

SUMMARY OF ABSTRACTS FOR THE LABOUR COSTS WORKSHOP (5-6 MAY 2015)

I. DATA COLLECTION: SOURCES AND SAMPLING TECHNIQUES

Use of administrative data to calculate Labour Costs (IS)

The administrative data, Pay as You Earn register (PAYE), is used to calculate Labour Cost products in Iceland. The PAYE data includes e.g. sum of monthly wages per employees and employers. To get more detailed information on Labour Cost the administrative data is enriched with the Icelandic Survey on Wages, Earnings and Labour Cost (ISWEL).

The ISWEL includes detailed information on employees, employer, wages, labour cost and hours. The survey is the main source for statistics on wages, earnings and labour cost in Iceland and is used for various purposes, both locally and internationally. The data is collected monthly directly from the enterprises' pay-roll system.

Contracts have been signed with the leading software developers to develop and maintain an application for ISWEL.

Use of administrative data to calculate Labour Costs (LV)

The presentation is devoted to the sharing of experience in the use of administrative data for producing labour costs statistics in the Central Statistical Bureau of Latvia. It has been six years since the Wage Statistics Section started to use the databases of the State Revenue Service which up until now is the only administrative data source providing the necessary information for this purpose. The cooperation with the Service lasts for eight years based on a signed agreement. Almost every year the agreement is updated by including new variables and reports. Since 2008 the labour costs statistics for microenterprises which represents almost 80% of the total population of economically active statistical units are produced combining the administrative data and the data of the quarterly survey. Like other statistical authorities we are facing different difficulties associated with the quality of administrative data source, timeliness and differences in definitions as well as with the potential risks in case of technical or other problems. The absence of many variables has made it necessary to build up estimation methods at the same time ensuring the proper quality of the data. Work experience accumulated shows that every method must be carefully monitored and updated as quickly as possible in response to noticed discrepancies and possible changes in laws and regulations.

Use of multi-sources (FR)

While performing labour cost and wages structure analysis, the use of multi-sources data allows completing the LCS (Labour Cost Survey) dataset.

Indeed, the LCS is interested in activity sector NACE B to S for companies with more than 10 employees, whereas in France, the survey concerning labour cost was used to be only interested in private sector (NACE B to S, sector O and P excluded). The adaptation of the LCS to the public sector to fill in NACE O and P would be really complicated as public and private sectors are deeply different in France. That is why the French statistic office decided to use data from another survey (a survey concerning central government agent), rather than making changes in the LCS questionnaire.

Second, LCS is conducted every four years, whereas we would like to get some information about the evolution of labour cost every years. For that purpose, data from administrative sources (DADS and SIASP) is used to update the last LCS release (This administrative data is exhaustive on the population and available every year, but less accurate than LCS data in terms of variables). Finally, in the LCS survey, data collection goes on two consecutive years, and we publish data only the second year. To make the best use of the whole LCS dataset, the same administrative sources are used to update the data collected the first year, so that they can be considered as data collected on the second year.

Sampling (including precision requirements) (DE)

The presentation explains the general process of allocation of the overall sample size of 34 000 enterprises over about 4300 strata for the German LCS. The allocation makes use of the principle of graded precision – a principle of optimal sample allocation under to the constraint to assign more precision to branches with many employees and less precision to branches with few employees. The precision shall follow an exponential function of the size of the branch. The empirical results for the LCS 2012 will be presented.

Weighting issues (DK)

Statistics Denmark compiles besides the Danish LCI also the national Index of Average Earnings. Moreover the Confederation of Danish Employers (DA) compiles statistics on quarterly labour cost developments covering their member enterprises. For some economic activities these different quarterly labour cost indicators are actually based on almost similar data. Despite these data similarities, differences in methodologies might result in quite amazing “incoherent” results when comparing the various labour cost indicators with each other, leading to substantial confusion by users.

Such apparently incoherent behavior has been spotted in the Index of Average Earnings compiled by Statistics Denmark and the statistics on quarterly labour cost developments, compiled by DA.

In order to measure the reasons why these almost similar statistics produce different results, DA and Statistics Denmark launched a common study to clarify why the statistics differ.

The findings revealed that the incoherence was due to many different causes, but among them especially the choice of different weighting regimes. When dealing with surveys and sampling design the choice of correction for sample bias and nonresponse plays an important role. Often the solution to this is the usage of different weighting schemes.

But could the findings of the common study spawn similar needs for analysis among other LCI members and lead to a fruitful discussion in the methodology in

the index?

On the Workshop on Labour Cost data Statistics Denmark and DA will focus on a presentation of the main findings of the report, and highlight that choice of weighting scheme is an important area of interest in the LCI and an area of further development.

II. METHODOLOGICAL ISSUES

Overview (Eurostat)

Eurostat will present a summary on the methodological issues which have been raised by a number of countries.

In particular, Eurostat will address the following three issues:

- Difference between hours worked and paid: concepts and LCS results;
- Comparison of labour cost survey data including and excluding apprentices;
- Classification of trainees: LCS guidelines and countries practices.

2.1 Hours worked / Hours paid

Measurement of working time: hours worked versus hours paid (FR)

To estimate how much employers must pay for one hour of effective work, it is hard to rely only upon declared paid hours: some of them are not worked, and the difference between worked hours and paid hours may vary according to country, sector, firm size or employees' characteristics.

A simple way to deal with this issue could be to pull out unworked paid hours from declared paid hours, but this would require disentangling vacancies from the so-called "days of reduction of work time" (French RTT), at least in the French case, which is not currently possible with the labour cost survey (LCS).

As a consequence, we propose a method that consists in redefining the work time by relying on usual weekly/daily work time, subtracting unusual unworked (but paid) hours and multiplying by the job duration. To assess the validity of this technique, a similar scheme is used to calculate paid hours and worked hours, and the method is designed to fit these computed paid hours to actual paid hours available by sectors and by type of activity (full-time/part-time work).

Measurement of hours worked in LCS + comparison with other sources (LU)

In Luxembourg, the Labour cost survey (LCS) is used as the principal source to determine hours actually worked.

However, alternative sources exist, which are mainly: Social security administrative data, Labour force survey (LFS) and Structural business statistics (SBS).

The presentation would have three parts :

- A detailed explanation of how hours worked are measured in LCS in Luxembourg. Advantages and drawbacks of this method.
- A comparison of the different alternative sources in terms of coverage, definitions used, variables collected and computed, etc.
- In the light of the differences between sources, the results are compared

and it is assessed in how far they could be used to complete LCS or reduce response burden.

Measurement of zero-hour contracts (UK)

This paper describes a new phone survey to businesses in the United Kingdom to measure their use of contracts with no guaranteed hours. This was set up following considerable interest among policy makers on the apparently expanding use of this practice. Experience of running the new survey in 2014 is described. Results from the first two sets of results are summarised and compared with results from the Labour Force Survey.

Paid hours in case of holidays or sickness leave (NO)

In order to make it possible to compare the statistics across countries, accurate measures of both actually worked hours and paid hours are important. It has become increasingly difficult to obtain such measures due to the complexity of the labour market, where the hours are dealt with and registered in many different arrangements. It is therefore necessary to discuss details on how "Hours" are handled in the survey.

In Norway, the legislation about holidays and sickness leave has raised a couple of issues related to paid hours. Here we discuss these issues in context of Norway's case.

Hours on annual holidays:

During holidays the employees are receiving allowances which come from allocations of money made the previous year. The following year, when having holiday, a type of payment called Holiday allowances, which in fact the employees themselves have deposited for, is being paid out to the employees. Question is how to understand the definition when there are not paid wages and salaries during holidays?

Hours on sickness leave:

The employer pays wages and salaries to an employee who is 100% absent due to sickness for the first 16 days of absence. From day 17 and further on the Government is responsible for this payment and takes on the burden of costs for the employee. The employee is however still employed, and is returning to the employer when the sickness leave ends. Is this sickness leave from day 17 and further on to be considered as paid hours?

2.2 Labour costs

Borderline cases for tax versus social contributions (SE)

Sometimes it can be difficult to know the differences between salaries, social contributions and taxes.

1. Social contributions and taxes in Sweden

What do employers need to pay more than salary when they employ a person? What is included in the social contributions and taxes?

2. Pension cost for former employees not working anymore

How should we treat pension costs to employees that retired and are no longer employed?

Some companies in Sweden pays pensions to persons who were employed by the company, but now are retired. This pension costs are included in the social contributions and in these cases the social contribution cost per employee can be high. It is a cost for the company, but not for having the present employees. Should this cost be included? Where should it be included?

3. Sick pay and payment for parental leave - Salary or social contributions?

Sick pay and payment during parental leave are treated as salary by the companies in Sweden but treated as social contributions in LCS. It can sometimes be confusing and difficult to collect.

Payment in event of sickness

Companies in Sweden record sick payment as salary which is part of gross salary in the accounting. By law the companies need to pay 80% out of agreed salary to the employees, sick day 2-14. (Salary is not paid for first day of sickness.) After 14 days of sickness the Health insurance found pays the employee and the employer don't have any cost for that person. (Sometimes a company pays more if collective agreement states that.) This 'salary' is treated as social contributions in LCS. Sometimes the companies only have information about gross salary and the amount of salary that have been reduced, not the sick pay. This can be tricky to calculate.

Payment from parental leave

Parents get 80% from the Health insurance found when they are on parental leave. The companies have no cost for them, but it is common that the company pays additional 10% out of agreed salary to persons that are on parental leave because of collective agreements. Sweden have collected this cost together with payment for sickness and put it to item socials contributions in LCS.

labour cost levels - including / excluding apprentices (DE)

Apprentices are a subgroup of employees with extremely low earnings in the most cases. Statistically they are outliers and influence wage indicators like mean labour costs or the share of low wage earners. LCS and SES regulation demand inclusion and specific coding of apprentices. But in some member states their inclusion and coding is hard for the statistical offices, because they are sparse and/or their statistical definition is not easy to survey. The presentation gives a brief overview on the relevance of apprentices in the labour markets of the member states and on their coverage in the LCS. Further the effects of their inclusion/exclusion on the comparability of indicators are discussed and empirical results for Germany are presented.

III. PLAUSIBILITY AND CONSISTENCY

LCS/LCI/NA/LFS consistency (Eurostat)

The aim of this presentation is to highlight the comparability of LCS (2012) data with that of National Accounts (NA) the Labour Cost Index (LCI) as well as the Labour Force Survey (LFS).

Eurostat will analyse the NA/LCS differences in the 2012/2008 growth of: the total number of hours worked and the hourly labour costs and their wage / non-wage components.

The differences in the 2012/2008 number of employees in LCS will be compared with those available in LFS data.

LCI will also be compared with LCS data in terms of 2012/2008 growth, for the total hourly labour costs and the wage / non-wage components.

LCS/LCI consistency (DK)

When the Labour Cost Survey (LCS) for 2012 was compared to the annual labour cost level of 2012, estimated by Eurostat by extrapolating the LCS 2008 with results from the Labour Cost Index (LCI), a discrepancy of 3.6 percent was found in the case of Denmark. More specifically, the extrapolation underestimated the level of labour cost by 3.6 percent.

Differences in coverage, methodology and statistical purpose between LCI and LCS are all factors explaining the discrepancy between LCI and LCS.

This presentation will focus on reviewing these and other variables explaining the variation in the development of labour cost levels between the two statistics, including one or more examples in order to demonstrate the points being made and how it works in practice.

With this presentation we hope to be able to contribute in the discussion of why the labour cost in the LCS 2012 for many member countries differed from the annual levels estimated by Eurostat for the same year. We also wish to raise the question of whether the LCI is suitable as a benchmark for estimating the level of the labour cost, and where appropriate to what extent.

LCS/NA/SBS consistency (IT)

This work is aimed at exploring the differences in wages and labour cost definitions in SBS and LCS/NA Regulations. A first step is an in-depth comparison of definitions and an analysis of the information systems within the enterprises from which the variables required in the questionnaires are gathered.

In fact, the knowledge of rules and practice of the Company Accounts data is strictly necessary to understand how SBS variables are measured.

Secondly, using the new Italian LCS 2012 survey we look for evidence of these definitional differences and try to provide insights on their magnitude.

IV. STATISTICAL PROCESSES/PROJECTS

Seasonal / working day adjustment of the LCI (IT)

The hourly Labour Cost Index sets out to be a *system* of indices, where elementary components are the indices for both wages and other costs by NACE section and aggregates are: i) the total labour cost indices by NACE section and ii) the indices of wages, other costs and total labour cost referred to the NACE aggregates. In such a system, good practice is to preserve internal coherence between components and aggregates. This accounting identity is always fulfilled in the compilation of unadjusted data, while in the production of calendar and seasonally adjusted data the outcome depends on both the approach used and the number of series treated. In these contexts, calendar and seasonal adjustment could be carried out through two possible strategies: on the one hand, the independent treatment of each series, i.e. components and aggregates (*direct* approach); on the other hand, the treatment of components and then their aggregation according to the same rules and weights utilized for unadjusted data (*indirect* approach). The issue of whether adjustment should be direct or indirect is still an open question and neither theoretical nor empirical evidence uniformly favours one approach over the other. The direct approach could be preferred for transparency, accuracy and replicability, especially when the ARIMA model-based method is used, while the indirect approach could be preferred for dissemination purposes as it ensures a perfect coherence between components and aggregates. As far as this latter matter is concerned, it is worth stressing that incoherencies may easily emerge using the direct approach when the aggregate derives from only few components (especially in the comparison of growth rates). This case fits the LCI system well. The indirect approach represents a good alternative, but it requires the aggregation of chain linked Laspeyres indices for which the additivity is not fulfilled. This paper deals with the aggregation of chain linked indices and shows that calendar and seasonally adjusted chained indices can be aggregated using a weighting system suitably derived from the weighting system used to aggregate previous year based indices (i.e. indices to be chain linked afterwards and, therefore, additive). The results of the adjustment through the direct and indirect approaches are then compared taking into account several quality indicators.

Extending the LCI questionnaire (eg. to cover number of hours worked) (Eurostat)

In this presentation, Eurostat will make the case for collecting the labour costs and number of hours worked through an extended version of the LCI questionnaire.

V. USER NEEDS AND FUTURE DEVELOPMENTS

Negotiated wage rate indicator: benefits and limits (ECB)

The ECB regularly monitors the possible influence of labour costs on the outlook for price developments and the risks to price stability over the medium term.

Since 2001 the quarterly indicator of negotiated wage rates has been compiled by the ECB on the basis of non-harmonised country data. It is designed to capture the outcome of collective bargaining processes and to provide a timely indicator of possible wage pressures (without the effect of wage drift, i.e. the difference between negotiated and actual wages). The euro area data are based on the most suitable and timely available country data (a mixture of monthly and quarterly series): monthly data are available for seven countries (Germany, Spain, Italy, Netherlands, Austria, Portugal and Slovenia, representing 69% of the euro area) and quarterly data for three countries (Belgium, France, Finland, representing 29% of the euro area). The euro area indicator is calculated as the weighted average of the national year-on-year growth rates of collectively agreed wages for most euro area countries. Country data are weighted together with moving annual weights of the compensation of employees according to the European System of Accounts and are compiled at a quarterly frequency with a timeliness of about 50 to 55 days after the reference quarter (usually around the end of February, May, August and November). The target coverage is the 'whole economy', but due to the nature of the data, in practice it is the largest industry coverage for which data on wage negotiation processes are available in the given country. Despite the non-harmonised data the indicator is a useful tool in the ECBs analysis of the labour costs and is one of the most timely indicators.

Towards a genuine labour Price Index (ES)

Labour costs data from statistics like the Quarterly Labour Cost Survey (QLCS) and the Labour Cost Index (LCI), obtained from information provided by the employers answering an aggregated questionnaire for all the employees working in the unit (local unit or enterprise), only allow to calculate average data. With respect to wages and salaries, the mentioned sources provide the average wage in each period. The value of that average wage is affected not only by the remuneration of each employee but also by the composition of the employment, that is, by the number of employees who are in each moment in each occupational category, in each type of contract, etc. Thus, a variation in one period to another in the proportion of employees in each mentioned group, affects the average (for example, it may increase if the percentage of indefinite employees increases due to temporary employment destruction).

An analysis of wages evolution should discount this 'composition' effect, namely it should measure this evolution in equal quality and quantity conditions of employment in both periods of time. To this end, it is necessary to take into account additional elements apart from those provided by QLCS and LCI, related with the composition of employment.

The Labour Cost Index constitutes a first step in order to discount the composition effect, although is restricted to keep a fixed structure of the economic activity at industry level. To go beyond would be to calculate the so-called Labour Price Index (IPT). For that purpose, it is necessary to have individual information on the employees.

There is no standard international definition of the Labour Price Index. In its most sophisticated form is able to evaluate changes in the hourly wage for a 'jobs basket'. This requires keeping track of the jobs included in the mentioned basket

over time, usually on a quarterly basis. The organisation of a survey that meets these aims would come at a very high cost, unaffordable in Spain today. Therefore, in order to reduce costs related to data collection, it was decided to conduct annual monitoring of a sample of representative existing jobs in the economy by using the existing information provided by the annual and four-yearly Structure of Earnings Surveys.

These two surveys collect and provide individual information on over 200,000 employees, about their annual salaries and additional variables regarding the relation between the employee and the job position that allows establishing relationships between wages and some variables that may contribute to determine its amount. Variables such as occupation, age or type of contract, among others. However, a panel of common employees in all reference periods is not available.

An alternative solution is to create strata of employees grouping those with similar characteristics and follow the average wage in each stratum instead of the salary of each employee individually. The joint evolution is calculated by weighting each of the strata. In this regard, it is convenient to create small strata, since the more definite is the type of job, the better the adjustment for quality change and composition.

On the other hand, a minimum number of observations per stratum in each period is necessary to calculate a representative wage average for each stratum with traditional estimators. This requirement would force to decrease the degree of detail of each stratum by reducing the number of defining characteristics. As a result, employees belonging to the same stratum may not be as homogeneous as desirable. Therefore, hedonic regression models are used. These models enable the estimation of the average wage per stratum, regardless of whether or not a large number of employees belonging to the same stratum in the period exist. Thus, the number of types considered and the degree of detail in the definition of these is higher, which significantly improve the fit.

The index construction is performed similarly to the calculation of the LCI, keeping fixed the composition of employment not only by section of economic activity, but also by size and region of the sample unit and sex, occupation, type of contract, age and seniority of the employee. The weights are obtained from the own survey for the base year.

The use of LCI by social partners for wage negotiations (Conf. Of Danish Employers)

The presentation will illustrate how the LCI is used by the European employer organisations and discuss advantages and disadvantages using the LCI for this purpose compared to other sources. The discussion will also refer to methodological differences among sources and try to outline the preferred features of an indicator to be used for wage negotiations. The back bone of the presentation will be data from a survey to be collected among the European employer organisations organised in Business Europe.

The survey will seek to achieve a comprehensive picture of the variety of views on the LCI from the European employer organisations, asking questions like:

- What is the LCI used for in general and in respect to wage negotiations?
- How important is the LCI in respect to wage negotiations?
- How well is the LCI performing in respect to wage negotiations compared to statistics on unit labour costs?
- How well is the LCI performing in respect to wage negotiations compared to other cross-national sources?
- How well is the LCI performing in respect to wage negotiations compared to national/local sources?
- Is the LCI subject to dialogue between the social partners at a national level? If

yes:

-What is the dialogue about?

-How is the LCI used by the labour unions?

-Is the LCI used as a supplement to national statistics or is it a key indicator?

-Are the breakdown options in the LCI relevant?

-Is the LCI in general considered to be an accurate measure to depict the labour cost developments in your own country and/or other countries?

-Is the LCI in general considered to be relevant for wage negotiations?