Wage Compensation and Social Security Charges

Concern is sometimes expressed that removal of trade barriers between Canada and the United States will put downward pressure on Canadian wages since Canadian firms will be uncompetitive. Along with wage costs, there is concern that nonwage compensation -- such as pension benefits -- and mandatory charges for worker compensation, social security, health care, and unemployment insurance are greater in Canada than in the United States. As a result, there would be pressure on employees to accept lower wages and on governments to reduce charges for social security programs.

The general concern is unfounded for two reasons. First, we have already argued that broad-based taxes and social security charges cannot render the whole Canadian economy uncompetitive. Second, the facts are contrary to the supposition of excessively high Canadian wage and nonwage costs. In the manufacturing sector, which will be subject to increased import competition as tariffs are reduced, total compensation costs are lower in Canada than in the United States. In 1983, average hourly compensation in all Canadian manufacturing was 90 percent of the U.S. manufacturing average when expressed in a common currency.

Although there is unlikely to be a general problem of high wages for the manufacturing sector as a whole, there could be problems for an industry that has higher compensation costs relative to the Canadian manufacturing average, than does the same industry in the United States relative to the U.S. manufacturing average. If the higher relative wages of a particular Canadian industry are protected by import barriers, then freer trade could put pressure on compensation levels in that industry. These competitive pressures on a particular industry with higher wages relative to the Canadian average could