

Dissertation Abstract

“A Methodology to Estimate Internationally Comparable Living Wages”

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Before neoclassical theory became dominant, wages were assumed to move around some “subsistence” level. In classical theory, subsistence was defined to include a set of commodities required to keep a person alive in a given society. Marx expanded the concept to include the life of a worker and the reproduction of a class, which includes some means for the worker to keep working at an average level of productivity, to raise a new generation of workers as a future replacement for the current one, and to provide for the old generation of workers currently retired from production. With the rise of neoclassical orthodoxy and its almost exclusive focus in firm’s profits, the idea of a subsistence wage disappeared from the economic debate. According to Veblen, it was the rise of corporate capitalism that shifted the notion of good economic times from producing enough output, especially those sectors engaged in the production of means of life, to businesses yielding an adequate rate of profit. In this context, social prosperity becomes an abstract concept with no social or cultural content and, allowing wages to fall as low as the market dictates is constructed as welfare enhancing, as long as firms can profit from such trend. Across time and space, contemporary capitalism has been shifting between high-wage and low-wage policies. The high-wage doctrine originates in the believe that most of the worker’s disposable income that exceeds some minimum level will be spent in consumption goods, triggering a virtuous cycle in which higher sales lead to higher output and higher employment and wages. The low-wage doctrine interpret high wages as a precursor of high inflation and a signal of shrinking profits, both of which viewed as a threat to economic prosperity. Despite their differences, what both theories have in common is their focus on business interests rather than people’s welfare, as Veblen pointed out more than a hundred years ago.

In this dissertation I follow the mandate of article 25 in the *Universal Declaration of Human Rights*, that reads “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.” At the time of proclaiming these rights, the General Assembly presented them as the standard for *all* peoples and *all* nations, and charged every individual and every organ of society with the progressive securing of their universal observance. In order to secure an adequate standard of living for everyone and its provision through work, we need an estimation of that minimum standard and the wage that would secure it. In other words, we need an estimation of a *living wage* for each country in the world. In this dissertation I propose a methodology to estimate such wages, common to all countries, in order to allow for international comparisons.

The methodology I propose uses international organization datasets and data from each country's national statistical office. The steps involved are: 1) determine the annual cost of a basic food basket for the average household, 2) estimate the annual non-food costs for the average household using the country's average share of expenditure in food and add a 10% margin, 3) divide by the average number of income preceptors per household or the demographic dependency ratio to determine the annual income per worker, 4) convert this number to an hourly rate, a daily pay or a monthly wage according to the country practice. To determine food cost I build a basic per capita food basket using data from the *Food Balance Sheets* published by the United Nations Food and Agriculture Office (FAO) and *Statistics on Occupational Wages and Hours of Work and Food Prices* published by the International Labour Office (ILO). To determine nutritional needs I use data on minimum energy requirements by country provided by FAO or demographic and anthropometric data for each country and the tables of energy requirements published in the *FAO/WHO/UNU Expert Consultation report on Human Energy Requirements* when FAO data are not available. Nutritional adequacy of the model diet is estimated using each country's table of food composition; if not available I use FAO estimates. The share of expenditure in food is published by FAO; when not available I use the weight of food in the country's CPI as a proxy. The rest of the data are collected from national statistical offices.

Using this methodology I estimate annual *living wages* for Argentina, Brazil, Bulgaria, China, India, South Africa, Spain, and the United States of America. These estimates are compared to empirical wages such as minimum wages – where they exist – and domestic estimates of adequate income for specific households – usually of size four. Finally, using household surveys I count the working poor using national and international parameters, estimate changes in poverty induced by setting the minimum wage at the living wage level and analyze the case of households that diverge considerable from the average.