U.S. (ICCR), Canada (TCCR) and the United Kingdom (ECCR). In each of these, as we shall see, no one is arguing with the re-designed concept of stakeholder. Rather the underlying issues are those of accountability.

Section IV: PERSPECTIVES ON THE PURPOSE OF WAGES

Different stakeholders within the social and economic systems of communities define the purpose of wages according to their own values and goals, and their personal and cultural life experiences. Discussion about wages are most productive when these various perspectives are clarified. Such clarification takes time, and require a willingness to allocate that time because of the seriousness of the issues.

- A. **The employer's perspective** is to obtain and retain qualified workers, and to manage wages so that the desired profit is realized after paying the wages. The employer's attitude toward the employees is also affected by the attitude of his/her culture toward human social and economic rights.

- B. **The employee's perspective** is to make enough money to provide for basic needs for him/herself and his/her dependents, and to have enough money to make a better life. Employees are also affected by the cultural attitudes toward human, social and economic rights. At a distance, employees are often impacted on the value that the global community places on citizens of different communities.

- C. **The community** as organized in a local, state or national government can have varying perspectives on workers' wages depending on who has legal, cultural, political, economic and/or military power. Those who have the power to make or influence the legislative and judicial system, and/or to control the education system, the media and the military, have the power to achieve their own purposes. These purposes may be beneficial to the community, or they may be harmful.

Culturally, the shared or dominant culture, through education and/or the media, has the ability to create large segments of a population that accept a given situation as the norm – whether that situation is in reality harmful or beneficial. Historically, the result has been a range of economic (and wage) standards for different segments of populations. Even more important, these activities have often resulted in the mindset that different standards of living are acceptable for different populations within a country, and/or persons in different countries.

This mindset is expressed in the wage scales that are considered “acceptable” in many countries where the effects of the globalization of the economy can be seen. Because people and/or communities have been poor historically, somehow it has become “acceptable” that they remain poor, even when their labor is the groundwork of this globalized economy.

In summary, then, in a discussion about wages, the various stakeholders need to make clear to each other their perspectives on the purpose of wages, and the perspectives of the countries in which the companies operate.

Section V: RELATIONSHIP BETWEEN WAGES, DEVELOPMENT AND/OR INDUSTRIALIZATION

A definite relationship exists between wages and the ability of both individuals and communities to shape their own future, a value also called “democracy” in the United States. This relationship is true of developing nations as well as geographic areas within industrialized countries that have not seen the same level of development as the rest of their respective countries. The role that wages have in creating

- a stable economy within a country,
- a stable economy for the development of a stable tax base,
- and a stable tax base which allows a country to decide its future

requires that the attention given to wage levels be seen in a broader context than the profits that a corporation can generate.

Although the terminology being used in discussions regarding development, investment and economic planning seems to be identical, at least five underlying perspectives are discernible, all under the umbrella of economics and development. Clarification of the terms is essential, and the following definitions and brief explanations are offered.

1. **Industrialization:** The establishment of an expanded industrial sector in a community.

What is often at issue is whether this industrial sector will be for assembly and export only, or whether it will be for the light and heavy industry necessary to meet the needs of the country itself.

Industrialization is the setting up of any industries that will do the following:

- a) allow for the creation of goods which are then marketed,
- b) provide centers for creating these goods,
- c) hire workers.

This industrialization has the following consequences:

- a) workers congregate in the area of the industrial center,
- b) requiring the development of systems of physical infrastructure including housing, sanitation, roads, electricity.
- c) and the development of systems of social infrastructure including schools, medical facilities, religious facilities.

Because the marketing of the products of industrialization usually does not occur at the center of production, decisions have to be made regarding the distribution of the benefits, profits, and costs of the industrialization:

- a) *Where are the profits to be made?*
- b) *Where will the benefits of the profits accrue?*
- c) *How will the distribution of the benefits of the industrialization affect the lives of the workers and their communities, especially if wages do not allow adequate purchasing power?*

2. Development:

Development is the establishment of a commercial base, where the purposeful design of the interrelationship between labor, management, resources, energy, products, marketing, land use, costs, profits, physical infrastructure, social infrastructure, etc. is for the benefit of the people, the communities, and the country.

The purpose of development is the empowerment of the people, communities and country over their own future, not the creation of a self-perpetuating system of dependency on outside funding which must eventually, and at great price, be paid back with interest.

3. Industrialization rather than development:

The establishment and expansion of industry, most probably assembly industry, rather than the establishment of the physical and social infrastructure as well as a comprehensive and varied economic base for the country.

4. Planning and industrialization/development from the perspective of outside investors:

This involves the marketing of a community as a place where money can be made by the investors. The question remains whether the jobs created will enable workers to meet their needs and regain control over their own lives and that of their community.

5. Planning and industrialization/development from the perspective of the people:

- a) The establishment of a commercial sector which will allow for the creation of sufficient jobs paying sustainable community level wages.

- b) The establishment of a commercial section which allows both the decision-making and the profits to accrue to the people, their communities and their country.
- c) The creation of jobs which reflect the resources of the people, their culture and creativity.
- d) The expansion of micro-enterprise which will allow the movement of those dependent on the informal to the formal employment sector.

Each approach listed above reveals a vision for a community and the associated, underlying values. Each should be analyzed in terms of who will benefit and who will be harmed.

Questions which remain:

- 1) *What type of development and/or industrialization is desired by the people?*
- 2) *Who is determining what development and/or industrialization should occur?*
- 3) *What is the source of the right or authority to make those decisions?*

Section VI: CHARACTERISTICS OF METHODOLOGY NEEDED TO UNDERSTAND WAGES AND THEIR EFFECTS

Any methodological framework used to inform both the discussion of wages and the actual wages for workers needs to have several components and meet certain criteria. For information regarding wages to be helpful and useful on an on-going basis, the following are required:

1. The framework needs to allow comparison over time. Because the inflation rates in many countries are a serious factor in the affordability of goods and services for everyone, the framework needs to not apply a “one time” set of numbers over an extended period of time whether the time period is months or years.
2. The framework needs to allow comparison from place to place. Within countries, prices vary between city and rural areas as well as from city to city. Prices vary between traditional markets and established stores. The methodology needs to take into consideration these variations and be able to place them within the context of the work done.
3. The framework needs to allow comparison between countries without using the currency of one country as a standard for other countries. For example, it is not helpful to talk of prices in any country in terms of US currency. The effects of using the dollar or some other currency standard outside the country about which you are speaking is to artificially mask the expensiveness of everyday commodities for workers. What seems relatively cheap for someone from the US earning US dollars but purchasing something in El Salvador is extremely expensive for someone earning colones in El Salvador or rupiah in Indonesia.
4. The framework needs to avoid using percentages. A percentage of a percentage is a lower number, even if the percentage increases. (The only exception would be, of course, when the percentage is more than 100%.) In addition, percentage methodologies (i.e. what percentage of income is spent on something) are predicated on the idea that some “expert” has the moral right to decide how someone should spend the resources he/she has.

**Section VII: PROPOSING AN APPROPRIATE METHODOLOGY:
THE PURCHASING POWER INDEX**

The Purchasing Power Index provides data regarding the ability of workers anywhere in the world to meet their own needs and those of their families.

The unit of measurement is the *minPP* (the number of minutes of work required to purchase an item at a specific wage level.) Any worker, working a 40-hour workweek, has 2400 minutes of purchasing power (minPP) to spend each week. (40 hours x 60 minutes/hour = 2400 minPP) Likewise, a worker working 50 hours per workweek would earn 3000 minPP (50 hours x 60 minutes/hour).

The PPI methodology accurately measures the intersection of wages, prices and inflation while providing easily understood data that allows for comparison in three dimensions:

- a) Trans-Temporally: Purchasing power can be compared over time for any group of workers or for workers in specific regions;

EXAMPLE: Average minutes of Purchasing Power (minPP), at the legal minimum wage level, required to buy 1 kilo of rice (2.2 lb) in Haiti

Nov 1992	59 minPP
Nov 1993	64 minPP
Nov 1994	92 minPP
Nov 1995	121 minPP

(Source: *In Whose Interest*, CREA Inc., Hartford, CT, 1996)

- b) Trans-Culturally: Purchasing power can be compared from one region to another within a given state, region or country;

EXAMPLE: 1998 MetroHartford, Connecticut Regional PPI
Average Rent – 2 bedroom apartment
(pro-rated to cost per week at minimum wage)

Hartford	1780 minPP
East Hartford	1075 minPP
West Hartford	1748 minPP
Simsbury	2689 minPP

- c) Trans-Nationally: Purchasing power can be compared for different groups or workers doing the same work in different states or countries.

EXAMPLE: Cost of 1 kilo of rice based on the legal minimum wage in 1996

Jakarta, Indonesia (1996)	98 minPP
Matamoros, Mexico (1996)	35 minPP
Port-au-Prince, Haiti (1996)	106 minPP

The PPI combines the effects of wages, prices and inflation into a clear and precise assessment of the purchasing power accruing to workers as the result of an ordinary workweek. In addition, the PPI provides a means to assess the effects of any added overtime, subsidies, bonuses, benefits, and other additions that a specific company may offer and/or provide.

Section VIII: PURPOSE OF THE PURCHASING POWER INDEX

Analysis of wages is an essential element in any plan for economic development. However, discussion of wages, whether they increase or decrease, is misleading if wages are not seen within the context of prices at any particular time and in any particular place. For example, if wages are increased at the same time prices increase, then the effect of wage increases is often non-existent.

In a similar fashion, when a person travels to another region or country, the experience of items purchased as being "cheaper" for the traveler happens only because the traveler's wages are earned in another location or country. For persons living in any particular place, things are cheaper only if wages remain the same and prices go down, or if wages increase and prices remain the same.

Similarly, if an exchange rate changes, persons using the currency that has increased in value will experience the items being purchased in another country as being "cheaper". The person earning the lesser-valued currency experiences the same items as more expensive

Corporations use a tool similar to the Consumer Price Index when they are preparing to transfer a corporate executive from country to country or from one region within a country to another region. Because the cost of living is different in different regions, research firms are engaged which use a tool similar to a market basket survey. However, they do not usually use such a comparison tool when plants are opened or closed in different regions of the United States. Nor do they use this type of tool as a means of determining an adequate salary for assembly line workers in another country.

What will be seen as beneficial to one stakeholder within a community can often be harmful, or at least not beneficial, to another stakeholder in the same community at the same time. By using minutes of purchasing power (minPP) required for purchase, the question moves from "what is cheaper or more expensive and for whom?" to the real question: "What is affordable and for whom?"

The purposes of a Purchasing Power Index (PPI) study are as follows:

1. To provide an objective measure of a sustainable living wage standard specific to a country and region within a country.
2. To provide a means of assessing affordability of food, clothing, housing, transportation, and other items required for an adequate living standard. The key is affordability rather than the specific choices individual persons make.
3. To quantify the purchasing power which results from the wage scale(s) presently in use in each country where apparel products are manufactured.
4. To establish a sustainable living wage level for workers within a country and within a region of a specific country.

5. To establish a system of measuring the effects of inflation and other economic changes in each and any country on the purchasing power of the workers at any manufacturing facility in that specific country.
6. To quantify the changes in purchasing power resulting from the intersection of any wage changes, price changes and overall inflation as such changes occur.

Section IX: ADVANTAGES OF THE PURCHASING POWER INDEX (PPI)

Advantage 1:

The PPI methodology provides easily understood data. Anyone who has ever worked and saved for something understands the concept of “how long do I have to work to be able to afford something”.

Advantage 2:

The PPI methodology is a transparent methodology as a whole process. In addition, each step in the methodology is transparent. Both the methodology and the results are easily understood.

Advantage 3:

The PPI methodology automatically factors in the effects of inflation as well as the effects of changes in wages and/or prices. It also allows for the inclusion of the benefit of wage additions such as subsidies, benefits, bonuses and any other additions to a worker’s income. When these additions supply the items noted in any of the different wage levels, the cost of those items can be deducted from the total required for a worker to meet that given wage level standard.

In calculating the benefit of any of these subsidies, etc., care must be given to not presume that the addition of a specific wage addition item takes the place of income needed to meet other needs. Employers, not employees, decide upon wage addition items. Certainly wage addition items add to the lifestyle of the workers and their families. However, the presence of the items may or may not supply life essentials for workers and their families.

Advantage 4:

The PPI methodology allows for specificity in each geographic “focus area” while providing data that establishes a basis of comparison between one geographic location and another. Because costs differ from area to area, the wages required to meet those costs will also differ. The PPI provides a clear methodology for comparison.

A comparison of the cost of self-sufficiency in rural, suburban and urban regions within a country is also possible. These different locations can be as varied as comparisons between inner-city and suburban locations within a state, between different cities in a country or between different countries, such as on different sides of a border.

The ability to compare purchasing power from one geographic area to another means that the PPI provides the data to track the effects of jobs being moved from one country to another. Chief among these effects is the purchasing power that may or may not be transferred from the old group of workers to a new group of workers in another country.

Advantage 5:

The PPI methodology allows for both specificity and comparison over time. Any future follow-up studies provide the data in the same form: minutes of purchasing power required (minPP). It is therefore relatively simple to see what progress has been made by workers in their struggle to meet basic needs.

For example, the PPI can determine how many minutes of work are necessary to purchase a kilo of rice in January 1998 in a particular geographic location and then at three or six month intervals after that. This allows us to determine the effects of inflation, currency devaluation, new contracts, and/or wage increases.

The PPI methodology is based on affordability. It totally avoids the distracting discussions about whether or not persons make prudent use of their financial resources. It removes the whole question of judgement of values normally involved in decisions as to how one spends one's money. The PPI states what is possible in terms of the purchasing power accruing as the result of a normal workweek. At different wage levels, what changes are the "prices in purchasing power minutes" or the cost in work minutes" according to the varied wage levels. Questions as to whether a person is spending money in a manner which another person might consider "frivolous" is no longer part of the discussion. The emphasis is on what is affordable, not what is chosen for purchase.

Advantage 6:

The PPI methodology allows for the items chosen for pricing to be culturally sensitive. By doing actual pricing, the PPI pricing lists can be inclusive of foods and other items particular to any group within any local population.

In addition, the PPI allows for the cost of the community or cultural norms of a worker's life to which he/she is required to contribute. Another way of saying this is that wage levels need to be culturally honorable. For example, the contributions required of a person when there is a wedding, or a birth or a death in the community need to be financially possible.

Advantage 7:

The PPI creates a means of comparing the purchasing power earned by workers/employees at different wage levels, including management wage levels. It also allows comparison of the effects of wages paid by different employers whose workers do the same work.

Advantage 8:

The PPI changes the context of the expression “minimum wage”. There are questions that then can be asked:

- Minimum in terms of what context?
- Is minimum wage the minimum amount that a person needs to survive?
- Is it the minimum established by the local governing power as the least amount that the employer is obliged to pay the employee?

Advantage 9:

The PPI methodology provides precise calculations accepted by corporations, non-governmental organizations (NGOs,) religious investors and other members of the socially responsible investing community. The variety of groups that have commissioned the prior studies undertaken by CREA testify to its acceptance and relevance. The response of numerous public groups that have read public reports of the past studies has been overwhelmingly positive.

Section X: SCOPE OF THE PURCHASING POWER INDEX

Purchasing Power Index (PPI) studies can, and have been, constructed from several starting points:

- A first option is to conduct a PPI for a specific company operating or sourcing from a specific facility.
- A second option is to examine a given industry or company anywhere it operates or sources around the world.
- A third option is to conduct PPI studies on a countrywide basis with regional specificity. The results can then be applied to each and any company sourcing within that country.

It is most cost effective, time effective and personnel resource effective to conduct a series of PPI studies for each of the countries where the products either of a given company or industry are sourced. For example, an Indonesia PPI study could be used for companies sourcing footwear, apparel and associated products in Indonesia. In this way, the cost of the country-based studies can be shared among the various stakeholders whose products are sourced within that country. The results of these country-based studies can then be applied to the individual companies sourcing in a particular country and the wage and benefits levels they provide to workers.

The schedule of the country-based studies would be based upon which countries have the highest concentration of factories where footwear, apparel and associated products are produced. The studies would then be begun in succeeding months to complete the first round of studies as soon as possible.

By using a consistent and established method of ascertaining the sustainable living wage requirements in each country, the corporations, investors and consumers would benefit from a consistent standard of information, analysis and reporting. It would also enable the cost of the PPI studies needed for each country to be shared.

For example, CREA is presently conducting a multi-year PPI study in Indonesia, concentrating on the regions within the country where footwear and clothing products are produced. Data is being collected and analyzed each quarter for the duration of the study to assess the purchasing power accruing to workers as a result of the wages they are earning, the actual prices of commodities workers need to purchase and the on-going fluctuation of the local currency. For each quarter, the standard of the sustainable living wage level required for workers is then being calculated for each of the industrial areas within the country. Each quarter, the PPI study will provide specific information as to the wage levels necessary to achieve a sustainable living wage at the same time as assessing the effects of the wage levels presently in use.

Section XI: METHODOLOGY OF THE PURCHASING POWER INDEX STUDY

A. Data Collection

1. A pricing list is determined for each of the countries for which the study is being done. The lists are culturally specific and country specific, and are constructed with the assistance of persons indigenous to the individual countries as well as the local regions where the studies are being conducted. Care is taken to include the pricing of foods that meet nutritional needs as well as caloric needs.

A list of items is developed for the Purchasing Power Index (PPI) study to include the following:

Food	Transportation	Cooking fuel	Rent
Potable Water	Clothing	Lighting	Education
Medical Care	Other (as culturally required)		

2. A specific time period is designated during which the pricing is taking place in each of the geographic areas involved. When a specific corporation requests the study, the corporation provides wage stubs as well as related wage data.

3. Pricing is done in a systematized and independent manner in each of the locations where manufacturing is done and/or workers live. The pricing is done at each of the larger stores as well as at a number of the smaller food stores in the area where the workers live. The pricing includes item, quantity and price.

4. The analysis of the pricing data begins with the legal minimum wage in each country (or regional area within a country). The completed analysis provides the data to ascertain the adjustment required to move wage levels from these legal minimums to that of a sustainable living wage level. The analysis takes into consideration all the types of subsidies and benefits that various companies provide for clients.

The analysis provides the ability to ascertain the purchasing power resulting from legal minimum wage standards, prevailing industry wage standards as well as calculating a sustainable living wage standard and the sustainable community level wage. This wage analysis provides the ability to determine a sustainable living wage for one worker, a worker with one dependent, the average family size unit in a country, and other "worker+dependent" groupings.

B. Data Processing and Analysis

1. All pricing from all sites is converted to standard unit sizes for each item priced.

2. The actual working time of the workers is used to calculate the workweek. For example, a 40-hour workweek generates 2400 minutes of purchasing power. A 50-hour workweek generates 3000 minutes of purchasing power per week.

3. Calculations are done to incorporate the realities of the individual country's wage calculation system including:

- a) the fact that workers are paid by the work day,
- b) the daily wage can include payment for hours which are pro-rated over the workweek, subsidies which are paid, and other country specific items which affect purchasing power. The relationship of all benefits is also included.

4. The "price of each item" is re-calculated according to the number of minutes of work necessary to purchase the item. The prices in minutes of purchasing power (minPP) is then calculated for each of the geographic areas where pricing is done.

5. The percentage of the worker take-home pay necessary for the purchase of each item can also be calculated. For this percentage calculation, the price of each item (in minPP) is compared with the total purchasing power earned in an average week.

NOTE: This percentage is NOT the same as calculating what percent of a budget is spent on each item. The focus of all PPI studies is the affordability (or lack thereof) of each item.

6. The "prices in minPP" for the commodities, as measured in a specific study, can be compared with the cost in minPP as determined by subsequent studies.

C. Calculations Possible Based on the Data Analysis

The complete Purchasing Power Index study report provides the data and analysis required to measure the purchasing power generated within a specific country and/or region within a country of:

- a) *the legal minimum wage,*
 - b) *the prevailing industry wage and*
 - c) *the specific wages plus benefits, and bonuses paid by a specific corporation.*
- In addition, it provides accurate calculations of the wage requirements for workers to achieve a sustainable living wage.*

In addition, the complete PPI study accurately determines the purchasing power necessary for:

- a) *a sustainable living wage*
- b) *a sustainable community level wage.*

The latter can be calculated for an individual worker, one worker plus one child, one worker plus one adult dependent and any other social group which is common in the country and society where the study is done.

Section XII: Sample Applications of the Purchasing Power Index

The following data samples from completed PPI studies highlight the housing and related costs in Matamoros, Mexico, and Hartford, CT. When used with the additional PPI data regarding food, clothing, medical costs, potable water, education and other required items, a complete and clear picture of the effects of wages is presented.

Sample One: International Application

The 1998 Matamoros, Mexico PPI study provided the following information:

Housing and Related Costs (Costs in minPP)

Hourly Workers at a Maquila Factory, Matamoros, Mexico	Hourly Base Wage in Pesos	Average Weekly Cost of Rent in minPP	Average Weekly Cost of Butane Gas for Cooking in minPP	Average Weekly Cost of Electricity in minPP	Average Weekly Cost of Candles in minPP	Average Weekly Cost of Potable Water in minPP	Average Weekly Cost of Bus Transport in minPP	Average Weekly Cost of Transport by Group Taxi in minPP
	<i>COST in pesos:</i>	\$108	\$20	\$17	\$8	\$63	\$26	\$23
Group 1	\$6	1080	200	170	80	630	260	230
Group 2	\$7	926	171	146	69	540	223	197
Group 3	\$8	810	150	128	60	473	195	173
Group 4	\$9	720	133	113	53	420	173	153
Group 5	\$10	648	120	102	48	378	156	138
Group 6	\$11	589	109	93	44	344	142	125
Group 7	\$12	540	100	85	40	315	130	115
Group 8	\$13	498	92	78	37	291	120	106
Group 9	\$14	463	86	73	34	270	111	99
Group 10	\$20	324	60	51	24	189	78	69

As soon as the price of rent is converted into minPP units, the domination by housing costs of available purchasing power provided by the base wage levels of the regular workweek is clearly demonstrated. When the other basic living costs of water, cooking fuel, light and transportation are added to the total, the amounts of purchasing power remaining are not sufficient to cover the costs of nutritional food, clothing and healthcare related articles.

Sample Two: Domestic Application

The 1998 MetroHartford, CT PPI study provided the following information. Starting with the standard 40-hour workweek:

40 hours=	2400 minPP
Average rent (2 bedroom apartment)	- 1780 minPP = 620 minPP
Average electricity	- 113 minPP = 507 minPP
Average heating (pro-rated/month)	- 175 minPP = 332 minPP

This means that 332minPP remain each week to pay for food, transportation, medical costs, clothing, and other basic needs. With the cost of a gallon of milk averaging 33 minPP, the limitations of the minimum wage in the metroHartford area are demonstrated. (Note: In the complete study, all subsidies, such as Section 8 housing when available, are included in the analysis.)

Section XIII: Conclusion

The legal minimum wage in a country is based on a definition of minimum as the legal minimum amount that an employer is obliged to pay. The prevailing industry wage is based upon the wages that are generally accepted as competitive wages by the management of companies within an industry. Neither the legal minimum wage nor the prevailing industry wage addresses the reality of the minimum purchasing power a worker has to have in order to meet the needs of his/her family.

The Purchasing Power Index Study addresses that reality. It provides an objective, replicable measurement of the purchasing power of wages received, and it enables calculations to be made to determine sustainable living wages.

The argument that a low paying job is better than no job is basically flawed. It does not answer the question of the responsibility of the employing company to its workers. Companies exist in a situation of mutuality with their workers and with the communities in which they operate. This mutuality requires, among other things, that wages paid in return for labor enable workers to meet their needs, especially in regard to food, clothing, housing, energy for lighting and cooking, transportation, potable water, medical care, and education as well as the fulfillment of social obligations within that particular society.

Companies move jobs so that they may be more profitable and remain competitive within their respective industries. In many instances, part of that “profitability” comes from the transfer of jobs without the transfer of an equal amount of purchasing power. The loss of purchasing power as the jobs are moved from one group of workers in one country to another group of workers in a second country is part of what is “siphoned off” as profit by the company and shared out with shareholders.

It is clear to many concerned world citizens that the present global economic system is harmful to many persons in our world. The efforts of concerned shareholders, and the developers of tools such as the Purchasing Power Index, are intended to help to modify and change that system. Persons who are in positions of power in corporations are invited to join in working toward a more just global economic system by using the Purchasing Power Index to determine and to pay sustainable living wages wherever they operate.

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Appendix: The Importance of Wages and the Distribution of Economic Power within Countries

The local, state or national government of a community can have varying perspectives regarding wages and power depending on who has legal, cultural, political, economic or military power. Those segments of the population who have the power to make or influence the legislative and judicial systems, and to control the education system, the media and the military, have the power to achieve their own purposes. These purposes may be beneficial to the common good of the community, or they may be harmful. The following two scenarios from either end of the spectrum—harmful to beneficial – illustrate these possibilities. Unfortunately, real life examples of the first are only too available. What concerned citizens, and concerned shareholders in companies hope for and work towards, is the second scenario.

First Scenario: Harmful to the Common Good of a Community

The government, under the influence or control of economically and politically powerful segments of a society, determines legal standards that permit the concentration of the benefits of economic operations in the hands of a minority of the population. This minority of the population then increases in privilege and power. The government establishes minimum wage laws that set the minimum wage at the marginal survival level or the basic survival level. These wages fail to provide sufficient purchasing power for workers to meet their needs or the needs of their dependents.

The laws also permit the use of police or other force to repress the efforts of workers to achieve a just distribution of the benefits. These permissions are often granted for the reason that those making or interpreting the laws have adopted the prevailing mind-set about what is appropriate for particular segments of the society, or they expect to benefit themselves either through contributions received or through future contacts beneficial to themselves.

The concentration of wealth in the hands of a minority of the population (in any country) has often led to a divided and polarized society. This often results in civic unrest, followed by increasingly violent repression. The violent repression leads to more reactive violence, and eventually civil war. Foreign investment declines or stops because of the civil instability. The majority of the society suffers.

Second Scenario: Beneficial to the Common Good of a Community

The legal standards lead to the distribution of the benefits from the production and sale of products and services of companies over a spectrum. Employees are recompensed in just proportion to their contribution to the production or services. Culturally, the education process and media support this system. The society is not polarized. A sustainable community is created because sufficient income is generated to invest in education, health services, scientific research, and the arts. This leads to further opportunities for employment and development.

While this second scenario may appear to be idealistic, it is actually possible when members of a community value the common good, and make their legal, political and educational systems reflect that value. Systems, including the present system of a globalized economy, are not inevitable results of some unseen forces. Systems are the result of the decisions of human beings, and therefore can be modified and changed.

It is possible to create a just global economic order. The question is whether we have the will to do so.