Employment Cost Index

From the firm’s perspective, the cost of employing workers extends substantially beyond the wages and salaries paid to those workers. Benefits packages represent 28% of employment costs. The Bureau of Labor Statistics publishes a quarterly Employment Cost Index (ECI) measuring changes in compensation costs including wages, salaries, and employee benefits. The benefits included in the ECI are diverse: vacations, health care insurance, and pension benefits, as well as mandated benefits like employer contributions to Social Security and unemployment insurance. In addition, the ECI covers the full range of the workforce, unlike the average hourly wage rate, which applies only to production workers.

Despite an exceptionally strong labor market, employment costs continue to grow only moderately. In 1998, overall employment costs rose 3.4%, held down by an increase in benefits costs of only 2.6%. The limited increase in benefits costs was surprising, given widespread concerns that health care costs were set to go up substantially. However, unemployment insurance systems have been reducing their employer contributions due to low unemployment rates, and growth in the value of pensions’ stock holdings have limited the need for further contributions.

From the worker’s perspective, 1998 was a good year for real wage growth, as the ECI exceeded inflation by the largest margin since 1983. Inflation was only 1.6% for 1998, versus compensation growth of 3.4% or wage and salary growth of 3.7%. Recent low unemployment rates may be part of the story, although the relationship between unemployment rates and the ECI has not been tight during the 1990s. Some workers

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have had larger or smaller gains than average, reflecting the relative demand for different types of labor.

Sorted by industry, compensation growth has been strongest in wholesale trade and in finance, insurance, and real estate. Pay is flexible in many finance industry jobs where bonuses are common, so it is not unusual for that industry to have outsized quarterly gains; however, it has shown faster-than-average compensation growth during the last five years. Recent gains in construction point to accelerating compensation in a sector that has not historically kept up with the average.

Other distinctions surface by occupation and by region. White-collar workers’ gains continue to outpace those of blue-collar workers. The latest quarter showed unusually weak gains in the bonus-oriented executive ranks, but white-collar compensation still rose more than a percentage point faster in 1998 and more than half a percentage point faster per year since 1993. Similarly, some regions have had substantially stronger compensation growth than others. Notably, the ECI for the West rose much more sharply in 1998 and has maintained its relative strength over the last five years. These repeated small differences in compensation growth can alter relative pay differentials. For example, the data indicate that the premium for union or government work is being reduced, while education-intensive occupations are moving further ahead.