International Labour Organisation

STATISTICS OF LABOUR COST

Second Item on the Agenda

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>(a) The Need for Labour Cost Statistics</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(b) I.L.O. Action in the Field of Labour Cost Statistics</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(c) Recent Developments in Statistics of Labour Cost</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>(d) Scope of International Recommendations in the Field of Labour Cost Statistics</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>CHAPTER I.</td>
<td>DIFFERENCES BETWEEN LABOUR COST AND LABOUR INCOME</td>
<td>6</td>
</tr>
<tr>
<td>(a) The Dual Nature of Wages</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>(b) The Conceptual Differences</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>(c) Problems of Evaluation</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>(d) Data on Income Derived from Statistics of Labour Cost</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>(e) The Simplified Approach of E.E.C.</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>(f) Statistics of Income and the Level of Living</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>CHAPTER II.</td>
<td>NATURE AND OBJECTIVES OF LABOUR COST STATISTICS</td>
<td>9</td>
</tr>
<tr>
<td>(a) Labour Cost at Different Levels</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>(b) Labour Cost Per Unit of Labour Input and Per Unit of Output</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>(c) Objectives of Statistics of Labour Cost Per Time Unit</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>CHAPTER III.</td>
<td>CONCEPTS AND DEFINITIONS</td>
<td>13</td>
</tr>
<tr>
<td>(a) Guidelines for Identifying Labour Cost Components</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>(b) Scope of Labour Cost</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>(c) Related Concepts</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>CHAPTER IV.</td>
<td>COMMENTS ON LABOUR COST COMPONENTS</td>
<td>16</td>
</tr>
<tr>
<td>(a) Purpose of this Chapter</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>(b) Direct Labour Cost</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>(c) Employers' Social Security Expenditure</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>(d) Other Subsidised Services for Workers</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>(e) Cost of Vocational Training and of Recruitment</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>(f) Cost of Work Clothes and of Protective Clothing</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>(g) Taxes regarded as Labour Cost</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Page</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER V.</strong></td>
<td><strong>CLASSIFICATION OF LABOUR COST DATA</strong></td>
<td>28</td>
</tr>
<tr>
<td>(a) Purpose and Nature of Classification</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>(b) General Principles of Classification of Labour Cost Components</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>(c) Comments on Major Groups</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>(d) Combination of Major Groups</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>(e) Classification by Industry, Size Group of Establishment and Region</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>(f) Classification of Workers by Status and Sex</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER VI.</strong></td>
<td><strong>COLLECTION AND COMPILATION OF LABOUR COST STATISTICS</strong></td>
<td>40</td>
</tr>
<tr>
<td>(a) Reporting Unit</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>(b) Observation Period</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>(c) Industrial Scope</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>(d) Hours of Work</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>(e) Frequency of Labour Cost Inquiries</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>(f) Supplementary Information</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>(g) Sampling Problems</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>(h) Presentation of Labour Cost Data</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td><strong>APPENDIX I.</strong></td>
<td><strong>DRAFT RESOLUTION CONCERNING STATISTICS OF LABOUR COST</strong></td>
<td>44</td>
</tr>
<tr>
<td>including ANNEX: INTERNATIONAL STANDARD CLASSIFICATION OF LABOUR COST</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td><strong>APPENDIX II.</strong></td>
<td><strong>SELECTED BIBLIOGRAPHY</strong></td>
<td>50</td>
</tr>
</tbody>
</table>
INTRODUCTION

(a) The Need for Labour Cost Statistics

1. Problems of wage negotiations, of domestic and foreign competition and the creation of economic communities or free trade areas have resulted in a growing interest in recent years in reliable and internationally comparable data on wages and other elements of labour cost. Governments, employers and trade unions need such data for policy decisions; research workers, institutes and international agencies need such data as a basis for many economic and social studies.

2. In response to these needs, statistics of wages and labour cost of various types have developed considerably during the last decade, especially in Europe. However, the available wage and labour cost data are not based on uniform concepts and definitions, and, if they are compared internationally, erroneous conclusions could be drawn.

3. It is timely, therefore, that the Eleventh International Conference of Labour Statisticians takes up the question of international standardisation of labour cost statistics. Most urgently needed are recommendations regarding the cost elements to be included in the labour cost concept, the classification of the components and the items of labour cost data which should be distinguished in published statistics.

(b) I.L.O. Action in the Field of Wages and Labour Cost Statistics

4. International recommendations relating to wage statistics have a long history. Statistics of wages and hours of labour were already the concern of the First Conference of Labour Statisticians (Geneva, 1923). A landmark was the adoption of the Convention concerning Statistics of Wages and Hours of Work (No. 63) by the International Labour Conference at its 24th Session (Geneva, 1938). Although the provisions of this Convention need to be supplemented to meet present day statistical requirements, it has remained a useful instrument for the promotion of a minimum programme in the field of statistics of wages and hours of work. Twenty-eight countries have ratified the Convention so far and it has been formally declared to apply to a number of non-metropolitan territories. A Resolution on this Convention was adopted by the Seventh International Conference of Labour Statisticians (Geneva, 1949). That Conference also adopted an important Resolution concerning the Methods of Obtaining Statistics of Earnings from Payrolls, while the Eighth Conference (1954) adopted a Resolution concerning the International Comparison of Real Wages.
The Tenth International Conference of Labour Statisticians (Geneva, 1962) adopted a Resolution concerning Statistics of Hours of Work, which, through the standardisation of the definition of hours actually worked, will contribute to the development of more comparable data on average hourly earnings and labour cost per hour.

5. Labour cost statistics, in the proper sense of the term, are a relatively recent concern of international organisations. The subject of international differences in wages and labour cost was discussed at the First European Regional Conference of the I.L.O., 1955, which adopted a resolution inviting the International Labour Office to expand its inquiries and studies relating to the economic and social aspects of resources allocated to social security and other social advantages for workers in order to obtain an objective and complete international comparison. Subsequently, the Office conducted a statistical inquiry into wages and related elements of labour cost in selected branches of European industry.

6. Meeting of Experts, 1964. At its 157th Session (November 1963) the Governing Body of the I.L.O. noted that "one of the most critical and controversial aspects of the cost of production is the element of wages and other labour cost while the identification and measurement of indirect labour costs is a difficult task even under the most favourable conditions". It authorised the convening of a Meeting of Experts on Statistics of Wages and Labour Cost for which the following terms of reference were established: "To identify and describe the several components of wages and labour costs and to advise the Office in the preparation of proposals for international standards for statistics on the subject, with particular reference to definitions, methodology and classifications and tabulations of the data." The experts met in Geneva from 7 to 16 September 1964 and used as a basis of discussion a working paper prepared by the Office. They made a number of recommendations concerning provisions to be incorporated in future international standards for statistics of labour cost. In preparing the present report, the recommendations of the 1964 expert meeting have been fully taken into account.


Recent Developments in Statistics of Labour Cost

More statistical information on labour cost has become available in recent years although the majority of countries have not yet carried out full-scale labour cost inquiries. The United Kingdom conducted an inquiry into employers' total labour cost in 1964 covering mining and quarrying, all manufacturing industries, construction, gas, electricity and water, national and local government, insurance, banking and part of the transport industry. A labour cost survey covering the manufacturing industry is now under way in Japan (reference period 1965). The survey covers about 7,000 private establishments with 30 or more regular employees. It is planned to cover next year mining, construction, transport, communication and various other industries.

In the United States a programme of surveys of different industries on the subject of "Employer Expenditures for Selected Supplementary Remuneration Practices for Production Workers" is in course. These surveys do not aim at measuring total labour cost. Nevertheless, the items not covered by these studies do not constitute a very significant part of total labour cost.

With the assistance of an I.L.O. expert, a labour cost survey has been conducted in certain Central American countries, viz. Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, which follows by and large the model of the 1955 I.L.O. study. This survey related to 1962 and covered 19 manufacturing industries. The experience gained with the survey in Central America should be valuable for the production of labour cost statistics in other developing regions of the world.

The development of labour cost statistics owes much to the European Economic Community. Labour cost inquiries, a regular activity of the Statistical Office of the E.E.C. since 1959, cover more than 30 manufacturing industries, over a three-year cycle, in the six member countries. The usefulness of the data has been enhanced by the introduction of classifications by region and by size-groups of establishments. Through the same inquiries, uniform information is obtained on the income of workers which, by


2 Labour Costs in European Industry, op. cit.

use of special purchasing power ratios, is also compared in real terms. The annual inquiry of the European Coal and Steel Community on labour cost and workers' income follows largely the same principles as the E.E.C. surveys of which they are in many respects the forerunner.

11. The E.E.C. inquiries have in several cases superseded earlier national labour cost surveys in the countries of the Common Market. In other cases they have stimulated the institution of national inquiries. Austria, for instance, conducted an industrial labour cost survey, relating to 1960, which was akin, as regards definition and methods used, to that carried out in the E.E.C. countries.²

12. A number of countries obtain partial information on labour cost over and above regular wages through comprehensive wage inquiries, in their industrial censuses or in connection with their national accounts statistics. Recently the Labour Bureau of the Government of India conducted a comprehensive survey of labour conditions in 46 major manufacturing, mining and plantation industries which yielded information of this kind. In their replies to a recent inquiry on national experience with labour cost statistics various countries have stressed that certain labour cost information has been obtained through various types of investigations, e.g. inquiries on the wage fund; industrial wage surveys; surveys of private pension, retiring allowance and welfare schemes; industrial censuses, etc.³ Many countries have sent copies of questionnaires, instructions or methodological descriptions which have been of considerable help in the preparation of this report. In some recent inquiries, some of the recommendations of the Meeting of Experts on Wages and Labour Cost Statistics in 1964 were taken into account.

¹ An independent official inquiry still exists, however, in Italy, viz. the annual labour cost survey of ISTAT (Istituto Centrale di Statistica) covering manufacturing industries, agriculture, building and branches of commerce and transport. Germany (F.R.) conducts at about five-year intervals an inquiry into the wage and salary structure which yields also labour cost information, the main objective being, however, data on the various forms of wage differentiation. The E.E.C. intends to undertake similar large-scale inquiries into the wage structure.


³ Such statistics are mentioned, for instance, by Australia, Bulgaria, Czechoslovakia, Hungary, Israel, Pakistan, Netherlands Antilles, Sierra Leone, Tanzania.
13. Mention should also be made of international labour cost studies carried out by private research institutes, employer confederations, trade unions and similar bodies. Especially where official statistics are not available, these studies provide very useful data. For practical reasons, they adhere as a rule to a concept of labour cost which is less comprehensive than the concept recommended by the Meeting of Experts in 1964.

(d) Scope of International Recommendations in the Field of Labour Cost Statistics

14. Standards for labour cost statistics should be clearly distinguished from standards for statistics on the labour income of workers and from standards for general wage statistics. Although these subjects are intimately related, only the first of these is the immediate concern of the Eleventh International Conference of Labour Statisticians which will consider the aspect of cost to the employer of wages and related labour cost elements. The Meeting of Experts on Statistics of Wages and Labour Cost in 1964 clearly distinguished the different aspects of the question in its report, para. 4: "Agreement was reached that the Meeting had to consider first and foremost wages and related cost elements from the aspect of cost to the employer. While it would also be of great interest to examine the question of benefits which these expenditures yield to the worker, for this purpose different approaches were needed. These approaches implied the evaluation of the income to the worker represented by certain indirect employer payments, and raised the whole difficult issue of the international comparability of statistics of real labour income".

15. The present international standards for regular statistics of wage rates and earnings are embodied in particular in the Convention concerning Statistics of Wages and Hours of Work (No. 63), 1938, and also in resolutions of the Seventh International Conference of Labour Statisticians, 1949. It appears that these standards require some clarifications and amplifications to meet today's requirements. However, it is proposed to take up this subject separately at a later date rather than simultaneously with the particular issue of labour cost statistics.

16. Before the complex problems of statistics of wages and related elements of remuneration are submitted to an International Conference of Labour Statisticians, the I.L.O. will carry out detailed research and consideration will be given to convening a meeting of experts on the matter in 1968.

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CHAPTER I

DIFFERENCES BETWEEN LABOUR COST AND LABOUR INCOME

(a) The Dual Nature of Wages

17. In every economic textbook the dual nature of wages is stressed; wages are labour cost to the employer and income to the worker. But as soon as it comes to the measurement of cost, or income elements over and above regular wages, differences of concepts and evaluation arise between labour cost on the one hand and income to workers on the other.

(b) The Conceptual Differences

18. Most elements of labour cost are at the same time elements of labour income since the corresponding benefits are received directly or indirectly by the worker, but this is clearly not the case for cost components like costs of recruitment or certain taxes which normally are considered to be labour cost. Whether certain other labour costs of the employer, e.g. some expenses of vocational training, have any counterpart in the income of the workers is debatable. On the other hand, social allowances paid by the State or social security systems are clearly income but, are not labour cost to employers except to the extent that employers' contributions may meet part of this expenditure.

(c) Problems of Evaluation

19. Labour cost to employers for workers' housing and social services (medical care, canteens, etc.) are the amounts spent or the costs recorded in the accounting for these items during the period of reference. From the side of the workers the income effect of such labour costs is, however, much more difficult to evaluate. In an income analysis, housing provided by the employer would properly be valued according to its rental value rather than according to the amounts of depreciation and maintenance cost appearing in the employers' account books and interest foregone. The evaluation of the income effect of indirect advantages provided by the social services of an establishment and also the allocation of "consumption" of these advantages among different groups of workers, or among individual workers, pose a number of statistical problems which so far have not been resolved in a fully satisfactory manner.

1 If the employer cannot provide the cost data in question the rental value may serve as a basis for a rough approximation of cost.
20. An even more complicated problem arises with regard to employers' social security contributions. In general these have the character of "deferred" payments which have no immediate impact on the present income level of workers. However, allowances received from social security schemes, the State or directly from the employer in cases of illness, maternity, temporary lay-off, etc., as well as current family allowances, form part of the present disposable incomes of workers. The relation between cost to the employer of social security schemes and the allowances received by the worker depends on the social organisation of a country and varies widely from one country to another.

(d) Data on Income Derived from Statistics of Labour Cost

21. The part of income which is directly identified in the data provided by labour cost studies, without recourse to methods of allocation and evaluation, consists of the direct pay elements appearing on the payrolls of establishments. These direct pay elements correspond by and large to the usual concept of earnings adhered to in regular wage statistics. The Meeting of Experts on Statistics of Wages and Labour Cost in 1964 noted in its report that "it appeared relevant to identify, among those items falling under labour cost as seen from the employers' viewpoint, the items corresponding with earnings as defined in Convention No. 63" as they threw light on the level of living of employees.

22. From the result of the I.L.O. labour cost study in Europe (1955)\(^1\) average hourly earnings were computed. One of the objectives of the study was "incidentally to throw light on certain elements of workers' income outside the normal wage, particularly in so far as such items are financed by employers". Although the statistics of direct pay elements (gross earnings) which could be derived from the 1955 survey results were not necessarily superior from a conceptual point of view to the average earnings series of the participating countries, they had the practical advantage of being defined and collected in a uniform way.

(e) The Simplified Model Approach of E.E.C.

23. The E.E.C. compiles information on the incomes of selected types of workers under certain model assumptions. The key concept in the E.E.C. studies is the "net income" of male wage earners which is composed in the following way: net income = cash earnings plus value of payments in kind (gross earnings) plus family allowances minus social security contributions and tax liabilities of the worker. Average gross earnings per annum are derived from the data obtained through the labour cost inquiry.

\(^1\) I.L.O.: \textit{Labour Costs in European Industry, op. cit., p. 2.}
24. The amounts for family allowances and for wage deductions are drawn from the general schedules in force in each country. No adjustments are made for individual deviations from the general rules (individual tax exemptions, etc.). Net income data per annum are compiled for the model cases of unmarried male workers and married male workers with different sizes of family. No attempt is made to evaluate the indirect elements of employee compensation nor the amount of various social security benefits. The value and also the weakness of such a model approach are evident and recognised by the E.E.C. which stresses that the income studies "should indeed be regarded as an attempt to assess certain orders of magnitude".

(f) Statistics of Income and the Level of Living

25. Whatever methods are used, statistics based on establishments records can yield only partial information on the income situation of workers and their families. These statistics can merely furnish information on the direct compensation and possibly the estimated value of indirect advantages which a worker receives by virtue of his employment in a given establishment. Income received from a second employment or from other sources is not covered. Information on the family income from all sources is, from many viewpoints, a more appropriate concept for the appraisal of levels of living, but such data must be obtained through household surveys.

26. It is desirable, however, to recall the warnings of the U.N. Group of Experts on the Measurement of Levels of Living concerning the use of synthetic monetary indicators. These warnings are likewise valid as regards international comparisons of data on earnings, labour income, family income and per capita income, which signify different things in countries with different social systems. In some cases, free or subsidised social facilities provided by the government have a considerable impact on the level of living which is not reflected in the income statistics.

27. International comparisons of incomes are more satisfactory among countries of similar economic and social characteristics although even then there remains a need for complementary non-monetary indicators of the level of living. Real wage comparisons have been discussed in an earlier I.L.O. report. The problem is how to convert income data expressed in national currencies into a common reference currency by means of special purchasing power ratios reflecting the relative consumer price levels in the countries under review. The E.E.C., in its income comparisons, for countries with similar characteristics appears to have found an acceptable solution. However, real income comparisons remain controversial as far as countries with dissimilar characteristics are concerned.

3 I.L.O.: International Comparisons of Real Wages; Studies and Reports, New Series, No. 45 (Geneva, 1956).
CHAPTER II

NATURE AND OBJECTIVES OF LABOUR COST STATISTICS

(a) Labour Cost at Different Levels

28. Broadly defined labour cost is that part of total cost which is attributable to labour. There are two levels at which this concept may be applied: the level of the whole economy and the level of the industry (i.e. its component establishments). In view of the diversities among countries as regards economic and social organisation, especially financing of social security, these two approaches can lead to significantly different results.

29. The determination of labour cost for the whole economy runs into complex problems of cost allocation. Various sources of accounting at the enterprise level as well as at the national level need to be used for this purpose and it appears to be unrealistic at present to try to set up international standards for such studies.

30. It is, however, necessary to stress the observation of the Meeting of Experts on Statistics of Wages and Labour Cost in 1964: "for a number of analyses, especially in connection with international competition, labour cost for employers had to be supplemented by particulars on social security financing, tax systems and the like".

(b) Labour Cost Per Unit of Labour Input and Per Unit of Output

31. Labour cost borne by the employer can be measured per unit of labour input, for which the unit man-hour is convenient, or per unit of output. As inter-industry and inter-country productivity differences are reflected in statistics of labour cost per unit of output, such statistics are frequently regarded as the key data for labour cost comparisons. Labour cost per unit of output equals hourly labour cost divided by output per man-hour. But since suitable data on output per man-hour (expressed in absolute terms) are not available for many industries, the practical possibilities of utilising this simple arithmetic relationship are very limited.

32. The above-mentioned relationship is used to obtain indices showing the approximate time trend of labour cost per unit of output. Indices are compiled by dividing an index of hourly labour cost by a corresponding index of production per hour worked (productivity index) or by applying similar
relationships. The labour cost indices which have been used so far relate mostly to direct wage payments or earnings only. The compilations could be improved if current data on total labour cost per hour were available. Other imperfections in the unit labour cost indices which have been computed are attributable to the productivity indices utilised.

33. Statistics on labour cost per unit of output pose no complicated theoretical problems where they measure the cost structure of selected individual products, although the practical problems of such statistics should not be underestimated. However, where the objective is to obtain labour cost data, intended for international comparisons, covering the whole range of products of a given industry serious problems of labour cost allocation and of product synthesis arise. While various attempts have been made in recent years to combine the different outputs of a given industry into an aggregate figure and to relate the result to total labour cost, it does not yet appear possible to include such types of statistics in the regular operating programmes of statistical offices. International recommendations in this field would therefore be premature.

(c) Objectives of Statistics of Labour Cost Per Time Unit

34. Interest in labour cost data per time unit has been growing simultaneously with the development of international co-operation in international trade arrangements and in regional

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2 See e.g. U.S. Department of Commerce, Business and Defense Service Administration: Comparative Fabric Production Costs in the United States and Four Other Countries (Washington, 1961) or, U.N. Economic Commission for Latin America: La productividad Industrial, el costo de la mano de obra y el costo de producción en el Istmo centroamericano, E/CN.12/CCE/335/Rev.1; TAO/LAT/51, 14 April 1966 (limited).

The experience in the European Economic Community shows that such data have significant value in the analysis of economic and social trends. They have been used inter alia for indicating the progress achieved in "harmonising" labour conditions in the member countries, which is one of the objectives of E.E.C. However, it should be stressed that labour cost data alone are insufficient to explain the competitive situation of different industries or countries. Apart from differences in labour productivity and in the financing of social security and other programmes related to workers, there are a number of other factors to be considered, including raw material costs, various operating costs, capital costs, subsidies, taxation and last but not least, exchange rates. Differences in respect of these may offset national advantages or disadvantages as regards comparative levels of labour costs.

35. The objectives of labour cost statistics per time unit are not exclusively linked to economic co-operation but are more general. Broadly paraphrasing the report on the 1955 I.L.O. labour cost study, the objectives of labour cost statistics might be defined as follows:

(a) to provide an objective statistical measure of differences in labour costs per man-hour in selected industries in the countries under review;

(b) to provide employers in the selected industries with reliable guidance, in the form of industry averages, on the amount and nature of labour cost in their country;

(c) to indicate the nature of major social programmes operated for the benefit of workers, particularly those financed by employers (pensions, medical care, housing, etc.);

(d) to indicate the cost impact of certain establishment programmes outside the production sphere, such as vocational training and instruction;

(e) to provide a means of gauging the impact on total labour cost of changes in various components and in social legislation, e.g. increase in wage rates, reduction of hours of work, longer vacation, changes in social security contribution, etc.;

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1 Labour Cost in European Industry, op. cit., p. 2.
(f) to throw light on wage compensation systems and in particular on certain elements of worker income outside the normal wage.

36. The above is not an exhaustive enumeration of uses which labour cost statistics can serve alone or in conjunction with other information, but it is abundantly clear that their usefulness will be enhanced through international standardisation of definitions, concepts and methods of data collection and compilation.
CHAPTER III

CONCEPTS AND DEFINITIONS

(a) Guidelines for Identifying Labour Cost Elements

36. It has been said that labour cost is that part of employer's cost which can be allocated to labour. Such a general definition is insufficient for the purposes of a statistical inquiry; an operational statistical definition of labour cost preferably should identify the constituent elements, if necessary by establishing an exhaustive list.

37. Shelton and Chandler have offered a number of guides for distinguishing between labour cost and other costs. There are not exclusively general principles since in some instances they contain illustrations of the types of items to be covered. In its report, the 1964 Meeting of Experts of Statistics of Wages and Labour Cost noted that: "Although there were accepted general notions of the concept of labour cost it was extremely difficult to establish satisfactory guidelines for an unequivocal allocation of cost to the production factor labour".

38. The Meeting developed a number of principles and criteria. It agreed that items covered by the concept of labour cost to the employer should relate to actual costs in the sense that they were usually treated by the employer as cost. Profit foregone by allowing employees to use facilities of the employer at reduced charges or to purchase goods from the company store at a special discount (but not below the employer's buying price) was not regarded as labour cost. Benefit to workers was one although not the sole criterion that the Meeting used to decide whether or not to include specified employer expenses in labour cost. Under this criterion all wages and salaries and assimilated payments were clearly labour costs. The remaining part of labour cost was to be included on a "net" basis, i.e. after deduction of amounts (if any) paid by the workers, grants-in-aid, etc. Thus the net cost was to be used in respect of items like payments in kind, housing, welfare services, etc. Regarding other items, including work clothes and taxes, the Meeting set up a number of principles which will be dealt with in detail below.

1 "International Comparisons of Unit Labour Cost", op. cit.
(b) Scope of Labour Cost

39. The Meeting of Experts decided to take the draft international standard classification of labour cost presented by the Office in the Working Paper MELC/D.1/1964 as a basis for a general review of the scope of statistics of labour cost. The items listed were considered seriatim from the point of view of their relevance and completeness. The following definition of labour cost was adopted:

"For purposes of labour cost statistics, labour cost is the cost to the employer of the production factor labour. The statistical concept of labour cost should comprise: remuneration for work performed; payments in respect of time paid for but not worked; bonuses and gratuities; the cost of food, drink and other payments in kind; the cost of workers' housing borne by employers; employers' social security expenditures; cost to employers for vocational training, welfare services and miscellaneous items such as transport of workers, work clothes, recruitment, etc.; together with taxes regarded as labour cost".

The Eleventh International Conference of Labour Statisticians may wish to take this comprehensive definition as a starting point for its deliberations on the scope of labour cost. A more detailed list of items covered by the definition is found in the standard classification incorporated in the draft resolution which is appended to this report.

(c) Related Concepts

40. The definition of labour cost given above has a wider scope than a number of related concepts which are frequently used in discussion and, in some countries, presently used for statistical measures. Examples of these concepts are "wages and social charges", "wages and fringe benefits", "wages and wage supplements", "wages and related elements of labour cost".

41. "Social charges" in a narrow sense are commonly taken to cover obligatory and voluntary social security contributions; in a wider sense the term englobes cost of workers' housing and welfare services. It is much more difficult to agree to include under this heading items such as recruitment, transport of workers and vocational training, although sometimes this has been done. The E.E.C. includes, for instance, the cost of the transport of workers in an item "other social contributions". One may argue with some justification that certain costs, such as cost of medical care, do not always result in a net "charge" to the employer. For instance, medical care may result in
reduced payments in respect of sick leave. Similarly it is said that although certain "charges", like paid vacation and subsidies to canteens, increase cost per hour they may be offset by higher efficiency of labour, thus diminishing cost per unit of output. However, statistics of cost per hour cannot take account of such compensating effects.

41. The term "wages and wage supplements" (or complements) is sometimes used more or less synonymously with the term "labour cost", although certain cost elements such as recruitment and taxes are generally not covered since they are not supplements to wage payments. The cost elements included in the British labour cost inquiry for 1964 corresponds closely to the definition recommended in paragraph 39, although officially they were referred to as "wages and related elements of labour cost".

42. The term "fringe benefits" has been widely and often rather loosely used in the context of labour cost discussions. Generally it denotes the benefits obtained by workers: "over and above (a) not only regular wages and salaries and premium pay, for overtime work or for special productivity, and other standard wage and salary components, but also (b) 'unavoidable' facilities (i.e. those provided as part of general operations), such as recruitment, training and the maintenance of washrooms.... It is sometimes hard to separate out, in the available data on labor costs, such elements as subsidised canteens (on the borderline between labor costs which are fringe benefits and those which are not fringe benefits), recruitment and training (generally taken to be excluded from the domain of fringe benefits) and other categories on which a researcher may wish to make a decision as to inclusion or exclusion".1

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CHAPTER IV

COMMENTS ON LABOUR COST COMPONENTS

(a) Purpose of This Chapter

43. In defining the scope of labour cost the 1964 Meeting of Experts took account of prevailing opinion as revealed in recent methodological studies, solutions adopted in existing labour cost surveys, the availability of data and also the general interest attaching to certain peripheral labour cost items like vocational training. The scope of the definition adopted is much akin to that in use in the E.E.C. surveys and other major labour cost inquiries. In order to assist the Eleventh International Conference of Labour Statisticians in its deliberations, more detailed indications are given below on the list of specific items comprising labour cost and on the practical treatment of certain cost elements, including depreciation and interest foregone, which pose special difficulties. The controversial question of the inclusion or exclusion of certain tax payments also warrants further clarification.

(b) Direct Labour Cost

44. Direct labour cost can be divided into the following components: cash remuneration for current work performed (direct wages and salaries); remuneration for time not worked; bonuses, gratuities and indemnities; food, drink, fuel and other payments in kind; and cost of workers' housing borne by employers. Direct labour costs relate primarily to items normally appearing on the payrolls of establishments and correspond by and large to the concept of earnings as defined in Convention No. 63 (Articles 6 and 7).

45. Cash remuneration for current work performed (i.e. direct wages and salaries) covers the following items: straight-time pay of time-rated workers (remuneration on the normal hourly basis, both for usual and overtime hours) and earnings of piece workers, responsibility premiums, dirt, danger and discomfort allowances, payments under guaranteed wage systems, regional or climatic differentials, cost-of-living allowances and other regular allowances connected with work or

1 According to the draft International Standard Classification recommended by the 1964 Meeting of Experts on Wages and Labour Cost.
the workplace (for instance, commissions on sales), incentive pay for time-rated workers (production premiums and productivity premiums), together with premium pay for overtime, late shift and holiday work.

46. Some problems arise with regard to sales commissions. Where the salesman to whom commissions are paid does not have an employment contract with the firm, for instance he does not receive any fixed salary and the firm has not insured him for social security purposes, the commissions in question cannot be regarded as labour cost. Conversely, commissions paid to sales personnel who either are remunerated also by salary, or in other respects are members of the personnel of the establishment, are regarded as earnings and as labour cost. Commissions can be assimilated to performance premiums.

47. Remuneration for time not worked comprises direct payments to workers in respect of public holidays, annual vacation and assimilated leave, long-service leave, public and other recognised holidays, other time off with pay granted by the employer, for instance, in connection with birth or death of family members, marriage of employee, union activities, family obligations, removal, functions of a titular office, etc. In some countries, for instance in Belgium, payments in respect of vacations for non-manual workers are made by the social security system: employers' contributions to the vacation fund take the place of normal vacation pay and for purposes of international comparisons are assimilated to the latter.

48. Bonuses and gratuities include year-end, Christmas, Easter or other seasonal bonuses, profit-sharing bonus, additional payments in respect of vacation (supplementary to normal vacation pay) and other bonuses (e.g. for inventions, suggestions, technical improvements, etc.). These are payments made at annual or rather long intervals and should be distinguished from monthly or more frequently paid remuneration. The 1964 Meeting of Experts on Statistics of Wages and Labour Cost pointed out in its report that "employers and workers sometimes would have different views or attitudes concerning certain items. The former may not necessarily agree that bonuses, even if traditionally paid at the end of the year, and perhaps also mid-year, constituted an acquired right rather than a voluntary distribution of profit and therefore could be subsumed under wages and salaries, as sometimes claimed by representatives of the workers ... There was no doubt, however, that all types of bonuses, premiums and payments to workers for special services or ideas, improvements in working methods, etc., were to be included somewhere in total labour cost". As regards these items, statisticians may have a problem of classification but at the same time may be in common accord that they represent labour cost.
49. In the 1955 I.L.O. inquiry a distinction was made between the distribution of final profit in an accounting sense, when it was not considered a labour cost element (since all costs are deducted before the calculation of profits) and the case where the distribution was treated as a cost item by the employer for the purposes of final profit determination and taxation. It must be admitted that the distinction, which depends largely on accounting practices in the different firms and countries, does not appear tenable as an international standard. Most labour cost surveys include as labour cost all payments in the form of profit sharing.¹

50. Not all indemnities, in the sense of compensation for particular expenditures in connection with the job, qualify for inclusion in labour cost. The I.L.O. proposed in its working paper MEIC/D.1/1964 that refunds of expenses incurred by an employee in carrying out his employer's instructions or business - e.g. expenses of travel to visit clients, including hotel charges and daily living allowances while travelling for the employers - should not be regarded as labour cost. The 1964 Meeting of Experts approved this view and recommended that the cost of such travel and of per diem allowances should be distinguished from labour cost as defined for statistical purposes. However, when daily allowances took the form of a cash payment, in addition to the refund of expenses incurred by the employee on behalf of his employer, these would be considered as labour cost since there was a benefit to the employee.

51. The meeting took a similar stand as regards "tool allowances" which should not be included where these were simply a reimbursement of expenditure for workers' own equipment. However, if a so-called "tool allowance" was paid in cash and was more or less a regular one it yielded benefit to workers and could be assimilated to wages. This is, for instance, the case for the so-called "tool allowance" in Australia.

52. Although the benefit or non-benefit character of an indemnity may sometimes be not easy to assess in practice, it

¹ For instance, the inquiries of E.E.C., the United Kingdom and Japan. The United Kingdom labour cost survey includes under profit sharing all payments of bonuses out of profit which are made regularly but this item does not cover payments which, although dependent upon profits, are not predetermined but are ex gratia and made entirely at the employer's discretion.
is difficult to find a better criterion for the separation of labour cost from general cost of establishments. Complete exclusion or inclusion of all indemnities, the easiest practical solution, could lead to markedly biased results in particular cases. Taking into account the prevailing form of indemnities and conditions of payment, it should be possible to determine in advance a list of those to be included in labour cost. The E.E.C. includes in direct wages allowances such as those for work done away from usual working site (e.g. installation work) and indemnities for lunch, sandwiches, etc.

53. The 1964 Meeting of Experts agreed that the concept of payments in kind (food, drink, fuel and other, provided free or below cost) to be used in connection with labour cost measurement should relate to employer cost for goods and services received by the worker and replacing expenditures for living which he would otherwise make on his own behalf. Payments in kind to dependants of employees and former employees should also be considered labour cost.¹ It is common practice to value goods provided free at the actual cost to the employer (excluding the cost of distribution) irrespective of the use value of the item. There is a certain discrepancy between this generally accepted principle and the statement in the report of the meeting that "...the distribution by the employers of perishable foods or other commodities which were surplus and of no real value to him" should not qualify as labour cost. The distinction between the cost and the "real value" to employers would necessarily introduce an element of subjective appreciation. However, if the actual inventory value of a commodity is much lower than its original cost, it might be appropriate to use the most recent accounting figures. For goods sold to the employee below cost, the Meeting stressed the principle of taking into labour cost statistics the net cost to the employer, i.e. the difference between the cost of the goods to the employer and the price paid by the employee.

54. All the major labour cost surveys in recent years have treated the cost of workers' housing borne by employers as labour cost, albeit using different bases of evaluation. In the classification adopted by the 1964 Meeting of Experts the following cost elements are listed: net cost for establishment-owned dwellings; net cost for dwellings not establishment-owned (allowances, grants, etc.); and other housing cost (relating to land ceded for construction of employees' housing, interest foregone on loans granted without interest or at reduced rates for construction of housing for own employees, etc.).

¹ This is expressly indicated in the instructions to the 1964 British inquiry. The Meeting of Experts in 1964 noted that cost of housing provided by the employer for persons formerly in his employ should be included in labour cost.
55. Net cost for establishment-owned housing comprises: maintenance expenditure, fees, property taxes, insurance, interest, depreciation and other costs, less: grants-in-aid, tax rebates, etc., received from public authorities and rents and other receipts from workers in respect of housing. However, no allowance should be made in statistical inquiries on labour cost for tax rebates, or subsidies and other forms of compensatory payments made by the State, in connection with the employment of particular types of labour (e.g. refugees, unemployed, disabled, etc.). Such financial transfers do offset part of the expenditure on employment of labour in a given establishment but in regular labour cost statistics the practice so far is to include the total wage bill of the establishment.

56. Mention might also be made of the possibility that payments by the State or by the establishment's workers in respect of welfare services might be higher than the total cost of these services to the establishment. The Meeting of Experts in 1964 considered inadmissible that an employer's net cost for any particular item could be less than zero, i.e. "negative cost". If, for example, the charges by an employer to his workers for the service, such as housing, equals or exceeds the cost to the firm of providing this service (including interest charges, maintenance, depreciation, insurance, etc.), then there is no net labour cost attributed to that particular service in the statistical data.¹

57. The rigid application of the above-mentioned principle may have undesirable side effects. It would make the level of labour cost dependent upon the form and detail of classification adopted. Labour cost might, for instance, be positive if establishment-owned and non-establishment-owned housing were combined as one item, but negative for one of them if treated separately. In practice, cases of negative labour cost for particular items should be extremely rare and therefore it might not be necessary to adopt particular recommendations to deal with them. Since situations such as the one described above may alter at any time as a result of revision of the scale of charges to workers, or of other developments, it would appear desirable to combine all housing services for purposes of applying the general principle of net cost.

¹ On the other hand, the labour cost of the employer (wages, salaries, social security contributions, etc.) incurred by him in respect of employees for administering or working in the services in question, is always included in the statistical data on labour cost.
58. It was emphasised by the 1964 Meeting of Experts that the amounts shown under the heading "Cost of workers' housing borne by employers" did not correspond to the amounts included in earnings statistics for the value of free or subsidised housing. In earnings statistics, housing provided by the employer is considered from the viewpoint of income to the worker who benefits to the extent of the rental value, reduced by the rent, if any, paid by him.

59. Maintenance costs of housing owned by the establishment comprise the amounts of bills for maintenance work carried out by other firms and the cost of material, energy, etc. used in connection with work performed by the firm's own workers. Wages and other labour costs incurred by the establishment in respect of its own maintenance staff are classified in the same groups of labour cost items (i.e. wages, social security contributions, etc.) as the same costs for other staff (see chapter on classification).

60. Interest imputed on capital invested for workers' housing is a cost item since profit is foregone to the extent that the capital, if invested elsewhere, would have earned interest or dividends. Depreciation is also recognised as a cost. It accounts for "... the diminution of service yield from a fixed asset or fixed asset group that cannot or will not be restored by repairs or by replacements of parts, caused by wear and tear from use, disuse, poor maintenance, obsolescence (progress of the arts), and inadequacy (unsuitability to the particular enterprise)".1

61. The regional variations throughout the world regarding the kind of buildings and equipment in use, the conditions causing natural wear and tear or obsolescence and the complexity of capital and real estate markets make international recommendations on standard rates of interest and depreciation illusive. In the 1955 I.L.O. labour cost inquiry, respondents were instructed to enter the annual depreciation of buildings and equipment at the rate used in the firm's accounting. This was a convenient practical solution although it may have introduced a certain element of non-comparability. In the E.E.C. surveys, which cover countries with much the same characteristics, depreciation on housing is fixed at 2 per cent. per annum on the value of the property as if it were new at the time of the inquiry.2 To simplify the compilations, the value of housing


2 The current valuation of buildings and equipment will not always meet the test of good accounting. Traditionally, the valuation basis for fixed assets is original cost, but in periods of rapid price increase only current valuation can assure that depreciation charged is in line with current replacement cost. Construction subsidies (not to be repaid) received from a third party (e.g. government allowances for the construction of cheap dwellings) are deducted from the capital value.
as if it were now could be estimated by extrapolating the original cost with an appropriate building price index. In principle, the interest to be charged in respect of housing investment should be computed on the purchase price or actual cost of construction of the dwellings erected by the establishment (including the purchase price of equipment installed), or the book value of such items when they were transferred to these uses. The rate of interest could be the normal rate current in the capital market, the rate for first-class primary mortgages, or some other suitable rate.

62. When the establishment has ceded land permanently for the use or benefit of personnel, for instance for the construction of their own housing, the most appropriate solution would be to report as labour cost its market value in the year of transfer. However, land owned by the establishment may be made available for recreation and other facilities for employees, or land may be rented by the establishment for this purpose. In principle, the rent paid or, if the land could be rented out or put to alternative use for profit, then the rental value of the land, would be regarded as labour cost. It may be difficult to assess the rental value because, for instance, the land may be subject to restrictions regarding its use or may be reserved for future expansion of the enterprise and have virtually no rental value at the moment. Where there is no alternative use of the land through which the establishment could get earnings from it, there is no cost corresponding with rental value of the land (cf. the case of space made available for parking cars). If the employer makes improvements or installs facilities in connection with the workers' recreational activities on the land, the cost of such improvements and facilities, together with any rates and taxes on the land, would be chargeable to labour cost.

(c) Employers' Social Security Expenditure

63. Employers' social security expenditures mostly represent provision for deferred payments to workers, i.e. they yield benefit to workers in a later period. Current employer expenditures of this kind have been considered as current labour

1 Including the cost of alterations and additions, installation of equipment, etc., as well as the value of the site.

2 If in rare cases there is no market value for the land in question, the price of acquisition, the tax value or another pertinent value basis might be used.
cost in all recent studies of labour cost and are covered by the concept of "compensation of employees" in national accounts statistics. According to the recommendations of the 1964 Meeting of Experts, employers' social security expenditure should comprise the following elements:

1. **statutory, collectively agreed, contractual and non-obligatory contributions to public and private schemes and insurances, covering:** old-age, invalidity and survivors; sickness, maternity; employment injury; unemployment; family allowances and other employee benefits;

2. **direct payments to employees in respect of absence from work due to sickness, maternity or employment injury, to compensate for loss of earnings; and other direct payments to employees assimilated to social security benefits;**

3. **cost of medical care and health services;**

4. **severance and termination pay.**

64. The cost of medical care and health services includes cost of material, depreciation on buildings and equipment, interest, repair and maintenance. Depreciation, interest, etc. are to be valued according to the same principles as indicated for employees' housing. The questionnaire of the British labour cost inquiry of 1964 stresses rightly that expenses for heat, light and power charges have to be included in the labour cost of the various services to workers.

**d) Other Subsidised Services for Workers**

65. The net cost (including depreciation on buildings and equipment, interest, repairs and maintenance) of the following welfare services of the establishment are likewise regarded as labour cost: canteens and other food services; education, cultural, recreational and related facilities and services (such as crèches and vacation homes); transport of workers to and from work undertaken by the establishment. Assimilated are grants to credit unions and related services for employees and interest forgone on interest-free loans to workers. Regarding housing loans, see paragraph 54 above.

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66. Cost of transport of workers undertaken by the establishment are on the borderline between labour cost and general cost of establishments. The benefit character of this free transport to workers nevertheless may justify its inclusion in labour cost. In the British labour cost inquiry for 1964 the cost of providing car parking facilities for employees was also included in labour cost. There is, however, the risk of stretching the labour cost concept by interpreting very broadly the criterion "benefit to workers" (see discussion in paragraph 62 on recreation grounds). The cost of installing and maintaining car parking facilities (exclusive of land-use value) might be an appropriate item for inclusion but such expenditures may be regarded as general costs. Assistance with fares and repayment of normal daily travelling expenses qualify for inclusion in labour cost in applying the criterion: "indemnity with benefit character to workers".

67. It must however be recognised that the criterion "benefit to workers" does not provide a clear-cut distinction between facilities with labour cost character and those which should be regarded as general cost. As labour cost one might consider facilities which have as their primary objective to benefit the worker. Facilities which have as primary objective the normal functioning of the enterprise should rather come under overhead cost as they are part of the "work environment". Cost of sanitary facilities, showers and similar items might therefore be regarded as overheads.

68. Employers probably would experience difficulties in reporting separately depreciation and interest charges in respect of some welfare services or facilities for workers, especially as they frequently occupy only part of a building. In such cases estimates have to be made. However, these items could be neglected if they were insignificant and, in most countries, labour cost inquiries so far have recorded data on depreciation and interest for workers' housing only.

(e) Cost of Vocational Training and of Recruitment

69. The 1964 Meeting agreed with the general practice of including the cost of vocational training and of recruitment within the scope of labour cost. Recruitment cost has no counterpart benefit to the worker but could scarcely be excluded from employers' labour costs. Vocational training benefits both the worker and the establishment.1 The recent

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1 Shelton and Chandler state in their article: "International Comparisons ..." (op. cit.), that cost of vocational training and recruitment ... "are for labour although they do not necessarily benefit labour".
great development of vocational training as a means of adjusting labour to technical progress and new conditions has stimulated much interest in measurement of cost of training.

70. The cost of vocational training covers the net cost\(^1\) of the following items: fees, salaries and other payments for services of outside instructors, raw materials, energy, small tools, teaching materials, etc., cost of repairs and maintenance as well as depreciation and interest with respect to buildings and equipment used. Assimilated to these costs are payments made to outside training institutions on behalf of workers of the establishment and reimbursement of school fees, etc. to workers. The term "vocational training" should be taken in a wide sense to include also training in health and safety measures and in language (for foreign workers).

71. Items covered under recruitment cost are the following: travel expenses paid for interviews of new recruits, cost of advertisements, fees paid to public or private employment services in connection with recruitment, removal expenses\(^2\), per diem and installation allowances paid to newly recruited workers and members of their family, cost of documents, legal fees and similar expenses borne by the employer. The 1964 Meeting emphasised that: "these travel expenses (included in recruitment cost) were of quite a different nature from refund of travel expenses of salesmen employed by the firm which, as noted above when daily allowances were discussed, were not considered to be labour cost".

(f) Cost of Work Clothes and Protective Clothing

72. The 1964 Meeting regarded the cost of work clothes and of protective clothing as labour cost. It may be argued that provision of certain forms of protective clothing is part of the work environment (equipment of the establishment) rather than a benefit to the worker, particularly where the employer is under a legal obligation to supply such clothing. As employers may not record separately the cost of safety and other work clothes and in any case the distinction between these is not clear-cut, the meeting decided to include the cost of both types. This practice is followed in the labour cost inquiries of the United Kingdom and of the E.E.C.

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\(^1\) Net cost — gross cost less grants-in-aid, tax rebates, etc. received from public authorities or other third party and payment (if any) received from trainees.

\(^2\) Assimilated are removal, etc. expenses paid when employees are transferred to another establishment of the same firm.
(g) Taxes Regarded as Labour Cost

73. The treatment to be given to taxes in the context of labour cost statistics is one of the most complicated conceptual problems, the more so when international standards are to be evolved. Several criteria have been proposed for distinguishing taxes with labour cost character from other taxes but none of these criteria is fully satisfactory.

74. General taxes (such as income or corporation taxes levied on profits) paid by companies or individual employers are not regarded as labour cost to the employer although the revenue may be used partly to finance social programmes benefiting workers as well as other members of the community. The E.E.C. includes in labour cost special taxes which it considers have a "social character" (impôts à caractère social), i.e. conform with the following two criteria:

(1) they must be treated by the employer as cost; and
(2) they must benefit workers in one way or another.

Taxes in the countries of the Common Market which fulfilled these conditions were in the eyes of E.E.C. the French "impôt cédulaire" (a tax on payrolls and paid by the employer which had replaced a former earnings tax payable by the employee) and the Italian employers' contributions to a public housing fund for workers (INA CASA).

75. In a wider international context the E.E.C. criteria do not appear to constitute a tenable approach: the level of labour cost to the employer would be dependent on the extent to which particular kinds of taxes are levied in each country for raising revenue for financing social programmes benefiting workers. In many countries large social programmes are wholly or partly financed through general taxation on profits and on personal incomes, which cannot be regarded as labour cost. The United Kingdom is frequently quoted as an outstanding example of heavy reliance on general taxation for these purposes.

76. In the labour cost inquiries conducted in Japan and in the United Kingdom no taxes have been included within labour cost.1 This decision could be adopted in a given country if the particular taxes which are considered to be labour cost have a negligible impact on total labour cost. In the case of France,

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1 In this connection, it may be noted that a selective employment tax has been introduced in the United Kingdom in 1966.
where the share of the "impôt cédulaire" in total labour cost amounts to as much as 2 per cent., to exclude it from the survey would not appear to be justified. In the 1960 Austrian labour cost inquiry payroll taxes were included in labour cost.

77. The 1964 Meeting considered that taxes levied on employment or payrolls, together with certain types of taxes connected with apprenticeship or vocational training, represented labour cost to the employer irrespective of the purposes for which the taxes were levied. It was recognised that these taxes did not necessarily represent labour cost to the economy as a whole nor yield benefit to workers.

78. One objection which might be made to the above is that a tax on numbers employed or a payroll tax is only a particular fiscal procedure and other ways of raising the same revenue, e.g. by a tax on turnover or working capital, etc., might have been used instead. There is no doubt, however, that taxes which are a function of employment or of wages will be viewed by employers as making the use of labour more expensive.

79. In some cases, particularly in relation to apprenticeship and vocational training, establishments are obliged to pay a tax if they do not provide certain vocational training or do not employ apprentices equal in number to a specified percentage of their total employment. These taxes therefore result in increased labour costs, at least for the firms which decide to become qualified for exemption. To omit the tax payment from labour cost would have the undesirable effect of regarding some firms as having lower labour cost than those which provided the required vocational training or employed the required number of apprentices. The tax may be regarded as compensating for a lower level of expenditure on some labour cost items.

80. In order to make its reasoning fully understood, the 1964 Meeting stressed that because a government imposed a tax to help cover the cost of its training programme this did not of itself make the tax a labour cost to employers. For instance, if levied on turnover it would increase total costs of employers but not their labour cost. On the other hand, if labour cost to the economy as a whole were considered, the government's expenditure on vocational training would be regarded as labour cost.

81. In conclusion, it is proposed that the Eleventh International Conference of Labour Statisticians approve the recommendations of the 1964 Meeting, viz. that taxes on employment and payrolls and taxes paid by the employer as an alternative to employing more labour (e.g. apprentices, handicapped workers) or providing more vocational training should be considered labour cost to employers. The taxes in a given country which conform with the above rules should be identified by the authorities in charge of labour cost surveys and not by the individual employer. In addition, taxes should be shown as a separate group in the classification by components of labour cost in order to facilitate use of the data for purposes which would require exclusion of these expenses.
(a) Purpose and Nature of Classification

82. The classifications used for labour cost statistics should permit to obtain from the data information on important factors influencing the level and composition of labour cost and the changes over time. Of primary interest in this respect are classifications of labour cost according to components, industry, region, size of establishment and status of worker (wage earners, salaried employees and, if relevant, home workers).

(b) General Principles of Classification of Labour Cost Components

83. Labour cost can be classified by components from two viewpoints:

(1) the financial nature of the cost item, for example: basic wages, premiums, allowances, contributions paid, subsidies, etc.;

(2) the purpose of the payment, for example: payments for time worked, payments for time not worked, cost of social security, medical care, vocational training, etc.

There has been no strict adherence to either one or the other of these principles in any recent inquiry. The recommendations made by the 1964 Meeting of Experts lean generally more towards considerations of the second type, and the same is true for the classification used by the European Economic Community.

84. Of more practical importance than the above principles is the decision whether the establishment should be regarded as a unit, or whether the classification should aim at allocating the various labour cost elements to the different types of activity, e.g. production and administration, vocational training, social programmes, etc. In the I.L.O. labour cost inquiry of 1955 as well as in the recommendations made by the 1964 Meeting, the establishment and all its activities are regarded as one unit: hence, cost items such as direct wages and salaries, premium pay, bonuses and gratuities and social security contributions, cover all expenditure of the kind, irrespective of whether made for workers in production and related activities or those engaged in social programmes of the establishment. Accordingly, the amounts to be shown under other cost items, like housing for employees, medical care and health services, exclude wages and salaries, etc. of employees of the establishment working in these particular services. Conversely, the E.E.C. tries to distinguish in its
labour cost classification between the different sectors or programmes of the establishment. The wages, bonuses and social security contributions, etc. for personnel engaged in the various welfare services and in vocational training are classified as components of the cost of those particular services. Direct labour cost (cash wages and salaries plus payments in kind and social security expenditure) refers then only to such payments in respect of the personnel engaged in all other activities of the establishment (production, general administration, sales, etc.).

85. The advantage of the E.E.C. procedure (which could be called "programme approach") is that the full labour cost of the main establishment programmes is revealed. Average total cost per worker of such programmes in the different industries surveyed will be of particular interest for national and international comparisons. The balance of total labour cost sometimes has been viewed as indicating the (average) labour cost of "productive" workers. However, this is a rather ambiguous notion in today's complex work environment. Given the interdependence of the different sectors of a firm, it is extremely difficult to find a satisfactory basis for separating "productive" work from other work.

86. There are many practical problems in obtaining a detailed subdivision of wages and other costs according to establishment programmes. In view of such difficulties, E.E.C. decided not to request separate details of wages and social security contributions for personnel charged with recruitment (which proved to be relatively small) and likewise for personnel administering welfare services. "Housing" is the welfare service where E.E.C. has attempted to implement in a complete way the "programme approach" (including cost of housing administration where a separate administration exists). In the Austrian labour cost inquiry the difficulties experienced by many establishments in subdividing the payroll into payments related to production and general administration and payments related to the other programmes made it impossible to implement the E.E.C. approach. Similar difficulties are likely to arise elsewhere. In accordance with the recommendations of the 1964 Meeting the allocation of wages and related elements to the different programmes is not proposed in the draft international standards outlined in this report.

87. Under certain circumstances, some countries may wish to attempt to estimate the cost of particular programmes. Wherever practical, countries should compile separate data on total cost of vocational training in view of its particular importance today. The procedure is described below.

88. Total cost of vocational training comprises the net cost of the items listed in paragraph 70 above, plus such parts of all other labour cost components as are attributable to vocational training, viz.:
(a) the wage and salary payments relating to personnel of the establishment (instructors, trainees, maintenance workers) occupied exclusively in the vocational training programme;

(b) a proportion of the wage and salary payments relating to personnel of the establishment engaged part time in vocational training and part time in other work. Where no other way of cost separation exists in the accounting records of establishments, the wages, salaries, etc. paid in respect of these persons should be allocated between vocational training and other activities on the basis of the usual working hours they spend on vocational training and on other work respectively;

(c) employers' social security expenditure in respect of persons referred to in (a) and the relevant part in respect of persons referred to in (b) above;

(d) cost of workers' housing, cost of welfare services and other labour costs (transport of workers, recruitment, etc.) attributable to personnel engaged in the vocational training programme (instructors, trainees, maintenance staff). Where the accounting records of the establishment do not provide a better way of separation, aggregate costs for items (c) and (d) could be subdivided between vocational training and all other activities on the basis of the respective numbers of persons (full-time equivalents) occupied therein.

89. As can be seen from the above example, the programme approach entails difficult practical problems of separation of accounting data and cost allocation. In many instances it would be impractical to attempt to do more than allocate to an establishment programme (e.g. vocational training) those cost items which have a considerable impact on the total cost of that programme. This may often mean the omission of cost elements mentioned under (d) in paragraph 88. In any case, figures on the total labour cost of a particular establishment programme will always be approximations.

(c) Comments on Major Groups

90. A draft International Standard Classification of Labour Cost is shown in Appendix I. Except for minor details it follows the suggestions made by the 1964 Meeting of Experts on Statistics of Wages and Labour Cost. The objective is to make the data for the different major groups as comparable as possible between industries and between countries despite differences in wage compensation systems, social security systems, welfare and vocational training programmes. It is proposed to recommend that wherever possible countries provide data for at least each major group of the classification.
91. Major group I, Direct Wages and Salaries, covers expenditure directly related to time worked or work performed, including premiums and bonuses for particular labour conditions. The share of direct wages and salaries in total labour cost on the one hand, and its share in total gross wages and salaries (including remuneration for time not worked) on the other, give useful indicators for the study of wage compensation systems.

92. The first minor group of major group I, straight-time pay of time-rated workers, is the remuneration on the normal hourly or other time basis, both for normal and for overtime hours; it excludes production and other bonuses (included in minor group 2) as well as the premium part of overtime pay (included in minor group 4). Premiums and allowances which compensate for particular conditions under which work is performed are included in straight-time earnings, for example, responsibility premiums, dirt, danger and discomfort allowances, teaching premium for an instructor-worker, etc., as well as payments under guaranteed wage systems, etc., the more so as they are often not separate accounting categories.

93. In many countries, cost-of-living adjustments are incorporated in wage rates and form an integral part of wages and salaries. If cost-of-living allowances are recorded separately on payrolls they should be classified with the corresponding wages and salaries; the employer generally has to concede such allowances to all the staff and hence they affect the level of effective normal wages.

94. Incentive pay of time-rated workers comprises production premiums and other incentive pay which is regularly included in current payrolls, i.e. attributed to work performed by individuals or groups of workers in the pay period. The 1964 Meeting felt that in many instances the payroll records of employers would not readily permit them to supply separate data for incentive pay and in these cases combined data for straight-time wages and incentive pay would be supplied. In the E.E.C. inquiries production bonuses and other bonuses directly related to work performed are shown under "bonuses and gratuities". It appears, however, more appropriate to combine bonuses connected with specific hours or days of work together with wages for work performed in major group I.

95. Earnings of piece-workers include also premiums and allowances compensating for particular conditions of work (listed in paragraph 92). Premium pay for piece-work done on an overtime basis preferably should not be included here; only the normal part of the pay should be reported. Separate reporting of premium pay for overtime, etc. would permit deeper analysis of the labour market situation and the level of economic activity, especially where at the same time information can be obtained on hours of work, distinguishing between normal hours and extra hours.

1 Incentive pay includes also such payments as suggestion box rewards.
Where employers cannot provide separate data readily for item 4 (premium part of overtime pay), it would be combined with item 1 or 2 as appropriate. Item 5, indemnities, covers certain payments which yield benefit to workers, like regular cash "tool allowances", indemnities for meals, sandwiches, etc. unless they have to be included with wages due to difficulties of reporting. Assistance with fares or reimbursement of normal daily travelling expenses (which are combined with other costs of transport of workers paid by the employer) and cash indemnities in respect of work clothes are excepted and should be shown under major group IX, items 1 and 2 respectively. It will be noted, however, that the 1964 Meeting included in major group IX only costs of transporting workers to and from work relating to transport service undertaken by the establishment.

96. Major group II, Remuneration for Time Not Worked, relates to payments reflecting in particular the impact of legislation, collective agreements or other arrangements in the fields of annual vacation and assimilated leave, as well as holidays with pay. There is considerable interest among workers and employers in obtaining separate statistical data for this major group. It appears useful to try to separate, where possible, payments for (1) annual vacation and assimilated leave; (2) holidays with pay; and (3) other time off with pay. These together cover payments in the nature of wages and salary for periods during the worker's employment where the worker is not at the employer's disposal for work. However, not all payments in connection with such periods are best placed within major group II. The 1964 Meeting of Experts recommended that wages or salary paid in respect of sick leave should be placed under major group VI, Employers' Social Security Expenditure, and the same was proposed for "severance and termination pay" (including payments in lieu of notice and repatriation benefits). Like unemployment benefits, these payments in many cases tide the workers over between jobs. Wages paid to trainees during training periods, when they are not available for normal work, are not to be included in group II but should be allocated to group I.

97. In the working paper submitted to the 1964 Meeting it was suggested that payments under guaranteed wage systems be classified under major group II, as remuneration for time not worked. Although these payments generally were made in respect of periods when the worker was "available", there was insufficient work to enable him to earn the minimum guaranteed amount, during the day, week or month, as a result of temporary stoppage or short-time working of the employing establishment or of a particular section. On the other hand, the 1964 Meeting of Experts took the stand that payments under guaranteed wage systems were more appropriately placed under "direct wages and salaries". As the worker may be considered as at the employer's disposal for work, even if permitted to leave work early or to remain at home when there is no work for him, the Meeting's proposal is more satisfactory. The same applies to payments like "attendance money".
This is granted, for instance, to dock labourers in a "pool" in respect of each day that they report at the pick-up centre but are not allocated any work. E.E.C. follows the same line of thought by including in direct wages an item "compensation for rest days due to diminution of hours of work".

98. It is recognised that employers in some countries or some industries might have difficulties in separating, from payroll records, the items composing major group II. Where this is the case they will have to be combined with I, direct wages and salaries.

99. Bonuses and Gratuities, major group III, are broadly defined as payments made to workers at annual or rather long intervals and thus distinguished from premiums paid monthly or more frequently which are related to work performed or to current output and are therefore included in direct wages and salaries (incentive pay). To define bonuses and gratuities as payments in the nature of shared profits would not be satisfactory. The frequency of payment criterion, advanced by the 1964 Meeting, serves as a useful guideline but the Meeting recognised that there may be ambiguities and exceptions. For instance, are semi-annual "bonuses", which are widespread in Japan, "direct wages" or are they to be classified under "bonuses and gratuities"? Where such regular payments are made under a contractual arrangement there are grounds for assimilating them to direct wages and salaries. It is commonly the case in Latin America that the employer obligatorily pays the worker for an extra period, often at normal rates or as a proportion of wages for the preceding months. The 1964 Meeting felt that "it should be left to the country to decide in the light of its local conditions where such payments should be classified. It was, however, important to indicate, in the explanatory notes to the statistics, in which major group they had been included". The proposed subdivisions of this major group conform with the conclusions of the 1964 Meeting and with few exceptions, with the E.E.C. classification.

100. Included in major group III is additional "vacation money", supplementary to the normal vacations pay classified under major group II. This additional pay is a voluntary supplement offered by the employer. It does not refer to extended duration of paid leave.

101. No classification difficulties arise with respect to major group IV, Food, Drink, Fuel and Other Payments in Kind. In view of the importance of cost of workers' housing borne by employers and the particular methods of cost evaluation involved, this forms a separate major group (No. V). The general criterion

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for inclusion of items in major group IV is, according to the conclusions of the 1964 Meeting, that the payments should relate to employer cost for goods and services transferred to the worker which replaced expenditure that the worker would otherwise make on his own behalf. Provision of work clothes and cost of group transport of workers did not stand this test in the eyes of the Meeting and should therefore be classified under major group IX, labour cost not elsewhere classified. Similarly, the cost to the employer of subsidised canteens and other food services should be excluded from major group IV. They are appropriately placed in major group VIII, Cost of Welfare Services.

102. The 1964 Meeting considered that meal vouchers, together with corresponding cash allowances for meals, were appropriately grouped under payments in kind. This decision merits reviewing since to place cash allowances under payments in kind is apparently contradictory. Regular cash allowances for meals appearing in payrolls could be included within major group I, direct wages and salaries under item 5, indemnities. It would appear satisfactory to place here all compensation for meals. This is the practice of E.E.C. It might be added that in the British labour cost survey cost of meal vouchers are indicated under cost of canteens, restaurants and other good services (major group VIII, Cost of Welfare Services).

103. The scope of major group V, Cost of Workers' Housing Borne by Employers, is discussed, together with guides for the evaluation of the various component items, in paragraphs 54-62. The 1964 Meeting of Experts on Statistics of Wages and Labour Cost recommended the subdivision of housing cost into three minor groups, viz.: (1) net cost for establishment-owned dwellings; (2) net cost for dwellings not establishment-owned (allowances, grants, etc.); (3) other housing costs (relating to land ceded for construction of employees' housing, interest foregone on loans to workers granted without interest or at reduced rates for construction of their own housing, etc.). This subdivision would permit interesting insight into the structure of housing cost. The results obtained in recent labour cost surveys lead, however, to the conclusion that as a rule the proportion of housing cost to total labour cost might be too low to justify recommendation of this subdivision for purposes of international statistical standards.

104. Major group V should not include any wages and salary cost incurred by the employer in respect of a housing department of his establishment or in respect of maintenance work carried out by his employees. This wage and salary cost appears, like all costs of this kind, under major group I. The same principle applies to major cost groups VI to IX, wherever appropriate.

1 See, for example: "Salaries C.E.E. - 1963", op. cit.
105. Regarding Employers' Social Security Expenditure, major group VI, it was agreed by the 1964 Meeting of Experts that payments on behalf of former employees of the establishment would be included. The same principle was to be followed as regards housing cost and it would be logical to extend it to payments in kind and the cost of welfare services where these provide benefits to former employees of the establishment.

106. A distinction is made in the annexed draft International Standard Classification between statutory social security schemes and private schemes since there is considerable interest in measuring separately the financial impact of these two categories of social security systems. This procedure has been applied in all recent major labour cost inquiries. Some countries may wish to obtain separate labour cost data for the different contingencies covered (old age, invalidity and survivors, sickness, unemployment, etc.) but this is not provided for in the draft International Classification because national schemes cover different combinations of the various contingencies.

107. Direct payments to workers in the nature of social security benefits are to be reported under minor group 3. Distinction between 3(a), direct payments to employees in respect of absence from work due to sickness, maternity or employment injury, to compensate for loss of earnings, and 3(b) which covers other additional social security benefits paid directly to the worker by the employer, might often be rather arbitrary. Moreover, these labour costs might be of minor importance in some countries and in such cases the figures could be combined with the cost of employers' social security contributions for publication of data on the structure of labour cost. It is important, however, that costs classifiable under minor group 3 be distinguished from remuneration for time not worked and be allocated to major group VI. On the other hand, when vacation "pay" is provided by a special "social security" fund financed by employers' contributions, as in Belgium, these contributions should be shown under major group II, Remuneration for Time Not Worked, wherever possible. To the extent that Belgian employers also make wage payments during vacations, these are to be regarded as additional vacation pay, classifiable under bonuses (major group III). It is proposed to include in major group VI the cost of medical care and health services provided by the establishment. This would be consistent with the Resolution adopted by the Ninth International Conference of Labour Statisticians (1957) concerning the Development of Social Security Statistics. In certain countries particular types of establishments, e.g. mines and plantations, are compelled to provide medical care, sometimes including hospitalisation. In this respect the expenditure corresponds to social security contributions for medical care insurance. Moreover, in some countries where a sickness insurance scheme is in operation employers providing medical care services for employees (and perhaps for their dependants) pay reduced social security contributions. E.E.C. does not show expenditures
for medical services under social security but classifies them under "Other Social Expenditures" covering welfare services, including canteens, vacation homes, etc. Likewise, in the labour cost inquiry of the United Kingdom the cost of medical care in the establishment appears under "subsidised services to workers".

108. For reasons given in the chapter on the definition of labour cost, severance and termination pay constitutes item 5 of major group VI. Lump sum grants on retirement are classified under item 2 of major group VI.

109. Although the cost to the employer of vocational training is in many instances relatively minor, the general interest in the subject warrants its classification in a separate major group. Major group VII includes not only cost arising out of the establishment's own vocational training programme but also school fees, etc. paid for trainees instructed in outside institutions, subsidies paid by the employer to such institutions and related items.

110. Under Welfare Services, major group VIII, there are: costs of canteens and other food services; cultural, recreational and related facilities and services; grants to credit unions and related services for employees.

111. Major group IX, Labour Cost Not Elsewhere Classified, contains cost elements which, although attributed to labour, cannot easily be allocated to one of the preceding major groups. The 1964 Meeting of Experts identified three items which are indicated as minor groups 1-3. Item 4 is provided for any other items which establishments may consider as labour cost. Ample details on the miscellaneous cost elements reported by establishments should be obtained to enable the statistical offices to decide whether they conform with the statistical concept of labour cost. As the costs reported under each of the four minor groups may be relatively small, publication of separate details may not be essential.

112. Taxes Regarded as Labour Cost, major group X, should be shown separately in publishing data on the structure of labour cost to facilitate use of the data for certain purposes which would require exclusion of these payments. The question of the inclusion or exclusion of taxes is one of the most complicated problems of labour cost definition and the solution adopted in this working paper cannot claim to be the only possible answer to this question.

(d) Combinations of Major Groups

113. For analytical purposes special interest attaches to the combination of direct wage and salaries, remuneration for time not worked, bonuses and gratuities, payments in kind, and cost of workers' housing borne by employers on the one hand and all other labour cost on the other. The first combination corresponds
closely to regular payrolls and earnings in the sense of Con-
vention No. 63 and is conveniently labelled "direct labour cost"; the second combination represents "indirect labour cost". Taxes regarded as labour cost may be excluded from indirect labour cost when the data are to be used for certain purposes.

(e) **Classification by Industry, Size Group of Establishment and Region**

114. The general classifications of establishments of chief interest for analysis of data on labour cost are the same as for wage data, viz.: industry, size group of establishment and geographic location (region). Classification of labour cost data by industry has been made for the results of all recent inquiries. Classification by size group of establishment and by geographical location permit further analysis of data on labour cost structure.

115. To promote the development of internationally comparable statistics of labour cost by industry, use of the United Nations International Standard Industrial Classification of All Economic Activities (I.S.I.C.), or a classification convertible to it, is recommended. The principles for application of I.S.I.C. recom-
mended by the United Nations should be followed, so far as possible. The 1964 Meeting of Experts stressed that although there were differences in national practices concerning the classification of auxiliary units (including head offices), these units should be covered by the inquiries.

116. The classification by size of establishment should follow, or be consistent with, the classification recommended in "International Recommendations on the 1961 World Programme of Basic Industrial Statistics", viz. under 5, 5-9, 10-19, 20-49, 50-99. Above this size, the groups used by the E.E.C., viz. 100-199, 200-499, 500-999, 1,000 and over could be used. It is noted that the possibilities of classification of establishments by size group might be limited by the size and nature of the sample of establishments.

117. The classification by geographic location (region) needed depends very much on local conditions and has to be determined by the country concerned. Recent E.E.C. labour cost data showed regional variations of 20 to 30 per cent. in average labour cost per hour worked.

118. Considerable interest could attach to the following cross-tabulations, involving combination of two of the above classifications:

(a) labour cost per hour worked by industry and size group of establishment;

(b) labour cost per hour worked by industry and geographic location.

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Such cross-classification perhaps should not be recommended in international standards since (b) is of interest primarily at the national level and (a) may not be feasible owing to the nature of the sample of establishments.

(f) Classification of Workers by Status and Sex

119. In principle all persons appearing on the payrolls are to be included in labour cost statistics, i.e. the statistics should have the same coverage as wage statistics. Managerial personnel should be included when paid by salary but excluded when their emoluments represent primarily a share of profits, as is sometimes the case when owners of private companies appear on the payrolls. In applying this rule, practical solutions appropriate to local conditions would have to be found.

120. In wage statistics the classifications of chief interest are those by industry, in conjunction with status (wage earners; salaried employees) and sex respectively. The 1964 Meeting of Experts recommended that countries should classify labour cost data by industry and, wherever possible, according to the status of workers. Separate data would be required for wage earners and salaried employees (concerning the definitions of these groups see para. 130); where appropriate home workers also should be distinguished. On the other hand, it was felt that separate labour cost data for workers of each sex were not necessary. In large measure, records of establishments would not enable this to be obtained at the present time. Moreover, comparisons of these data could lead to erroneous conclusions because the distributions of male and female workers according to occupations, levels of skills, supervisory responsibilities, etc. are quite dissimilar.

121. The annexed draft recommendations take account of the suggestions by the 1964 Expert Meeting in that they do not recommend classification of labour cost by sex. The question of doing so in respect of "direct labour cost" arises, however, if it is intended to use these data to obtain information on average annual wages of males and females. This would be advantageous where other national series on average earnings are not available.

122. In many countries establishments could provide separate data for wage earners and salaried employees, respectively, in respect of major groups I, II and III (cash remuneration) and partly also as regards groups IV and VI. For the remaining groups, as a rule, no separate data exist and it would be necessary to allocate the costs between the two categories of workers, e.g. costs for canteens, medical services and welfare services of various sorts, using some appropriate criterion for allocation. Assuming that the cost of the services in question would be more or less a function of the number of workers concerned, the ratio between the number paid wages and the number of salaried employees would generally serve the purpose satisfactorily. For certain types of costs requiring to be allocated, other methods of allocation may be used, e.g. allocation of social security contributions and cost of payroll taxes according to the total wages and total salaries paid. It is recognised that a certain margin of
error might result as regards allocation of some indirect costs but these normally represent only a very small part of total labour cost. Therefore, it may not be essential to propose any standard method for cost allocation.

123. It has not yet been possible to reach international agreement on the definition of wage earners and of salaried employees respectively. No single criterion has been found which could be applied in statistical operations in all countries. In the wage and salary statistics of many European countries, as well as in Latin American and African countries, monthly paid employees are regarded as salaried employees and the remainder, mostly hourly or daily rated, as wage earners. Some countries, e.g. Federal Republic of Germany, apply the criterion of affiliation to particular social security funds where rights of membership correspond closely either with the status of wage earner or that of salaried employee. This status is sometimes defined on sociological criteria rather than on simple, isolated characteristics.

124. In the United States statistics a distinction is made between "production" and "non-production" workers. This means roughly one group for "operatives" and another for administrative, technical and clerical employees. In the 1964 labour cost survey of the United Kingdom the term "operatives" is defined to include the manual workers. In the E.E.C. labour cost survey wage earners are those workers who have a contractual relationship with the establishment and are remunerated by piece rates or wages per hour or per day. All other workers are regarded as salaried employees, except for the director general who is excluded from the survey. Foremen and supervisory personnel are counted among salaried employees irrespective of whether they are paid by the month, the hour or the day. In the 1966 I.L.O. labour cost inquiry, the participating countries were requested to adhere to the definitions of wage earners and salaried employees used for their national wage statistics. There are obvious advantages in co-ordinating national statistics on labour cost and wages. Moreover, in most instances it is doubtful whether any alternative definitions could have been applied.

125. Pending adoption of an international standard definition, the distinction between wage earners and salaried employees should be based on such criteria as appear the most suitable for statistical operations under the conditions in each country. Since the problem of defining these categories concerns not only labour cost statistics but also statistics of earnings, employment, hours of work, etc. it could be preferable to consider it in a wider context rather than here. The 1964 Meeting of Experts suggested the following as a preliminary guide: "Wage earners are manual workers and salaried employees are non-manual workers. The latter include administrative, managerial and supervisory staff, technical and clerical workers and salesmen". Even in countries which traditionally do not sharply distinguish salaried employees from wage earners, the former could be taken to comprise administrative, managerial, technical and clerical workers and salesmen.
CHAPTER VI

COLLECTION AND COMPILATION OF LABOUR COST STATISTICS

(a) Reporting Unit

126. The reporting unit should be the establishment (local unit) rather than the enterprise or firm, so far as the accounting system used enables a multi-establishment enterprise to supply data for each establishment. Enterprises consisting of several establishments but required to report only for one or two of them could, in the absence of appropriate accounting records, apply the criteria "direct wages" or "number of workers" to allocate in a suitable way indirect labour cost among the several establishments.

(b) Observation Period

127. The observation period in comprehensive labour cost surveys should preferably cover a full year, i.e. calendar year, wherever possible, otherwise the usual accounting year, to take account of expenditures which occur irregularly or only once a year.

(c) Industrial Scope

128. Inquiries into labour cost can in principle be made in all industries where suitable records of wages, salaries and other labour cost items, as well as hours of work, are on hand. Industries where the compilation of hours worked meet serious obstacles are not very suitable for the normal type of labour cost inquiries - for instance, agriculture, certain services and branches of commerce. General interest would attach to the compilation of labour cost for the different manufacturing industries, construction and mining.

(d) Hours of Work

129. The concept of hours applied in obtaining average labour cost per hour is that of "hours actually worked", reflecting the labour input of which the cost is to be measured. Information should be obtained on total man-hours worked in the reporting year, if possible, separately for wage earners and salaried employees respectively.

130. The concept of man-hours actually worked to be used is that given in the Resolution concerning Statistics of Hours of Work, adopted by the Tenth International Conference of Labour Statisticians (1962). In order to arrive at a consistent set of data, data on hours should be obtained directly in the labour cost inquiries wherever possible. If average hours of work data are obtained from other surveys, there is a risk of errors in the compilation of average labour cost arising from lack of conformity - as regards observation period, scope and sampling procedures - between the labour cost and hours of work surveys.
131. For wage earners, data on hours worked usually are available in the establishment's accounting records, i.e. from payrolls. For practical reasons, they usually include time not worked in respect of short breaks for tea or coffee, standing by, etc., which have been taken into account in the definition given in the Tenth Resolution of the International Conference of Labour Statisticians. The standard definition excludes all other time paid for but not actually worked which in principle refers to time not spent at the work place. The possibility of excluding such time with precision depends on whether full details have been recorded by the establishment. Where absences (with pay) during part of a working day are not recorded, probably a not uncommon situation, the figures reported for "hours worked" and for "wages paid for time worked" would usually include such absences. The E.E.C. apparently came to this conclusion and therefore, in its questionnaire and in its classification refers to "days paid but not worked", rather than to hours. It is apparent that data obtained in labour cost surveys on hours paid for but not worked would be in the nature of approximations since they would refer to man-days not worked which would have to be converted to man-hours according to the normal or usual duration of the working day.

132. In the case of salaried employees, establishments usually experience difficulties in reporting hours actually worked because of incomplete records of overtime and short-time. Unrecorded overtime poses no problem where it is compensated by the same number of hours off. Under certain conditions it might be considered reasonable to ignore short-time: this may represent hours off duty during slack work periods, offset by higher than normal hours during exceptionally busy periods. Here again, for practical reasons, the best solution may be to take into account only complete days off. The E.E.C. approach is to take normal hours of work reduced for vacation and holidays. No attempt is made to account for time lost as sick-leave, which is counterbalanced to some extent by ignoring overtime. The 1964 Meeting of Experts took a similar stand and recommended that: "regarding salaried employees for whom, as a rule, no special records of hours actually worked exist, such hours could be estimated on the basis of their normal hours of work in the establishment".

133. The proposed method of estimating hours worked by salaried employees inevitably introduces an element of approximation into data on labour cost per hour. The E.E.C. calculates average labour cost for salaried employees not only per hour but also per month, which in some circumstances may provide a better basis for comparisons.

(e) Frequency of Labour Cost Inquiries

134. Collection of labour cost data is a large-scale and complex operation. Often it will not be feasible to combine major labour cost surveys with industrial censuses or other inquiries. However, the usefulness of labour cost data for analysis of particular economic problems would be greatly enhanced if certain other kinds of information were available for the industries covered for the same reference period.
135. A three to five years' frequency might be recommended for labour cost studies, taking account of the workload. Normally the structure of labour costs would change slowly. In addition, estimates for periods following major surveys may be obtained by extrapolation where the evolution of the principal components - wages and salaries and social security costs - is given by data obtained for the same industries from other sources. Social security contributions usually stand in a proportionate relation to earnings.

(f) Supplementary Information

136. Labour cost surveys provide an opportunity to obtain detailed information on hours of work. Such information is at present not available in many countries. Apart from the global figure of average hours actually worked per worker, it would be of interest to obtain data for males and females as well as for full-time and part-time workers. Figures on the amount of overtime worked and on time paid for but not worked are also valuable indicators.

137. Data should be provided on the number of workers covered by the labour cost data, preferably separating wage earners and salaried employees. The average number of persons employed during the year would include part-time, casual and seasonal workers. Employment figures for each sex would be helpful in interpretation of the data on labour cost. Separate data for home workers should be given where these account for a significant part of employment in a given industry.

(g) Sampling Problems

138. No particular sampling procedures need be recommended internationally with respect to labour cost surveys as the statistical resources and the field conditions vary greatly from country to country. There are, however, some common points to which attention might be drawn.

139. A labour cost survey is a costly and time-consuming undertaking and therefore a maximum effort should be made to get fully representative data. However, it may not be practical to include establishments of all size groups. Small establishments often do not possess sufficiently detailed records of labour costs other than wages and salaries. In addition to incomplete response among small-sized establishments, there is frequently significant non-response. This is liable to introduce bias into the results unless corrective measures are feasible.

140. Some labour cost surveys have utilised simple cut-off samples, excluding establishments below a given size. In the E.E.C. labour cost surveys, establishments with less than 50 workers are excluded, not only because of anticipated non-response and incomplete response, but also because these establishments have relatively small importance in the industries covered. The recent
United Kingdom survey included all establishments with 25 persons or more employed and the Japanese survey excludes establishments employing less than 30 regular employees. As employers are not yet accustomed to these surveys, intensive field work, direct advising of firms and clarification of doubtful entries have still been necessary in order to avoid serious systematic errors.

141. Some establishments have to make special accounting arrangements in order to meet the requirements at a large-scale labour cost inquiry. In the E.E.C. labour cost inquiries it was found that the bookkeeping of middle-size establishments, which was not yet excessively mechanised, was the most flexible while establishments in the highest size groups often had considerable technical difficulties to supply the information requested. Anticipating such problems, countries may wish to follow the example of the United Kingdom where employers were given more than 12 months' notice and were sent a model of the labour cost questionnaire which they would be asked to complete later.

142. Application of random sample techniques may be possible once employers' accounts are adapted to the needs of labour cost inquiries.

(h) Presentation of Labour Cost Data

143. Particular emphasis was put by the 1964 Meeting of Experts on the use of labour cost data for the analysis of the structure of employers' labour cost. Apart from presentation of at least the major cost groups of the annexed International Classification in absolute terms (local currency), figures should be computed to show the relative importance of employers' cost for the major components in relation to total labour cost (i.e. percentage distribution) and in relation to direct labour cost.
APPENDIX I

DRAFT RESOLUTION CONCERNING STATISTICS OF LABOUR COST

The Eleventh International Conference of Labour Statisticians,

Having been convened at Geneva by the Governing Body of the International Labour Office, and having met from 18 to ... October 1966,

Recognising the need for adequate data on labour cost in the study of important social and economic matters,

Considering that international standards for labour cost statistics, particularly as regards definitions, methods of compilation and classification, will promote the development of these statistics along sound lines and contribute to improvement of their international comparability;

Adopts this ............ day of October 1966 the following resolution:

General Objectives

1. Each country should aim to develop statistics of employers' labour cost covering the principal industrial sectors of the country such as selected branches of manufacturing, mining, building and construction industries as well as other industries of particular interest.

2. Programmes for statistics of labour cost should be designed to provide reliable measures on the level, composition and evolution of cost to the employer for the production factor labour. Information collected in labour cost surveys may also be used to throw light on workers' income from employment, for instance direct wages, supplementary wage elements not covered by regular wage statistics, average annual earnings, etc.

Definition of Labour Cost

3. For purposes of labour cost statistics, labour cost is the cost to the employer of the production factor labour. The statistical concept of labour cost should comprise remuneration for work performed, payments in respect of time paid for but not worked, bonuses and gratuities, the cost of food, drink and other payments in kind, cost of workers' housing borne by employers, employers' social security expenditures, cost to the employer for vocational training, welfare services and miscellaneous items such as transport of workers, work clothes and recruitment, together with taxes regarded as labour cost. In particular, depreciation, interest and maintenance cost for buildings and equipment are included in the costs for housing, vocational training and other services. The International Standard Classification of Labour Cost given in the annex to this resolution shows the components of labour cost in more detail.
Classification

4. (1) Labour cost data should be classified by industry and wherever possible by status of worker, distinguishing wage earners, salaried employees and, where appropriate, homeworkers.

(2) Managerial staff remunerated predominantly by a share of profits should be excluded from labour cost statistics.

(3) In the absence of international standard definitions, wage earners and salaried employees should be distinguished according to the criteria most suitable for statistical operations in the country concerned.

(4) As a general guide, to distinguish wage earners from salaried employees, the latter comprise administrative, managerial, technical and clerical workers, and salesmen.

5. The classification of reporting units by industry should be in as much detail as practical and should be made according to the United Nations International Standard Industrial Classification of All Economic Activities, or according to a classification convertible to it.

6. (1) Labour cost data should be classified by components so as to distinguish, wherever possible, at least the major groups of the annexed International Standard Classification of Labour Cost.

(2) It is desirable to prepare separate data for each minor group for which information can be obtained.

7. Where statistics pertaining to labour cost exclude major or minor groups covered by the International Standard Classification, this should be indicated, together with estimates of the magnitude of the costs excluded, so far as possible.

8. Where the sample of establishments permits, additional classifications of labour cost would be useful for analytical purposes, in particular, classifications by size-groups of establishments and by region.

Collection and Compilation

9. The reporting unit should be the establishment rather than the enterprise or firm, so far as the accounting system used enables a multi-establishment enterprise to supply data for each establishment.

10. The observation period in comprehensive labour surveys should cover the 12 months of the calendar year, whenever possible, otherwise the usual accounting year, to take account of expenditures which occur only annually or irregularly.
11. For each industry covered by the national programme of labour cost surveys data should be collected at intervals not exceeding five years. Until such time as major changes occur in labour cost components, due to changes in social legislation or other causes, data for the years intervening between two surveys could be extrapolated wherever suitable data on earnings and other elements of labour cost are available. Special investigations of limited scope during the interim period may provide a satisfactory basis for extrapolation of certain components of labour cost.

12. Labour cost statistics should be supplemented by employment data of the same scope, showing the numbers of each sex employed respectively as wage earners, salaried employees and, where appropriate, homeworkers.

13. Labour cost statistics should be supplemented whenever possible by corresponding data on hours worked and on hours paid for but not worked.

14. (1) Each country should compile statistics of average labour cost per unit of time (cost of labour input). In particular, data should be compiled showing average labour cost per hour.

(2) For the computation of average labour cost per hour, data on man-hours actually worked should be compiled in accordance with the Resolution concerning Statistics of Hours of Work adopted by the Tenth International Conference of Labour Statisticians, 1962.

(3) Wherever possible, data on man-hours worked should be obtained directly in the labour cost inquiry.

Publication

15. (1) A description of the concepts and methods used in any important new national labour cost inquiries should be published by the responsible statistical office.

(2) The description should indicate the differences (if any) between the classification of labour cost by components utilised in the national survey and the International Standard Classification.

(3) The methodological descriptions should mention:

(a) the types of bonuses (if any) which have been assimilated to wages and included in the national labour cost data relating respectively to direct wages and salaries and to remuneration for time not worked;

(b) the nature of the items included in the national inquiry under "profit-sharing bonus".
(4) To facilitate analysis of the data, especially at the international level, the major report on the results of the national inquiry on labour cost to the employer should give particulars of the national system of financing statutory social security schemes for workers and more especially of the proportion of the cost covered by employers' contributions. Information should also be given on welfare services provided for workers by the State.
INTERNATIONAL STANDARD CLASSIFICATION OF LABOUR COST

I. Direct wages and salaries:
   (1) straight time pay of time-rated workers;
   (2) incentive pay of time-rated workers;
   (3) earnings of piece workers (excluding overtime premiums);
   (4) premium pay for overtime, late shift and holiday work;
   (5) indemnities.

II. Remuneration for time not worked:
   (1) annual vacation and assimilated leave and long-service leave;
   (2) public holidays and other recognised holidays;
   (3) other time off granted with pay.

III. Bonuses and gratuities:
   (1) year-end and seasonal bonuses;
   (2) profit-sharing bonus;
   (3) additional payments in respect of vacation, supplementary to normal vacation pay.

IV. Food, drink, fuel and other payments in kind.

V. Cost of workers' housing borne by employers:
   (1) cost for establishment-owned dwellings;
   (2) cost for dwellings not establishment-owned;
   (3) other housing costs.

VI. Employers' social security expenditure:
   (1) statutory social security contributions;
   (2) collectively agreed, contractual and non-obligatory contributions to private social security schemes and insurances;
   (3) (a) direct payments to employees in respect of absence from work due to sickness, maternity or employment injury, to compensate for loss of earnings;
   (b) other direct payments to employees assimilated to social security benefits;
   (4) cost of medical care and health services;
   (5) severance and termination pay.
VII. Cost of vocational training.

VIII. Cost of welfare services:

(1) cost of canteens, other food services;
(2) cost of education, cultural, recreational and related facilities and services;
(3) grants to credit unions and cost of related services for employees.

IX. Labour cost not elsewhere classified:

(1) costs of transport of workers to and from work undertaken by establishment;
(2) cost of work clothes;
(3) cost of recruitment;
(4) other labour costs.

X. Taxes regarded as labour cost.
APPENDIX II

SELECTED BIBLIOGRAPHY

International Labour Office (Geneva):


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