Major agreements in 1984 provide record low wage increases

A substantial portion of workers had their wages frozen or reduced; and specified increases were the smallest since the bargaining series began in 1968, reflecting both management's desire to hold down labor costs and workers' concern over job security

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In 1984, the size of wage adjustments under major collective bargaining agreements in private industry reached historic lows for the Bureau of Labor Statistics 17-year-old series.[1] Settlements reached during the year provided adjustments (increases, decreases, and no wage change) averaging 2.4 percent for both the first year and annually over the life of the contracts. Adjustments peaked in 1981 and have declined steadily since. (See chart 1.) Wage adjustments actually put into effect during 1984, 3.7 percent on average, were also at a historic low.

Average wage adjustments under 1984 settlements were low because wages were frozen or reduced for a substantial proportion of workers, and average increases were the smallest ever. Such developments were not new, having first emerged as a result of 1981 negotiations. They were especially evident in 1982 settlements, and persisted in 1983 and 1984. (See table 1.)

When most of the parties involved in 1984 contracts last bargained in 1981 or 1982, the economy was in a recession and individual industries and firms were in particular difficulty. By 1984, much of the economy had emerged from the 1981–82 recession, as reflected by major economic indicators. The gross national product increased 6.8 percent in constant (1972) dollars in 1984, following a 3.3-percent increase in 1983 and a 1.9-percent decrease in 1982; total industry utilization was 81.7 percent in December 1984, compared with 79.0 percent in December 1983, and up from 69.6 percent in November 1982; productivity (output per hour) in the business sector rose 3.6 percent in 1984, the largest annual average increase since 1976; the unemployment rate fell from a recession high of 10.7 percent in December 1982 to 8.1 percent in December 1983 and 7.1 percent a year later; the Consumer Price Index for All Urban Consumers (CPI–U) rose 4.0 percent in 1984, continuing the moderate rate of increase that started in 1982 (this index increased 13.3 percent in 1979 and 12.4 percent in 1980); the Employment Cost Index (ECI) showed a dampening of increases in employer costs for employee compensation, rising by only 4.9 percent in 1984, after a 9.8-percent increase in 1981, 6.4 percent in 1982, and 5.7 percent in 1983.

Despite the improvement in the overall economy in 1984, many negotiators continued to face problems stemming from import competition, deregulation of the airline industry, nonunion competition (particularly in the construction industry), and structural changes in some industries (for example, changing product lines or production methods). Thus, settlements reached in 1984 reflected the pressure on management to reduce or hold down labor costs, and the job security concerns of workers which continued to dampen union wage demands.

Settlements provide record low adjustments

Reacting to a variety of economic concerns, 1984 contracts provided record low adjustments, averaging 2.4 percent in both the first contract year and annually over the

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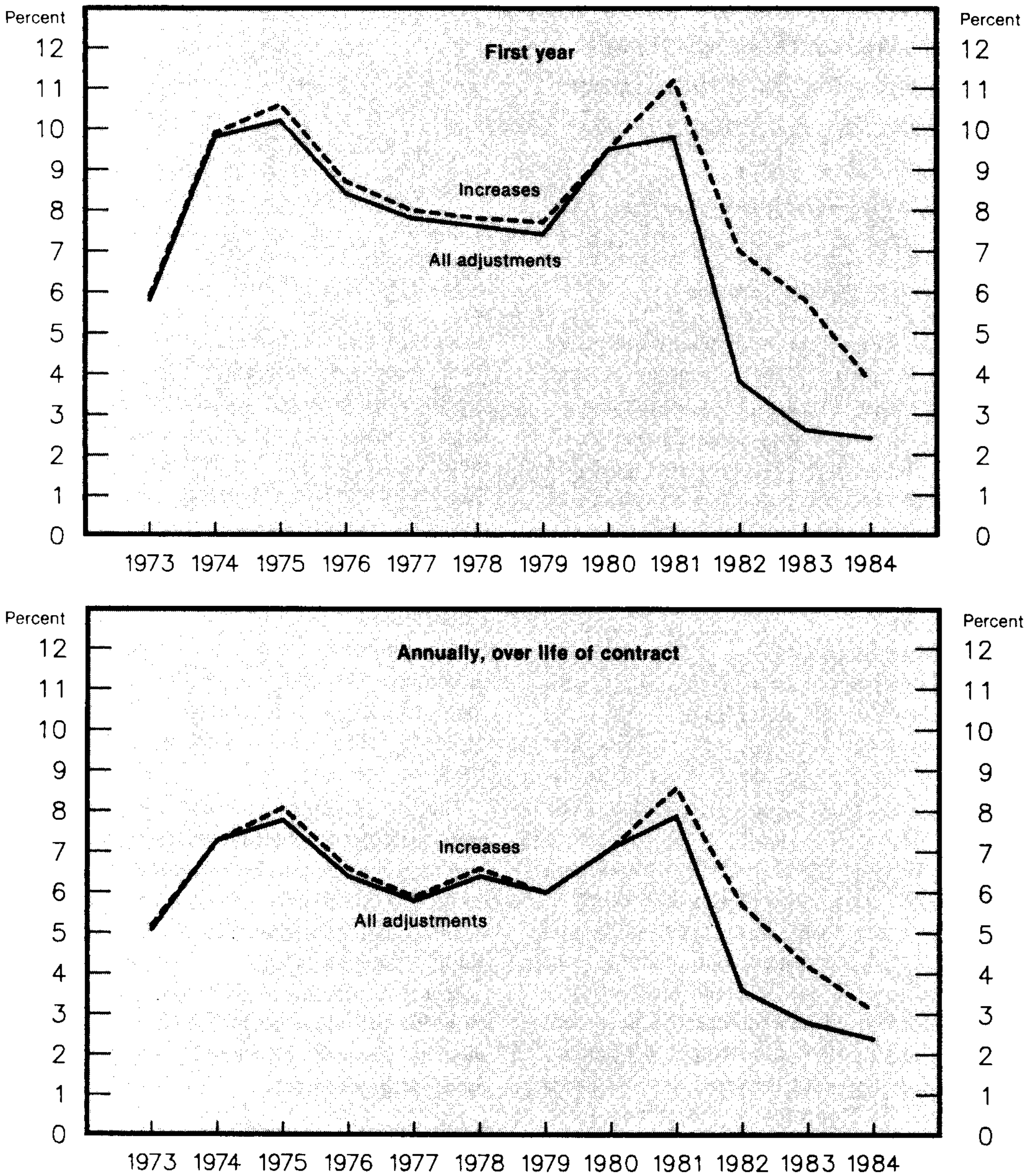
life of the agreement. (See table 2.) The previous lows, in 1983, were 2.6 percent in the first year and 2.8 percent over the life of the contract.

About 2.3 million of the 7.3 million workers under major agreements were covered by 1984 settlements. The last time parties to these settlements bargained (2 to 3 years ago in most cases), wage adjustments averaged 5.9 percent in the first contract year and 4.9 percent annually over the contract life. These averages reflect, in part, settlements reached in 1982, and to a lesser extent 1983, which provided smaller wage adjustments than in earlier years.

About 720,000 workers (or 31 percent of those covered under 1984 settlements) will receive lump-sum payments that are not incorporated into employees' wage rates during their contract term. Such payments are provided by 38 (7 percent) of the 550 agreements reached in the year. (Lump-

Chart 1. Average wage adjustments in private-sector settlements covering 1,000 workers or more, 1973–84



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

sum payments are excluded from all wage and benefit measures in the major collective bargaining agreements series.) Most workers under 1984 settlements that provide lump-sum payments will receive a specified wage increase but no lump-sum payment in the first contract year, and will receive lump-sum payments but no specified wage increase in the second and third contract years. Thus, settlements with lump-sum payments specified wage adjustments averaging 2.5 percent the first contract year, but only 1.4 percent annually over the contract term. Corresponding adjustments in settlements without lump-sum payments averaged 2.4 and 2.8 percent.

The small 1984 adjustments stem from the smallest wage increases and the largest wage decreases on record. Approximately three-fourths of the workers had wage increases averaging 3.8 percent in the first contract year, almost one-fifth had no wage change, and the remainder had decreases averaging 9.5 percent. About three-tenths of those with wage decreases or no change in the first year will receive subsequent increases, resulting in a net wage gain for the contract term. Thus, by the end of their contracts, 84 percent of the workers will have received a specified wage increase.

Compensation adjustments. The Bureau measures total compensation (wages and benefit costs) adjustments in agreements covering 5,000 workers or more. These contracts involved slightly more than 60 percent of all workers under major settlements in 1984. Agreements covering 5,000 workers or more provided compensation adjustments of 3.6 percent in the first year and 2.8 percent a year over the contract life. (See table 3.) Approximately 5 percent of the workers will have no change or a decrease in total compensation over the life of their agreements; for the remainder, increases will average 3.0 percent a year.

Changes by industry. Wage increases were negotiated in a variety of industries, including automobile manufacturing, coal mining, petroleum refining, public utilities, water transportation, construction, building service and maintenance, and health services. Settlements providing no wage changes were primarily in the construction industry, but appeared in some contracts in other industries, including primary metals, transportation equipment, water transportation, food stores, and airlines.

Of the 121,000 workers sustaining first-year wage decreases, approximately three-fifths were in the construction industry. The remainder were primarily in air transportation and food stores. Subsequent wage increases will restore the cuts for about 20,000 of the workers with first-year cuts, most of whom are in airlines and food stores. For the others, wage cuts will average 6.1 percent annually over the contract life.

Settlements covering nearly one-half million construction workers (one-fifth of those under 1984 agreements) helped dampen the overall average wage adjustments for the year. Wages were either cut or frozen for about one-quarter million construction workers, bringing construction wage settlements to a 17-year low—averaging 0.5 percent in the first contract year and 1.0 percent a year over the contract

Table 1. Proportion of workers with increases, decreases, or no wage change under settlements covering 1,000 workers or more reached in 1979–84

[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

Table 2. Wage adjustments in private sector settlements covering 1,000 workers or more, 1984

Industry	First year		Over life of contract	
	Average adjustment (percent)	Workers (thousands)	Average annual adjustment (percent)	Workers (thousands)
All settlements				
All industries	2.4	2,307	2.4	2,307
With COLA clauses	2.9	855	1.8	855
Without COLA clauses	2.1	1,452	2.7	1,452
Manufacturing	2.3	863	1.5	863
With COLA clauses	2.1	660	1.0	660
Without COLA clauses	2.9	203	3.3	203
Nonmanufacturing	2.5	1,443	2.9	1,443
With COLA clauses	5.5	195	4.8	195
Without COLA clauses	2.0	1,249	2.6	1,249
Construction	.5	482	1.0	482
All industries, excluding construction	2.9	1,824	2.7	1,824
Nonmanufacturing, excluding construction	3.4	961	3.8	961
Settlements providing increases				
All industries	3.8	1,778	3.1	1,936
With COLA clauses	3.3	762	2.0	809
Without COLA clauses	4.1	1,016	4.0	1,127
Manufacturing	2.8	736	1.7	803
With COLA clauses	2.4	579	1.0	621
Without COLA clauses	4.0	156	3.8	181
Nonmanufacturing	4.5	1,042	4.2	1,134
With COLA clauses	6.1	183	5.1	188
Without COLA clauses	4.1	860	4.0	946
Construction	4.1	233	3.7	261
All industries, excluding construction	3.7	1,545	3.0	1,675
Nonmanufacturing, excluding construction	4.6	809	4.3	872
Settlements providing decreases				
All industries	−9.5	121	−6.1	101
With COLA clauses	−12.6	4	−6.8	4
Without COLA clauses	−9.4	117	−6.1	96
Manufacturing	−10.9	5	−4.1	5
Nonmanufacturing	−9.4	116	−6.2	96
Construction	−9.9	72	−7.0	68
All industries, excluding construction	−8.9	49	−4.3	33
Nonmanufacturing, excluding construction	−8.7	44	−4.3	28

Table 3. Average compensation (wage and benefit costs) adjustments in private sector settlements covering 5,000 workers or more, 1984
[In percent]

Industry	First-year adjustments[1]	Annual adjustment over life of contracts[2]	Number of workers (thousands)
All industries	3.6	2.8	1,396
Contracts with COLA clauses	4.0	2.3	679
Contracts without COLA clauses	3.2	3.3	716
Manufacturing	3.5	1.9	596
Contracts with COLA clauses	3.7	1.7	535
Contracts without COLA clauses	2.6	3.0	62
Nonmanufacturing	3.7	3.5	799
Contracts with COLA clauses	5.3	4.4	144
Contracts without COLA clauses	3.3	3.3	655
Construction[3]	1.7	1.8	159
All industries, excluding construction	3.8	3.0	1,237
Nonmanufacturing, excluding construction	4.1	4.0	640

[1] Change effective within first 12 months of contract term.
[2] Total adjustment over contract term expressed as an average annual (compound) rate.
[3] Data by COLA coverage for construction do not meet publication standards.
NOTE: Because of rounding, sums of individual employment items may not equal totals.

life, compared with corresponding adjustments of 2.9 percent and 2.7 percent in other industries. The last time the same parties bargained, wage adjustments for construction workers averaged 6.2 percent in the first year and 5.3 percent annually over the contract life.

COLA clauses

Cost-of-living adjustment (COLA) clauses covered 37 percent of the workers under 1984 settlements. This was about the same proportion that had been covered under the old agreements, as 68,000 workers lost coverage, while 12,000 gained coverage. Wage adjustments stemming from COLA clauses are not included in settlement data because COLA's depend on future changes in the Consumer Price Index—changes that are unknown 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.

In 1984, wage adjustments over the life of the contract averaged 1.8 percent annually for settlements with COLA, compared with 2.7 percent for those without. This follows the historic pattern, in which settlements with COLA clauses have provided lower specified wage adjustments over the life of the contract than those without COLA because it is expected that the COLA provision will yield additional wage increases. (See chart 2.) This relationship often has been true for first-year wage adjustments as well, but it was not the case in 1984. First-year wage adjustments averaged 2.9 percent in settlements with COLA and 2.1 percent in the others. Many factors contributed to this relationship. For example, record low wage settlements in construction contracts, which usually do not have COLA clauses, dampened the size of non-COLA settlements. At the same time, some contracts with COLA's only provide them in the second or third year of the contract or after a substantial CPI increase has been reached, and thus did not moderate the first-year wage increase in anticipation of COLA payments.

Adjustments implemented by previous contracts

Contracts that preceded 1984 settlements provided average wage adjustments (specified adjustments plus COLA) of 5.7 percent a year while they were in effect. This is down from 9.1 percent for those replaced by 1983 settlements. The lower adjustments reflect the moderation in the size of specified wage adjustments that began with 1982 settlements, as well as smaller COLA's, stemming primarily from the moderation in the rate of inflation. Contracts with COLA clauses provided a smaller total average annual adjustment than those without. This continues the relationship between contracts with COLA's and those without that occurred in 1983 for the first time in the 9 years for which comparable data are available. Previously, contracts with COLA's provided smaller specified wage adjustments than those without, but COLA's more than made up the difference.

The following tabulation shows average annual wage adjustments (in percent) over the life of contracts with and without COLA's replaced in 1984:

	With COLA	*Without COLA*
Total adjustment	4.3	6.8
Specified	1.9	6.8
COLA	2.5	0

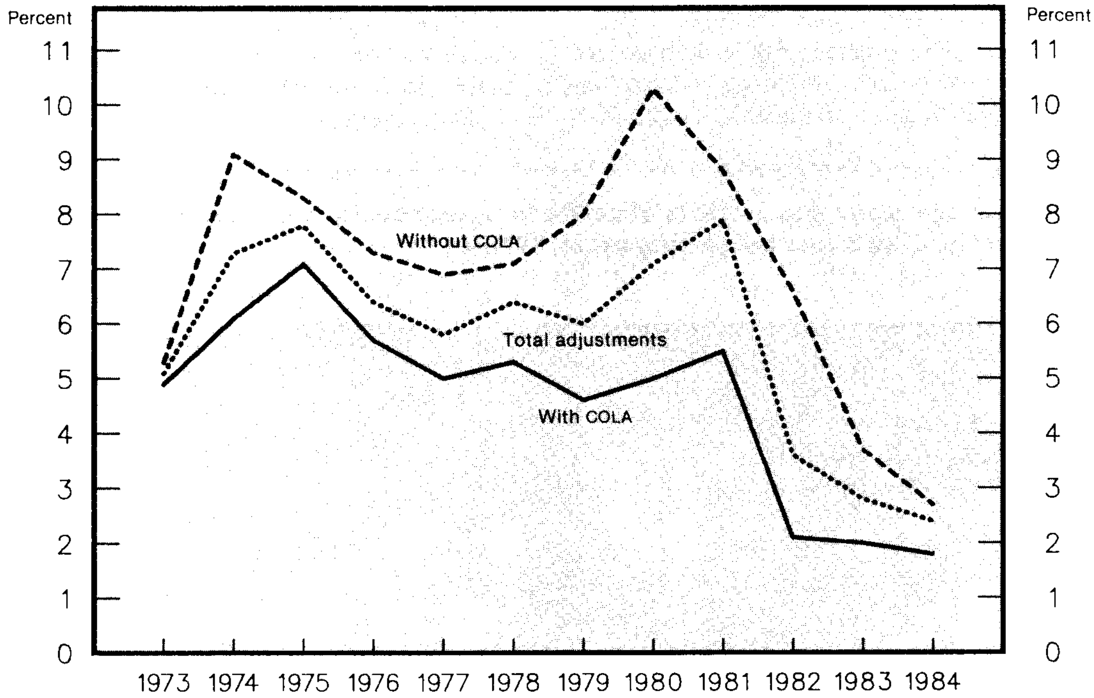
Wage adjustments effective in 1984

As noted earlier, wage adjustments put into effect in 1984 were the lowest since the series began in 1968. These adjustments result from (1) settlements during the year; (2) deferred changes made under agreements negotiated in earlier years; and (3) COLA provisions. Of the 7.3 million workers under major contracts, 6.2 million received wage changes which averaged 4.4 percent; the remaining 1.1 million had no wage changes. When prorated over all 7.3 million workers, effective wage adjustments averaged 3.7 percent, the lowest ever recorded by this series.

The following tabulation shows average wage adjustments (in percent) effective in 1984 for workers receiving a wage change and prorated for all workers:[2]

	Workers receiving a change	*All workers*
All adjustments	4.4	3.7
New settlements	3.0	.8
Deferred from prior agreements	4.0	2.0
COLA	2.7	.9

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, 1973–84



Workers can receive wage changes from more than one source; thus the size of the average change (4.4 percent) is larger than any of the component parts.

The record low effective wage adjustment reflects the moderation in the size of new settlements and COLA adjustments. (See chart 3.) During heavy bargaining years, the new settlement component of the effective wage adjustments series was larger than or equal to the deferred adjustment component until 1982. In 1982 and 1983 (years of heavy bargaining), deferred adjustments averaged more than those from new settlements. In 1984 (a moderate bargaining year), adjustments from prior-year contracts averaged 2.0 percent, compared with 0.8 percent from new settlements.

In 1984, the prorated COLA averaged 0.9 percent, up from the record low of 0.6 percent set in 1983. The size of the COLA is determined by movement in the Consumer Price Index, timing of reviews, and the adjustment formula used. Changes in two of these factors—the decline in the rate of increase in the CPI and the negotiation of less generous COLA formulas—contributed to the small 1984 COLA's.

About 3.8 million workers had COLA reviews in 1984, of which 2.5 million received COLA increases averaging 2.7 percent; approximately 1.4 million had at least one COLA review that yielded no wage change; and none had COLA decreases. Wage adjustments stemming from all 1984 COLA reviews averaged 50 percent of the rise in consumer prices during the COLA review period

Effective wage changes in major collective bargaining agreements are reflected in the Bureau's Employment Cost Index, 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. It excludes employer costs for employee benefits.

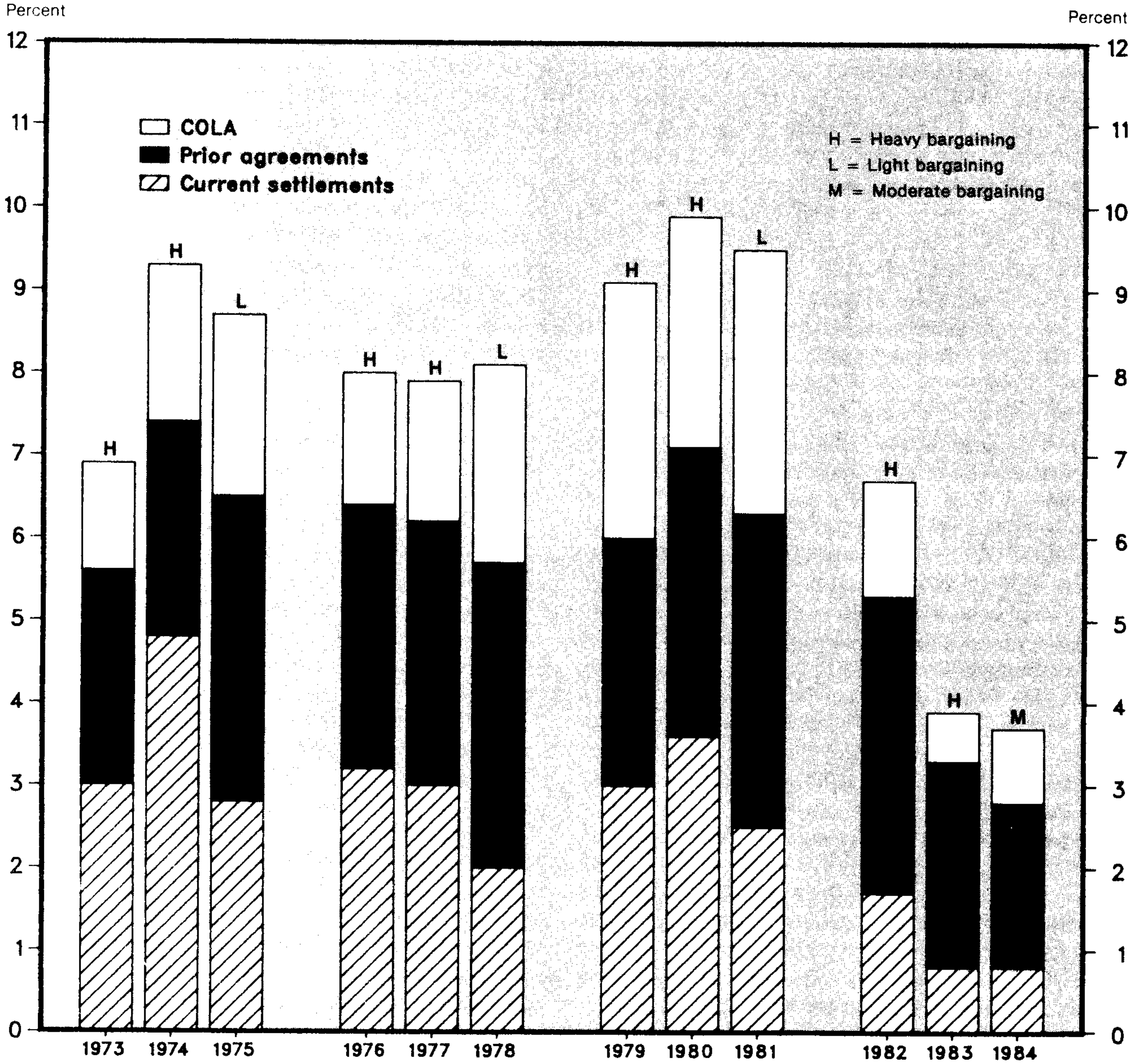
The ECI wage and salary component shows that in private industry, the cost of wages and salaries rose 4.1 percent during 1984, less than in any other of the 9 years for which such data exist. Continuing the relationship that first occurred in 1983, wages went up more for nonunion than union workers in 1984—4.5 percent versus 3.4 percent. The ECI wage and salary component, although relating to all union workers, is conceptually similar to the effective wage adjustment measure for all workers covered by major agreements which, as noted earlier, was 3.7 percent in 1984.

Quarterly developments

The following summary of significant developments by quarter in 1984 traces the course of major collective bargaining throughout the year.[3]

First quarter. Contracts negotiated in the first quarter provided average wage adjustments of 2.8 percent in the first year and 3.3 percent annually over the life of the contract. Bargaining activity was relatively light. The 387,000 covered workers were spread among such industries as petroleum refining, water transportation, public utilities, and building service and maintenance. No single industry was a major factor affecting the data for the quarter. Construction settlements covering 46,000 workers provided average adjustments of −3.6 percent in the first year and −2.8 percent annually over the life of the contract. A 2-year contract reached in January between Gulf Oil Corp. and the Oil, Chemical and Atomic Workers set the pattern for pacts at other major oil companies. The petroleum settlements covered about 23,000 workers and generally provided for an immediate wage hike of 20 cents an hour and a 35-cent increase in the second contract year. Another 31,000 workers under major agreements were covered by a 3-year "mas-

Chart 3. Average wage adjustments effective in private-sector agreements covering 1,000 workers or more, by 3-year bargaining cycle, 1973–84



ter" contract between East and Gulf Coast stevedoring companies and the International Longshoremen's Association, which was ratified in February. The master contract provided a $1 an hour pay increase retroactive to October 1 of 1983, $1 an hour on October 1 of 1984 and 1985, plus a $1.25 an hour increase in employer payments to benefit funds.

Second quarter. Construction settlements dominated second quarter statistics, covering more than half (54 percent) of the 554,000 workers under settlements. Wage adjustments in construction settlements averaged 1.1 percent in the first year and 1.4 percent annually over the contract life. In other industries, wage adjustments averaged 3.9 percent the first year and 3.8 percent annually over the contract life. When combined with construction settlements, however, they produced average wage adjustments of 2.6 percent for the first contract year and 2.7 percent over the contract life.

Third quarter. Construction was an important influence on settlement statistics, accounting for 26 percent of 573,000 workers covered by major contracts settled in the third quarter. Construction contracts provided wage adjustments that averaged 2.0 percent the first year and 2.1 percent annually over the contract life.

An important settlement during the third quarter covered 105,000 active mine workers, and was negotiated in September by the Bituminous Coal Operators Association and the United Mine Workers of America. Negotiated against the backdrop of a depressed industry with about 55,000 unemployed miners, the settlement provided pay increases of $1.40 an hour over the term of the 40-month pact, compared with $3.60 an hour over the previous 40-month pact. Other settlements in the third quarter covered 65,000 United Food and Commercial Workers in southern California who received a total of 2.3 percent in wage increases over the life of the 3-year contract; and 50,000 workers under a 2-year pact between the league of Voluntary Homes and Hospitals of New York and District 1199 of the Retail, Wholesale and Department Store Union which provided 5-percent pay hikes each year.

By the end of the third quarter, contracts had been concluded for about 9 of 10 construction workers for whom contracts would eventually be settled in the year. It was clear that average wage adjustments in settlements negotiated in the construction industry for 1984 would be historically low and would dampen the all-industry averages for the year. The fourth-quarter developments reinforced this by providing first-year adjustments of −2.8 percent and over the life of the contract adjustments of −0.8 percent for 47,000 construction workers. Construction contracts covered about one-fourth of all workers under 1984 settlements and provided record low average wage and compensation (wage and benefit costs) adjustments.

Fourth quarter. This quarter generally is light in terms of settlement activity, but 1984 was different. Settlements covered 797,000 workers, more than in any other quarter. A notable settlement was the agreement between United Parcel Service and the Teamsters ratified in late October. This pact, covering 90,000 workers (including a substantial number of part-timers), extended the 1982 agreement until July 31, 1987. (The 1982 agreement had been scheduled to expire June 1, 1985.) It set an initial pay hike of 68 cents an hour, retroactive to September 4, 1984. This is the total amount of the COLA's that had been diverted in 1983 and 1984 to help finance health and welfare and pension benefits. Also, it provided for a 50-cent hourly pay increase on September 1 of 1985 and 1986.

Settlement data were dominated by 3-year contracts negotiated by the Auto Workers at General Motors Corp. (for 350,000 workers) and at Ford Motor Co. (114,000 workers). Both auto contracts provided immediate specified wage increases ranging from 9 to 50 cents an hour (depending on pay bracket). Although wage rates will not be raised as a result of specified increases for the remainder of the pacts, workers will receive lump-sum 'performance bonuses' in 1985 and 1986. These bonuses will equal 2.25 percent of the previous contract year's pay for all compensated hours, including straight-time (but not premium) pay for overtime. Similar contract terms were extended to 24,000 workers represented by the International Union of Electrical, Radio and Machine Workers and 4,000 represented by the United Rubber Workers at General Motors. As discussed earlier, lump-sum payments are not incorporated into wage rates and are not included in the major collective bargaining agreements series. The large number of workers who received lump-sum payments but no specified wage increase after the first contract year had a noticeable influence on settlement statistics for 1984. □

———*FOOTNOTES*———

[1] The major collective bargaining agreement series for private industry covers 7.3 million workers in bargaining units with at least 1,000 workers. For definitions of terms, see Current Labor Statistics, Wage and Compensation Data, pp. 98. Additional tabulations from this series appear in the April 1985 issue of the Bureau's *Current Wage Developments*.

[2] 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.

[3] For details of these settlements, see George Ruben, "Modest labor-management bargains continue despite recovery," *Monthly Labor Review*, January 1985, pp. 3–12.