

The focus on wages rates, while raising strong feelings of "unfairness" in the public, is somewhat misleading.³⁵ Wages, while a substantial part of the total compensation of a worker, do not account for all employer-employee expenditures, such as for legally required or contractual health and dental benefits, and life insurance. There is considerable diversity of non-wage benefits across countries, and as a percentage share of total compensation. In 1992, wages as defined as pay for time worked, accounted for about 70 to 75 percent of total compensation costs for production workers in the manufacturing sectors in Canada, the U.S., and the United Kingdom, but for less than 60 percent in Japan, France, Germany, and Italy (Table 5).³⁶ In Mexico, non-wage benefits and profit sharing, under which all firms must distribute 10 per cent of pretax profits to employees, are reported to add more than 70 per cent to base payroll expenses.³⁷

Most importantly, low levels of total compensation or wages do not necessarily mean low cost production. If low compensation costs were the basis for low production costs in the manufacturing sector, Table 6 shows that Sri Lanka, with an hourly compensation cost of U.S. 35 cents, would be an economic powerhouse.³⁸ But Sri Lanka is not a major manufacturer. Wage differences reflect differentials in labour productivities between countries. Generally, i.e., except in protected sectors where labour and management benefit from economic rents, higher wages are a function of higher productivity. The economic basis for low wages in countries like Sri Lanka and Mexico are an abundance of labour and low productivity. Analysis conducted by the Department of Finance estimates that Canadian labour productivity in the manufacturing sector is 6.5 times higher than a Mexican worker's.³⁹

³⁵ The Globe and Mail ("Mexico Wage Debate", 5 November 1993, p.B1). Only toward the end of the article, in two short sentences, is it noted that Mexican labour's productivity is lower than its U.S. counterpart. Similarly, The Ottawa Citizen, 7 November 1993, p.C4, makes wage comparisons between autoworkers in Canada, the U.S., and Mexico, but fails to mention differences in productivity.

³⁶ U.S. Department of Labor, Bureau of Labor Statistics, "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing", Report 844, April 1993, p.13.

³⁷ Business International Corporation, Investing Licensing And Trading Conditions Abroad. Americas, September 1992.

³⁸ U.S. Department of Labor, Bureau of Labor Statistics, "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing", Report 844, April 1993. The Bureau of Labor Statistics' compensation measures are computed in national currency units and are converted into U.S. dollars at prevailing market exchange rates. The measures do not indicate the relative living standards nor the purchasing power of income. Moreover, total compensation measures, even on a purchasing power basis, are poor indicators of relative living standards, as taxation rates vary, both direct and indirect, and thus even if pre-taxation compensation levels were the same, disposable income (what really counts for workers) would vary.

³⁹ Department of Finance, Canada, "The North American Free Trade Agreement: An Economic Assessment From A Canadian Perspective, November 1992, p.51. The analysis by the Department of Finance is based on 1989 data.