The 1978–80 pay guidelines: meeting the need for flexibility

Any anti-inflation program which caps wages must include provisions for the special needs of individual firms, lest economic hardship fall disproportionately on certain industries or worker groups

LUCRETIA DEWEY TANNER AND MARY CONVERSE

On October 25, 1978, President Carter announced a program of voluntary pay and price guidelines designed to dampen inflationary expectations. Responsibility for administering the guidelines was given to the Council on Wage and Price Stability, an organization established by Congress in 1974 to monitor developments in the economy. Recognizing that strict adherence to rigid standards for pay increases might not always be possible or equitable, the council created a system to review companies' requests for relief ("pay exceptions") from the guidelines. This article describes the administration of the standard and analyses the types and numbers of pay exception requests submitted to the council during the 2 years of the anti-inflation program.

A general framework

As originally designed, the pay standard allowed a simple 7-percent average annual adjustment encompassing all wage and benefit increases negotiated under a collective bargaining agreement or granted under a pay plan. Parties negotiating multi-year contracts during the program were permitted to allocate the compound annual average standard of 7 percent unequally over the contract term, so long as the increase in any year did not exceed 8 percent. Thus, a 3-year pact might provide compensation increases of 8 percent the first year, 7 percent the second, and 6 percent the third, for a compounded total of 21.5 percent over the life of the agreement. And, if subsequent changes in employee mix as a result of turnover reduced the actual annual pay raise below the level anticipated at the beginning of the year, companies were permitted to carry over the unused portion of the increase into the second program year. The first-year standard was in effect from October 1, 1978, through September 30, 1979, and evolved over that period from a general guideline into a precise and rigid set of computations and procedures for monitoring pay increases and for reviewing exceptions.

Cooperating employers were required to distinguish three types of "employee units" within their organizations: all management employees, generally defined as those exempt from the Fair Labor Standards Act; each group of employees subject to a collective bargaining contract; and all other employees. The average increase for each separate employee unit had to be in compliance with the standard, although individual workers within a unit could receive more or less than the guideline amount. For example, a company employing a number of engineers—professionals in high demand—within a larger unit might find it difficult to retain these workers and recruit others without offering them a substantial pay increase. If the unit's other workers were granted at least the guideline increase, the entire unit would be in noncompliance with the standard. Thus, the employer

Lucretia Dewey Tanner, formerly Assistant Director for the Office of Pay Monitoring, Council on Wage and Price Stability, is now an economist with the Federal Mediation and Conciliation Service. Mary Converse, formerly an economist with the Office of Pay Monitoring, is now Coordinator of Reference and Research for the Association of Flight Attendants, AFL-CIO.

might choose to grant raises below the standard to other workers in the unit to offset the increase for engineers. (In practice, such differential increases often strained firms' internal pay structures, and employers were permitted instead to request pay exceptions for targeted subgroups within a unit.)

The average wage rate for the employee unit, combined with the cost of benefits, constituted the pay-rate base for calculation of the 7-percent increase. Federally mandated payroll taxes for social security, workers' compensation, and unemployment insurance were excluded from the definition of pay. And, increased costs of health insurance were not charged against the standard if new benefits were not added or existing benefits improved. As additional refinements were made, the council outlined them in special publications, or in the form of "Questions and Answers" which appeared in the *Federal Register* over the program's duration.

As the first year drew to a close, the Carter Administration established an 18-member Pay Advisory Committee, composed of representatives of labor, management, and the general public, which was to make recommendations for the second year of the program. While the committee deliberated, the council issued interim standards which loosened the 7-percent standard, beginning October 1, 1979, for those employees not covered by automatic cost-of-living adjustments (COLA's). This interim standard of 8 percent was in effect until March 13, 1980, when the second-year standard—a pay increase range of 7.5 to 9.5 percent made retroactive to October 1, 1979—was announced. The second-year pay standard was allowed to lapse, and the formal pay and price program was officially terminated by President Reagan's Executive Order issued on January 29, 1981.

The exceptions policy

Of course, few exceptions to a wage guideline are required when the standard adopted is close to the size of the increases that would otherwise be granted. By contrast, a strict standard produces a sizable volume of requests from employers with special problems. As the inflation rate edged upward, the first-year standard became even stricter than had initially been envisioned, and the unexpectedly large numbers of incoming requests for exceptions were viewed with greater sympathy.

On the other hand, the more liberal second-year standard generated fewer submissions. The council received almost 700 exception requests during the first year and 360 in the second; most of the second-year cases arose during the October 1979-March 1980 interim period when the stricter 7-percent standard (8 percent for units without automatic COLA protection) was still in place.

Over the life of the guidelines program, exception requests affected about 2 million employees. While submissions covered as few as two individuals and as many as 150,000, about 65 percent were for fewer than 1,000 people, mostly in employee units of 100 to 500 workers. About two-thirds of all submissions were for nonunion employees.

Criteria for exceptions were adopted in part from the Economic Stabilization Program of the early 1970's which had, in turn, borrowed from the experience of previous control periods. For example, both programs included exceptions to maintain pre-existing wage and benefit relationships between employee units (tandem). "Essential employees" of the Economic Stabilization Program became the "acute labor shortage" category under the voluntary standards, and the catch-all exception—gross inequity or severe hardship—was common to both. But unlike the earlier program, which limited the amount of the increase available under any type of exception to 1.5 percent above the 5.5-percent pay standard, the 1978–80 program imposed no limit to the additional amount that could be requested or granted.

Exception requests were reviewed on a case-by-case basis and assigned to one of the 18 labor economists or analysts in the council's Office of Pay Monitoring. Each staff member determined the adequacy of the supporting data supplied by the company and was responsible for the initial decision to approve or deny the request. In many situations, council staff met with firm representatives to discuss specific problems and offer suggestions for developing the data required to meet criteria for one of the exceptions.

To ensure consistency and efficiency in council exception procedures, certain rules were established. Because the council could not examine every pay decision, it limited requests for exceptions to situations affecting at least 100 people in a company having at least 1,000 employees, or to collective bargaining agreements covering at least 1,000 workers regardless of the number of workers employed by each signatory firm.

A show of "good cause" for an employee unit of any size was also sufficient for the council to issue a decision. Good cause could mean that a company and union had reached a labor contract contingent on the council's approval, or that a company was required to demonstrate compliance in order to bid on a Federal contract of $5 million or more. While many submissions were eligible for council consideration on both grounds, almost three-fourths were eligible because they met the size requirement. Another 16 percent were from parties to contingent labor contracts, and 6 percent sought approval in order for firms to bid on government contracts. The remaining cases were eligible on miscellaneous grounds, including the need to demonstrate to a public utility rate commission that labor cost increases

had council approval, or as a prior defense to the council's issuing a notice of probable noncompliance.

Over the life of the guidelines program, notices of probable noncompliance (termed "notices of inquiry" during the second program year) were issued in 65 situations in which there was reason to believe that increases being paid exceeded the standard. The council was able to discover some of these situations from the PAY-1 reports on wages and salaries submitted periodically by large firms; other notices were issued on the basis of informal reports of possible noncompliance from secondary sources.

Initially the council self-imposed a 20-day turnaround from receipt of an exception request to the date a decision was issued. This quick response was difficult to achieve for many cases, particularly those requiring additional information. Although it later revised its schedule, the council was able to average a reasonably quick response time of about 40 days, although some submissions took considerably longer.

Types of exceptions

Four exception categories were outlined under the first-year pay standards: tandem compensation relationships between employee units; productivity increases resulting from union work rule changes; acute labor shortage; and gross inequity or undue hardship, which might represent any number of circumstances. The second-year program modified these categories by (1) adding a catchup category for employee units without cost-of-living protection, and (2) broadening the definition of tandem relationships and permitting companies to self-administer the tandem exception. In 2 years more than a thousand cases were submitted to the council for approval. Table 1 shows the distribution of these cases by type of exception justification.

Gross inequity exceptions. More than 40 percent of the cases in each of the 2 years were reviewed as gross inequity exceptions. Many of these were originally submitted as other exception types, but ultimately were considered on the basis of gross inequity if the information provided did not strictly meet the requirements of the original category. To qualify for a gross inequity exception, a company was required to provide evidence that compliance with the pay standard was manifestly unfair to the affected employees, or so threatened the firm's financial viability as to create a hardship.

Table 1. Cases by type of exception

Exception type	First year		Second year		Total	
	Number	Percent	Number	Percent	Number	Percent
Total	684	100.0	358	100.0	1,042	100.0
Gross inequity	299	43.7	169	47.2	468	44.9
Labor shortage	148	21.6	71	19.8	219	21.0
Tandem	177	25.9	19	5.3	196	18.8
Non-COLA catchup	35	5.1	86	24.0	121	11.6
Productivity	25	3.7	13	3.6	38	3.6

Although employers often cited a combination of reasons for a gross inequity exception, the most frequently mentioned were wage compression or other disruptions of internal pay practices requiring additional increases to restore traditional differentials between employee groups. Of all gross inequity submissions, almost one-third of the first-year cases and more than two-fifths of second-year requests included such justifications. A common type of compression involved the disappearance of traditional differentials between first-line supervisors and the persons they supervised. This situation often arose because nonsupervisory employees had wage protection under an automatic cost-of-living provision and received payment for overtime work, but their supervisors did not.

Another frequent claim was disruption of pay relationships in an area labor market or deviation from an established industry pattern. Other circumstances supporting a gross inequity exception included a high proportion of workers in an employee unit earning less than the first-year low-wage exemption of $4 per hour, increasing turnover rates, and productivity improvements. A number of requests originally submitted as acute labor shortage or tandem exceptions failed to meet the strict criteria established for these categories, but were reviewed as gross inequities when the combination of circumstances contributed to a hardship situation. The following tabulation shows the distribution of gross inequity exception requests according to the grounds specified:

Grounds	*Percent of requests*[1]
Disruption of pay practices or internal compression	37
Follows area wage pattern	30
"Near" acute labor shortage	24
"Near" tandem	20
Follows industry wage pattern	15
Other	17

Acute labor shortage. The next largest group of requests sought acute labor shortage exceptions, which permitted increases above the standard when it was necessary for companies to attract and retain employees in specific job categories. In such cases, the council expected the company to document the problem, and asked for evidence showing that there had been unusual increases in the proportion of vacancies in the designated jobs and in the time required to fill those vacancies during the preceding quarter, compared to the experience of the past 2 years. Companies were also expected to demonstrate that pay rates for entry level employees in these

job categories had risen abnormally over the past 2 years. (An additional requirement that the local employment service agency certify that an acute labor shortage existed was informally dropped during the first year; the procedure proved to be cumbersome and the employment agencies were not primary clearing houses for highly skilled and professional jobs.) Companies unable to provide the necessary data were sometimes asked to submit the request as a gross inequity claim if additional evidence of hardship could be documented.

The labor shortage exception category usually involved highly skilled professional or technical personnel in short supply either nationally or in specific local markets. For example, more than half of all acute labor shortage requests were for computer specialists, engineers, and registered nurses. The number of requests for employees working in California and Texas far exceeded those submitted from other States, and accounted for more than one-third of all acute labor shortage cases. This reflects the expansion of the electronics, aerospace, and scientific instrument industries in California and the growth of oil and gas exploration in Texas. Almost all exceptions on behalf of registered nurses were submitted by hospitals in California and Arizona.

Tandem exceptions. Follower units justified tandem exceptions on several grounds. The most frequent was the assertion that the leader unit operated under a collective bargaining contract signed before the October 25, 1978, announcement of the pay standard; because the leader's contract was thus exempt from the guidelines, the follower unit which traditionally received the same increases should also be eligible for exclusion. Another reason commonly cited was that, although the leader's cents-per-hour pay increase was in conformance with the standard, this same amount would raise the follower's percentage increase above the standard because its base pay rate was lower. Similarly, because a leader with a multi-year contract or pay plan could exclude portions of COLA payments for compliance purposes, a follower without COLA protection was required to document a tandem relationship before implementing the same increases. Finally, collective bargaining contracts were permitted to "front load" the first year of an agreement—that is, to negotiate a first-year increase 1 percent above the standard if the increases over the life of the agreement compounded to the standard; thus, a follower unit might request the same ability to front load.

The nearly 200 tandem exception requests were submitted primarily during the first program year, because the second-year standard was changed both to broaden the definition and to permit self-administration. During the first year the council imposed a narrow definition of tandem, requiring that past pay increases of the two employee units, the leader and the follower, had been equal in value and directly related in timing over the previous 6 years. In addition, the council initially adopted a very rigid rule that the amounts of increase, either in cents per hour or percent, be exactly equal in the two units over the 6-year preguideline period; however, this rule was later modified to permit some minor deviation. If a precise tandem could not be demonstrated, but the past pay increases of one unit had closely followed the pattern established by another, the case might be termed a "near" tandem and be reviewed for a gross inequity exception.

Tandem exception requests most frequently involved follower units of nonunion, nonmanagement employees seeking approval to implement pay increases in tandem to a unionized leader unit within the same company. Nonunion units accounted for 57 percent of all tandem followers, while unionized followers accounted for the balance.

Forty-five separate unions were identified as leader units in tandem pay relationships. The Oil, Chemical and Atomic Workers Union (AFL–CIO) predominated as a tandem leader. Three other major leaders were the International Brotherhood of Electrical Workers (AFL–CIO), the United Automobile, Aerospace and Agricultural Implement Workers of America (Ind.), and the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America (Ind.). Although collective bargaining units accounted for the vast majority of the leaders, nonunion units at both the management and nonmanagement levels were also occasionally cited as tandem leaders.

One-half of the tandem cases proposed implementing a complete tandem, adopting all the wage and benefit improvements of the leader unit; nearly one-third of the followers sought to tandem only the wage portion of the package, as shown below:

Types of tandem requests	*Percent of requests*[1]
Full tandem	50
Partial tandem:	
Wages	31
Health and welfare	9
Vacation, or holiday, or both	8
Pension	8
Other	6

The council's treatment of the tandem exception was one of the first issues reviewed by the Pay Advisory Committee, which recommended changes to liberalize the category. The committee advised that this exception be applied when pay-rate changes in an employee unit had been linked regularly to a survey of pay-rate changes in an identified labor market. Additionally, it recommended that "substantially equivalent over a peri-

od of years" be substituted for the stringent "exactly equal" requirement, and furthermore, that the leader-follower relationship need not be in the same company, industry, or geographical area. It also proposed that tandem exceptions be self-administered by firms, as long as the council was notified of such action. After the council adopted these principles only a few companies submitted tandem requests.

Productivity work rule changes. This exception permitted employees under collective bargaining contracts to boost productivity by modifying work rules in exchange for pay increases not exceeding the value of resulting cost reductions. Thirty-eight exception requests fell into this category. Other submissions which included some productivity-improving changes but which primarily documented an exception on other grounds were reviewed as gross inequities. Most typical of the work rule changes submitted were those which adjusted rest periods and holidays to permit continuous plant operation without penalty to the company; reduced or eliminated occupational classifications to allow greater flexibility of job assignments; and placed restrictions on job-bidding procedures to stabilize work assignments and to lower training costs. Savings were projected over the coming year, but the council made no provision to verify the savings at the conclusion of the period.

Non-COLA catchup. This category was initiated during the interim period (October 1979–March 1980) and formalized as an exception during the second program year. Its purpose was to remedy inequities that developed between employee units covered by automatic cost-of-living adjustments and those without such protection. Even before the second-year establishment of the catchup, however, the council reviewed some 35 first-year cases as gross inequities on this basis.

Because the pay standard allowed cost-of-living formulas tied to the CPI to be costed at a projected inflation rate much lower than the actual CPI increase, units with COLA provisions could receive pay increases above the guidelines and above those for units without such protection. During the first program year, COLA clauses were costed prospectively, assuming a 6-percent annual rise in the CPI; any amount generated by increases above 6 percent could be excluded for purposes of compliance. The second-year guidelines assumed 7.5-percent CPI growth. But employee units without automatic COLA provisions were fully charged for general wage increases, even if part of their pay raise was designated a "cost of living" increase but was not based on a predetermined formula.

The catchup category was designed to restore historical relationships between COLA and non-COLA units, where they had existed within a company or an area. Virtually all non-COLA catchup requests sought relief on these grounds.

Exception decisions

The council approved almost 90 percent of the submissions and granted partial approval in another 5 percent of all cases not closed administratively or withdrawn. Requests were denied in 66 situations representing the remaining 7 percent. The council closed 159 incoming requests, or 15 percent of all cases, without issuing a decision, usually because the unit consisted of fewer than 100 people. In these situations, the company was told it could self-administer the exception and advised to retain documentation of the action. Occasionally the staff advised a company that the council would not approve a request and suggested that the proposed pay increase be reduced and resubmitted, or that the submission be withdrawn, because the increase was not adequately substantiated. Employers had the right to appeal a council decision and did so in 30 of the 66 denials. Twenty of the appeals were able to demonstrate their cause and the council reversed its decision, three were again denied, two were partially approved, and five were withdrawn or administratively closed. As table 2 shows, the council approved about the same proportion of cases in both program years. Partial approvals, however, rose from 2.5 percent of all cases in the first year to almost 9 percent in the second, and denials declined from 8.5 percent to slightly more than 2 percent.

Increases requested and granted

Data on the exception amounts requested and granted and the number of employees involved within individual units were available for 503 requests—294 in the first year and 209 in the second. The amounts of the exceptions varied considerably, from less than 1 percent to more than 20 percent on a per-case basis. A useful measure of the aggregate impact of pay exceptions weights the excepted pay increases by the number of employees affected. This method shows that first-year increases requested averaged 2.1 percent over the 7-percent standard for those employees directly affected, and 1.5 percent when this amount was spread over the entire employee unit. (See table 3.)

Table 2. Exception cases by decision

Decision	First year		Second year		Total	
	Number	Percent	Number	Percent	Number	Percent
Total	684	100.0	358	100.0	1,042	100.0
Approved	505	73.8	264	73.7	769	73.8
Partially approved	17	2.5	31	8.7	48	4.6
Denied	58	8.5	8	2.2	66	6.3
Administratively closed or withdrawn	104	15.2	55	15.3	159	15.3

Table 3. Weighted average above-standard increases requested and granted in pay exception cases, and numbers of employees and cases involved

Pay exception cases	First year	Second year
Percent requested:		
For unit	1.5	2.7
For affected employees	2.1	3.1
Percent granted:		
To unit	1.1	2.4
To affected employees	1.5	2.8
Number of employees:		
In units	840,913	905,868
In affected groups	584,685	748,768
Number of cases	294	209

In some instances, amounts granted were less than amounts requested. If, for example, the information submitted indicated that a lesser increase would suffice to restore a unit's historical position, the council determined that the full amount would not be required. Thus, the average first-year exception amount granted was 1.5 percent for the employees who would directly receive the compensation increases, and about 1 percent when the money was distributed over the entire unit.

Second-year requests and amounts granted in excess of the standard were not only larger absolutely than those for the first year, but were also placed on top of a more generous 9.5-percent pay standard. Second-year amounts granted averaged 2.8 percent for affected employees and 2.4 percent for the entire unit, while amounts requested averaged 3 percent and 2.7 percent, respectively.

Submissions based on non-COLA catchup requested and were granted the largest percentage amounts for entire employee units in both program years. Acute labor shortage exceptions, however, accounted for the highest increases requested and granted for specific employees.

Information concerning the increase amounts approved apparently overstates the impact of exceptions on increases actually paid to employees, because companies did not always implement the full amount of an approved exception. The council attempted to determine if and how much of the approved increases were actually paid. This was done by checking, when possible, information submitted by companies on the PAY-1 forms. During the first program year, the council requested all companies with 10,000 or more employees to provide on these forms complete data on the average hourly cost of wages and benefits, both on a prospective basis and after actual increases were implemented. In the second year the reporting threshold was dropped to include companies with 5,000 or more workers. Thus, while company data are not available for each exception, the PAY-1 forms do indicate that companies which were granted exceptions did not always find it necessary to implement the full amount requested, or that as a result of unexpected turnover and changes in the composition of the unit, the percentage impact of increases actually granted was smaller than anticipated.

ALTHOUGH THE GENERAL philosophy of those administering and monitoring the 1978–80 voluntary pay guidelines was in keeping with the original anti-inflation objective, it soon became clear that some companies needed relief from what became an absolute standard. Thus, procedures for granting exceptions were developed. While the council received more requests for such exceptions than anticipated—about 1,000 cases covering 2 million workers—this number represented a small fraction of the pay decisions made throughout the entire economy over the same period. Companies seeking exceptions were generally large corporations which had pledged their support of the program and wished to avoid the adverse publicity given noncompliers; firms under price scrutiny; or bidders on large government contracts that required full compliance. □

FOOTNOTE

[1] Because cases might appear under more than one category, total may exceed 100 percent.