June 2010, Vol. 133, No. 6

Compensation costs in manufacturing across industries and countries, 1975–2007

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ABSTRACT

Rankings of manufacturing industries based on employers' labor costs for production workers changed very little from 1975 to 2007 and also did not tend to differ much from country to country; however, trends in the range and dispersion of labor costs have varied substantially across countries.

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EXCERPT

Lower wages in foreign markets and the rise in outsourcing by U.S. companies have become important topics in the debate on U.S. competitiveness. Though discussion of these issues tends to evoke images of the quickly growing information technology sector and of other service sectors especially vulnerable to outsourcing, debate has also focused on the impact of globalized markets on U.S. manufacturing activities. The United States remains, by far, the world's leading producer of manufactured goods, accounting for 17.5 percent of total world manufacturing output in 2008.[1] However, manufacturing employment in the United States has been declining over the long term, partly because of rising productivity[2] and partly because of the emergence of developing economies as important producers and exporters of manufactured goods.[3]

One measurement of the international standing of U.S. manufacturing is the hourly cost to the manufacturer of employing labor, or what is referred to in this article as the hourly compensation cost. This cost is one of the important factors used in evaluating international manufacturing competitiveness,[4] both at the sector level and at levels below it. Average compensation costs in industries within the manufacturing sector, however, can differ greatly from the average cost of manufacturing compensation. Measures of compensation costs at the sector level are instructive but often mask important differences among industries. A country's overall compensation cost advantage in the production of manufactured goods does not imply that its compensation costs for the production of, for example, apparel and automobiles are equally competitive.

This excerpt is from an article published in the June 2010 issue of the *Monthly Labor Review*. The full text of the article is available in Adobe Acrobat's Portable Document Format (PDF). See How to view a PDF file for

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Footnotes

1 See chart 3.6, "Manufacturing output as a percent of world manufacturing output, 2008," on p. 29 of *Charting International Labor Comparisons* (Bureau of Labor Statistics, 2010), on the Internet at www.bls.gov/ilc/chartbook.htm (visited June 3, 2010).

2 About one-fourth of U.S. manufacturing productivity gains are due to increased importing of intermediate inputs (that is, increased offshoring). See Lucy P. Eldridge and Michael J. Harper, "Effects of imported intermediate inputs on productivity," *Monthly Labor Review*, this issue, pp. 3–15.

3 Recent declines in U.S. manufacturing employment are also the result of slowing growth in the demand for manufactured goods in the United States, weakened demand for U.S. goods in other countries' markets, and manufacturers' increasing use of contract or temporary workers, among other reasons. For further information, see *Factors Underlying the Decline in Manufacturing Employment Since 2000* (Congressional Budget Office, 2008), on the Internet at http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1590&context=key_workplace (visited June 3, 2010).

4 In addition to employers' compensation costs, there are other important labor-related indicators of competitiveness, such as labor productivity and unit labor costs. Furthermore, businesses face non-labor related costs—such as the costs of materials, fuel, capital equipment, and transport of goods—that can be substantial factors in international competitiveness. For more information on international competitiveness, including comparisons of labor productivity and trends in unit labor costs, see section 3 in *Charting International Labor Comparisons*.

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