



**Applications of The Purchasing Power Index  
In Haiti, Indonesia, Mexico and Hartford, CT**

by

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## Section I: Wages in Context

### A. The Will to Define a Sustainable Living Wage

As responsible global citizens, participants in discussions or negotiations about workers' wages have to approach the issue of wages with a common understanding of the realities of poverty in the lives of real people. We have to recognize that:

- No one gets used to being poor, to not having, to doing without.
- No one gets used to seeing their children go hungry, or without medical care when they are sick.
- It is historical chance that places one group of persons in a resource-available, rich country with access to those riches, while another group struggles to survive in a community without riches or access to them.
- Rich countries and communities have often achieved that richness at the expense of economically disenfranchised countries and communities.
- "Developing countries" have had a long, highly-developed cultural history, and they are struggling to survive in a global economic system which has given ever-increasing power to the wealthy.
- All human beings have the same basic needs anywhere in the world. What changes from culture to culture is the expression or form of those needs.

In a previous paper, *The Question of Wages*, we discussed the issue of wages using a systemic analysis construct: wages as legal, ethical, moral or just. While taking into consideration the often-used levels of legal wage and ethical wage, efforts to define a sustainable living wage must start with a moral wage. That is the wage level that allows for human beings to live with dignity. It is no longer tolerable, if it ever was, to define a wage as a "living wage" simply because the worker receiving that wage is able to stay alive. For CREA, defining "sustainable living wage" includes these factors:

The wage level meets basic needs including food, clothing, housing, energy, transportation, healthcare, and education.

The wage level provides the means to participate in culturally required activities (including cultural rituals related to births, weddings, funerals)

The wage level 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.

If we really want to know what is necessary for workers anywhere in the world to live a quality life, we have at our disposal the means to do so. What is needed is the will to do it. The ability to define a sustainable living wage depends upon the will of the persons responsible for the research and definition.

(See the appendix for a fuller description of wage levels.)

## B. Setting the Context for Defining a Sustainable Living Wage

Analysis of wages 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 wage for assembly line workers in another country.

### C. Methodological Framework Needed To Understand Wages And Their Effects

The existence of the globalized economy places demands on any methodology used to define a living wage anywhere in the world. Any methodological framework used to inform both the discussion of wages and the actual wages for workers should have the following components and meet the following criteria.

1. The framework should 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 should not apply a “one time” set of numbers over an extended period of time, whether the time period is months or years. Change in affordability over time must be demonstrable.
2. The framework should 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 should 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 should 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.
5. The methodology should recognize that 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. The question has to move from “What is cheaper or more expensive and for whom?” to the real question: “What is affordable and for whom?”

## Section II: The Purchasing Power Index (PPI) study

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 or area of the country studied.
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.

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).

Calculations are based on the standard number of work hours that a worker is required to work at his/her particular job, recognizing that the standard number of work hours varies from country to country. Overtime is calculated as extra work and does not enter into calculations of standard affordability although the existence and possibility of overtime provides the means for workers to better their standard of living. In defining a living wage standard for a country, overtime should not be necessary to achieve that standard. Any benefits or bonuses can be entered into the calculations.

The PPI methodology accurately measures the intersection of wages, prices and inflation while providing easily understood data that allows for comparison in three dimensions: trans-temporal; trans-cultural; trans-national. 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.

### Trans-Temporal Measure of Purchasing Power

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)

Example: Average minutes of Purchasing Power (minPP) required to purchase a kilo of rice in the colonias associated with border maquiladoras in Mexico. Calculations based on minimum wage at the time stated:

#### Pre-NAFTA

1992	18 minPP (according to the US Dept of Labor)
1994	30 minPP (Rosenbaum, <i>The Market Basket Survey</i> )

#### Post NAFTA, POST Mexican Economic Crisis

1998	56 minPP (CREA, Corporate PPI Study for Matamoros, Mexico)
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### Trans-Cultural Measurement of Purchasing Power

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

In this comparison we see that Hartford, although one of the top ten poorest cities of its size in the US, has an average housing cost of more than two-thirds of the wages of a person working at minimum wage. In comparison, West Hartford, with a population with much higher economic resources, has as an average apartment rent lower than Hartford, its economically disadvantaged neighbor.

Example: Indonesia PPI, 1996, 1998-1999

In 1998, a PPI study for 4 areas of Indonesia was begun. The data for the first 3 months of the study, the 4<sup>th</sup> quarter of 1998, allows us to compare the cost of bananas and local rice for each of the areas.

In the 4<sup>th</sup> Quarter of 1998, 1 kilo of rice and 1 kilo of bananas were priced in minPP as follows:

	Bananas (1 bunch)	Rice (1 kilo, local)
Bandung	73 minPP	196 minPP
Tangerang	363 minPP	n/a
Bekasi	109 minPP	203 minPP
Surabaya	n/a	n/a
<i>Average cost</i>	<i>182 minPP</i>	<i>200 minPP</i>

The same pricing was done for the 1<sup>st</sup> quarter of 1999, again showing a range of prices for the two commodities

In the 1<sup>st</sup> Quarter of 1999, the same items were as follows:

Bandung	78 minPP	157 minPP
Tangerang	219 minPP	147 minPP
Bekasi	157 minPP	138 minPP
Surabaya	188 minPP	157 minPP
<i>Average Cost</i>	<i>161 minPP</i>	<i>150 minPP</i>

The Q1 data indicates that the prices for these two commodities are lower in the areas where pricing was done. This certainly would seem to be good news. However when the data for these two quarters are contrasted with data from 1996 when a baseline PPI study was begun, we get an indication of the drastic change in the purchasing power ability of the average worker since 1996.

Data for a baseline 1996 Indonesia PPI study was collected from 7 areas where assembly workers live. Averaging the prices from the seven regions together, the average cost in minPP for the same two commonly used food items was as follows:

Bananas	14 minPP per bunch of bananas
Local Rice	8 min PP per kilo of local rice

The gift of the PPI is that by calculating the cost in minPP according to the minimum wage at each time of pricing, the real purchasing power of workers is made evident while taking into consideration a) the change in prices due to the economic crisis, on-going inflation, etc and b) the increase in the minimum wage. While the comparison of the Q4 1998 data and the Q4 1999 data seem to indicate that the costs of these commodities were decreasing, it is only when they were compared with the 1996 data that the real effects of the Indonesia economic crisis on the lives of workers is indicated

Trans-National Measurement of Purchasing Power

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

Example: The comparison of purchasing power of workers working for General Motors in the United States and in the maquiladora assembly plants in Mexico

The first study using the purchasing power index methodology was a 1994 comparison of the buying power of maquiladora workers in Mexico and United Auto Worker (UAW) workers in General Motors plants in the United States. The same jobs that had previously been filled by UAW workers in GM plants were now being done in the maquiladora plants in northern Mexico.

Prices of consumable commodities, collected within the same time frame across the United States and on both sides of the U.S.- Mexican border, were converted to minutes of work required for purchasing basic items. Using the starting wage level for UAW workers at GM in the US and the average take home wage of GM workers in the maquiladoras the following data was assembled:

	Maquiladora Worker	GM UAW Worker
Bananas (1 lb)	20 min PP	2 minPP
Beans (1 lb)	31 minPP	4 minPP
Chicken-whole (1 lb)	87 minPP	5 minPP
Coffee (1 lb)	118 minPP	8 minPP
Ground beef (1 lb)	88 minPP	7 minPP
Milk (1 gallon)	143 minPP	12 minPP

What becomes immediately obvious is the loss of purchasing power when the jobs are transferred. The data demonstrates the expensiveness of food commodities for Mexicans earning

Mexican pesos. It exposes as fiction the assumption that because items in Mexico are cheaper for someone earning and paying US dollars, living is cheap in Mexico.

The extreme loss of purchasing power when the jobs are transferred from the US to Mexico highlights where the profits of a company are generated. While it is understandable that a company moves jobs to where labor is cheaper, the loss of worker purchasing power (of approximately 90%) means that the company is generating profits not only from the cheap labor but also from the fact that the workers are being kept in a state of poverty.

Two major concerns became evident as a result of the maquiladora study:

1. Maquiladora workers worked a 40-50 hour work week and were still not able to meet their own basic needs and the needs of their families.

*How can such a wage scale be deemed appropriate?*

*How can adequate purchasing power be ensured when economic development occurs?*

2. The inability of workers to earn adequate purchasing power because of low wages and unaffordable prices raises serious questions regarding their ability to develop and participate in a sustainable community.

*What are the effects of the purchasing power loss in terms of the "ripple effect" which purchasing power has on the ability of a community to develop and support small businesses?*

### Section III: The Question of Nutrition Needs

The question of a living wage has to include the differentiating between a wage that provides for food that is calculated in calories and food that provides adequate nutrition. The following data from the 1996 PPI study in Haiti clearly demonstrates the clear difference between the lower cost of carbohydrate calories and the relatively higher cost protein calories.

Example: Prices of carbohydrate foods (such as rice) vs. protein foods (such as beans, herring, and milk) in Croix de Bouquet:

Date		12-92	3-93	6-93	9-93	12-93	3-94	6-94	9-94	12-94	3-95
Milled Rice	Price in minPP	40	40	50	39	53	59	59	75	59	59
Black Beans	Price in minPP	40	53	60	86	71	95	98	95	71	81
Plantain	Price in minPP	27	27	27	16	15	21	23	27	23	32
Herring-Salted	Price in minPP	60	100	100	196	140	244	522	301	194	208
Milk	Price in minPP	67	133	107	93	126	158	126	148	158	153

Example: Prices of carbohydrate foods (such as rice) vs. protein foods (such as beans, herring, and milk) in Jacmel:

Date		12-92	3-93	6-93	9-93	12-93	3-94	6-94	9-94	12-94	3-95
Parboiled Rice (milled)	Price in minPP	32	36	44	36	39	48	48	59	42	N/a
Red beans	Price in minPP	50	64	76	72	71	89	48	71	71	86
Plantain	Price in minPP	26	27	27	11	16	16	17	15	17	23
Herring-Salted	Price in minPP	46	40	60	122	155	116	233	277	213	149
Milk	Price in minPP	53	73	80	69	87	79	95	111	N/a	95

The question of nutrition, and the affordability of protein, fruits and vegetables, potable water, etc. as well as carbohydrates, clearly demonstrates the increased need for purchasing power earned by workers as a result of their work week. Workers who are supporting families, especially children and the elderly, have an increased need for affordable protein, fruits and vegetables.

Research on child development clearly demonstrates the connection between the ability of a young child's brain to develop to its potential and the need for protein, vitamins, fats, etc. Calculations of a moral wage, a just wage, a living wage needs to take this into account.

## Section IV: The Question of Housing Needs

For the purposes of this section, housing will include shelter (rent), heat, electricity or other form of light, cooking fuel (gas, coal, electricity, wood, etc.), and potable water.

Example: Matamoros, Mexico, 1998

In 1998, a PPI study was conducted for the Matamoros, Mexico area. Housing and related costs in minPP are presented for workers starting at 6 pesos per hour and continuing at one-peso increments to 14 pesos per hour. The high minPP demand for housing and related costs is clearly demonstrated.

### Housing and Related Costs – Matamoros, Mexico, 1998 (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

The conversion of the price of rent into minPP units clearly demonstrates the domination by housing costs of available purchasing power provided by the base wage levels of the regular workweek. 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.

Example: Hartford, Connecticut, 1998

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, were included in the analysis.)

If a person applies for a mortgage in the US, the “rule of thumb” is that housing costs (mortgage, etc.) should not exceed 33% of a household’s take-home income. The reason for this rule is the need to keep mortgage costs realistically payable. If the same standard is applied to the affordability of rental housing, it becomes clear that a living wage standard that would allow for adequate housing (including all the elements listed above) would be far above the minimum wage used to calculate the example above.

## **Section V: Advantages of the Purchasing Power Index (PPI)**

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.

### 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 at each step and as a whole process. 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 amount 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 not to 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 2000 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, 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 of the minimum wage:

- *Minimum in terms of what context?*
- *Is minimum wage the minimum amount that a person needs to survive?*
- *Is minimum wage 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 groups who have read public reports of the past studies has been overwhelmingly positive.

## **Section VI: Conclusion**

At the beginning of this paper, we of CREA stated that discussions or negotiations about wages have to begin with common understandings about the workers’ real world, where persons struggle to feed, house and clothe themselves and their children, and to care for the family when they are sick. In this real world, the workers live in families, with relatives and other members of their local community, and therefore have demands placed upon them to help each other in times of celebration, mourning, or need.

In the body of this paper, we have demonstrated that a methodology exists to calculate a sustainable living wage for workers in that real world, the Purchasing Power Index Study. The PPI measures that world’s culturally-based commodities and needs in a universally understandable and applicable form, the minutes of Purchasing Power required to obtain them. The studies’ calculations are based on the real wages of the workers in that particular, actual location.

It can be done. If corporations, industry federations, universities, and consumers are serious about wanting to do away with sweatshop conditions and to ensure a sustainable living wage for workers, a way exists to calculate what that wage should be. It takes planning, effort, and money to do it. The question which remains is the following: Does the will exist to make this kind of investment in real human development?

## **Appendix : 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.