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Wages and Additional Labour Costs

An International Comparison

by Heinz Salowski, Cologne*

The international competitiveness of German industry, so greatly dependent on exports, is in large measure determined by the level of its labour costs in relation to those of its competitors in the world market, as its spokesmen never tire of pointing out. Dr. Salowski undertakes here an international comparison.

The competitive position of a national economy in the world is determined by a multitude of factors, including the costs of materials and energy, the costs of capital, taxes, delivery terms, product quality and other locational and non-price factors. Another, especially important determinant of competitiveness is the cost of labour which comprises all outlays by the employer in connection with the employment of labour, i. e. the gross hourly earnings and the supplementary labour costs. These additional expenditures include the employers' statutory social insurance contributions and the additional expenses under and in supplementation of wages agreements among which the employers' outlays on paid leisure time occupy a major place. Depending on the social security systems in the individual countries, the absolute and relative level of these additional labour costs varies widely.

In terms of labour costs the competitive position of the Federal Republic of Germany in the world market has worsened significantly over the last ten years in comparison with its principal competitors. In 1979 these costs averaged in the German manufacturing industry DM 21.14 per working hour. They were thus higher than in any of the other large industrial countries; only in Belgium, the Netherlands and Sweden had manufacturers to shoulder heavier labour costs (cf. Tables 1 and 2).

Determining Factors

Two factors above all others had an effect on the labour cost situation in the Federal Republic during the last ten years:

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□ The appreciation of the Deutschmark, especially compared with the currencies of the major competitors. The DM was revalued (between average 1970 and average 1979) by 164 % against the lira, 125 % against the pound sterling, 100 % against the US dollar, and 54 % against the French franc. For a long time it could be assumed that any revaluation of the DM would be largely offset by price and wage rises among our trading partners but in the last few years the DM exchange rate has, according to figures of the Deutsche Bundesbank, risen by a margin well above the inflation differential.

□ The big increase of additional labour costs: in manufacturing industry they averaged DM 69.7 per DM 100 of direct remuneration in 1979. In recent years they have risen faster than the payments made directly. The agreements on extended holidays, statutory holiday pay and special awards – in particular for Christmas and end-of-year bonuses – had the greatest effects. In the chemical industry for instance the gross hourly earnings rose between 1970 and 1979 by 107 % and the additional costs by as much as 170 %. The supplementary labour costs are thus attaining importance as a cost element for individual firms and also for the competitive position of the economy as a whole.

It is remarkable that the level of labour costs in Great Britain – low in comparison with the Federal Republic – has fallen further in the past ten years. Apart from the smaller industrial countries, Japan and France only experienced higher labour cost increases than the German industry. Both these countries started however from a relatively low basis, and the level of

Table 1
Labour Costs in 1970-1979

Hourly Earnings (of men and women) and Additional Labour Costs in Manufacturing Industry, in DM¹ per Working Hour

Country	1970	1979 ²
Belgium	7.84	21.53
Sweden	11.12	21.36
Netherlands	7.98	21.18
Federal Republic of Germany	9.42	21.14
Switzerland	7.72	20.62
Denmark	8.75	20.29
USA	15.80	16.95
Italy	6.93	15.25
Canada	12.73	15.05
France	6.45	15.05
Austria	5.22	14.14
Japan	3.94	11.77
Great Britain	5.86	10.20
Spain	3.08	10.16
Ireland	4.45	8.98
Greece	2.73	6.25

¹ Annual average of the official exchange rates, except for Greece (average of the rates on the last day of each month).

² In part provisional figures.

Source: EC statistics, national statistics, own calculations.

labour costs in them is still substantially below that in the Federal Republic.

Relatively low labour costs are also recorded by Greece which following the successful conclusion of the negotiations for accession will become the tenth member of the European Community on January 1, 1981 and by Spain which wants to join. In these two countries the burden of additional labour costs is admittedly relatively heavy in comparison with the directly paid remuneration, but as their wage rates are low, their labour costs are still less than half the average German level. Similarly, Austria and Italy, both countries with relatively low hourly wages but in percentage terms high additional labour costs, rank in the lower half of the scale of comparable industrial countries whereas Denmark, a country with high direct wages and in percentage terms low supplementary labour costs, is numbered among the countries with the highest labour costs (cf. Table 3).

Shifts in the Rank Order

The changes in labour costs between 1970 and 1979 involved significant shifts in the rank order under the aspects of international competitiveness: the position of the strong-currency countries weakened in comparison with the others. This is true not only of the Federal Republic but of the Benelux countries and Switzerland. In the latter country, in which a low inflation rate at first actually helped to lower the

Table 2

Index of Labour Costs¹
(Federal Republic of Germany = 100)

	1970	1978	1979
USA	167.7	84.7	80.18
Canada	135.1	78.3	71.19
Sweden	118.0	100.2	101.04
Federal Republic of Germany	100.0	100.0	100.00
Denmark	92.9	92.7	95.98
Netherlands	84.7	101.9	100.19
Belgium	83.2	103.2	101.84
Switzerland	82.0	99.2	97.54
Italy	73.6	68.4	72.14
France	68.5	70.1	71.19
Great Britain	62.2	44.0	48.30
Austria	55.4	68.3	66.89
Ireland	47.2	43.0	42.48
Japan	41.8	60.6	55.68
Spain	32.7	43.1	48.06
Greece	29.0	26.0	29.56

¹ Hourly wages plus additional labour costs per working hour.

Source: Own calculations.

Table 3

Labour Costs per Hour in Manufacturing Industry in 1979¹
(DM equivalent)

Country	Labour Costs per Hour: Total	Average Hourly Wages	Additional Labour Costs per Hour
Belgium	21.53	12.41	9.12
Sweden	21.36	12.95	8.41
Netherlands	21.18	12.07	9.11
FR Germany	21.14	12.46	8.68
Switzerland	20.62	14.22	6.40
Denmark	20.29	16.80	3.49
USA	16.95	12.24	4.71
Italy	15.25	7.33	7.92
Canada	15.05	11.71	3.34
France	15.05	8.41	6.64
Austria	14.14	7.56	6.58
Japan	11.77	9.69	2.08
Great Britain	10.20	7.85	2.35
Spain	10.16	6.39	3.77
Ireland	8.98	6.96	2.02
Greece	6.25	4.11	2.14

¹ Partly provisional figures, annual average for 1979 of the official exchange rates except for Greece (average of the rates on the last day of each month).

Source: EC statistics, national statistics, own calculations.

production costs, the negative effects of the massive upsurge of the Swiss franc carried considerably more force than the cost-moderating elements. It was not much of a comfort for Switzerland that the German industry faces similar cost and currency problems.

The stability of the yen and relatively high wage advances carried the labour costs in Japan close to the middle ground of European rates. That the level of labour costs in Japan was on the whole still lower than in the Federal Republic and in 1978 and 1979 even

declined is due to the still relatively low supplementary charges and the weakening of the yen in 1979. The exchange rate fell from DM 0.96 for 100 yen in the average of 1978 to DM 0.84 in 1979 and DM 0.75 in April 1980. In consequence the DM equivalent of the average Japanese wages declined between 1978 and 1979 – from DM 10.39 an hour to DM 9.69 – although the Japanese wage rates were still tending upwards in yen. The ratio of labour costs between the Federal Republic of Germany and Japan changed between 1970 and 1979 from 2.4 : 1 to 1.8 : 1.

Levelling Between the USA and Japan

The most striking change was the levelling of the labour cost differential between the USA and Japan – from 4 : 1 in 1970 to 1.4 : 1 in 1979. The fall of the yen in the last 18 months has vastly improved Japan's competitive position, especially for investment goods, ships, automobiles, textiles and steel. On a dollar basis Japan's exports are little higher than a year earlier but expressed in yen they have since last autumn been 20 % higher than in the preceding year. The renewed upsurge of exports has meanwhile assumed such proportions that the USA has addressed a precautionary warning to Japan not to swamp the US market again – as in former years – with Japanese goods. The Japanese exports will therefore be directed chiefly to the West European markets in which the Japanese share is not yet as high as in the USA. Shipbuilders, car manufacturers and the entertainment electronics industry in the Federal Republic are likely to be exposed to even greater competitive pressure. The heavy yen depreciation has the drawback of aggravating the internal inflation. Spurred by higher import prices – especially for oil (Japan relies on oil for three-quarters of its energy requirements) – the inflation has gathered special momentum on the wholesale level. Having tolerated the persistent decline of the yen rate for a long time as a welcome aid for the export trade and the general economic trend, Japan's central bank has since the end of last year been trying to steer an anti-inflationary course.

In the USA and Canada the labour costs were in 1970 still far above the level of the Federal Republic. The weakening of their currencies has moved their labour costs from high to medium ground of the western industrialized countries. The relative rise of industrial labour costs in the Federal Republic shows up most clearly when compared with the USA. In 1970 a working hour in US industry cost on average 68 % more than in German industry. By 1979 the picture had changed completely: the German labour costs were on average, chiefly owing to the fall of the dollar, in 1979 25 % above those in the USA. The hourly wage rates in the USA had risen by 99 % since 1970 – from \$ 3.36 to \$ 6.69 – but on a DM basis they were in 1979 lower than they had been nine years earlier – DM 12.24 instead of DM 12.26.

Similar though not quite as striking was the trend of the hourly wages in Canada. They advanced from C\$ 3.02 in 1970 to \$ 7.48 in 1979 – by 148.5 % – but rose on a DM basis only from DM 10.52 to DM 11.71 – i. e. by no more than 11 %.

Sweden which in 1975-77 recorded the highest labour costs of all industrial countries experienced a continuous rise of the cost level in the following years – mainly because of extensions to the statutory annual holidays and an increase in other statutory and negotiated additional costs. As a result of the krona devaluation Sweden's position at the top of the table went however to the Benelux countries in 1978, and also the margin of Swedish labour costs over those in the Federal Republic narrowed. At a little over DM 21 these costs are now at approximately the same level.

No significant changes occurred between 1978 and 1979 in relation to the other countries with relatively high labour costs – the Netherlands, Belgium and Switzerland. In Switzerland the labour cost level fell slightly back in comparison with the Federal Republic. This also was due to shifting exchange rates. On an average of the years 1978/79 the Swiss franc weakened slightly against the DM (from DM 112.92 for Sfr. 100 to DM 110.23).

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