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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 we 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 a willingness on the part of trade 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 Pan American Airlines. Early in 1982, 335,000 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 occurred 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 Hoeppner, an employee of A.O. Smith Corp., Milwaukee, WI, describing his reasons for supporting wage concessions in 1981; "Factory Workers View Givebacks Indignantly—and Submissively," *The Wall Street Journal*, February 4, 1982.

2. The Teamsters' contract includes COLAs.

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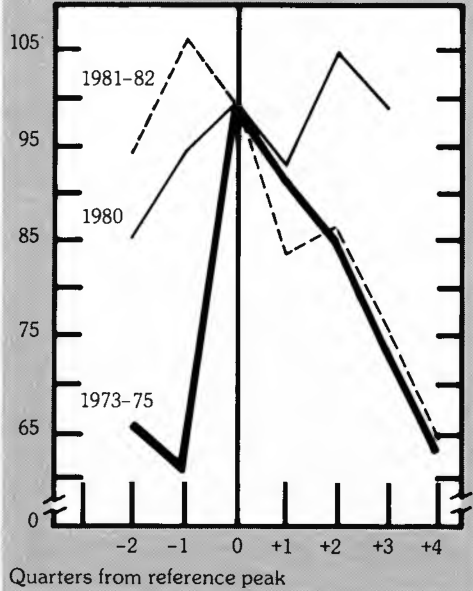
Some portion of the unionized labor force has accepted temporary pay cuts or freezes every year since 1954. While some of these wage provisions may be classified as concessions, they more accurately could be viewed as an indication of union willingness to accept nonwage contract modifications (e.g., increased benefits or job security) in trade for future earnings. Bureau of Labor Statistics data reveal that, among major collective-bargaining agreements settled in the last 28 years, an annual average of 185,000 workers (or 4.5 percent of union workers settling) waived scheduled pay increases or accepted pay cuts for the first year of their contracts. Unionized manufacturing carried a disproportionate share of such provisions (annual average of 136,000 or 6.6 percent of workers settling), although nonmanufacturing unions have accounted for an increasing share in recent years (annual average of 49,000 or 2.6 percent of workers settling).[3]

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

3. See Bureau of Labor Statistics, Major Collective Bargaining Settlements, 1954 through 1981.

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 the concessions as part of an erosion of union power. Still others say the recent concessions are a temporary development, 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 the U.S. economy. This *Economic Commentary* discusses the current union concessions and questions whether they represent long-term changes in the union-management relationship.[4]



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, managements apparently convinced workers that the financial condition and market positions of their respective firms warranted wage 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, but the compromise nature of collective bargaining seems

4. The analysis of collective-bargaining concessions is handicapped by the lack of appropriate statistical evidence. The most comprehensive related data are the Major Collective Bargaining Settlements compiled by the Bureau of Labor Statistics. These data cover only bargaining units of 1,000 or more workers and do not include contract reopeners or deviations from master contracts. Unfortunately, many of the concession situations have occurred as reopeners or deviations from master contracts, and in bargaining units containing fewer than 1,000 workers. Thus, by default, this analysis relies primarily on descriptive evidence (e.g., specimen contracts and published accounts), supported where possible by Bureau of Labor Statistics' and other quantitative data.

There are also difficulties in formulating a workable definition of *concession*, defined here as the surrender by union workers of future scheduled compensation through pay cuts or freezes, COLA modifications, or the elimination of paid holidays or bonuses; or, the abandonment, in new contracts, of wage escalators considered standard features of previous contracts. Excluded are the following types of contracts: nominal but below expected wage increases, nonwage concessions, and contracts in which wage changes are accompanied by roughly equivalent increases in benefits.

5. Data sources include the Bureau of Labor Statistics, *Current Wage Developments*, 1950 through 1981, and *Monthly Labor Review*, 1950 through 1981; and Bureau of National Affairs, "What's New in Collective Bargaining Negotiations and Contracts," 1980–82. Industries affected include steel, tires, railroads, shipbuilding, food stores, and the public sector.

The years 1977 and 1978 were excluded from the analysis because relatively low levels of concession activity occurred in those years.

to have required the extension of some nonwage contract concessions in return. Examples include profit sharing, prior notice and temporary cessation of facility shutdowns, and layoff protection.

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 conditions in the economy 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 concessions are comparatively 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.[6] Since 1945, substantial and broad-based union wage concessions have been negotiated in eight U.S. industries—textiles, meatpacking, shoes, daily newspapers, construction, motor vehicles, trucking, and passenger 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 excess capacity, resulting from import competition, technological advances, poor export volume, and the introduction 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 its workers 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 an immediate wage cut of about 8.0 percent—a pattern that rapidly spread throughout much of the industry, particularly in New England. In return for these wage cuts, managements often promised improved job security, cessation of plant closings, and future reinstatement of foregone wages. There is no compelling evidence indicating spillover effects of these contract provisions into other industries, even such a closely related one as apparel.

Despite the contract concessions and other short-term responses to adverse conditions, 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 underlying sources of structural change and financial distress in the U.S. automobile industry include import competition, wage and other cost differentials, outmoded production facilities, and changes in consumer preferences because of high fuel costs. The industry's problems have been exacerbated by back-to-back recessions and high domestic interest rates. All U.S. automakers have suffered from poor earnings and sales volumes, leading to frequent plant closings and massive layoffs.

The automakers have tried a variety of strategies to survive the present crisis—import barriers, asset sales, debt renegotiation, government loan guarantees, and union concessions. The significant concessions of the recent Ford/United Auto Workers

6. Industries that have undergone substantial structural change without union wage concessions include coal mining, tires, breweries, and metal and glass containers. Adaptations in those industries (as well as those affected by concessions) have included asset sales, debt renegotiation, white-collar wage concessions, diversification, acquisition by other firms, and attempts to limit union influence through decertification or other means.

Selected Provisions of Recent Wage Agreements

Trade Union Concessions	Management Concessions
United Auto Workers	***Ford Motor Company***
Eliminated 3 percent automatic annual wage increase (1982–84) Deferred COLA payments through mid-1983 Eliminated six paid holidays in 1982 and nine each in 1983 and 1984 Eliminated one-day Christmas bonus payment (1982–84) Lowered starting wages and accumulated fringe benefits more gradually for new production workers Liberalized bumping	Instituted profit-sharing plan if profits exceed 2.3 percent of total domestic revenues Replenished SUB fund with interest-free loan and increased company payments Instituted worker-income layoff protection through Guaranteed Income Stream program Promised white-collar parity Limited outsourcing and subcontracting Improved retraining and out-placement services for laid-off workers Allowed for reopener if sales reach specified level for two consecutive quarters
International Brotherhood of Teamsters	***Trucking Management, Inc.***
Scheduled/deferred no wage increases Shifted COLA payments from semi-annually to annually Diverted previously scheduled 4/82 COLA payment to benefits or deferred them to 1985 Allowed for diversion or deferral of 1983–85 COLA payments Reduced vacation allowances Loosened overtime pay requirements Changed work rules significantly	Instituted strict controls on subcontracting and other potential methods of contract avoidance Increased payments for moving expenses Increased employer payments to worker health/welfare benefits Liberalized seniority rights Permitted wage reopener after 4/84 if financial condition of industry warrants

(UAW) contract are clearly more complex and technical than in many other contracts, yet they are essentially quite similar—trading future earnings for enhanced job and income security (see box).

Although the Ford and General Motors contracts established patterns for some of their unionized suppliers, it is premature to conclude either that they will affect bargaining outside the transportation equipment industry or that concessions will recur in future auto contracts. Widespread auto concessions probably would not have occurred, despite structural problems, without the coincident recession and exceptionally low levels of auto sales. Thus, if concessions take place in related industries, such as steel, it will be 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 also is facing difficult times, stemming from route deregulation and the resulting accelerated growth of nonunion carriers, union wage differentials, recession-related declines in freight volume, and shifts of freight carriage to railroads. Even without these problems, the Teamsters and their management counterparts historically have found industry-wide wage standardization to be difficult, because of industry heterogeneity, the uneasy alliance of multi-carrier bargaining, and the recent role of the Teamsters as wage equalizers.

While union wage concessions are not new to trucking, they heretofore have not

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 traded for job security.

Meatpacking.[7] In the late 1950s and early 1960s, the U.S. meatpacking industry experienced far-reaching 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 had occurred, especially among the difficult-to-organize small firms. This situation was worsened by the fact that industry expansion took place in regions characterized by low wages, low unionization, and low organizing 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 thus 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 wage escalation as earlier contracts. In 1962 and 1963, Armour, Swift, and several other firms sought to reopen the contracts to make downward adjustments in unit costs at many plants. Two unions accepted pay cuts, wage freezes, and/or lower scheduled increases at a large number of plants, in addition to significant work-rule changes; in return, managements 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 spill over to other industries; indeed, they did not seem to establish a pattern for more modern unionized and nonunionized meatpacking plants, even within Armour and Swift.

The Big Four and other unionized meatpacking firms continued to experience financial difficulties in succeeding years because of underlying structural changes in the industry. Many firms diversified into other areas of food processing or specialized in later stages of meat processing and marketing, at the same time phasing out feedlot and slaughterhouse activities. 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 no-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 remains 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 change. Indeed, one indication that the tradi-

7. *Sources include Hervey Juris, "Union Crisis Wage Decisions," Industrial Relations* (May 1969), pp. 247–58; Bureau of Labor Statistics, *Wage Chronologies*, Armour and Co., 1941–79 (#1682 and supplement), Swift and Co., 1942–73 (#1773).

tional 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 concession activity tends to rise during recessions, concessions have been isolated almost exclusively to financially troubled firms and plants. Typically, union concessions have been accompanied by a variety of other short-term and long-term responses to financial distress, and they have not directly spilled over to more healthy firms and industries.

The 1981 and 1982 concessions probably do not represent a fundamental change in union-management relations—either in terms of union power erosion or increased cooperation. Although recent concessions are concentrated in high-wage and highly organized industries, the number of firms and workers affected is small compared with total U.S. employment; the situations themselves are recognized as exceptional by other unions in unaffected industries.

It is premature to conclude that the current wage concessions, and coincident de-escalation of wages, will have long-lasting effects on the U.S. economy. However, those who would look to changes in the union-management relationship as a driving force may be disappointed. A long-term impact on wage inflation would have to come from changes in economic and market conditions, worker attributes, and/or labor market structures. The recent measured rate of wage deescalation has not, thus far, been dissimilar from 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 contracts are symbolic of that process and of the market problems that have developed in key industries.

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