

# International comparisons of hourly compensation costs

*In 1988, U.S. hourly compensation costs increased by 3.3 percent; after exchange rate adjustments, compensation costs in 22 foreign countries rose faster than those in the United States*

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In 1988, hourly compensation costs for manufacturing production workers in Canada rose to 98 percent of average U.S. costs and in Japan the level rose to 95 percent of U.S. costs. (See table 1 and chart 1.) The trade-weighted average cost level for 15 European countries rose to 105 percent of the U.S. level and the average cost level in the Asian newly industrializing economies of Hong Kong, Korea, Singapore, and Taiwan rose to 19 percent of U.S. costs. For all 22 foreign countries for which 1988 data are available, the trade-weighted average compensation cost level rose from 80 percent of the U.S. cost level in 1987 to 87 percent in 1988. Canada and Japan accounted for two-thirds of this relative increase.

Compensation cost levels in 1988 were higher than 1987 relative costs for all 22 foreign countries or areas. For Japan, Korea, Taiwan, and Hong Kong, they were also new long-term highs relative to the U.S. cost level. France, Germany, Italy, Switzerland, and five other European countries also exceeded their previous peaks versus U.S. cost levels. How-

ever, Canada, Australia, Belgium, Denmark, the Netherlands, Portugal, and Sweden were still below earlier peaks recorded between 1975 and 1980, and Singapore was below its 1984 peak.

The 1988 average compensation costs for the European countries were up significantly from their 1985 low, but just 2 percentage points above their previous 1980 peak, relative to U.S. cost levels. For all 22 foreign countries, however, the 1988 average cost level was 14 percentage points above the 1980 peak, reflecting the much higher 1988 relative cost levels for Canada and Japan.

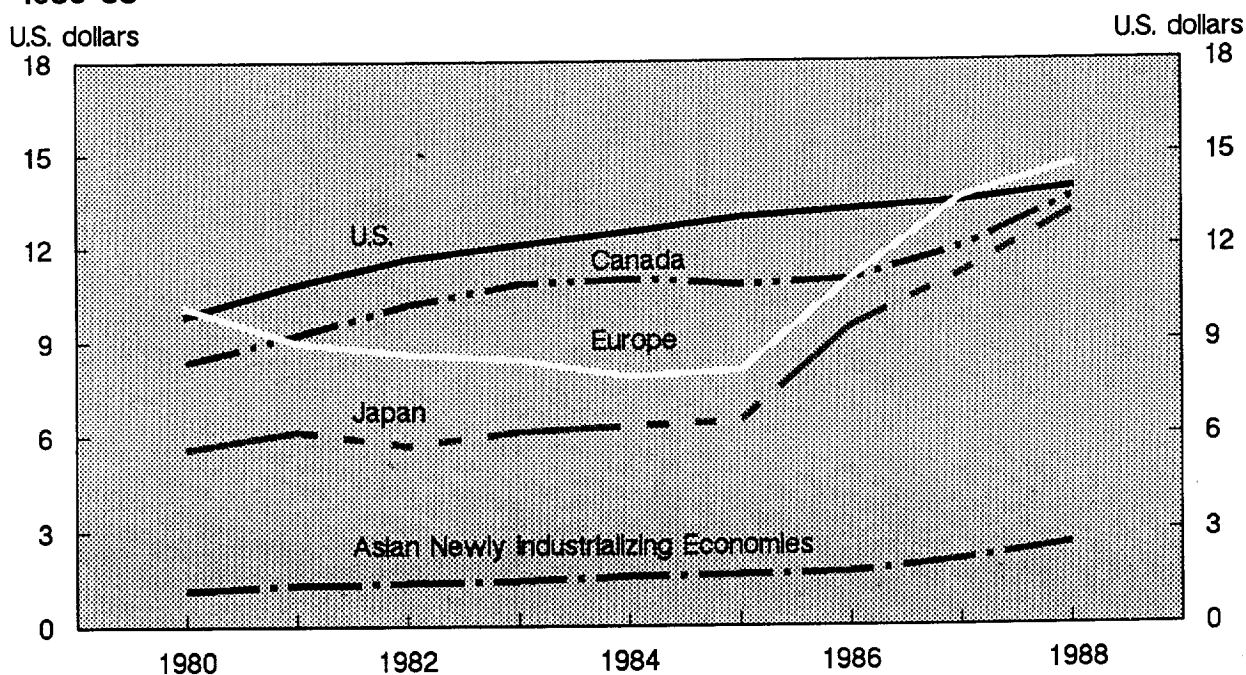
Compensation costs include pay for time worked, other direct pay, employer expenditures for legally required insurance programs and contractual and private benefit plans, and for some countries, other labor taxes. Social insurance cost increases contributed modestly to the 1988 compensation cost increases for the United States, Canada, Singapore, and several European countries. For Finland and the Netherlands, reductions in annual hours worked in the form of additional paid holidays contributed 1 percent to their 1988 cost increases.

In the United States, hourly compensation costs increased 3.3 percent from 1987 to 1988. Only Belgium, the Netherlands, and Switzerland showed compensation increases

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**Chart 1. Hourly compensation costs for production workers in manufacturing, 1980-88**



more moderate than in the United States. After adjustment for exchange rates, compensation costs in all of the foreign countries rose at a higher rate than those in the United States. The average compensation cost increase in all 22 foreign countries was about 6.5 percent in national currency terms and 15 percent in U.S. dollars. The average change in national currency was larger than for 1987, but the change in U.S. dollars was smaller.

**Recent exchange rates.** As of January 1989, the value of the Canadian dollar was 3 percent higher than its 1988 average, the Japanese yen and the British pound were unchanged from 1988 average values, while most other European currency values were 4 to 6 percent lower. Among other Pacific rim countries or areas, the relative value of the Australian dollar was 11 percent higher; the Korean won, 7 percent higher; the Taiwan and Singapore dollars, 3 and 4 percent higher, respectively; and the Hong Kong dollar, unchanged. Assuming their underlying compensation trends continue, these changes should put Canada's hourly compensation cost level about on par with the United States, bring costs for Australia to more than 85 percent of the U.S. level, and raise costs further for Korea, Taiwan, and Singapore. The lower European exchange rates should reduce most European cost levels, unless their underlying hourly compensation changes are significantly greater than those in the United States.

**Trade-weighted measures and trade weights.** The measures of hourly compensation costs were developed in order to provide a basis for assessing international differences in employer labor costs. The measures are often used in analyses of changes in the relative competitive position of the United States and other countries in the international trade of manufactures. Hourly labor costs are an important element in determining the underlying price competitiveness of manufactured products.

The series provide comparative compensation costs on a country-by-country basis, however, while the countries covered differ greatly in their relative importance to U.S. trade in manufactured goods. For example, Canada and Japan each accounted for 20 percent of total U.S. imports and exports of manufactured goods in 1986; Mexico, Korea, Taiwan, and the four large European countries each accounted for 3 to 7 percent; while some other countries covered accounted for .5 percent or less. Therefore, the Bureau has computed trade-weighted measures that take account of these differences. Measures are computed for all foreign countries and for selected country groups, such as Europe and the Asian newly industrializing economies.

The trade weights used are the sum of 1986 U.S. imports of manufactured products for consumption (customs value) and U.S. domestic exports of manufactured products (f.a.s. value), both adjusted to eliminate the U.S. value content of

**Table 1. Indexes of hourly compensation costs for production workers in manufacturing and trade share, 30 countries or areas, selected years**

[United States = 100]

Country or area	Trade share <sup>1</sup>	1980	1985	1986	1987	1988	Country or area	Trade share <sup>1</sup>	1980	1985	1986	1987	1988
United States .....	—	100	100	100	100	100	France .....	3.1	91	58	78	92	93
Canada .....	19.9	85	83	83	89	98	Germany .....	6.8	125	74	101	125	130
Brazil .....	1.7	14	9	12	11	—	Greece .....	.1	38	28	31	34	—
Mexico .....	3.1	30	16	11	12	—	Ireland .....	.5	60	45	59	68	71
Australia .....	1.4	86	63	64	69	79	Italy .....	2.9	81	56	75	90	93
Hong Kong .....	2.3	15	14	14	16	17	Luxembourg .....	—	122	59	80	—	—
Israel .....	.8	39	31	39	47	—	Netherlands .....	2.0	123	69	96	116	117
Japan .....	20.4	57	50	72	83	95	Norway .....	.3	119	82	103	129	140
Korea .....	3.5	10	10	11	13	18	Portugal .....	.2	21	12	16	19	20
New Zealand .....	.3	54	34	40	51	—	Spain .....	.9	61	37	49	58	63
Singapore .....	1.5	15	19	17	17	19	Sweden .....	1.2	127	75	94	112	121
Sri Lanka .....	.1	2	2	2	2	2	Switzerland .....	1.4	113	75	104	127	129
Taiwan .....	4.8	10	11	13	16	19	United Kingdom .....	4.4	76	48	57	67	76
Austria .....	.3	87	56	78	97	100	22 foreign countries <sup>2</sup> .....	80.0	73	57	69	80	87
Belgium .....	1.7	133	69	93	112	113	oecd <sup>3</sup> .....	67.9	83	65	79	91	99
Denmark .....	.4	111	63	84	108	114	Europe <sup>4</sup> .....	26.2	103	63	83	101	105
Finland .....	.2	84	62	81	100	111	Asian newly industrializ- ing economies <sup>5</sup> .....	12.1	12	13	13	15	19

<sup>1</sup> Share of U.S. trade in manufactured goods in 1986.

<sup>2</sup> The 22 countries for which 1988 data are available.

<sup>3</sup> Canada, Australia, Japan, and the 15 European countries for which 1988 data are available.

<sup>4</sup> The 15 European countries for which 1988 data are available.

<sup>5</sup> Hong Kong, Korea, Singapore, and Taiwan.

NOTE: Dash indicates data not available.

U.S. imports under items 806.30 and 807.00 of the U.S. Tariff Schedules. Table 1 shows the share of U.S. adjusted trade in manufactured goods for each country or area and selected country groups. All 30 countries or areas included in the table accounted for 88.3 percent of U.S. manufactured goods trade in 1986. China and Venezuela are the only countries not covered that account for as much as 1 percent of such trade. The trade-weighted measures featured in this article and shown in the table and chart relate to the 22 foreign countries or areas for which 1988 data are available; their total share of U.S. trade in manufactured goods was 80

percent in 1986.

*International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975–1987*, Report 754 (August 1988); and for 1988, Report 766 (March 1989), are available from the Bureau of Labor Statistics, Washington, DC 20212. The reports present comparative levels and trends in compensation costs in 30 countries or areas. These comparative measures have been developed to provide a basis for assessing international differences in employer labor costs. Definitions, methods, and data limitations are summarized in the reports. □

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