

# Wage adjustments in contracts negotiated in private industry in 1987

*Many of the measures were up slightly from the historic lows of last year; time will tell if this merely reflects the mix of industries reaching agreement, or if the declines that began in 1982 are reversing*

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Average wage adjustments under major collective bargaining settlements in private industry were somewhat higher in 1987 than the historic lows of 1986. Specified adjustments (the net effect of decisions to increase, decrease, or not change wages) for the 2,049,000 workers under 1987 settlements averaged 2.2 percent the first contract year and 2.1 percent a year over the contract term. (See table 1.) These adjustments were next to the lowest ever registered by the Bureau of Labor Statistics' 20-year-old series on major contract settlements covering 1,000 workers or more in private industry.<sup>1</sup> This was the sixth consecutive year in which settlements provided record or near-record low adjustments. (See table 2.)

The 2.1-percent average annual wage adjustment specified over the term of 1987 settlements was the same as in the contracts they replaced, which typically had been negotiated in 1984 or 1985. This is the first year since this comparison was introduced in 1981 that settlements did not call for lower adjustments than the contracts they replaced. (See table 2.)

The Bureau also measures compensation (wage and benefit costs) adjustments in settlements covering 5,000 workers or more. In 1987, compensation adjustments

averaged 3.0 percent in the first contract year and 2.6 percent annually over the contract term. (See table 3.) These adjustments also were higher than the record low averages in 1986.

## Replaced contracts

In 1987, bargainers replaced contracts that had provided total effective wage adjustments (specified adjustments plus cost-of-living adjustments) of 2.6 percent a year. About the same time that most of these contracts were in effect (between December 1983 and December 1986), the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) also rose 2.6 percent a year. Inflation, therefore, was not a prominent concern among bargainers, even though the CPI-W increased 4.5 percent during 1987, compared with 0.7 percent in 1986.

Total wage adjustments were smaller, on average, under contracts that were replaced in 1987 than under those replaced in 1986. This was the fifth consecutive year in which this occurred, reflecting recent declines in both specified wage adjustments and cost-of-living adjustments (COLA's). COLA's declined because of the slowdown in the rate of inflation in the last few years and the drop in the proportion of workers under major agreements with COLA clauses. COLA coverage fell from 57 percent at the end of 1985 to 38 percent at the end of 1987.

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**Settlements in 1987**

About 2,049,000 workers, or one-third of those covered by major agreements in private industry, were under 1987 settlements. Terms were mixed, reflecting conditions in the various industries. In some industries (for example, steel and automobile manufacturing), negotiations were influenced by competitive pressures from abroad. In others (particularly, construction and food stores), regional conditions, such as the strong economy in New England and the weak economy in the South Central States, played a dominant role.

About 1,490,000 workers had first-year wage increases

averaging 3.5 percent, 474,000 had no wage change, and the remainder suffered wage cuts averaging -8.5 percent. Subsequent increases for 259,000 workers with a first-year wage decrease or freeze will yield a net gain over the contract term. Thus, by the end of their 1987 agreements, 1,749,000 workers will receive average annual wage increases of 2.6 percent, 221,000 will experience no wage change, and the remainder will have an average decrease of -3.7 percent a year. Wage increases and freezes were negotiated in a variety of industries; cuts, however, were concentrated in retail food stores, steel manufacturing, and construction.

**Table 1. Wage adjustments in collective bargaining settlements covering 1,000 workers or more in private industry, 1987**

Measure	First year		Over life of contract		Measure	First year		Over life of contract	
	Average adjustment (percent)	Workers (thousands)	Average annual adjustment (percent)	Workers (thousands)		Average adjustment (percent)	Workers (thousands)	Average annual adjustment (percent)	Workers (thousands)
<b>All settlements</b>					<b>Continued—Settlements providing wage increases</b>				
All industries .....	2.2	2,049	2.1	2,049	With COLA, but no lump sums .....	4.0	128	3.2	135
With COLA clauses .....	2.3	920	1.5	920	With neither lump sums nor COLA ..	4.2	613	3.9	680
Without COLA clauses .....	2.1	1,129	2.5	1,129	Manufacturing .....	3.0	721	1.6	779
With lump sums .....	1.7	1,063	1.2	1,063	With COLA clauses .....	2.8	576	1.1	599
Without lump sums .....	2.7	986	3.0	986	Without COLA clauses .....	3.8	145	3.4	180
With both lump sums and COLA .....	2.1	771	1.2	771	With lump sums .....	2.7	548	1.1	592
With lump sums or COLA, or both ..	1.9	1,212	1.4	1,212	Without lump sums .....	3.8	173	3.4	187
With lump sums, but no COLA .....	.6	292	1.3	292	With both lump sums and COLA .....	2.8	523	1.0	544
With COLA, but no lump sums .....	3.1	149	2.9	149	With lump sums or COLA, or both ..	2.8	601	1.1	646
With neither lump sums nor COLA ..	2.7	837	3.0	837	With lump sums, but no COLA .....	2.6	25	1.6	47
Manufacturing .....	2.1	912	1.3	912	With COLA, but no lump sums .....	3.0	54	1.8	55
With COLA clauses .....	2.4	644	1.0	644	With neither lump sums, nor COLA ..	4.1	120	4.1	133
Without COLA clauses .....	1.3	268	2.1	268	Nonmanufacturing .....	4.0	769	3.4	970
With lump sums .....	1.9	673	.9	673	With COLA clauses .....	3.3	189	3.0	259
Without lump sums .....	2.5	239	2.6	239	Without COLA clauses .....	4.2	580	3.5	712
With both lump sums and COLA .....	2.5	579	.9	579	With lump sums .....	3.3	201	2.4	342
With lump sums or COLA, or both ..	1.9	738	.9	738	Without lump sums .....	4.2	568	3.9	628
With lump sums, but no COLA .....	-1.3	94	.3	94	With both lump sums and COLA .....	2.5	115	2.4	178
With COLA, but no lump sums .....	1.9	65	1.5	65	With lump sums or COLA, or both ..	3.6	275	2.7	422
With neither lump sums nor COLA ..	2.7	174	3.0	174	With lump sums, but no COLA .....	4.3	86	2.3	164
Nonmanufacturing .....	2.3	1,137	2.7	1,137	With COLA, but no lump sums .....	4.6	75	4.1	81
With COLA clauses .....	1.9	276	2.7	276	With neither lump sums nor COLA ..	4.2	494	3.9	548
Without COLA clauses .....	2.4	861	2.7	861	All industries, excluding construction ..	3.3	1,195	2.3	1,435
With lump sums .....	1.2	390	1.9	390	Nonmanufacturing, excluding .....	3.9	474	3.0	656
Without lump sums .....	2.8	747	3.1	747	construction .....	4.2	295	4.2	314
With both lump sums and COLA .....	.9	191	2.1	191	Construction .....	4.2	295	4.2	314
With lump sums or COLA, or both ..	1.7	475	2.3	475	Goods producing .....	3.3	1,016	2.3	1,099
With lump sums, but no COLA .....	1.5	199	1.8	199	Service producing .....	3.9	474	3.0	656
With COLA, but no lump sums .....	4.1	85	3.9	85	<b>Settlements providing wage decreases</b>				
With neither lump sums nor COLA ..	2.7	662	3.0	662	All industries .....	-8.5	85	-3.7	79
All industries, excluding construction ..	2.0	1,662	1.8	1,662	With COLA clauses .....	-7.9	20	-2.2	20
Nonmanufacturing, excluding .....	1.9	750	2.5	750	Without COLA clauses .....	-8.7	65	-4.2	59
construction .....	2.9	387	3.1	387	With lump sums .....	-8.4	45	-2.5	45
Construction .....	2.3	1,299	1.8	1,299	Without lump sums .....	-8.7	41	-5.2	34
Goods producing .....	2.3	1,299	1.8	1,299	Manufacturing .....	-8.0	32	-2.1	32
Service producing .....	1.9	750	2.5	750	Nonmanufacturing .....	-8.8	53	-4.8	47
<b>Settlements providing wage increases</b>					All industries, excluding construction ..	-8.2	76	-2.7	70
All industries .....	3.5	1,490	2.6	1,749	Nonmanufacturing, excluding .....	-8.4	44	-3.2	38
With COLA clauses .....	2.9	766	1.7	858	construction .....	-11.1	9	-11.6	9
Without COLA clauses .....	4.1	724	3.5	891	Construction .....	-8.7	41	-4.2	41
With lump sums .....	2.9	748	1.5	934	Goods producing .....	-8.7	41	-4.2	41
Without lump sums .....	4.1	742	3.8	815	Service producing .....	-8.4	44	-3.2	38
With both lump sums and COLA .....	2.7	637	1.4	722					
With lump sums or COLA, or both ..	3.0	876	1.7	1,069					
With lump sums, but no COLA .....	3.9	111	2.1	211					

## Lump-sum payments

Contracts covering 1,063,000 workers, or 52 percent of the total, provided lump-sum payments. (See table 1.) Such payments are typically made instead of, or to supplement, wage increases, or are used to offset wage cuts. Lump-sum payments are excluded from the adjustment data in the major collective bargaining series. Wage adjustments for workers under settlements providing lump-sum payments averaged 1.2 percent annually over the contract term, compared with 3 percent under settlements without lump sums. About nine-tenths of the workers with the provision in their 1987 settlements also will receive wage increases over the contract term. Lump sums were negotiated in a variety of industries, but were found primarily in automobile manufacturing, retail food stores, and trucking.

## COLA clauses

Settlements with COLA clauses covered 920,000 workers, or 45 percent of those under 1987 settlements. COLA's are designed to adjust wages based on changes in consumer prices. The amount of the adjustment depends on the formula used to link price and wage changes, the timing of COLA reviews, and possible limitations on the amount of COLA changes. Generally, COLA's do not recover the full amount of the percentage change in prices.

Almost all of the COLA clauses use the U.S. city average CPI-W to adjust wages; only a few use the CPI for a locality. The most common clause calls for a 1-cent wage increase for each 0.3-point or 0.26-point increase in the index, and for quarterly reviews of price change.

Potential wage changes resulting from COLA clauses that depend on future changes in the CPI, unknown at the time of settlement, are excluded from settlement data. Wage changes from COLA's are included in the "effective wage adjustments" data. "Guaranteed," or minimum, COLA payments specified in the contract are included in settlement data, but such payments are not considered COLA's because they are determined at the time the contract is reached and do not depend on the movement

**Table 3. Average compensation (wage and benefit costs) adjustments in settlements covering 5,000 workers or more in private industry, 1987**

Industry	First year adjustment (percent)	Annual adjustment over life of contract (percent)	Workers (thousands)
All Industries .....	3.0	2.6	1,316
With COLA clauses .....	3.2	2.3	778
Without COLA clauses .....	2.7	2.9	537
Manufacturing .....	3.1	2.1	705
With COLA clauses .....	3.4	2.0	546
Without COLA clauses .....	2.1	2.3	159
Nonmanufacturing .....	2.9	3.1	611
With COLA clauses .....	2.7	3.2	232
Without COLA clauses .....	3.0	3.1	379
All industries, excluding construction .....	2.8	2.3	1,195
Nonmanufacturing, excluding construction .....	2.4	2.7	490
Construction .....	4.9	4.6	121
Goods producing .....	3.4	2.4	826
Service producing .....	2.4	2.7	490

of a price index. Payments above the specified amount that are contingent on changes in the CPI, however, are treated as COLA's.

Wage adjustments averaged 1.5 percent annually over the contract term in settlements with COLA clauses, compared with 2.5 percent in settlements without. COLA clauses were found in a variety of industries, but were most prominent in transportation equipment manufacturing.

COLA clauses were dropped or suspended in settlements covering 79,000 workers (57,000 of them were in the steel industry), or 8 percent of the workers under 1987 settlements who had such clauses in their previous agreements. In contrast, only 5,200 workers had COLA clauses established during the year. These developments contributed to lowering the proportion of workers under major private industry bargaining agreements with COLA clauses from 40 percent at the end of 1986 to 38 percent at the end of 1987.

COLA clauses and lump-sum pay provisions applied to substantially larger proportions of manufacturing than of nonmanufacturing workers under 1987 settlements. In manufacturing, seven-tenths of the workers were covered by COLA's and three-fourths by settlements calling for lump-sum payments; in nonmanufacturing, corresponding proportions were one-fourth and one-third. Specified wage adjustments (excluding COLA's and lump sums) over the contract term averaged 1.2 percent annually in manufacturing, compared with 2.7 percent in nonmanufacturing.

## Back- and front-loaded contracts

Contracts which call for lower specified wage adjustments in the first year than in subsequent years (back-loaded contracts) covered about 26 percent of the 2,049,000 workers under 1987 settlements. This cost-

**Table 2. Specified average wage adjustments in private industry settlements reached in 1982-87 and in previous agreements**

[In percent]

Year	Settlements reached in year		Previous agreement	
	First year	Over-the-life	First year	Over-the-life
1982 .....	3.8	3.6	8.5	6.6
1983 .....	2.6	2.8	9.3	6.8
1984 .....	2.4	2.4	5.9	4.9
1985 .....	2.3	2.7	3.9	3.7
1986 .....	1.2	1.8	3.5	3.2
1987 .....	2.2	2.1	2.0	2.1

curbing practice of delaying wage increases was rare in multiyear settlements reached before 1983.

Back-loaded settlements provided wage adjustments averaging 0.1 percent in the first contract year and 2.3 percent annually over their term. Of the 532,000 workers under back-loaded contracts, 252,000 had wage freezes in the first contract year; 201,000 received smaller increases in the first year than in following years; and the remainder had wage cuts in the first year, but no additional decreases over the term of their multiyear agreements. The largest numbers of workers under back-loaded contracts were in construction and retail food stores.

About 55 percent of the workers under 1987 settlements were covered by front-loaded contracts (those with larger wage adjustments in the first contract year than in later years). Wage adjustments in these contracts averaged 3.6 percent in the first year and 2.3 percent a year over the life of the contract. Nearly one-half of the workers under front-loaded settlements were in transportation equipment manufacturing.

The remaining workers under 1987 settlements were covered either by 1-year agreements or multiyear contracts providing equal wage adjustments each year.

### Major negotiations

Following are descriptions of 1987 settlements that covered the largest number of workers.<sup>2</sup> These were in transportation equipment manufacturing, construction, retail food stores, United Parcel Service, and primary metal manufacturing.

**Transportation equipment.** Approximately 574,000 workers were covered by 27 settlements reached in 1987 in the transportation equipment manufacturing industry. They accounted for almost two-thirds of the workers under settlements in manufacturing. The United Automobile Workers settled with Ford Motor Co. in late September for 104,000 workers, and with General Motors in early October for 335,000 workers. These two contracts covered more than three-fourths of the workers under 1987 settlements in the industry. Most of the remaining workers were under settlements between the United Automobile Workers and Rockwell International Corp.'s Aerospace Group, McDonnell Douglas Corp., General Dynamics, and other aerospace manufacturing firms; and between the United Steelworkers and Newport News Shipbuilding and Drydock Co.

The 3-year pacts negotiated at General Motors and Ford provided an immediate 3-percent general wage increase, as well as lump-sum "performance bonuses" in 1988 and 1989 equal to 3 percent of the prior year's earnings. The contracts retained the COLA formula, which provided quarterly adjustments of 1 cent for each 0.26-point movement in the CPI.

Overall, wage adjustments in transportation equipment settlements averaged 2.3 percent in the first contract year and 0.9 percent annually over their term. More than nine-tenths of the workers under these settlements are covered by contracts containing either lump-sum provisions or COLA clauses, or both.

**Construction.** Wage adjustments under settlements in the construction industry (covering nearly one-fifth of the workers under all 1987 settlements), averaged 2.9 percent in the first contract year and 3.1 percent annually over the contract term, and were higher than in all other industries. None of the settlements had lump-sum provisions, and only a few had COLA clauses. Reflecting improved economic conditions in some areas, the average settlement specified larger wage adjustments than the contract it replaced, in which specified adjustments averaged 2.0 percent in the first year and 2.4 percent a year over the term.

The size of settlements reflected the role of local economic conditions in the industry's negotiations. The largest increases were negotiated in New England and the Middle Atlantic States, while wage cuts were negotiated in the economically depressed South Central region. The following tabulation shows the average wage adjustment (in percent) negotiated in the construction industry in 1987, by region:

	First year	Annually, over life of contract
All 1987 construction settlements.....	2.9	3.1
Northeast.....	5.0	5.3
New England.....	5.5	5.5
Middle Atlantic.....	4.8	5.2
Midwest.....	2.4	2.5
East North Central.....	2.5	2.6
West North Central.....	1.4	1.5
South.....	-1.1	-0.9
South Atlantic.....	2.3	2.9
South Central.....	-4.5	-4.7
West.....	1.4	1.6
Mountain.....	.7	.7
Pacific.....	1.7	2.0
Interregional.....	.2	.2

The size of settlements also varied by type of construction. Annual wage adjustments over the life of the contract averaged 3.7 percent in general building construction, 3.0 percent in special trades, and 2.2 percent in general construction, other than building.

**Retail food stores.** The 1987 settlements negotiated in food stores specified lower average wage adjustments than the contracts they replaced. Adjustments averaged 0.5 percent in the first contract year and 1.6 percent annually over the life of the agreement, compared with

corresponding averages of 2.1 percent and 1.3 percent the last time the parties bargained. The 1987 settlements covered 188,000 food store workers, or two-fifths of those under major agreements in the industry.

Almost 50,000 workers had their wages cut or frozen under terms of their 1987 settlements. However, almost three-fourths of these workers will receive lump-sum payments either to offset all or part of the cuts, or instead of wage increases.

Overall, contracts for two-thirds of the workers covered by 1987 settlements provide for lump-sum payments. Contracts with lump-sum provisions call for smaller wage adjustments over their terms (1.1 percent) than those without (2.6 percent).

*United Parcel Service.* About 110,000 United Parcel Service employees represented by the Teamsters reached a 3-year national accord in 1987. An identical settlement for 4,800 workers in Illinois and Indiana was negotiated separately at the same time.

The United Parcel Service pacts provided wage increases of 30 cents an hour on August 1 of 1987, 1988, and 1989, as well as lump-sum payments of \$1,000 for full-time workers and \$500 for part-time workers on September 1, 1987, and December 1 of 1988 and 1989. A COLA clause was continued unchanged; it provides annual adjustments when the formula yields pay increases that exceed the guaranteed pay hikes plus increased payments for health and welfare benefits.

The settlement also phased out the "two-tier" wage scales established by previous contracts, so that all employees can reach the same maximum job rates. However, the new wage schedule lengthened the period required for new hires to progress through the rate structure.

*Primary metals.* The 1987 settlements in the primary metals industry (covering almost 60,000 steel and aluminum workers) continued the pattern of wage cuts or freezes that began in 1983. The 1987 settlements provided average wage adjustments of -3.2 percent in the

first year and -0.8 percent a year over the term of the agreements.

Prior to 1986, the largest steel companies bargained with the United Steelworkers of America as a coalition. The last round of talks saw the breakup of the coordinated bargaining practice. The Steelworkers and most of the large steel companies reached agreements in 1986. However, there were 1987 settlements for three large companies—USX Corp. (formerly U.S. Steel) in January, Allegheny Ludlum Industries, Inc., in March, and LTV Steel Corp. in September—and two smaller companies.

After a 6-month work stoppage, USX Corp. and the Steelworkers agreed to wage and benefit cuts. Part, and possibly all, of the cuts, however, could be offset by a new profit-sharing plan.

Negotiations concluded at Allegheny Ludlum yielded no wage changes, but provided quarterly lump-sum payments (based on hours worked) and a \$200 "contract signing" payment.

LTV Steel, after seeking a bankruptcy reorganization under Chapter 11, renegotiated its 1986 agreement with the Steelworkers. The new contract froze wages and benefits for active employees, but restored pension payments which were discontinued after the bankruptcy filing.

Contracts for almost half the workers covered by 1987 settlements in primary metals included provisions for lump-sum payments. Some workers will receive specified amounts. For others, payments will be based on time worked or tied to company profits. Four steel contracts suspended their COLA clauses for the term of the agreement, but kept the contract language intact. The one settlement in aluminum continued the COLA clause, consistent with other contracts in the industry.

### Wage adjustments effective in 1987

Wage adjustments put into effect in 1987 averaged 3.1 percent for the 6.3 million workers under major agreements. Although higher than the record low 2.3 percent registered in 1986, this was next to the lowest average effective adjustment in the 20-year history of this series. The increase in the average effective adjustment in 1987 stemmed from higher adjustments in each of its three components: (1) settlements reached during the year, (2) deferred changes made under agreements reached prior to 1987, and (3) COLA provisions. (See table 4.)

Wage changes (increases and decreases) put into effect in 1987 averaged 3.6 percent for the 5.4 million workers who received them. All but 2 percent of those with wage changes had wage increases. The following tabulation shows the number of workers with wage changes effective in 1987 and the source and amount of the change:

**Table 4. Average effective wage adjustment in collective bargaining agreements covering 1,000 workers or more, 1979-87**  
[In percent]

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
1986 .....	2.3	.5	1.7	.2
1987 .....	3.1	.7	1.8	.5

	<i>Workers (thousands)</i>	<i>Amount of change (percent)</i>
Total .....	5,376	3.6
Increases .....	5,281	3.8
From 1987 settlements....	1,535	3.5
Deferred from prior agreements .....	3,537	3.3
From COLA .....	1,277	2.6
Decreases .....	96	-7.9
From 1987 settlements....	85	-8.6
Deferred from prior agreements .....	10	-4.1
From COLA .....	0	.....

Some workers received pay changes from more than one source; thus, the sum of the number of workers receiving wage changes from each source does not equal the total.

Of the 2,077,000 workers who had cost-of-living reviews in 1987, 1,277,000 received average COLA increases of 2.6 percent. Reviews for the rest of the workers yielded no wage change because the CPI did not change enough to produce one. Wage adjustments stemming from COLA reviews in 1987 averaged 43 percent of the price change during COLA review periods.

Effective wage adjustments in major collective bargaining agreements are reflected in the Bureau's Employment Cost Index, which provides data on changes in

labor costs for both union and nonunion workers and in establishments of all employment sizes. During 1987, wages rose 2.6 percent for union workers, compared with 3.6 percent for nonunion workers, continuing a relationship that began in 1983.

MANY OF THE WAGE ADJUSTMENT STATISTICS for collective bargaining agreements in 1987 show slight increases over historic lows recorded a year earlier. The differences between 1987 and 1986 averages were small, however, and 1987 adjustments were frequently lower than those observed for 1985. Furthermore, the settlement data reflect the changing mix of industries and firms that reach agreements each year. Therefore, more time must pass before it would be appropriate to assess whether the decline in the size of settlements that began in 1982 was reversed or even halted in 1987. □

—FOOTNOTES—

<sup>1</sup>The major collective bargaining agreement series for private industry covers 6.3 million workers in bargaining units with at least 1,000 workers. For definition of terms, see "Current Labor Statistics" section of the *Monthly Labor Review*. Additional tabulations from this series are in the March 1988 issue of the Bureau of Labor Statistics periodical *Current Wage Developments*, which also contains data from a similar series for State and local government.

<sup>2</sup>For more detailed information on 1987 bargaining developments, see George Ruben, "A review of collective bargaining in 1987," *Monthly Labor Review*, January 1988, pp. 24-37.