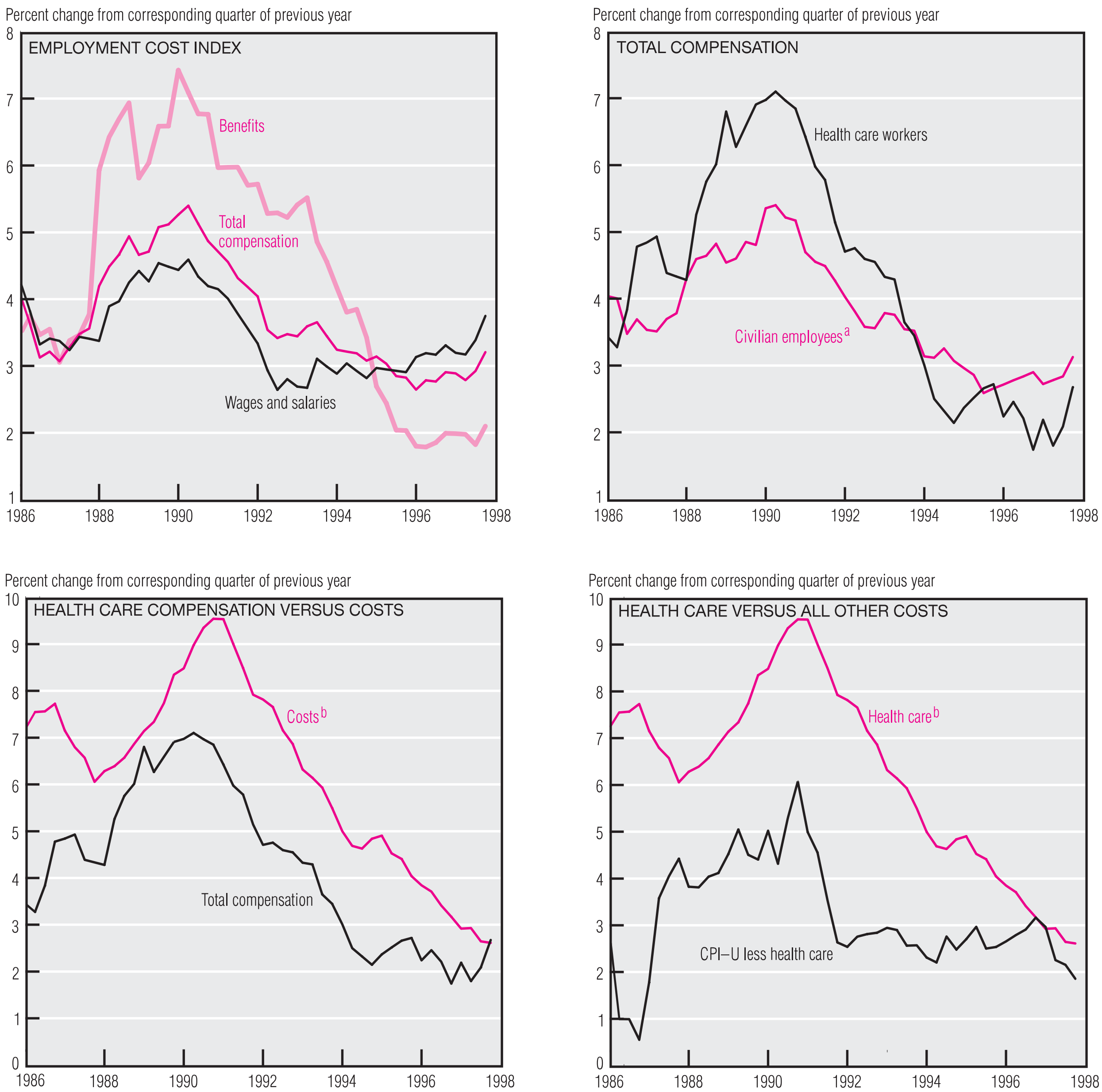
Worker Compensation and Health Care Costs



a. Excludes sales occupations.
b. As measured by the CPI-U.
NOTE: All data are seasonally adjusted.
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

For a year now, labor markets have been characterized as tight. When the unemployment rate remains low over a long period, wages are expected to increase as employers compete to hire the small number of available workers. Why, then, did the Employment Cost Index (ECI), which measures the cost of total worker compensation, increase only a moderate 3.1% in 1997?

It appears that total compensation costs were held in check by slow growth in the cost of benefits. While several factors, including subdued overall price increases, may have caused this deceleration in benefit costs, one likely contributor is the slowing growth of wages in the health care industry.

For most of the past 10 years, health care workers' wages have grown faster than those of other civilian employees. From 1987:IIIQ to 1995:IQ, total compensation (as measured by the ECI) increased at an average rate of 4% for all civilian workers, while workers in the health care industry saw a 5% rise. In 1997, however, health care compensation grew at a much slower pace, increasing just 2.6%, compared to 3.1% for other workers.

Not surprisingly, the cost of health care, as measured by the Consumer Price Index for all urban wage earners (CPI-U), tends to move with health care wages. Between 1987 and 1994, a period when the industry's wages shot up rapidly, health care costs increased at an average annual rate of 7%. In 1997, health care costs rose only about 3%.