

# The Employment Cost Index in 1980: a first look at total compensation

*With the introduction of fringe benefits,  
the index increased 9.8 percent last year,  
as wages and salaries rose a record 9 percent;  
the addition of benefit cost data completes  
quarterly measure of compensation change*

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Rates of total compensation for employees in the private nonfarm sector of the economy increased by 9.8 percent in 1980, and wages and salaries rose by 9.0 percent. This is the first full year in which the Employment Cost Index (ECI) measured total compensation change,<sup>1</sup> that is, wages and salaries and employer costs for employee benefits such as paid holidays and vacations and retirement plans. Data on benefits were included last year; the index began publication with the wages and salaries component in 1975.

The 1980 change in compensation, compared with the wage and salary change, reflects a continuing increase in the importance of employee benefit costs. Wages and salaries, however, still account for about three-quarters of total compensation.

The movements of compensation and of wages in the ECI occurred during varying economic conditions: a 12.5-percent advance in the Consumer Price Index; an additional 2.2 million workers on nonagricultural payrolls; unemployment that increased from 6.2 percent in January to 7.6 percent in May and remained at approximately that level for the balance of the year; and a relatively heavy schedule of collective bargaining—settlements were reached for 3.7 of the 9.2 million workers in major bargaining units (1,000 workers or more) in the private sector.

Other influences on the movement of compensation

and its wages and salaries component stemmed from changes initiated by the Federal Government. The Council on Wage and Price Stability eased its pay increase guideline to a 7.5–9.5 percent range in 1980, from the 7.0-percent guideline in effect for most of 1979. On January 1, 1980, the maximum taxable earnings base under social security was increased from \$22,900 to \$25,900, and the Federal minimum wage rose by almost 7.0 percent, from \$2.90 to \$3.10 an hour.

## **Total compensation**

Among occupational groups, blue-collar workers had the greatest compensation gain during 1980 (10.1 percent), and service workers, the lowest (9.4 percent). (See table 1.) The compensation advance of white-collar employees averaged 9.5 percent. Manufacturing and nonmanufacturing industries matched the 9.8-percent total compensation gain of the private nonfarm sector.

In each quarter of 1980, the rate of change in total compensation exceeded that of wages and salaries. The greatest difference between the two measures occurred in the first quarter (2.7 versus 2.4 percent), in part, because of adjustments in social security and other legally required payments which were effective on January 1. An estimated four-fifths of the compensation rise during 1980 is accounted for by wage change, which also affects costs for wage-related benefits, such as paid holidays and vacations and employer contributions for social security.

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## Wages and salaries

As noted, the average wage and salary change of private nonfarm workers was 9.0 percent in 1980. (See table 2.) The gain for blue-collar workers (9.6 percent) was greater than that for white-collar employees (8.7 percent) and service workers (8.1 percent). Professional and technical employees had the largest earnings rise in the white-collar group, 10.5 percent; and operatives, except transport, led the wage advance of blue-collar workers, 10.2 percent. The lowest earnings gain of all occupations was that for salesworkers, 6.7 percent.

Wages and salaries in manufacturing industries increased by 9.4 percent, compared with 8.8 percent in nonmanufacturing. Among individual nonmanufacturing industries, workers in transportation and public utilities had the highest wage advance, 11.1 percent; and those in retail trade the lowest, 7.0 percent. Union workers' pay rose 10.9 percent, while nonunion earnings rose 8.0 percent.

The 2.4-percent wage and salary change in the first quarter of 1980 matched the record increase in the fourth quarter of 1979. In the remaining quarters of 1980, changes were lower, ranging between 2.0 and 2.2 percent. The ECI is not seasonally adjusted; thus, it is not possible to determine to what extent quarterly movements reflect underlying economic conditions or seasonal patterns. Nevertheless, some quarterly movements can be traced, in part, to Federal government actions and the collective bargaining cycle. For example, service workers, who tend to be clustered at or near the minimum wage, received their greatest pay advance in the first quarter of 1980 when the Federal minimum wage was increased from \$2.90 to \$3.10 an hour. On the other hand, in subsequent quarters, pay gains for these workers were among the lowest of any occupational group. One possible impact of minimum wage change, therefore, is to cluster pay changes for low-wage employees in the first quarter of the year. This pattern is similar to that in past years when the

minimum wage was raised in January.

Blue-collar workers, in a well-established pattern, had larger wage gains in the second quarter than in the first. This results from the concentration of collective bargaining (notably for construction, trucking, and basic steel) in the spring months. Under collective bargaining, pay change may result from newly negotiated contracts, deferred wage increases, or cost-of-living adjustments. Similar patterns of high second-quarter pay gains are evident in the ECI for the construction industry and transport equipment operatives.

## Trends, 1976-80

For most groups of workers, the advance in wages and salaries was higher in 1980 than in any year since 1975, when the ECI began. A number of economic factors are important in interpreting the trend of the wages and salaries component of the ECI for the overall private nonfarm sector and the individual series. Prior to the third quarter of 1978, the 12-month increases in the CPI were below those of the ECI. Beginning in the third quarter of 1978, however, the advance of the CPI outpaces the rate of wage and salary change in the ECI. The difference increases until the 12-month period ending in the first quarter of 1980, when the 14.6-percent advance of the CPI compares with a 9.1-percent rise in wages and salaries. By the end of 1980, the gap was narrowed somewhat, with the CPI increasing by 12.5 percent and the ECI by 9.0 percent.

Unemployment in the private nonfarm sector fell from 7.7 percent in 1976 to 5.8 percent in 1979, then rose again in 1980 to 7.1 percent. Collective bargaining has become characterized by cycles of activity over, generally, a 3-year period in which two years of heavy negotiations (as in 1976 and 1977) are followed by a year of comparatively light activity (1978). Collective bargaining was heavy again in 1979 and 1980.

The President's Council on Wage and Price Stability, in October 1978, announced a pay increase standard of 7.0 percent which was raised to a range of 7.5 to 9.5 percent in 1980. The increases in the Federal minimum wage, effective on January 1 of each year, were of differing magnitudes; the largest adjustment being a 15.2-percent increase in 1978, with smaller changes in 1979, 9.4 percent, and in 1980, 6.9 percent.

Chart 1 compares the change in wages and salaries for all workers in the private nonfarm sector with those in manufacturing and nonmanufacturing industries. Three periods of wage and salary movement emerge between 1976 and 1980 for private nonfarm workers. The first, from the third quarter of 1976 to the third quarter of 1978, is one of moderately increasing wage advance until a high of 8.0 percent is reached. During this period, wages increased more rapidly than consumer prices

**Table 1. Rate of total compensation change in the Employment Cost Index, 1980**

[In percent]

Characteristic	3 months ended				12 months ended
	March	June	September	December	December
All private nonfarm workers .....	2.7	2.3	2.3	2.1	9.8
White-collar workers .....	2.8	2.3	2.0	2.1	9.5
Blue-collar workers .....	2.4	2.5	2.7	2.1	10.1
Service workers .....	4.3	1.1	2.1	1.7	9.4
Manufacturing industries .....	2.8	2.0	2.3	2.2	9.8
Nonmanufacturing industries .....	2.7	2.5	2.3	2.0	9.8

**Table 2. Rate of wage and salary change in the Employment Cost Index, 1980**

[In percent]

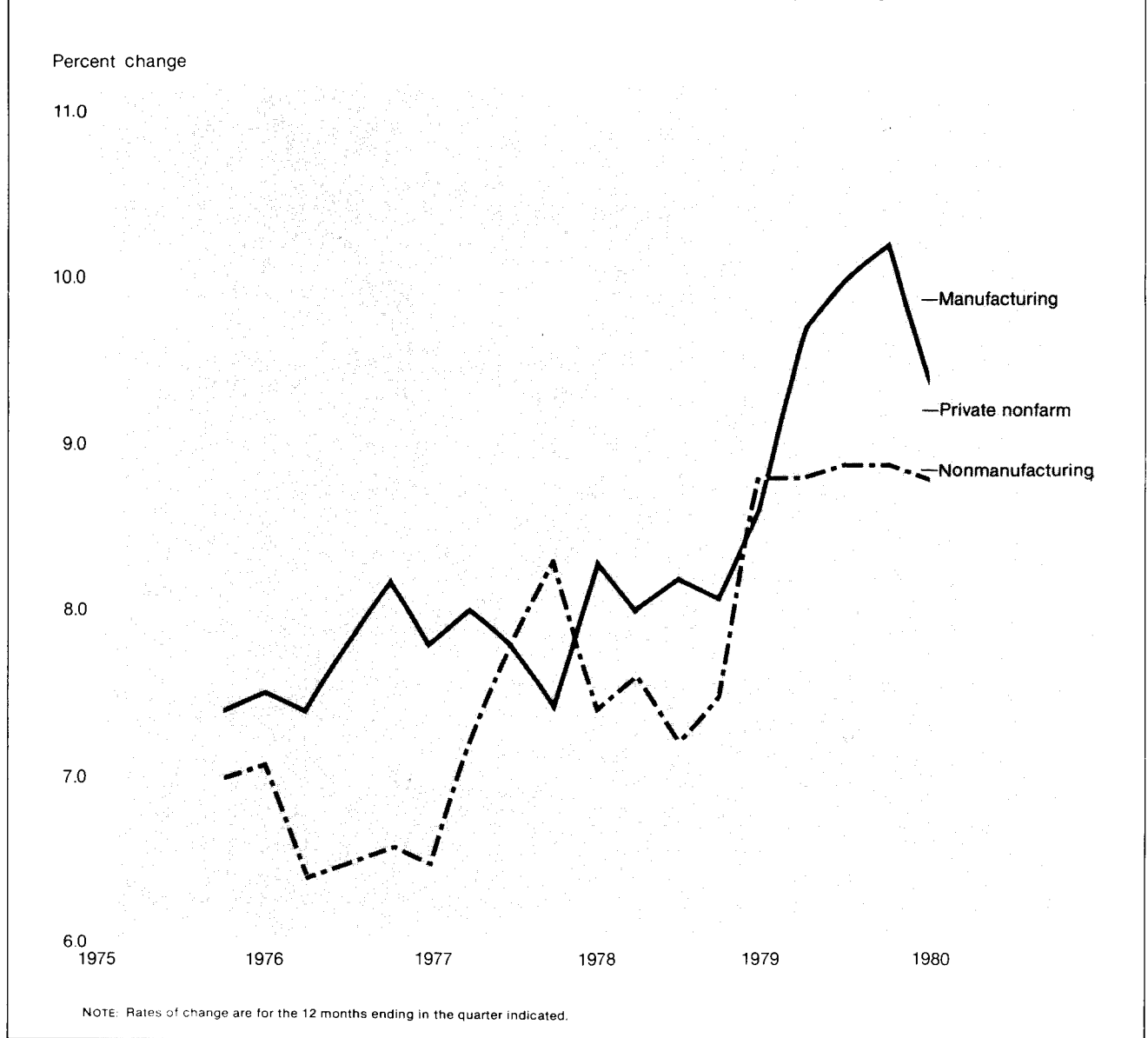
Characteristics	3 months ended					12 months ended				
	December 1979	March	June	September	December	December 1979	March	June	September	December
All private nonfarm workers .....	2.4	2.4	2.1	2.2	2.0	8.7	9.1	9.3	9.4	9.0
By occupation:										
White-collar workers .....	2.4	2.4	1.9	2.1	2.0	8.6	9.2	9.3	9.1	8.7
Professional and technical workers ..	2.8	3.3	1.8	2.7	2.2	8.8	10.3	11.1	11.1	10.5
Managers and administrators .....	1.4	2.6	1.6	1.6	1.3	7.4	7.7	7.8	7.3	7.2
Salesworkers .....	3.9	-5	2.5	1.7	2.8	8.8	8.6	6.8	7.8	6.7
Clerical workers .....	2.1	3.0	1.8	2.0	2.1	9.4	9.6	10.1	9.2	9.1
Blue-collar workers .....	2.5	2.3	2.5	2.4	2.1	9.0	9.4	9.6	10.0	9.6
Craft and kindred workers .....	1.9	1.7	2.4	2.8	2.2	8.6	8.2	8.5	9.1	9.4
Operatives, except transport .....	3.1	3.2	2.4	2.3	2.0	9.2	10.5	10.7	11.3	10.2
Transport equipment operatives .....	2.4	1.2	3.5	1.4	1.9	10.2	9.8	9.9	8.8	8.2
Nonfarm laborers .....	2.9	2.5	2.4	2.3	2.0	9.1	10.1	9.9	10.5	9.5
Service workers .....	1.8	3.5	1.1	1.7	1.5	7.2	7.6	7.8	8.4	8.1
By industry:										
Manufacturing .....	3.1	2.8	2.0	2.0	2.3	8.6	9.7	10.0	10.2	9.4
Durables .....	3.3	2.5	2.1	2.5	2.3	9.0	9.7	10.4	10.8	9.8
Nondurables .....	2.7	3.2	1.9	1.2	2.1	7.8	9.7	9.2	9.2	8.6
Nonmanufacturing .....	2.0	2.2	2.1	2.3	1.9	8.8	8.8	8.9	8.9	8.8
Construction .....	1.1	1.2	2.9	2.9	1.5	7.2	7.1	7.5	8.4	8.8
Transportation and public utilities ..	2.0	2.5	2.3	3.2	2.7	9.4	9.3	10.1	10.4	11.1
Wholesale and retail trade .....	1.3	2.6	1.9	1.5	1.7	7.9	8.4	7.8	7.4	7.8
Wholesale trade .....	2.1	2.9	2.7	9	3.2	7.9	9.4	9.2	8.9	10.0
Retail trade .....	1.0	2.4	1.5	1.8	1.1	7.9	8.0	7.3	6.9	7.0
Finance, insurance, and real estate ..	4.3	4	2.7	2.0	2.1	13.2	10.2	9.6	9.7	7.4
Services .....	2.5	2.7	1.6	2.5	1.6	8.5	9.2	9.8	9.6	8.7
By region:										
Northeast .....	2.1	2.5	2.1	1.9	1.9	7.3	8.3	8.7	8.9	8.6
South .....	2.4	2.8	1.9	1.9	1.9	8.5	8.8	9.0	9.3	8.8
North Central .....	2.6	2.4	2.0	1.9	2.2	9.4	9.9	9.3	9.2	8.8
West .....	1.8	2.6	2.4	3.4	2.0	8.5	9.2	9.6	10.6	10.8
By bargaining status:										
Union .....	2.6	2.3	2.8	2.9	2.5	9.0	9.5	10.2	10.9	10.9
Manufacturing .....	3.4	2.6	2.8	2.8	2.4	9.4	10.3	11.1	12.0	11.0
Nonmanufacturing .....	1.7	2.0	2.8	3.0	2.6	8.5	8.8	9.5	9.9	10.8
Nonunion .....	2.3	2.5	1.7	1.8	1.8	8.5	8.9	8.7	8.6	8.0
Manufacturing .....	2.7	3.0	1.4	1.2	2.1	7.9	9.3	9.0	8.6	7.9
Nonmanufacturing .....	2.1	2.3	1.9	2.0	1.7	8.8	8.8	8.6	8.6	8.1
By area:										
Metropolitan areas .....	2.5	2.1	2.2	2.3	2.0	8.9	9.1	9.3	9.5	9.0
Other areas .....	1.9	3.6	1.6	1.5	2.4	7.9	9.5	8.9	8.9	9.4

and, in 1978, collective bargaining activity was light. The following four quarters (fourth quarter 1978 to third quarter 1979) experienced fairly stable wage change, with the rise ranging between 7.6 and 7.8 percent. This stability occurred in a period of heavy collective bargaining (1979), a falling rate of unemployment, and greater increases in consumer prices than in wages. It was, however, the first year in which the national pay increase standard was in effect. Beginning in the third quarter of 1979, wage and salary rates climbed rapidly and peaked at 9.4 percent for the 12-months ending in the third quarter of 1980. Although the rate of change declined to 9.0 percent for the 12 months ending in the fourth quarter, that change was higher than any previous four-quarter period.

Wage change for both manufacturing and nonmanufacturing moved in the same direction as that in the private nonfarm sector, with changes in manufacturing generally higher than those in nonmanufacturing. Wage change for nonmanufacturing was fairly stable throughout 1980, after reaching a level of 8.8 percent in the 12 months ending in the fourth quarter of 1979, while wage change for manufacturing continued to increase, peaking at 10.2 percent in the 12 months ending in the third quarter of 1980, then declining to 9.4 percent by the end of the year.

Wage and salary trends for the three major groups of occupations, are shown in chart 2. In the pattern of the overall private nonfarm sector, the rates of pay change for blue-collar and white-collar workers increased rapid-

**Chart 1. Rates of wage and salary change in the Employment Cost Index, by industry, 1976-80**



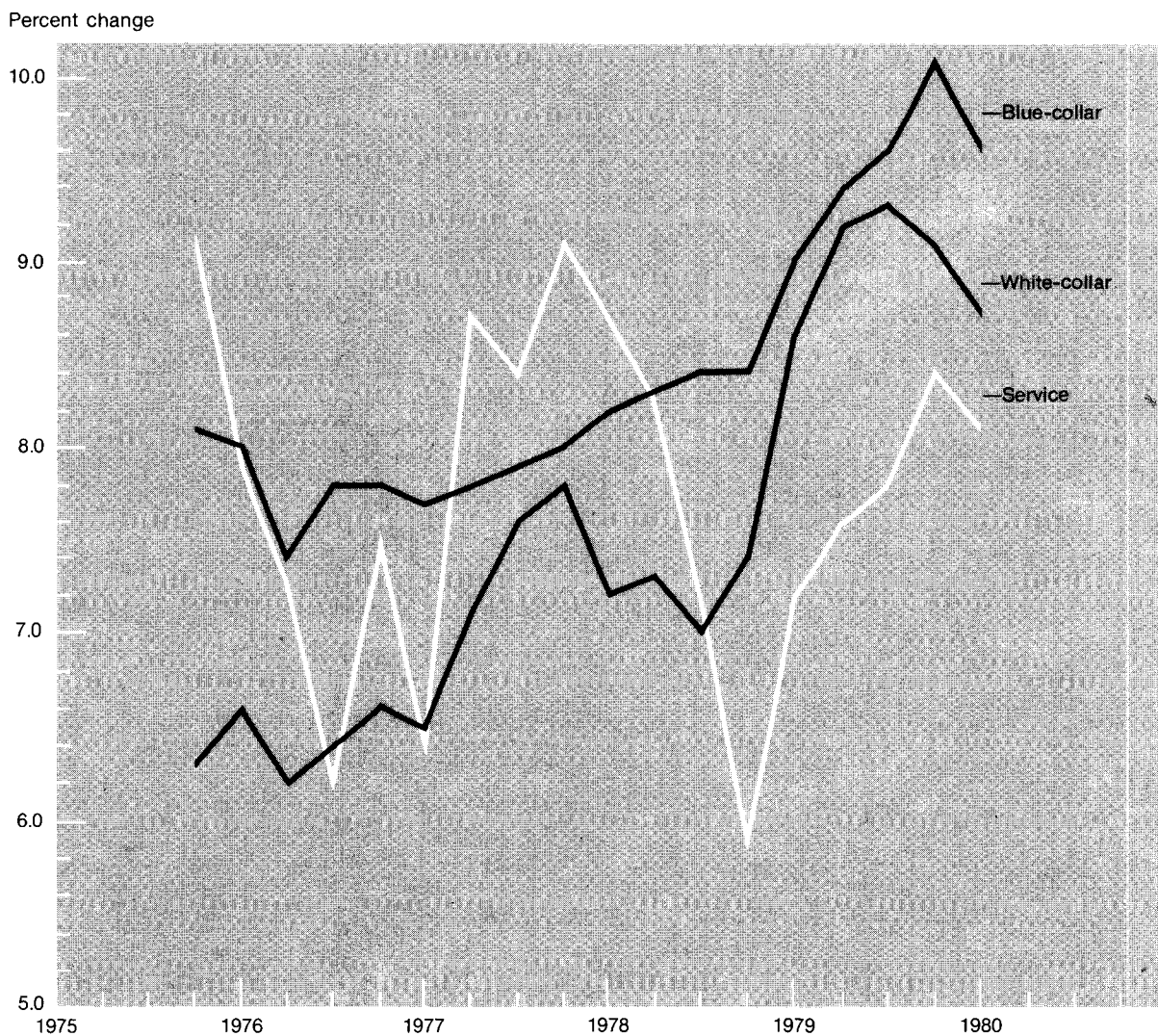
ly, beginning in 1979, until new records were reached in 1980. Only service workers had higher rates of wage change prior to 1980. For all three groups of workers, the 12-month changes declined from their highest levels by the end of 1980.

Before 1979, the pattern of wage and salary change for the three major employment groups differed markedly. Most notable are the peaks in the rate of change for white-collar and service workers that occurred in 1978, the year in which the Federal minimum wage was increased by its greatest amount, 15.2 percent. It was also the year in which the wage change in nonmanu-

facturing industries, with a greater proportion of service workers, exceeded the change in manufacturing.

For both union and nonunion workers, rapid earnings increases began in 1979. A continuing advance in pay for union workers began in the 12-month period ending in the third quarter of 1978 and reached a record plateau, 10.9 percent, by the end of 1980. Nonunion workers, on the other hand, reached their peak gain (8.9 percent) in the 12-month period ending in the first quarter of 1980, after which the 12-month rate of wage increase fell in each succeeding quarter, reaching 8.0 percent by the end of the year.

**Chart 2. Rates of wage and salary change in the Employment Cost Index, by occupation, 1976-80**



NOTE: Rates of change are for the 12 months ending in the quarter indicated.

— FOOTNOTES —

<sup>1</sup> Employment cost is defined as employer expenditures per employee-hour worked for a standardized or fixed mix of labor services. The fixed labor weights are derived from occupational employment in the industries covered by the index, as reported in the 1970 Census of Population. In addition to the series on wages and salaries and total compensation, series or benefit costs may be published separately at a later date. Benefits include: *Hours-related benefits*—premium pay for overtime and work on weekends and holidays, paid holidays, paid vacations, paid sick leave, and other paid leave; *supplemental pay*—shift differentials, nonproduction bonuses, severance pay, and supplemental unemployment plans; *insurance benefits*—life, health, and sickness and accident insurance; *retirement and savings benefits*—pension and other retirement plans and savings and thrift plans; *legally required benefits*—social security, railroad retirement and supplemental retirement, railroad unemployment insurance, Federal and State unemploy-

ment insurance, workers' compensation, and other legally required benefits such as State temporary disability insurance; and *other benefits*—merchandise discounts in department stores. For a further discussion of ECI concepts and methodology, see Victor J. Sheifer, "Employment Cost Index: a measure of change in the 'price of labor'," *Monthly Labor Review* July 1975, pp. 3-12; *Handbook of Methods for Surveys and Studies*, Bulletin 1910 (Bureau of Labor Statistics, 1976), pp. 184-91; and Victor J. Sheifer, "How benefits will be incorporated into the Employment Cost Index," *Monthly Labor Review*, January 1978, pp. 18-26.

ECI data are published quarterly in a press release issued by the Bureau of Labor Statistics and subsequently in the Current Labor Statistics department of the *Monthly Labor Review*. The data also appear in Current Wage Developments, a monthly publication of the Bureau of Labor Statistics.