

Earnings and labour cost

Introduction

Earnings and labour cost are two distinct but complementary concepts. These two indicators differ in their nature and primary objectives. Earnings are important from the workers' point of view and represent a measure of the level and trend of their purchasing power and an approximation of their standard of living, while labour cost provides an estimate of employers' expenditure toward the employment of its workforce. The indicators are complementary in that they reflect the two main facets of existing employment-related income measures; one aiming to measure the income of employees, the other showing the costs incurred by employers for employing them.

ILOSTAT presents information from national sources on various indicators pertaining to earnings. It features prominently statistics on the minimum monthly wage and the average monthly earnings of employees, but for users interested in more detailed statistics, ILOSTAT also includes earnings statistics disaggregated by sex, economic activity and occupation, as well as many measures of earnings dispersion. ILOSTAT also contains information from national sources on hourly labour cost per employee, by economic activity.

Concepts and definitions

Statistics on the minimum wage presented refer, to the extent possible, to the statutory nominal gross monthly minimum wage effective December 31st of each year. The scope and coverage of statutory minimum wages vary from country to country. In countries where there are regional minimum wages, ILOSTAT includes the minimum wage in place in the capital city (or region), the largest city (or region), or an average of the largest cities (or regions) in order to capture the minimum wage which affects the largest percentage of employees. In countries with sectoral or occupational minimum wages, ILOSTAT presents the minimum wage in place for the sector or occupation which has the greatest employment coverage (if known).

The concept of earnings, as applied in wages statistics, relates to gross remuneration in cash and in kind paid to employees, as a rule at regular intervals, for time worked or work done together with remuneration for time not worked, such as annual vacation, other type of paid leave or holidays. Earnings exclude employers' contributions in respect of their employees paid to social security and pension schemes and also the benefits received by employees under these schemes. Earnings also exclude severance and termination pay. Statistics of earnings presented in ILOSTAT refer, to the extent possible, to employees' gross remuneration, i.e. the total before any deductions are made by the employer in respect of taxes, contributions of employees to social security and pension schemes, life insurance premiums, union dues and other obligations of employees. Earnings include direct wages and salaries, remuneration for time not worked (excluding severance and termination pay), bonuses and gratuities and housing and family allowances paid by the employer directly to this employee.¹

Labour cost is the cost incurred by the employer in the employment of labour in a specified

¹ For more detailed information, please refer to the Resolution concerning an integrated system of wages statistics, adopted by the 12th International Conference of Labour Statisticians (October 1973); http://ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS_087496/lang--en/index.htm and the to the Resolution concerning the measurement of employment-related income, adopted by the 16th International Conference of Labour Statisticians (October 1998); http://ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS_087490/lang--en/index.htm

reference period. The statistical concept of labour cost comprises 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.

Labour cost and compensation of employees are closely related concepts, with many common elements. In some cases, where data on labour cost are not available, ILOSTAT presents data on the compensation of employees, a concept defined in the United Nations System of National Accounts 2008 as the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period. The compensation of employees has two main components: a) wages and salaries payable in cash or in kind and b) social insurance contributions payable by employers, which include contributions to social security schemes; actual social contributions to other employment-related social insurance schemes and imputed social contributions to other employment-related social insurance schemes.²

Recommended sources

The most common source for earnings data – in particular in advanced economies, in Central and South-Eastern Europe and the CIS countries – are labour-related establishment surveys. They collect data at the source, namely from establishments that employ workers. Since establishments usually keep accurate records of all wages paid for their own book-keeping and for tax purposes, this approach has the advantage of producing reliable earnings data without having to rely on the re-call of individual employees. However, in countries where enterprises routinely pay wages outside their normal book-keeping (so-called “envelope wages”) in order to avoid taxes and social security contributions, the establishment-based approach has limitations.

Household surveys, the second major source for earnings data, have the advantage that they cover all employees regardless of where they work. Earnings data from household surveys usually cover the public and private sector, formal and informal enterprises and all industrial sectors. There are, however, a number of subtle methodological differences that can affect comparability between countries of earnings levels based on household surveys. Also, the reliability of earnings statistics from household surveys depends heavily on the accuracy of the respondent.

A few countries rely on administrative data sources such as social security records to compile earnings data, or combine several different primary sources to produce a synthetic earnings series. In some countries the national accounts sections of central statistical offices produce the wage series that match the desired concept most closely. However, national accounts are only a useful source for data on average wages when compensation of employees is disaggregated into its two major components – wages and salaries and employers' social contributions – and when matching data on total wage employment exist.

The preferred sources of information on labour cost are establishment and labour cost surveys, but in their absence, administrative data can be used.

² For more detailed information, please refer to the Resolution concerning statistics of labour cost, adopted by the 11th International Conference of Labour Statisticians (October 1966); http://ilo.org/global/statistics-and-databases/standards-and-guidelines/resolutions-adopted-by-international-conferences-of-labour-statisticians/WCMS_087500/lang--en/index.htm and to the United Nations System of National Accounts 2008; <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>

Interpretation and use of the indicator

The real earnings in an economic activity are a major indicator of employees' purchasing power and a proxy for their level of income, independent of the actual work performed in that activity. Real earnings trends are, therefore, useful indicators, both within countries and across them. Significant differences in the purchasing power of earnings, over time and between countries, reflect the modern world economy, and comparisons of the movement of real earnings can provide a measure of the material progress (or regression) of the working population. Real average earnings are therefore an important indicator for monitoring changes in working conditions. And they should be reviewed in conjunction with trends in working poverty and the low pay incidence. Real earnings are obtained adjusting nominal earnings for inflation.

Trends in nominal earnings can be used to inform adjustments in minimum wages, the lowest remuneration that employers may legally pay to workers under national law.³ While there is no single, recommended ratio between minimum wages and average wages, information on average wages can inform policy-makers when setting minimum wages and enable them to monitor whether those at the bottom of the distribution fall behind general wage increases.⁴

Social partners – workers' and employers' organizations – rely on wage data for collective bargaining. A fundamental concern of employees and trade unions is to protect the purchasing power of earnings, particularly in periods of high inflation, by raising nominal wages in line with changes in consumer prices. Real wage increases become feasible without putting the sustainability of enterprises into jeopardy when labour productivity is growing. When used together with other economic variables such as employment, production, and income and consumption, trends in average real wages are valuable indicators for the analysis of overall macroeconomic trends, as well as in economic planning and forecasting. Importantly, they can indicate the extent to which economic growth and rising labour productivity translates into income gains for workers. These, in turn, influence aggregate demand, and countries with external surpluses can utilize wage policies to re-balance their economies by strengthening domestic consumption.

Information on hourly compensation costs, like total labour cost, is valuable for many purposes. The level and structure of the cost of employing labour and the way costs change over time can play a central role in every country, not only for wage negotiations but also for defining, implementing and assessing employment, wage and other social and fiscal policies that target the distribution and redistribution of income. At both the national and international levels, labour costs are a crucial factor in the abilities of enterprises and countries to compete. When specific to the manufacturing sector, labour costs serve as an indicator of competitiveness of manufactured goods in world trade. This is why governments and the social partners, as well as researchers and national and international institutions, are interested in labour cost information that can be compared between countries and industries. Also, the measurement and analysis of non- wage labour costs have become an important issue in debates on labour market flexibility, employment policies, analyses of cost disparities, and comparisons of productivity levels among countries.

Limitations

Country-specific practices differ with respect to the sources and methods used for earnings data collection and compilation, which in turn have an influence on the results and comparability across countries. The main sources of information (establishment censuses and surveys, and household surveys) usually differ in terms of objectives, scope, collection and measurement methods, survey methodology and so on. The scope of the information may vary in terms of geographical coverage,

³ Note that minimum wages are set in nominal terms, so nominal average wages are the primary comparator. For a review of minimum wage legislation, see ILO: "Working Conditions Laws Report 2010" (Geneva, 2010).

⁴ See Chapter 5.2 of ILO: Global Wage Report 2010/11: Wage policies in times of crisis (Geneva, 2010).

workers' coverage (for example, exclusion of part-time workers) and establishment and enterprise coverage (based on establishment size or sector covered). While most countries include firms regardless of size into establishment surveys, some countries exclude small firms with less than five or less than ten employees. Some countries also limit the coverage to the private sector (i.e. exclude the public sector) or to specific industries within the private sector (such as manufacturing). If small enterprises pay lower wages than large enterprises or wages differ between the public and the private sector, these exclusions will affect the level of the collected wage data – depending on how large differences are, and how many employees are excluded from the coverage. However, if wages in the excluded establishment move roughly in line with those enterprises for which data are available, these exclusions will only have a marginal effect on trends over time. Even data with less than full coverage can therefore be a useful proxy to analyse wage growth in an economy.

Establishment surveys usually draw their sample from an establishment register that is maintained either by the central statistical office or another institution, such as the Registrar of Companies. In developing countries with a large informal sector, this is a serious limitation since many small, unregistered establishments are missing from the sample frame. Also excluded are individual households employing paid domestic workers, which account for a significant proportion of total paid employment in some developing regions. In some developing countries, establishment surveys therefore capture only a small proportion of all wage employees (those in the public sector and those in large, modern enterprises). Under these circumstances, collecting information from the recipients of wages can be the better alternative.

Household surveys encompass a greater range of jobs and workers than establishment surveys, however, they tend to experience problems associated with self-reporting of earnings. Furthermore, household surveys display methodological differences that can affect comparability. For instance, some surveys collect data on the usual monthly wages while others ask for the actual wage received in the past month. At times it is also not clear whether respondents are asked to report their gross or net wages (i.e. before or after deduction of taxes and compulsory social security contributions). These differences can have a material effect on the reported level of wages, while they are less likely to have a major impact on trends over time as long as the survey instrument remains unchanged.

Even when using the same concept of earnings, there are likely to be differences with regard to the inclusion or exclusion of various components (such as periodic bonuses and allowances, or payments in kind). Earnings statistics show fluctuations that reflect the influence of both changes in wage rates and supplementary payments. In addition, daily, weekly and monthly earnings are dependent on variations in hours of work (in particular, hours of paid overtime or short-time working), while hourly earnings are influenced by the concept of hours of work – hours actually worked, hours paid for, or normal hours of work – used in the computation.

Regarding labour cost statistics, care should be taken not to interpret hourly compensation costs as the equivalent of the purchasing power of worker incomes, for two reasons. The first relates to the components and nature of labour costs. In addition to the payments made directly to the workers, labour cost also includes other costs borne by the employer. The second reason for differentiating hourly labour costs from the concept of workers' purchasing power lies in the fact that the prices of goods and services vary greatly among countries, and the commercial exchange rates used here to convert national figures into a single currency do not indicate relative differences in prices.