

Cross-country Comparisons of Wage Rates: The Big Mac Index

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Abstract

Comparisons of wage rates across countries have become key ingredients in evaluating theories of international trade, the role of trade in exacerbating wage inequality, and the role of capitalist reforms in economic transition. Despite the importance of cross-country wage comparisons, it is widely agreed that no credible, comparable wage estimates exist. This paper suggests a simple procedure for comparing the average wage rate of workers in identical jobs in different countries and over time. The procedure is implemented with new data we have collected on average wage rates in McDonald's restaurants in 27 countries that are at dramatically different stages of economic development. Real wage rates are computed at current exchange rates, and also after adjustment for purchasing power parity in units of "Big Macs" per hour. The results indicate that real wages for identical jobs in the U.S., Japan, and Western Europe are some four to five times higher than in Eastern Europe, Korea, or Brazil, and an order of magnitude higher than in China, India, or Colombia.

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