Wage increases moderate in 1981

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Wage gains were moderate in 1981, as the recession developed and inflation abated. Nearly all of the Bureau of Labor Statistics' measures of wage change recorded smaller advances than in the previous year.[1] When adjusted for inflation, most measures of real wages declined (continuing the trend started in 1979), but at a diminishing rate, mainly because of the slowdown in the rise in consumer prices. The impact of the recession was especially evident in the Bureau's cyclically sensitive average weekly earnings series; it showed the lowest rate of increase in more than a decade. In fact, the only measure that did not rise more slowly than in the previous year was new settlements negotiated during the year in large bargaining units.

The downturn in economic activity and the easing of inflation, a relatively light incidence of collective bargaining, and wage decisions in prior years were among the elements influencing wage changes in 1981. An examination of the role of these factors is helpful in understanding wage developments in the overall economy and in the collective bargaining sector.

The state of the economy was a major influence on wage changes in 1981. After rising vigorously at an annual rate of 8.6 percent in the first quarter, real gross national product leveled off, then fell 4.7 percent in the fourth quarter. Economic indicators relevant to wage changes reflected this shift: from July to December employment dropped by 1.3 million, unemployment rose by 1.8 million, the unemployment rate climbed from 7.2 to 8.8 percent, and both the factory workweek and overtime hours declined markedly.

Cyclical downturns initially tend to depress workers' earnings, as employers cut back on hours of work. Then, as the recession deepens, hiring is restricted and layoffs spread, producing increasing slack in labor markets which, in turn, dampens the pressure for pay increases.

The 1981 recession contributed to some abatement in the upward pressure prices may have exerted on wages in recent years. The Consumer Price Index for All Urban Consumers (CPI-U) rose 8.9 percent in 1981—the smallest increase in 4 years.

The government sector was under some of the same pressure as private industry. Because government services are highly labor intensive, public payrolls were especially vulnerable to the fiscal restraints experienced at all levels of government in 1981. However, available data indicate that most of the labor cost containment measures have affected employment more than wages.

In the organized sector of the economy, activity was comparatively subdued, despite the substantial changes in the economic climate and wage and price movements. It was a very light year for bargaining, and the incidence of work stoppages declined to its lowest level since 1940.

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Wage and compensation changes

Nearly all measures of wage and compensation change registered smaller advances in 1981 than in the previous year, with much of the deceleration occurring in the fourth quarter. The measures also show a smaller percentage rise in wages than in the Consumer Price Index, resulting in further erosion in purchasing power for most workers, although the gap between price and wage increases was narrower than in recent years. Table 1 shows trend data in current and 1977 dollars for several key compensation series.

Hourly compensation is the measure with the broadest scope. It includes payrolls and employer contributions to social insurance and private benefit plans. Hourly compensation in the private nonfarm business sector went up 9.3 percent in 1981. Although this was the third largest increase in the series in the last decade, it was less than that of 1980, and was the first year-to-year decline in the rate of increase since 1977. Hourly compensation data not only measure trends in wages and benefits, but also the labor cost component in unit labor costs, a key indicator of inflationary trends. Typically, at the onset of a recession, output declines faster than employment and hours of work. Consequently, productivity (output per employee hour) falls, as was the case in the second half of 1981. The fourth-quarter decline in productivity was the largest since the productivity series began in 1947. The magnitude of this drop was reflected in a steep climb in unit labor costs (hourly compensation divided by output per employee hour) as the recession deepened, despite a slower rise in hourly compensation.

The average hourly and weekly earnings series are more restricted in scope than hourly compensation. They cover only wages and salaries of production and nonsupervisory workers in the private nonfarm economy. These measures typically decline or slow their rate of increase in the initial phase of a downturn through the effects of a shift in the employment mix caused by layoffs in cyclically sensitive high-wage industries, less overtime, and, for weekly earnings, shorter workweeks. This was the pattern in 1981.

Average hourly earnings rose 7.2 percent in 1981, the smallest increase since 1977. Some of the slowdown is attributable to recession-related layoffs in construction and durable goods manufacturing, both relatively high-paying sectors. The shift away from these high-wage industries depressed average earnings. Average weekly earnings, reflecting the slower rise in hourly earnings and a reduction in the workweek during the second half of the year, went up by only 6.0 percent in 1981—the smallest gain since the 1960's.

Wage measures that are not influenced by changes in the workweek and shifts in the distribution of employment by industry are less sensitive to cyclical fluctuations in economic activity. The Hourly Earnings Index minimizes these shift effects, by excluding overtime in manufacturing industries and by applying fixed-weighted aggregate employee hours to average earnings at a detailed industry level. It provides data for broad industry groups and the private nonfarm economy. The Hourly Earnings Index went up 8.2 percent in 1981, a smaller increase than the 9.4-percent rise of the previous year, but the deceleration was not as pronounced as that for average hourly or weekly earnings.

The Employment Cost Index is broader in occupational and industrial coverage than the Hourly Earnings Index, and measures compensation as well as wages.[2] It more closely approximates underlying wage rate trends

Table 1. Changes in employee wages and compensation, 1971–81

[In percent]

Measure	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Average hourly compensation:[1]											
Current dollars	5.6	7.2	8.1	10.9	7.8	8.3	7.5	9.0	9.8	10.1	9.3
1977 dollars	2.1	3.7	−.2	−1.1	.4	3.0	.8	.0	−2.6	−2.2	−.2
Gross average hourly earnings:[2]											
Current dollars	6.9	7.6	6.6	8.4	6.1	7.9	7.3	9.2	7.9	8.8	7.2
1977 dollars	3.4	4.2	−2.0	−3.4	−.9	2.9	.5	.1	−4.8	−3.2	−1.5
Gross average weekly earnings:[2]											
Current dollars	7.2	7.0	6.6	6.3	6.7	7.0	7.0	9.1	7.6	7.9	6.0
1977 dollars	3.8	3.5	−2.1	−5.2	−.5	2.0	.3	.1	−5.4	−4.1	−2.5
Hourly Earnings Index:[2]											
Current dollars	7.0	6.2	6.4	9.3	7.1	7.5	7.4	8.6	8.2	9.3	8.2
1977 dollars	3.5	2.7	−2.3	−2.7	.0	2.5	.7	−.4	−4.5	−2.9	−.4
Employment Cost Index:[3]											
Current dollars	—	—	—	—	—	7.2	7.0	7.7	8.7	9.0	8.8
1977 dollars	—	—	—	—	—	2.2	.3	−1.1	−4.2	−3.1	.0

[1] Covers all employees in the nonfarm business sector.

[2] Covers production and nonsupervisory workers in the private nonfarm economy.

[3] Covers only wages and salaries in the private nonfarm economy, excluding households. Data are unavailable before 1976.

NOTE: Percent changes are based on seasonally adjusted data and reflect fourth quarter to fourth quarter change for average hourly compensation and December to December change for other measures.

because it controls for both occupational and industry employment shifts, and excludes all overtime pay and hours, not only those in manufacturing firms. Furthermore, it measures changes in benefit cost resulting from changes in benefit practices rather than temporary shifts in benefit usage or other transient influences. Because of these and other features, this index is less sensitive than the other measures to short-term economic fluctuations. The 1981 Employment Cost Index shows a relatively smaller change from the previous year than the other measures. The wage and salary series went up 8.8 percent in 1981, compared with 9.0 percent in 1980. Compensation (wages and benefits), as measured by this index, went up 9.8 percent in both years.

All measures of wage change that have been discussed here showed slower gains toward the end of 1981 than during the early part of the year. The annual rates of change in the 6 months ending in December were 6.2 percent for the average hourly earnings, 4.4 percent for weekly earnings, and 7.3 percent for the Hourly Earnings Index. Average hourly compensation rose at a 6.5-percent annual rate in the fourth quarter. After a large advance in the first quarter, both the compensation and wage series of the Employment Cost Index registered smaller gains during the remainder of 1981.

Even though the rate of growth in the Consumer Price Index slowed more than the pace of most measures of wages, it still exceeded the rate of pay gains. As a result, the gap between price and wage increases narrowed, but erosion in workers' purchasing power continued. Real gross average weekly earnings, a widely used indicator of the impact of price increases on pay, fell 2.5 percent in 1981.

Government compensation

All the BLS compensation data discussed to this point cover only the private sector. The Employment Cost Index, however, has recently been expanded to include data for State and local governments, but results for a full year are not yet available for annual comparisons. Data on government workers from other sources suggest that the initial impact of fiscal restraints in 1981 was on employment rather than pay gains. For the first time since the immediate post-World War II period, aggregate employment fell, as layoffs and hiring freezes were imposed. During most of 1981, salaries of 1.4 million Federal white-collar employees under the General Schedule pay system were 9.1 percent higher than during the same period a year earlier, mostly a result of a pay raise in October 1980. Their annual pay raise in October 1981 was limited to 4.8 percent, the smallest increase since the passage of the Federal Pay Comparability Act of 1970. Under special legislation and presidential order, about 450,000 blue-collar Federal employees also were held to a 4.8-percent pay increase. Limited data for State and local employees indicate that their pay gains were mainly the result of decisions in prior years, and that 1981 wage decisions were less generous.

Collective bargaining

The major collective bargaining wage-and-benefit change statistics are more limited in scope than the earnings-and-compensation change series because the data are restricted to bargaining units of at least 1,000 workers in the private economy, and at least 5,000 in State and local governments.[3] Although such bargaining units employ less than 10 percent of the labor force, wage decisions affecting them influence wage developments in the overall economy. And negotiated wage decisions affecting them may set patterns for wage decisions in smaller bargaining situations and in nonunion establishments or political jurisdictions.

The major collective bargaining series provide two basic types of information for assessing wage developments—data on negotiated wage-and-benefit settlements and data on effective wage rate adjustments. Settlement data are forward looking and relate to changes in wages and compensation provided for in contracts reached during a period. They are expressed as changes during the first year and average annual changes over the life of the contract. Effective wage rate adjustments include those changes resulting from agreements negotiated during the period, deferred wage changes resulting from settlements reached in prior periods, and increases triggered by cost-of-living adjustments (COLA) clauses. Of the two types of data, effective wage adjustments are more comparable to the earnings and compensation change measures discussed earlier.

Effective wage adjustments in major collective bargaining units in private industry average 9.5 percent in 1981, down from 9.9 percent in the previous year, paralleling the deceleration in the rate of increase of more comprehensive earnings and compensation series. (See table 2.) A light bargaining year appears to have been an important factor in the smaller increase. Deferred increases are generally lower, on average, than first-year changes under new settlements. In the light bargaining year of 1981, more workers were covered by deferred increases than by new settlements, holding down the size of the overall adjustment.

In 1981, approximately 6.3 million workers received deferred increases averaging 5.3 percent. When prorated over all workers, the increase was 3.8 percent. New settlements provided adjustments of 9.8 percent, but covered only 2.2 million workers, resulting in an adjustment of just 2.5 percent for all workers. The average COLA increase for the 4.6 million covered workers in 1981 was 6.1 percent (approximately three-fourths of the rise in the CPI over the period of COLA review), or

3.2 percent averaged over all workers.

Data on settlements negotiated during the year are useful as indicators of the size of future wage changes. In 1981, negotiated settlements provided wage adjustments averaging 9.8 percent in the first year of the contract, and 7.9 percent annually over the life of the contract. These are the largest annual increases since 1975, another recession year. Increases in wages and benefits, calculated for settlements covering 5,000 workers or more, were 11.3 percent for the first year, and 8.4 percent over the life of the contract.

The higher wage adjustments reflected in settlement data are not necessarily inconsistent with the 1981 economic environment if other factors are taken into account. The multi-year nature of most contracts tends to reduce the impact of prevailing economic conditions on the amount of wages provided for in current settlements. Current settlements may be influenced by precedent-setting agreements reached earlier in other bargaining situations under quite different economic circumstances, and may also reflect what has occurred in the interim between the previous settlement and current negotiations. For example, a steep rise in consumer prices since the previous contract, not compensated by COLA's, may create pressures for catch-up increases, even though inflation may have abated in the meantime. This may have been the situation in 1981. When the same parties to 1981 settlements last negotiated (on average, about 30 months before), the average wage adjustment was 8.6 percent in the first year, and 7.0 percent annually over the life of the contract. Over a comparable span from mid-1978 to mid-1981, the CPI rose at an annual rate of nearly 12 percent. Although some of the gap between negotiated wage increases and this price rise was offset by COLA's, most workers experienced an erosion in the purchasing power of their pay.

Expectations concerning future inflation and other related economic factors are also important considerations which may dilute the impact of current economic conditions on multi-year contracts. Concern about the rate of inflation may have influenced bargaining. In 1981, the rate of price increase did not dip below the double-digit level until most of the year's negotiations had been concluded. Contracts with COLA's provided for adjustments of 8.0 percent the first year and 5.5 percent annually over the contract life; for contracts without COLA, the comparable adjustments were 10.6 and 8.8 percent.

Wage decisions may also be less sensitive to prevailing economic conditions than to pressures to maintain existing pay relationships among groups of workers and industries. Management and labor tend to prefer employment and hours adjustments to marked changes in compensation which may upset longstanding wage relationships.

The influence of 1981 settlements was tempered by the relatively small number of workers they covered. Agreements reached during the year covered only 2.4 million workers, compared with 3.8 million in 1980. Another consideration is that settlements in the construction industry, which make up a higher proportion of total settlements in light than in heavy bargaining years, were a major factor in boosting the overall average adjustment. Settlements in this industry accounted for nearly 1 in 4 workers covered by major agreements concluded in 1981. When construction settlements are excluded from the data, first-year contract changes averaged 8.6 percent, and adjustments over the life of the contract, 6.7 percent.

Several mitigating circumstances should be taken into account in assessing the sizable wage gains of construction settlements against the general economic slowdown and depressed activity in the industry. One consider-

Table 2. Average change in major private collective bargaining agreements, 1971–81

[In percent]

Measure	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Settlements											
Wage-rate (contracts covering 1,000 workers or more):											
First-year adjustment	11.6	7.3	5.8	9.8	10.2	8.4	7.8	7.6	7.4	9.5	9.8
Average annual change over life of contract	8.1	6.4	5.1	7.3	7.8	6.4	5.8	6.4	6.0	7.1	7.9
Wage and benefit (contracts covering 5,000 workers or more):											
First-year adjustment	13.1	8.5	7.1	10.7	11.4	8.5	9.6	8.3	9.0	10.4	11.3
Average annual change over life of contract	8.8	7.4	6.1	7.8	8.1	6.6	6.2	6.3	6.6	7.1	9.2
Effective wage-rate changes											
Total effective adjustment[1]	9.2	6.6	7.0	9.4	8.7	8.1	8.0	8.2	9.1	9.9	9.5
Current settlement	4.3	1.7	3.0	4.8	2.8	3.2	3.0	2.0	3.0	3.6	2.5
Prior settlement	4.2	4.2	2.7	2.6	3.7	3.2	3.2	3.7	3.0	3.5	3.8
Cost-of-living adjustment provisions	.7	.7	1.3	1.9	2.2	1.6	1.7	2.4	3.1	2.8	3.2

[1] Detail may not add to totals because of rounding.

NOTE: Data include wage-and-benefit changes in major collective bargaining agreements (those covering 1,000 workers or more) in the private nonfarm economy. Settlement data exclude possible increases under cost-of-living adjustment provisions, except for minimum increases guaranteed in the contract.

Table 3. Wage change in major State and local collective bargaining agreements, 1980–81
[In percent]

Measure	1980	1981
Settlements		
First-year adjustment		
Wage rates	7.5	7.4
Wage and benefit	7.3	7.8
Average annual change over life of contract:		
Wage rates	7.8	7.1
Wages and benefits	7.4	7.3
Effective wage-rate changes		
Total effective adjustment	6.5	8.7
Current settlement	3.1	3.3
Prior settlement	3.0	4.5
Cost-of-living adjustment provision	.4	.9

ation is the concentration of construction settlements in the spring, when economic activity was considerably more robust than in subsequent months. Another is that major bargaining situations are concentrated in heavy and commercial construction, which generally has not shared in the slump experienced by the less organized residential segment of the industry.

Collective bargaining data for State and local government workers show the influence of past wage decisions. When prorated over the approximately 1 million workers in large bargaining units, the average effective wage adjustment was 8.7 percent in 1981, compared with 6.5 percent the previous year. (See table 3.) However, the major factor in the higher 1981 adjustment was the larger component of the total adjustment attributable to settlements negotiated in prior years. For settlements reached in 1981, the data are more consistent with what might be expected in light of the fiscal pressures on public officials to limit pay adjustments. On balance, 1981 settlements provided smaller adjustments than those negotiated in the previous year.

Although overall, both private industry and State and local government settlements were relatively large in 1981, there were wage-and-benefit concessions by workers in several key industries experiencing economic difficulties. Wage or benefit concession, or both, were negotiated for 95,000 workers in the automobile, airlines, and meatpacking industries. About 67,000 other workers were covered by agreements negotiated in 1981 that provided for no wage change in the first contract year. Similarly, a settlement for city workers in Detroit provided for a compensation freeze.

Outlook for 1982

Nearly all of the economic conditions affecting wage developments in 1981, such as declines in aggregate output, high levels of unemployment, and the moderating rate of inflation, persisted in the first few months of 1982. If they persist through most of the year, they may temper pressure for wage gains.

Historically, when economic declines have leveled off and economic activity has picked up, some factors influencing wage changes in recessions have operated in reverse. Additions to the workweek, more overtime, and rehiring in the durable goods and construction industries have tended to push up average earnings at a brisk pace. If the pattern of prior recoveries is repeated, output would go up faster than employment and hours, resulting in an increase in productivity, and a modest rise in unit labor cost.

Negotiations in several key industries highlight this heavy bargaining year.[4] About 3.6 million workers are covered by major agreements expiring or reopening in 1982, compared with only 2.6 million in 1981. Agreements have already been reached in the automobile, petroleum refining, meatpacking, and trucking industries; negotiations are underway in the rubber industry; and bargaining is scheduled later for the electrical machinery and equipment industry. These six industries cover 1.2 million workers, and another 500,000 construction workers are covered by agreements which are expiring or reopening this year, mostly in the spring.

In several completed contract negotiations, the outcomes appear to have been influenced by economic problems facing individual industries. These problems included substantial excess capacity and falling oil prices for petroleum refiners; severe competitive pressures on carriers in the wake of deregulation of interstate trucking; long-term technological changes in the meatpacking industry and declining profitability which forced the closing of many less efficient, obsolete plants; and mounting losses in the automobile industry, a consequence of the severe slump in car sales and foreign competition. At the time of negotiations, workers in these industries were facing employment cutbacks. Therefore, job security was a major issue on the bargaining agenda.

The key contract in petroleum refining provided for a smaller wage increase than the union had proposed. In trucking, the major agreement included a wage freeze; in meatpacking, the pattern-setting agreement provided for a number of wage-and-benefit concessions and a moratorium on plant closings until mid-1983; the United Automobile Workers made substantial labor cost concessions to both Ford and General Motors in exchange for job security guaranties. Do these settlements portend a general moderating of pressure for wage gains in favor of greater job security, or do they merely reflect individual industry circumstances? This question awaits further developments for resolution.

In addition to wage changes resulting from settlements in 1982, about 4.3 million workers are scheduled to receive increases averaging 6.3 percent from contracts negotiated in prior years. This is the highest average deferred increase since 1971. Additionally, cost-of-living increases are scheduled for 3.4 million workers. Although the amount depends on the inflation rate and the formula used, a continuing abatement in price increases would dampen the size of these adjustments.[5]

In the public sector, budgetary constraints at all levels can be expected to hold down wage gains. President Reagan's 1983 budget submission projects a 5-percent pay raise for Federal white- and blue-collar workers in 1982, essentially the same amount as in 1981. One element in wage developments in 1981 will not be present in 1982: for the first time since 1973, no increase is scheduled in the Federal minimum wage. □

——— *FOOTNOTES* ———

[1] For a detailed description of the individual measures, see *BLS Measures of Compensation*, Bulletin 1941 (Bureau of Labor Statistics, 1977).

[2] Movements in this measure are discussed in Beth Levin, "The Employment Cost Index: recent trends and expansion," p. 9, this issue.

[3] For a more detailed review of collective bargaining in 1982, see Mary Anne Andrews and David Schlein, "Bargaining Calendar will be heavy in 1982," *Monthly Labor Review*, December 1981, pp. 21–31.

[4] For more details, see Joan Borum, "Negotiated Changes in Wages and Benefits in Major Collective Bargaining Agreements, in 1981," *Current Wage Developments*, April 1982.

[5] Wage increases and COLA's scheduled in 1982 are analyzed in Douglas R. LeRoy, "Scheduled wage increases and cost-of-living provisions in 1982," *Monthly Labor Review*, January 1982, pp. 16–20.

The 'mandatory' agenda

In brief, there are today many 'mandatory' subjects of bargaining with which the employer must deal in good faith. Such subjects include wages, hours of employment, health insurance, pensions, safety practices, the grievance procedure, procedures for discharge, layoff, recall and discipline, seniority, and subcontracting. Managers are not required to make concessions or agree to union proposals on any of these (or various other) subjects. They *are* obligated, however, to meet with the union at reasonable times and with the good-faith intention of reaching an agreement. On 'nonmandatory' or 'voluntary' subjects —those that are lawful but not easily related to 'wages, hours and other conditions of employment'—employers are not so obligated and are free to refuse to bargain about them.

—ARTHUR A. SLOANE AND FRED WITNEY
Labor Relations, 4th ed.
(Englewood Cliffs, N.J., Prentice-Hall, Inc., 1981), p. 105.
