Wage restraints continue in 1985 major contracts

Wage adjustments were low for the fourth year in a row, reflecting pressures to restrain labor costs and save jobs; many contracts negotiated in 1985 featured 'back-loading,' lump-sum payments, and two-tiered systems

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For the fourth consecutive year, major collective bargaining agreements in 1985 provided record low or near-record low wage adjustments, as measured by the Bureau of Labor Statistics' 18-year-old series on private industry agreements covering 1,000 workers or more.[1] Pressures to restrain labor costs dominated major negotiations during the year, and are evident in the size of settlements. First-year wage adjustments (the net effect of decisions to increase, decrease, or not change wages)[2] averaged 2.3 percent, the lowest since the series began in 1968. Wage adjustments over the life of the contracts [3] averaged 2.7 percent annually, next to the lowest. Wage adjustments actually put into effect during 1985 averaged 3.3 percent, also a historic low.

For almost all the settlements in 1985, the year marked at least the second or third round of bargaining since the average size of wage adjustments in settlements started to fall during 1981. (See chart 1.) The last time the parties to 1985 settlements bargained, usually in 1982 or 1983, they agreed to average specified wage adjustments of 3.9 percent in the first contract year and 3.7 percent annually over the contract life.

When cost-of-living adjustments (COLA) are added to the specified adjustments, predecessor contracts to the 1985 settlements upped wages an average of 4.4 percent annually over their contract life. Total wage adjustments implemented under expired contracts have declined steadily since 1983 because of moderation in the size of specified wage changes and because of lower COLA's resulting from the deceleration in the rate of price increases. As shown in the following tabulation, the predecessor contracts with COLA clauses provided smaller wage adjustments over their life than those without.

	With COLA	*Without COLA*
Total adjustment	4.2	4.7
Specified	3.0	4.7
COLA	1.3	—

Prior to 1983, expiring contracts with cost-of-living adjustment clauses provided smaller specified wage adjustments than those without, but COLA's more than made up the difference. The moderate increases in the Consumer Price Index (CPI) during the life of contracts that expired starting in 1983 kept down the size of COLA's, so that they were no longer large enough to compensate for the smaller specified adjustment in contracts with COLA's, compared to those without.

Cost-curbing efforts

In 1985, bargainers did not face inflation-related problems. The 3.8-percent increase in the Consumer Price Index for Urban Wage Earners and the 6.8-percent unemployment rate reached in December 1985 reflected improved economic conditions. However, bargainers did encounter many of the industry-specific problems faced by negotiators earlier in the decade. Increased competition from abroad and from domestic nonunion companies continued to erode

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markets for many unionized firms, and the ensuing declines in job opportunities were a major concern of union leaders. Efforts to contain labor costs and make firms more competitive, and to save jobs figured prominently in negotiations. The results of some of these efforts show up in contracts that are "back-loaded," call for lump-sum payments rather than wage increases, and adopt "two-tiered" compensation systems. Other contracts simply limit the size of wage adjustments.

Back-loaded contracts. Contracts which call for lower specified wage adjustments in the first year than in subsequent years (back-loaded contracts) covered about 38 percent of the 2.2 million workers under 1985 settlements. Prior to 1983, almost all workers under multiyear settlements had their largest increases in the first year.

Back-loaded settlements provided wage adjustments averaging 0.6 percent in the first year and 2.6 percent annually over the contract life. Of the 830,000 workers covered by back-loaded contracts, 474,000 received no wage increase in the first contract year, 315,000 received smaller increases in the first than following years, and the remainder sustained initial wage cuts but no additional decreases over the life of their multiyear agreements. Although found in a variety of industries, back-loaded contracts were concentrated in apparel manufacturing, electrical machinery manufacturing, and construction.

About 36 percent of the workers under 1985 contracts were covered by "front-loaded" settlements (larger wage adjustments in the first contract year than in subsequent years), with adjustments averaging 4.2 percent in the first year and 3.3 percent over the life of the contract. The remaining 26 percent of the workers were covered by either 1-year agreements or multiyear contracts which provided equal wage adjustments each year.

Lump-sum payments. Almost one-third of the 2.2 million workers under 1985 settlements will receive lump-sum payments instead of the traditional increases in wage rates. (Lump sums are excluded from wage and compensation measures in this series.) Lump-sum payments limit labor costs because they are excluded when calculating the level of certain benefits, such as pensions, and do not raise the wage rate base from which future contracts must be negotiated.

On average, settlements with lump-sum payments gave smaller wage adjustments than those without. Adjustments averaged 1.2 percent in the first year and 1.8 percent annually over the contract life for settlements with lump sums; corresponding averages for settlements without lump sums were 2.8 and 3.2 percent. The majority of workers receiving lump-sum payments were in the apparel, electrical machinery manufacturing, and transportation industries, and more than half (363,000) of them were covered by back-loaded contracts.

Two-tiered structures. In another approach to long-term cost savings, 1985 settlements covering about 700,000 current employees provided for "two-tiered" wage systems. While not altering wages or benefits for workers already employed, two-tiered systems lower starting rates and progression rates for new hires. These dual wage structures might be temporary or permanent. Under the temporary systems, new employees start at a lower rate than incumbents, but the wage rates for new and current employees eventually merge. Under the permanent system, new employees never reach the pay levels of incumbent employees. In some cases, no cost savings may be realized from the two-tier system because no new workers may be hired during the life of the contract.

COLA clauses

Cost-of-living adjustment clauses were dropped in settlements covering 471,000 workers, or about 40 percent of those settling in 1985 who had such coverage in their previous agreements. Contracts covering about 173,000 workers in the trucking industry and 101,000 in apparel manufacturing were among those dropping COLA coverage.

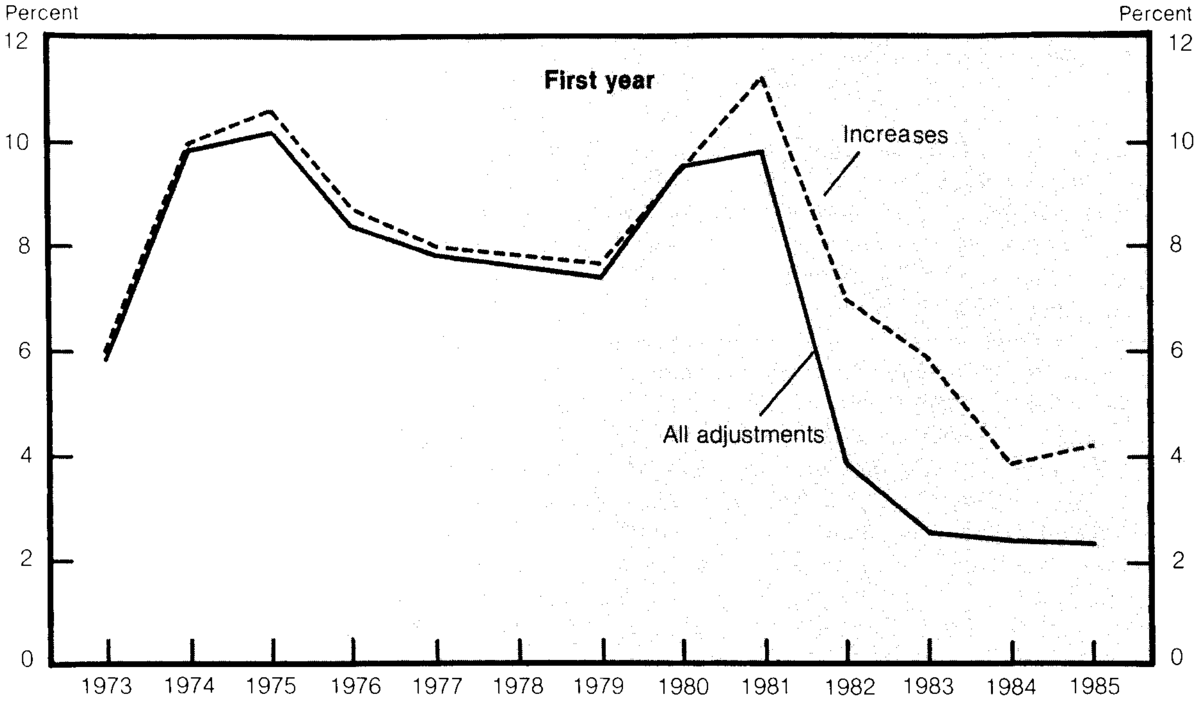
The drop reflects the declining importance of COLA's as a potential source of wage increases. Many contracts retaining COLA's modified the provision to delay or reduce payments by introducing or lowering caps or maximum amounts, or by diverting payments to cover increased benefit costs. Some contracts temporarily suspended payments.

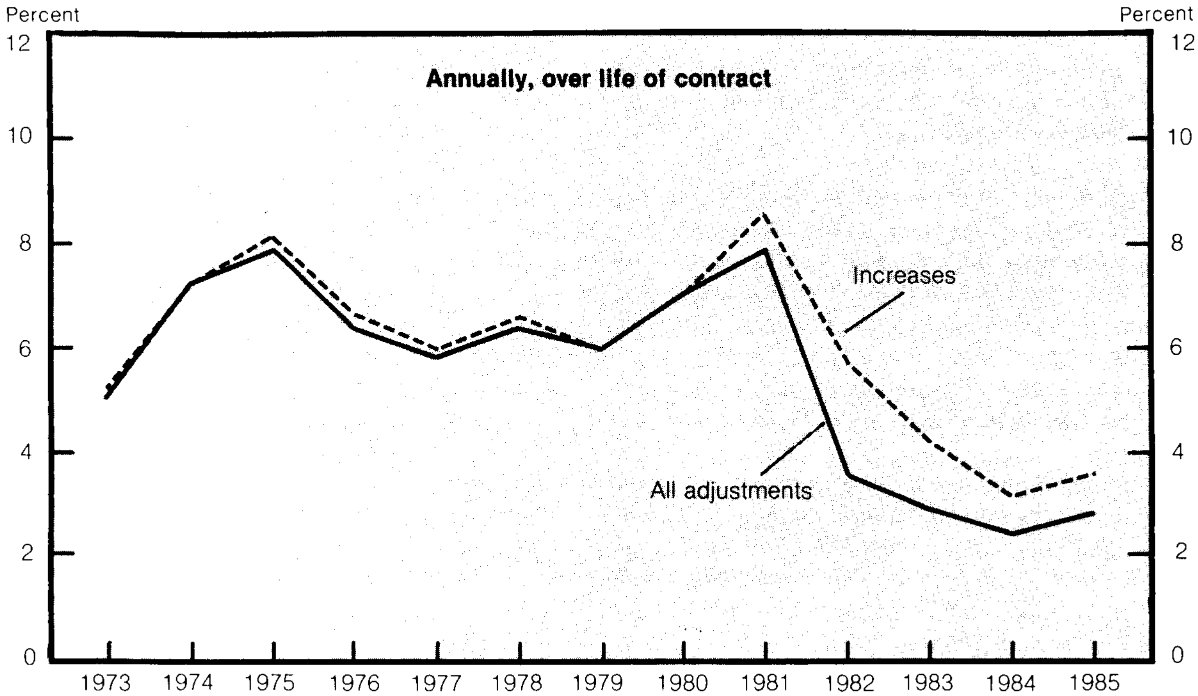
Wage increases from COLA's during the preceding contracts were comparatively small because the CPI increased 4 percent or less annually. This led to increasing interest in negotiating specified wage changes instead of COLA clauses. In 1985, COLA clauses were introduced for only 41,000 workers. As a result of these developments and employment declines in industries with contracts that retained COLA clauses, the proportion of workers under major contracts with COLA clauses fell to 49 percent by the end of 1985, from 57 percent at the end of 1984.

Cost-of-living adjustment clauses covered 33 percent of the workers under 1985 settlements. Wage adjustments stemming from COLA clauses are not included in settlement data because COLA's depend on future changes in the CPI—changes that are not known at the time of settlement. However, guaranteed COLA amounts (those specified when the agreement is reached and scheduled to be implemented later) are included in settlement calculations because they are not tied to subsequent price movements.

Settlements with COLA clauses provided specified wage adjustments of 1.7 percent in the first contract year, and 2.5 percent annually over the contract life, compared with 2.7 and 2.8 percent in settlements without such clauses. This follows the historic pattern, in which settlements with COLA clauses have provided lower specified wage adjustments than those without, because the COLA provisions are expected to yield additional increases. (See chart 2.)

Chart 1. Average wage adjustments in private-sector settlements covering 1,000 workers or more, 1973-85





NOTE: All adjustments include increases, decreases, and no change.

Distribution of wage adjustments

Of the almost 2.2 million workers under 1985 settlements, about 1.4 million had first-year wage increases averaging 4.2 percent, 0.7 million had no wage change, and the balance had decreases averaging 8.8 percent. (See table 1.) Subsequent wage increases for almost half a million of the workers with no change in the first year will give them a net gain over the contract term. Thus, by the end of their contract, 85 percent of the workers will have received a specified wage increase averaging 3.5 percent annually. None of those with wage decreases in the first contract year will recoup the lost wages in subsequent contract years and, thus, will have decreases averaging 6.6 percent per year over the life of the contracts. (See table 2.)

Contracts with net wage increases were negotiated in a variety of industries including trucking, public utilities, apparel manufacturing, airlines, service, and retail trade. Wage freezes occurred primarily in the construction industry but appeared in other industries as well, including food stores, transportation equipment, and electrical products. About one-third of the workers who sustained wage decreases were in construction; the remainder were in a variety of industries.

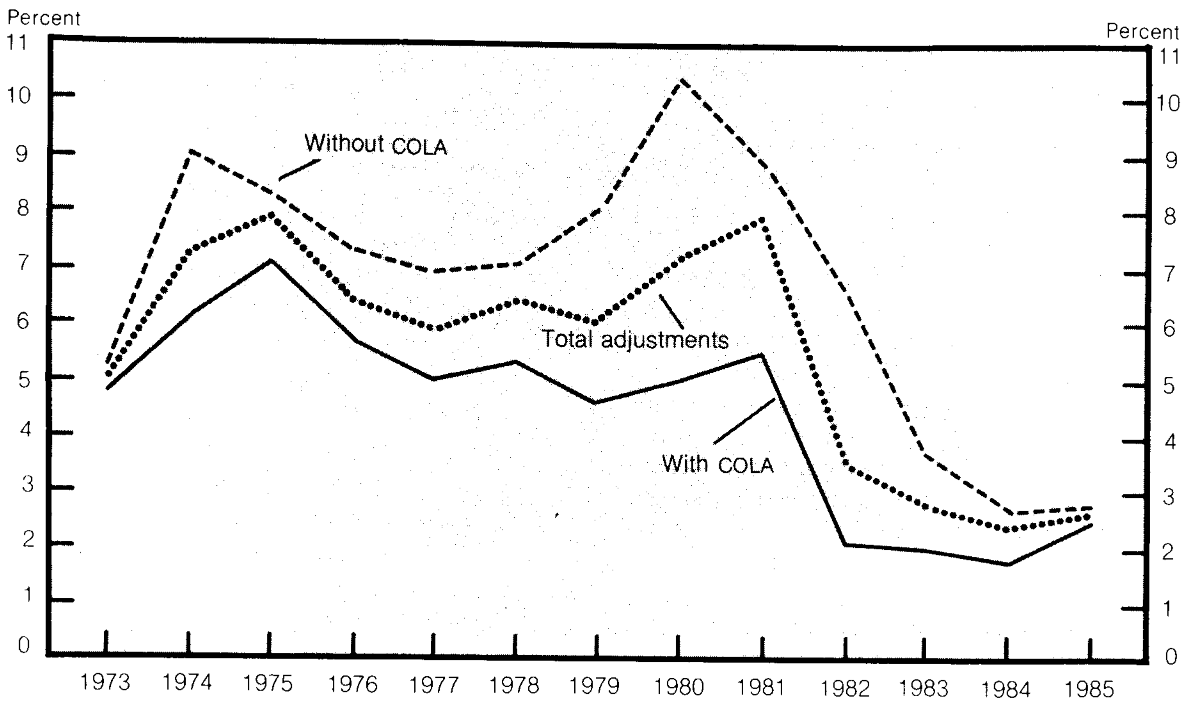
Compensation adjustments

The Bureau measures compensation (wages and employee benefits costs) changes in settlements covering at least 5,000 workers. These contracts cover about two-thirds of all workers under major settlements in 1985. Compensation adjustments under these settlements averaged 2.6 percent in the first contract year and 2.7 percent annually over the life of the contract. (See table 3.) Compensation increases were received by 9 of 10 workers under these settlements, and averaged 3.2 percent in both the first year and annually over the life of the contract. The remainder of these workers received either no change or a decrease in compensation during both the first year and over the life of the contract.

Major negotiations, by industry

Although settlements were concluded in a variety of industries in the first quarter, bargaining activity was light until spring, when the pace quickened. In some industries, talks continued from the second quarter into the third. For example, 91 percent of the construction workers under 1985 settlements had their contracts negotiated during the second and third quarters; negotiations in apparel primarily spanned May through September; and contract talks in wholesale and retail trade were also concentrated in this period. The following discussion summarizes these and other major negotiations: trucking and rubber industries in the second quarter, electrical products manufacturing in the third, and automo-

Chart 2. Average annual wage adjustments over the life of contracts with and without COLA in private-sector settlements covering 1,000 workers or more, 1973-85



bile manufacturing and railroads in the fourth.[4]

Construction. As in recent years, high unemployment and nonunion competition in construction have pressured bargainers to restrain wage demands and reduce employer costs to make union firms more competitive with their nonunion rivals. Although some contracts changed work rules, efforts to control costs concentrated on moderating wage rates: lower wage rates for new hires; lower rates for new projects than for work already in progress; and delaying wage increases to the second or third year of the contract. Thirty-one percent of the construction workers covered by 1985 agreements will have wage cuts or freezes over the life of their agreements.

These efforts to contain or reduce construction labor costs dampened the overall size of wage adjustments for all industries. Construction settlements, which covered 330,000 workers, provided average wage adjustments of 1.5 percent in the first year and 2.1 percent annually over the life of the agreements, compared with corresponding averages of 2.5 percent and 2.9 percent in other industries.

Wholesale and retail trade. With negotiations concentrated in the second and third quarters, settlements covering 234,000 workers in wholesale and retail trade were concluded in 1985. These contracts provided average adjustments of 2.8 percent the first year and 2.6 percent annually over the life of the agreements. Almost one-third of the workers under these contracts will receive lump-sum payments. Efforts to restrain labor costs and improve the competitive position of the firms have also led to the expansion of the already widespread use of part-time employees. This practice lowers costs, by reducing the need for overtime work and because part-timers may be paid less than full-timers and be eligible for fewer benefits.

Trucking. Beset with problems generated by deregulation and the recession in the early 1980's, Trucking Management Inc. (TMI), the major employer negotiator in the trucking industry, sustained a sharp drop in the number of member companies for which it bargains. Since the 1982 negotiation of the prior agreement, many companies merged, failed, or laid off workers resulting in a smaller number of firms and workers in the industry. The expired contract between TMI and the Teamsters provided no specified wage increase, and only one COLA increase on the effective date of the contract. All other COLA monies had been diverted to pay for increases in the cost of benefits. The May settlement covering 150,000 truckers and helpers, substituted the COLA clause based on changes in the CPI for a "guaranteed COLA" (an amount specified in the contract independent of the CPI). The contract also called for changes in work rules, in an attempt to make unionized firms more competitive.

Rubber. Closely linked to automobile manufacturing, which is still struggling with foreign competition, the rubber tire manufacturers had revitalized many of their plants since the prior round of talks. Negotiations were held under a backdrop of higher capacity utilization and fewer layoffs than in the early 1980's.

The 3-year agreement between the United Rubber Workers and B. F. Goodrich set the pattern for settlements with the three other major rubber manufacturers: Goodyear, Firestone Tire and Rubber Co., and Uniroyal. These contracts, covering 36,000 workers, raised wages 43 cents an hour over 3 years and maintained the quarterly cost-of-living clause providing a penny for every 0.26-point rise in the CPI-W.

Apparel. Over the past several years, the apparel industry has been plagued with high unemployment as the industry faces stiff competition from foreign imports. Contracts covering 285,000 workers represented by the International

Table 1. Wage adjustments for settlements, covering 1,000 workers or more in private industry, 1985

Measure	First year: Average adjustment (percent)	First year: Workers (thousands)	Over life of contract: Average annual adjustment (percent)	Over life of contract: Workers (thousands)
All settlements				
All industries	2.3	2,193	2.7	2,193
With COLA clauses	1.6	673	2.5	673
Without COLA clauses	2.7	1,520	2.8	1,520
Manufacturing	.8	865	1.8	865
With COLA clauses	.8	473	2.1	473
Without COLA clauses	.9	391	1.6	391
Nonmanufacturing	3.3	1,329	3.3	1,329
With COLA clauses	3.6	200	3.6	200
Without COLA clauses	3.3	1,129	3.3	1,129
Construction	1.5	329	2.1	329
All industries, excluding construction	2.5	1,864	2.9	1,864
Nonmanufacturing, excluding construction	3.9	999	3.7	999
Settlements providing increases				
All industries	4.2	1,391	3.5	1,865
With COLA clauses	3.0	411	2.8	627
Without COLA clauses	4.6	980	3.8	1,239
Manufacturing	2.6	374	2.4	713
With COLA clauses	1.8	251	2.3	434
Without COLA clauses	4.3	123	2.6	279
Nonmanufacturing	4.7	1,017	4.1	1,153
With COLA clauses	4.9	159	3.9	193
Without COLA clauses	4.7	858	4.2	960
Construction	3.6	202	3.6	226
All industries, excluding construction	4.2	1,189	3.5	1,639
Nonmanufacturing, excluding construction	5.0	815	4.3	926
Settlements providing decreases				
All industries	−8.8	73	−6.6	73
With COLA clauses	−7.4	18	−2.9	18
Without COLA clauses	−9.3	55	−7.8	55
Manufacturing	−8.5	29	−4.4	29
Nonmanufacturing	−9.0	43	−8.1	43
Construction	−10.1	23	−5.4	23
All industries, excluding construction	−8.2	49	−7.2	49
Nonmanufacturing, excluding construction	−7.8	20	−11.3	20

Table 2. Proportion of workers with increases, decreases, or no wage change under settlements covering 1,000 workers or more in private industry, 1979–85
[In percent]

Year	First year			Over the life of contract		
	Increases	No change	Decreases	Increases	No change	Decreases
1979	96	4	0	100	0	0
1980	100	0	0	100	0	0
1981	92	3	5	94	1	5
1982	56	42	2	64	35	1
1983	63	22	15	73	14	13
1984	77	18	5	84	12	4
1985	63	33	3	85	12	3

Ladies' Garment Workers Union (ILGWU) and the Amalgamated Clothing and Textile Workers Union (ACTWU) were reached between May and October and featured some cost-saving features.

The agreements covering 125,000 workers negotiated by the ILGWU and various employer groups were back-loaded. Wages were frozen the first year. However, increases of 6 percent and 5 percent, respectively, are scheduled for the second and third years. The COLA clause, which had not generated any increases under the last two contracts, was unchanged; it provides for a 2-percent wage increase if the CPI-W rises 8.5 percent in an 18-month period. The contract also improved some health and welfare benefits.

The September agreement between the Cotton Garment Manufacturers and the National Trouser Association covering 101,000 workers represented by the ACTWU dropped their COLA clause which had not yielded any payment since 1981. The accord also provided a $500 lump-sum payment upon settlement and lump-sum payments of 6.5 percent of gross pay in 1986 and in 1987. A general 25-cent wage increase is scheduled for September 1987. Benefit increases include an 11th paid holiday—Martin Luther King's birthday—and increases in pension, sickness and accident, and death benefits.

Electrical products. Declining employment in the industry raised concern over job preservation in the contract talks in the electrical products manufacturing industry. The resulting settlements, covering 106,000 General Electric and Westinghouse workers negotiated by the Coordinated Bargaining Committee (a coalition of 13 unions) introduced lump-sum payments and a temporary two-tiered wage structure. As usual, the settlement with General Electric (for 80,000 workers) set the pattern for the Westinghouse accord. It provided for a lump-sum payment in the first year equal to 3 percent of the pay rate times 2,080 hours, and general wage increases of 3 percent in the second and third years. In addition, new employees will have to wait 8 months longer to reach the maximum pay rates for their job. The cost-of-living clause was continued providing 1 cent for each 0.175-percent change in the CPI-W, increasing to 1 cent for each 0.15-percent change in the third year.

Automobile manufacturing. In late October, an agreement covering 70,000 workers was reached between the Auto Workers and Chrysler Corp. providing parity with wage and benefit provisions in the General Motors Corp. and Ford Motor Co. contracts. The financial position of Chrysler had improved substantially since the United Auto Workers cost-curbing contracts negotiated in 1979, 1980, and 1981. The December 1982 contract had reduced the disparity between Chrysler's wages and benefits and those at Ford and General Motors, but differences remained. The 1985 Chrysler settlement eliminated these differences; it provided for a 2.25-percent wage increase in the first year; an October 1986 lump-sum payment equal to 2.25 percent of each employee's earnings during the preceding 12 months; and a 3-percent pay increase in October 1987. The cost-of-living clause was modified to match that covering GM and Ford workers—a 1-cent wage change for each 0.26-point movement in CPI-W quarterly, subject to a 1- to 2-cent diversion from each adjustment to help offset increased benefit costs.

Railroads. After negotiating for 2½ years, the United Transportation Union and the National Railway Labor Conference reached a settlement in December covering 82,000 operating engineers. The agreement followed the recommendations of a presidentially appointed emergency board. It provided that the 6,000 firemen and 2,000 hostlers (railyard train operators) would be phased out through attrition. Other terms were a six-stage wage increase totaling about 10.5 percent over the term of the agreement (an average of about $1.37 an hour); a $565 lump-sum payment in lieu of making the initial wage increase retroactive to July 1984; and a modified COLA clause which provides that COLA's are

Table 3. Average compensation (wage and benefit costs) adjustments in settlements covering 5,000 workers or more in private industry, 1985
[In percent]

Industry	First-year adjustments	Annual adjustment over life of contracts	Number of workers (thousands)[1]
All industries	2.6	2.7	1,413
Contracts with COLA clauses	2.0	2.5	520
Contracts without COLA clauses	3.0	2.9	894
Manufacturing	1.2	1.9	603
Contracts with COLA clauses	1.4	2.3	341
Contracts without COLA clauses	.9	1.4	262
Nonmanufacturing	3.7	3.4	811
Contracts with COLA clauses	2.9	2.8	179
Contracts without COLA clauses	3.9	3.5	632
Construction[2]	2.6	3.0	108
All industries, excluding construction[2]	2.6	2.7	1,306
Nonmanufacturing, excluding construction[2]	3.8	3.4	703

[1] Because of rounding, sums of individual employment items may not equal totals.

[2] Data by COLA coverage do not meet publication standards.

Table 4. Effective wage adjustments in collective bargaining agreements covering 1,000 workers or more, 1979–85

Year	Total adjustment	Source		
		New agreements	Deferred from prior agreements	COLA
1979	9.1	3.0	3.0	3.1
1980	9.9	3.6	3.5	2.8
1981	9.5	2.5	3.8	3.2
1982	6.8	1.7	3.6	1.4
1983	4.0	.8	2.5	.6
1984	3.7	.8	2.0	.9
1985	3.3	.7	1.8	.7

to be paid only to the extent that they exceed the specified wage increases.

Wage adjustments effective in 1985

Wage adjustments put into effect in 1985 resulted from settlements during the year; deferred changes made under agreements negotiated in earlier years; and cost-of-living provisions.[5] Each of these components was at or near its lowest level for this series. (See table 4.) Combined, they resulted in an average effective wage adjustment of 3.3 percent for the 7 million workers under major contracts, the lowest adjustment since the series began in 1968. About 1.4 million workers received no wage adjustments; the remaining 5.6 million received adjustments which averaged 4.1 percent.

The following tabulation shows average wage adjustments (in percent) effective in 1985 for workers receiving one or more wage changes and prorated for all workers:

	Workers receiving wage changes	*All workers*
All adjustments	4.1	3.3
New settlements	3.4	.7
Deferred from prior settlements	3.7	1.8
COLA	2.2	.7

Workers can receive wage changes from more than one source; thus the size of the average change for workers receiving changes (4.1 percent) is larger than any of its parts.

The prorated cost-of-living adjustment averaged 0.7 percent in 1985, up slightly from the 1983 low of 0.6 percent. The size of adjustments is determined by movement in the CPI, frequency of reviews, and the adjustment formula used. Thus, the size of the COLA component is affected by the decline in COLA coverage, the moderate inflation rate, and the negotiation of less generous formulas.

About 2.8 million workers had cost-of-living reviews in 1985; 2.3 million received increases averaging 2.2 percent; approximately 400,000 had at least one review that yielded no wage change; and none had decreases resulting from COLA's. Wage adjustments stemming from 1985 reviews offset about 58 percent of the rise in consumer prices, compared with 50 percent in 1984.

Effective wage changes in major collective bargaining agreements are reflected in the Bureau's Employment Cost Index (ECI), which measures the change in the price of labor, free from the influence of employment shifts among industries and occupations. The wage and salary series of the ECI is limited to straight-time average hourly earnings, including production bonuses, incentive earnings, and COLA's, and excluding employer costs for employee benefits. The ECI wage and salary component is conceptually similar to the effective wage adjustment measure for union workers covered by the major collective bargaining agreements series, but provides data on *both* union and nonunion workers.

The ECI wage and salary component shows that in private industry, the cost of wages and salaries rose 4.1 percent from December 1984 to December 1985, matching the lowest 12-month change recorded in the 9 years such data are available. Continuing the relationship that began in 1983, wages increased less for union (3.1 percent) than for nonunion (4.6 percent) workers during the year ended December 1985.

THERE IS LITTLE ON THE HORIZON to suggest that 1986 bargaining results will be very different from those in 1985. For a discussion of the outlook for bargaining in 1986, see "Collective bargaining during 1986: pressures to curb costs remain," in the January 1986 *Review*. □

——*FOOTNOTES*——

[1] The major collective bargaining agreement series for private industry covers 7 million workers in bargaining units with at least 1,000 workers. For definitions of terms, see Current Labor Statistics, Wage and Compensation Data, p. 65. Additional tabulations from this series appear in the April 1986 issue of the Bureau's *Current Wage Developments*.

[2] Adjustments under settlements reached in the period and effective within 12 months of the contract effective date.

[3] Adjustments under settlements reached in the period expressed as an average annual (compound) rate over life of contract.

[4] For details of these settlements, see George Ruben, "Labor and management continue to combat mutual problems in 1985," *Monthly Labor Review*, January 1986, pp. 3–15.

[5] To calculate the effective adjustment and each component for workers receiving wage changes, each percent change in wages is weighted by the number of workers receiving the change, then the total worker-weighted change is divided by the number of workers receiving the changes. The prorated adjustment is calculated by dividing the total worker-weighted change by the total number of workers covered by major agreements. Therefore, the size of the average adjustment and each of its components reflects both the size of each change and the number of workers it affects.