Meatpacking. 7 In the late 1950s and early 1960s, the U.S. meatpacking industry experienced far-reaching structural changes that resulted in plant closings and massive layoffs and modern facilities and marketing networks. The meatpacking firms and unions reached three-year agreements in 1961. While containing wage and benefit improvements, these agreements did not provide as much wage escalation as earlier contracts. In 1962 and 1963, Armour, Swift, and other firms sought to reopen the contract to take downward adjustments in unit costs at many plants. Two unions accepted pay cuts, wage freezes, and/or lesser scheduled increases at a large number of plants, in addition to significant work-rule changes; in return, management promised not to close any plants. A third union refused to accept any concession, and negotiations, which were characterized by a willingness on the part of trade unionists to accept more healthy firms and industries.

The recent measured rate of wage depression has not, thus far, been dissimilar to the post-1973–75 recession experience. Yet, the seeds are now being sown by declines in price inflation for a more long-lasting slowdown in wage inflation than normal cyclical effects would suggest. Concessionary agreements are symbolic of this process and of the market problems that have developed in key industries.

Union wage concessions are, of course, part of the much larger world of wage setting and labor economics as a whole, as determined by economic conditions (e.g., unemployment and inflation), worker attributes (e.g., skill levels and demographic characteristics), and labor market structure (e.g., seniority systems). Because these factors are translated into wages with considerable lag, it is difficult to determine

* Federal Reserve Bank of Cleveland

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**Union Wage Concessions**

by Daniel A. Littman

I figured it's going to save jobs. It was like a do-or-die situation. If I didn't get that contract, I'd probably still be working, but two years from now, I probably wouldn't be. 1

During the past several months, the climate of U.S. industrial relations has been characterized by widespread acceptance of wage concessions. While the incidence of union wage concessions is not of the Federal Reserve Bank of Cleveland


2. The Teamsters' contract includes COLA. Daniel A. Littman is an economic analyst with the Federal Reserve Bank of Cleveland.

what extent the current labor-cost slowdown (shown in chart 1) is attributable to economic factors or to the wage-setting process itself. Much of the recent discussion of wage concessions has focused on the possibility that fundamental changes in the wage-setting process and labor relations are taking place. Some analysts interpret the concessions as a move toward increased mutual cooperation and away from an unproductive adversarial relationship; others view it as part of an erosion of union power. Still others say the recent concessions are a temporary deviation, arising from financial crises and recession and acting within a traditional bargaining framework. Yet, most analysts believe that the concessions are of far-reaching significance to U.S. unions. This Economic Commentary discusses the current union concessions and questions whether they represent long-term changes in the union-management relationship.

Financially Weak Firms

In examining union settlements in several recent years—1975, 1976, and 1979 through 1981—58 contracts were identified that incorporated wage and other concessions involving financially weak firms in 16 major industries. In all 58 cases, management apparently convinced workers that the financial condition and market position of their respective firms warranted wage concessions to prevent mass layoffs and plant closings and to assure firm survival. On the union side, the agreements called for (in descending frequency of occurrence), wage freezes, wage cut work-rule changes, cancellation of paid holidays, or scheduled bonus payments, liquidation of Supplemental Unemployment Benefit (SUB) funds, and elimination of certain other fringe benefits. The union concessions usually resulted in immediate cash flow improve- ments for the firms involved and reduced, but the com- promise nature of collective bargaining seems to have required the extension of some nongrant concession commitments in return. Examples include profit sharing, prior notice and temporary cessation of facility shut- downs, and elimination of layoffs. Historically, most concessions have been firm-plant-specific agreements with little immediate impact on wage settlements in the industry to which each affected firm belongs. Every industry, without regard to financial or structural conditions in the industry as a whole, inevitably contains some financially weak firms, and concessions made to such weak firms typically do not spread to the relatively healthy firms in the industry.

Industry-Wide Concessions

Industry-wide concessions affect substantial portions of the firms and workers in a given industry. Such contracts are uncommon and com- paratively rare, although, like firm-specific agreements, they have been associated with financial distress. Unlike most firm-specific concessions, they also are associated with industries experiencing significant structural upheaval. Since 1945, substantial and broad- based union wage concessions have been negotiated in eight U.S. industries—textiles, meatpacking, shoes, newspapers, construction, motor vehicles, trucking, and pas- senger airlines. In this Commentary, the significance and impact of these concessions are examined by comparing two earlier episodes with two current ones.

Textiles

In the early 1950s the textile industry found itself with considerable ex- cess capacity, resulting from import competition, technological advances, poor export market, and the increasing use of synthetic fibers. While these factors affected producers in all regions of the United States, the problems were especially severe in New England, where relatively high unit costs of production prevailed. Given these conditions, the labor-intensive textile industry turned to negotiations for substantial production cost relief. Management wage cut requests at American Woolen Mills, Wyandott Worsted, and several other companies were met by union resistance and strikes. A federal arbitrator, summoned by unions and management, bound the parties to a compromise to an extent—per a pattern that rapidly spread throughout much of the industry, particularly in New England. In return for these wage cuts, management agreed to implement an improved job security, cessation of plant closings, and future reinstatement of foregone wages. Thereafter, the textile industry avoided the spillover effects of this contract provisions to other industries, even such a closely related one as apparel.

Despite the contract concessions and other short-term responses to adverse con- ditions, the domestic textile industry continued to decline at a rapid pace through the mid-1960s. Yet, concessionary bargaining did not recur to any significant degree. It may be supposed that union resistance played a role, as did the continued and extensive structural change of the industry—financially weak firms closed, while healthier firms adapted and diversified.

Motor Vehicles

The underpinnings of structural change and financial distress in the U.S. auto industry include import competition, wage and other cost differen- tials, outsourced production facilities, and a succeeding proliferation of lower fuel costs. The industry’s problems have been exacerbated by back-to-back recessions and high domestic interest rates. All U.S. auto manufacturers, supply chain participants, and financial institutions historically have faced supply and demand imbalances and short-term responses to adverse market conditions, wage and other cost differentials, and financial distress. Unlike most concession agreements that involve repetition, the agreements in this Commentary are unique and specific.

Motor Vehicles and Their Impact

The UAW contract is clearly more complex and technical than in many other contracts, yet they are essentially quite similar—trading future wage increases for enhanced job and income security (see box). Although the Ford and General Motors contracts have essentially similar terms and conditions, wage and other cost differentials, outsourced production facilities, and the long-term effects of reduced fuel costs, the agreements have been negotiated separately and many of the union-supplied gains are not to carry forward. Each company has its own unique set of bargaining objectives. It is difficult to predict exactly what impact each company’s actions will have on the other. Consequently, the UAW’s bargaining tactics and the Ford and General Motors’ response to the UAW’s proposals will play an important role in determining the outcome of the negotiations. The UAW’s bargaining tactics are aimed at securing a package of wage and benefit increases that is fair to both the UAW and the companies. The companies, on the other hand, are trying to maintain their profitability and competitiveness in a highly competitive global market. The outcome of these negotiations will have a significant impact on the future of the U.S. auto industry and its workers.
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Financially Weak Firms

In examining union settlements in several recent years—1975, 1976, and 1979 through 1981—58 contracts were identified that incorporated wage and other concessions involving financially weak firms in 16 major industries.

5. In all 58 cases, management apparently convinced workers that the financial condition and market position of their respective firms warranted wage concessions to prevent mass layoffs and plant closings and to assure firm survival. On the union side, the agreements called for (in descending order of frequency) wage freezes, wage cuts, work-rule changes, cancellation of paid holidays or scheduled bonus payments, liquidation of Supplemental Unemployment Benefit (SUB) funds, and elimination of certain other fringe benefits. The union concessions usually resulted in immediate cash-flow improvements for the firms involved and, while the compro mise nature of collective bargaining seems unusual in financially weak firms in 16 major industries, it is in line with the overall pattern of wage concessions in 1981-82 contracts identified that incorporated wage and other concessions to firms in which wage changes are accompanied by roughly equivalent increases in benefits.

4. The analysis of collective bargaining concessions is handicapped by the lack of appropriate statistical data. To obtain a more comprehensive picture, the Major Collective Bargaining Settlements compiled by the Bureau of Labor Statistics were used. These data cover only those contracts involving 1,000 or more workers and do not include contract reopeners or deviations from master contracts. Moreover, many bargaining agreements have occurred as reopeners or deviations from master contracts, and in bargaining units containing more than 1,000 workers. Thus, wage and other concessions most likely represent only a description (e.g., specimen contracts) of the agreements reached, supported where possible by Bureau of Labor Statistics and other quantitative data.

There are also difficulties in formulating a workable definition of concessions, defined here as the surrender by union workers of future income sacrificed either through pay cuts or freezes, COLA modifications, or the elimination of paid holidays or other provisions.

In Three Recessions

The years 1977 and 1978 were excluded from the current analysis because relatively low levels of concessionary bargaining seem to have resulted in immediate cash-flow improvements for the firms involved. The 1960s, including 1960, 1961, and 1962, were not included in this study because (i) the recent Ford/United Auto Workers (UAW) contract is clearly more complex and technical than in many other contracts, yet they are essentially quite similar—trading future wage increases for enhanced job and income security (see box). Although the Ford and General Motors contracts are viewed as unusual problems, with the contingency of a possible strike and increased company payments to worker health! Incentive payments and increased company payments to worker union and other workers, it is difficult to attribute them to pattern bargaining (i.e., bargaining based on precedent) rather than financial and structural difficulties in those industries.

Trucking and Warehousing

The U.S. trucking industry is facing difficult times, stemming from route deregulation and the recent market downturn. Trucking companies are facing increased competition, wage and other cost differentials, output level, productivity factors, and resulted accelerated growth of nonunion carriers. The industry’s problems have been exacerbated by back-to-back recessions and high domestic interest rates. All U.S. auto manufacturers are facing increased cost pressures, unionized and nonunion, and are forced to make cost savings in order to remain competitive. Wide-spread concessions probably will not occur, despite increased cost savings, because of the concentration of strategies to survive the current crisis—import barriers, asset sales, debt repugnification, government loan guarantees, and union concessions. The significant concessions of the recent Ford/United Auto Workers (UAW) contract are clearly more complex and technical than in many other contracts, yet they are essentially quite similar—trading future wage increases for enhanced job and income security (see box).
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This Economic Commentary discusses the current union concessions and questions whether they represent long-term changes in the union-management relationship.

Financially Weak Firms

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4. The analysis of collective-bargaining concessions is handicapped by the lack of appropriate statistical data. Nevertheless, a comprehensive survey of Major Collective-Bargaining Settlements compiled by the Bureau of Labor Statistics is the best source. These data cover only the 500 or more bargaining units of 1,000 or more employees, and do not include contract reopeners or deviations from master contracts. There have been (and remain) many such reopeners, but their data have occurred as reopeners or deviations from master contracts, and in bargaining units containing fewer than 1,000 workers. Thus, the concessions analyzed rely primarily on descriptive evidence (e.g., specimen contracts, bargaining statements, and collective-bargaining agreements) rather than quantitative data. There are also difficulties in formulating a workable definition of concession, defined here as the surrender of union working conditions by the union. The survey included changes in such factors as pay cuts, layoffs, and temporary cessation of facility shutting, and agreements to pay overtime in lieu of shift premiums. Other changes excluded are those of a contractual nature: nominal wage increases, changes in holidays, changes in health and welfare benefits, and other such agreements.

Involving financially weak firms in 16 major industries. In all 58 cases, management apparently convinced workers that the financial condition and market position of their respective firms warranted concessions to prevent massive layoffs and plant closings, and to assure firm survival. On the union side, the agreements called for (in descending frequency order) wage freezes, wage cuts, work-rule changes, cancellation of paid holidays or scheduled bonus payments, liquidation of Supplemental Unemployment Benefit (SUB) funds, and elimination of certain other fringe benefits. The union concessions usually resulted in immediate cash flow improvements for the firms involved and reduced, but the complex nature of collective bargaining seems to have required the extension of some onetime wage concessions in return. Examples include profit sharing, prior notice and temporary cessation of facility shutting, and work-rule changes.

Historically, most concessions have been firm- or plant-specific episodes with little immediate impact on wage settlements in the industry to which each affected firm belongs. Every industry, without regard to financial or structural difficulties, experienced some wage concessions as a whole, it inevitably contains some financially weak firms, and concessions made to such weak firms typically do not spread to the relatively healthy firms in the industry.

Industry-Wide Concessions

Industry-wide concessions affect substantial portions of the firms and workers in a given industry. Such conditions are particularly rare, although, like firm-specific episodes, they have been associated with financial distress. Unlike most firm-specific concessions, they also are associated with industries experiencing significant structural upheaval. Since 1945, substantial and broad-based union wage concessions have been negotiated in eight U.S. industries—textiles, steel, shipbuilding, coal, newspapers, construction, motor vehicles, and trucking—collectively affecting about 1,000,000 workers. These concessions have been given prominence on descriptive evidence (e.g., specimen contracts, bargaining statements, and collective-bargaining agreements), rather than statistical evidence.

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been incorporated in the Master Freight Agreement, a pattern-setting master contract that covers 300,000 workers (see box). Here again, future earnings have been used as a basis for job evaluation contracts.

Meatpacking. In the late 1950s and early 1960s, the U.S. meatpacking industry faced growing structural changes that resulted in financial problems at many large, unionized firms. Financial problems were especially evident at the "Big Four"—Swift, Armour, Wilson, and Cudahy—which at one time had dominated the industry. A large increase in the number of meatpacking firms that had occurred, especially among the difficult-to-organize small plants, was worsened by the fact that industry expansion took place in regions characterized by low wages, low unionization, and low organic growth prospects. On the management side, meatpacking's Big Four had failed to keep up with the technological change and regional shifts in the industry and were saddled with costly, inefficient production facilities and marketing networks.

The meatpacking firms and unions reached three-year agreements in 1961. While containing wage and benefit improvements, these agreements did not provide as much financial relief as earlier contracts. In 1962 and 1963, Armour, Swift, and several other firms sought to reopen the contracts to take downward adjustments in unit costs at many plants. Two unions accepted pay cuts, wage freezes, and/or less-scheduled increases at a large number of plants, in addition to significant work-rule changes; in return, management promised not to close any plants. A third union rejected concession proposals, which resulted in plant closings and massive layoffs at several Armour and Swift plants. As in textiles, the meatpacking settlements did not seem to establish a pattern for more modern unionization and nonunionized meatpacking plants, even within Armour and Swift. The Big Four and other unionized meatpacking firms continued to experience financial difficulties and had to make severe adjustments in order to survive.

Organizing prospects. On the management side, meatpacking's Big Four—which at one time had dominated the industry—had experienced far-reaching structural changes at one time. As the industry has become increasingly nonunion, which in part explains the absence of widespread concessions since the early 1960s.

Union-Management Relations. It would be difficult to argue that the recent union wage concessions represent a fundamental change in union-management relations. Long-term staggered contracts and escalator clauses are no longer being abandoned, and industries are not facing imminent crises that are not reacting to the concessions.

Further, the concessions can be viewed as just one response to financial distress, often accompanied by other short-term cost-saving measures. Concessions, in themselves, are clearly inadequate to influence the direction of union-management relations. Alternatively, union wage concessions could be interpreted as reflecting fundamental changes in labor relations. For this to be true, changes would have to be present in a variety of areas: contract bargaining (e.g., the no-strike clause in steel); union participation in firm investment decisions (e.g., European codetermination experiments); incentive mechanisms (e.g., gain sharing); and workplace relations (e.g., quality circles).

Despite these changes, some of these changes are occurring, but they have yet to become widespread. The real significance of such changes remains an open question—do they represent fundamental shifts?

U.S. labor relations are continually evolving and adapting to new conditions, and they encompass diverse industries, unions, and bargaining relationships. Viewed in this context, union wage concessions do not seem to have accelerated the pace of change. Indeed, one indication that the traditional bargaining framework has prevailed is that wage concessions have been exacted in return for typical bread-and-butter contract changes—job security, strengthened seniority rights, and layoff protection.

Conclusion. Although union concessions of 1981 and 1982 are not without precedent, they will affect a larger number of workers than in any previous episode. While the incidence of union wage concessions is increasing, it will have less effect on overall wage and inflation rates than in past years. The real significance of union wage concessions since the early 1960s.

Union Wage Concessions by Daniel A. Littman

I figured it's going to save jobs. It was like a do-or-die situation. If we didn't get that contract, I'd probably still be working, but two years from now, I probably wouldn't be.

During the past several months, the climate of U.S. industrial relations has been characterized by an increasing willingness of unions to make significant wage, fringe-benefit, and work-rule concessions. Unions have agreed to cost-saving measures at such major employers as General Motors, International Harvester, Armour, Uniroyal, and Pirelli, among others. Many of these concessions were negotiated in regions with unusually high unemployment and in industries that had been experiencing severe economic hardships in the early 1980s.

Some portion of the unionized labor force has accepted temporary pay cuts or freezes for the first time in history. While the incidence of union wage concessions varies widely, union wage concessions have been accompanied by a variety of other contract modifications (e.g., increased benefits or job security) in trade for wage and benefit reductions. The recent concessions are symbolic of that major collective-bargaining agreements settled in the last 28 years, an annual average of 185,000 workers (or 4.5 percent of unionized workers) agreed to cost-cutting concessions. While wage concessions have occurred with some regularity in the postwar period, they seem to be considerably more widespread in 1982; the recent automobile, trucking, and airline concessions could affect over 1 million workers. In marked contrast to previous experience, the 1982 concessions are occurring in high-wage industries, strengthening the view that something unusual is taking place with respect to wage inflation.


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June 28, 1982

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been incorporated in the Master Freight Agreement, a pattern-setting master contract that covers 300,000 workers (see box). Here again, future earnings have been held down for such workers in order to cope with the underlying structural changes in the industry. Many firms diversified into other areas of food processing or specialized in later stages of the meatpacking process and, at the same time, pursued economies of scale and adaptation to new conditions. The industry as a whole has become increasingly nonunion, which in part explains the absence of widespread concessions since the early 1960s.

Union-Management Relations

It would be difficult to argue that the recent union wage concessions represent a fundamental change in union-management relations. Long-term staggered contracts and escalator clauses are not being abandoned, and industries that are not facing imminent crises are not reacting to the concessions. Further, the concessions can be viewed as just one response to financial distress, often accompanied by other short-term cost-saving measures. Concessions, in themselves, are clearly inadequate to influence the direction of union-management relations. Alternatively, union wage concessions could be interpreted as reflecting fundamental changes in labor relations. For this to be true, changes would have to be present in a variety of areas: contract bargaining (e.g., the non-strike clause in steel); union participation in firm investment decisions (e.g., European codetermination experiments); incentive mechanisms (e.g., gain sharing); and/or workplace relations (e.g., quality circles). Undoubtedly, some of these changes are occurring, but they have yet to become widespread. The real significance of such changes can be an open question—do they represent fundamental shifts?

U.S. labor relations are continually evolving and adapting in response to new conditions, and they encompass diverse industries, unions, and bargaining relationships. Viewed in this context, union wage concessions do not seem to have accelerated the pace of fundamental change. Indeed, one indication that the traditional bargaining framework has prevailed is that wage concessions have been exacted in return for typical bread-and-butter contract changes—job security, strengthened seniority rights, and layoff protection.

Conclusion

Although the union concessions of 1981 and 1982 are not without precedent, they will affect a larger number of workers than in any previous episode. While the incidence of union wage concessions is of special concern, the resulting changes are characterized by long-term impact on the U.S. economy. However, those who would look to changes in the union-management relationship as a driving force may have disappointed. A long-term impact on wage inflation would have to come from changes in economic and market conditions, worker productivity, and labor market structures. The recent reported rate of wage deceleration has not, so far, been dissimilar from the post-1973 recession experience. Yet, the seeds are now being sown by declines in price inflation for a more long-lasting slowdown in wage inflation than normal cyclical effects would suggest. Concession contracts are symbolic of that process and of the market problems that have developed in key industries.

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During the past several months, the climate of U.S. industrial relations has been characterized by short-term, do-or-die concessions. While many unionized meatpacking firms have agreed to wage concessions to make significant wage, fringe-benefit, and work-rule concessions. Unions have been more willing to make wage and non-wage concessions at such major employers as General Motors, International Harvester, Armour, Unirroyal, and Packard. The 12,000 members of the International Brotherhood of Teamsters accepted an indefinite pay freeze in negotiations with Trucking Management, Inc., and the Chicago Regional Trucking Association.2 While wage concessions have been occurring with some regularity in the postwar period, they seem to be considerably more widespread in 1982, the recent automobile, trucking, and airline concessions eventually could affect over 1 million workers. In marked contrast to previous experience, the 1982 concessions are occurring in high-wage industries, strengthening the view that something unusual is taking place with respect to wage inflation.

1. James Hoepner, an employee of A.O. Smith Corp., Milwaukee, Wl, describing his reasons for accepting a contract, "viewed it as a do-or-die situation. If we didn't get that contract, I'd probably still be working, but two years from now, I probably wouldn't be."

2. The Teamsters' contract includes COLA.

Some portion of the unionized labor force has accepted temporary pay cuts or freezes in return for job security and other short-term cost-saving measures. Though wage concessions may be classified as concessions, they more accurately could be viewed as an indication of union willingness to accept non-wage concessions (e.g., modifications in work rules, incentives) instead of wage concessions. The view that concessions are occurring in high-wage industries, strengthening the view that something unusual is taking place with respect to wage inflation.

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Daniel A. Littman is an economist with the Federal Reserve Bank of Cleveland.

The view stated herein are those of the author and not of the Federal Reserve Bank of Cleveland or the Board of Governors of the Federal Reserve System.

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