

# Major labor contracts in 1986 provided record low wage adjustments

*Negotiations again focused on efforts to curb labor costs and save jobs by providing small wage increases, wage decreases, and wage freezes; many settlements provided lump sums instead of wage increases or to offset decreases*

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In 1986, major collective bargaining settlements in private industry provided record low wage and compensation adjustments, reflecting both employers' and unions' efforts to curb labor costs. Their task was made easier by continued moderate upward pressures on wages from comparatively small increases in consumer prices. According to the Bureau of Labor Statistics' 19-year-old series on private industry agreements covering 1,000 workers or more,<sup>1</sup> wage adjustments—the net effect of decisions to increase, decrease, or not change wages—under settlements reached during 1986 averaged 1.2 percent in the first contract year and 1.8 percent annually over the contract term. (See table 1.) The settlements covered 2.5 million workers.

This was the fifth consecutive year in which settlements produced average wage adjustments that were substantially below those registered prior to 1982. (See chart 1.) Wage adjustments which were actually put into effect during 1986, stemming from settlements negotiated that year and those reached in prior years, also averaged a record low—2.3 percent.

The last time parties to 1986 settlements negotiated (usually in 1983 or 1984), they agreed to contracts that specified average wage adjustments of 3.5 percent the first year and 3.2 percent annually over the term. Total wage adjustments—those specified at the time of settlements plus any subsequent cost-of-living adjustments (COLA's)—averaged 4.0 percent a year over the contract term. This was the smallest on record, and occurred while the Consumer Price Index for Urban Wage Earners (CPI-W) was rising 3.5 percent a year (between December 1982 and December 1985).

The average size of total wage adjustments under expiring agreements has dropped steadily since 1983 because the size of specified wage changes declined and because smaller

price increases produced lower wage increases triggered by COLA's. As shown in the following tabulation, the contracts preceding 1986 settlements yielded larger total wage adjustments when they included a COLA clause.

	Average wage adjustment (in percent) per year in contracts	
	With COLA	Without COLA
Total adjustment.....	4.2	3.7
Specified.....	2.7	3.7
COLA.....	1.6	-

This marks a return to the pre-1983 pattern in which expiring contracts with COLA clauses provided smaller specified wage adjustments than those without, but COLA's more than made up the differences.

## The bargaining climate

Bargaining during 1986 took place in a mixed national economic climate. The Consumer Price Index for Urban Wage Earners rose 0.7 percent during the year (the smallest rise since 1961) and unemployment continued to hover around 7 percent. Negotiators focused on both old and new problems, including: depressed markets and competition from abroad in the steel, aluminum, and copper industries; competition from nonunion firms in retail trade and construction; competition from both union and nonunion carriers in the airline industry; and the breakup of long-standing bargaining relationships in the steel and telephone communications industries. The most common issue was how to curb labor costs and retain jobs.

A number of contracts addressed this issue by such indirect methods as restructuring jobs or changing work rules. Other more direct approaches included historically low wage increases, freezes, or cuts; lump-sum payments

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(which are not included as wages in this series) instead of wage increases or to offset wage cuts; lower wage adjustments in the first than in subsequent years of multi-year contracts; and the suspension or elimination of COLA clauses.

### Wage increases, decreases, and freezes

Average wage increases under 1986 settlements were the smallest on record for this series—2.9 percent the first contract year and 2.7 percent a year over the contract life. First-year increases were received by 1,730,000 workers, while 526,000 workers had no wage change and 230,000 sustained wage cuts averaging -9.2 percent. Subsequently, wage increases will go to 218,000 workers with no wage change and 15,000 with a wage decrease in the first contract year. Thus, over their term, contracts reached during 1986 will provide wage increases to 1,963,000 workers, about four-fifths of the total covered. Workers with increases were mostly in construction, railroads, telephone communication, public utilities, food stores, and health services.

The wages of about an eighth of the workers were frozen and those of about one-tenth were cut over the term of 1986 settlements, marking the fifth consecutive year in which substantial proportions of workers did not receive wage increases under settlements. (See table 2.) Workers with wage freezes were concentrated in construction, non-

electrical machinery manufacturing, and food stores. Workers sustaining pay cuts were mostly in steel manufacturing; some of them also took reductions in their previous agreement.

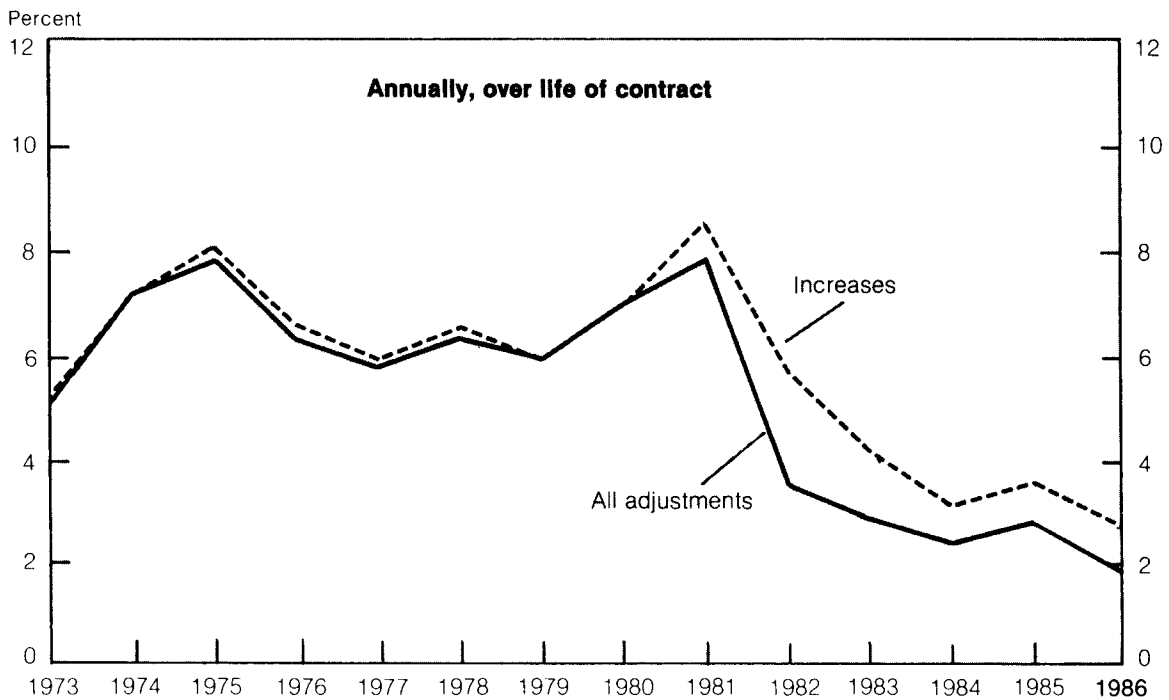
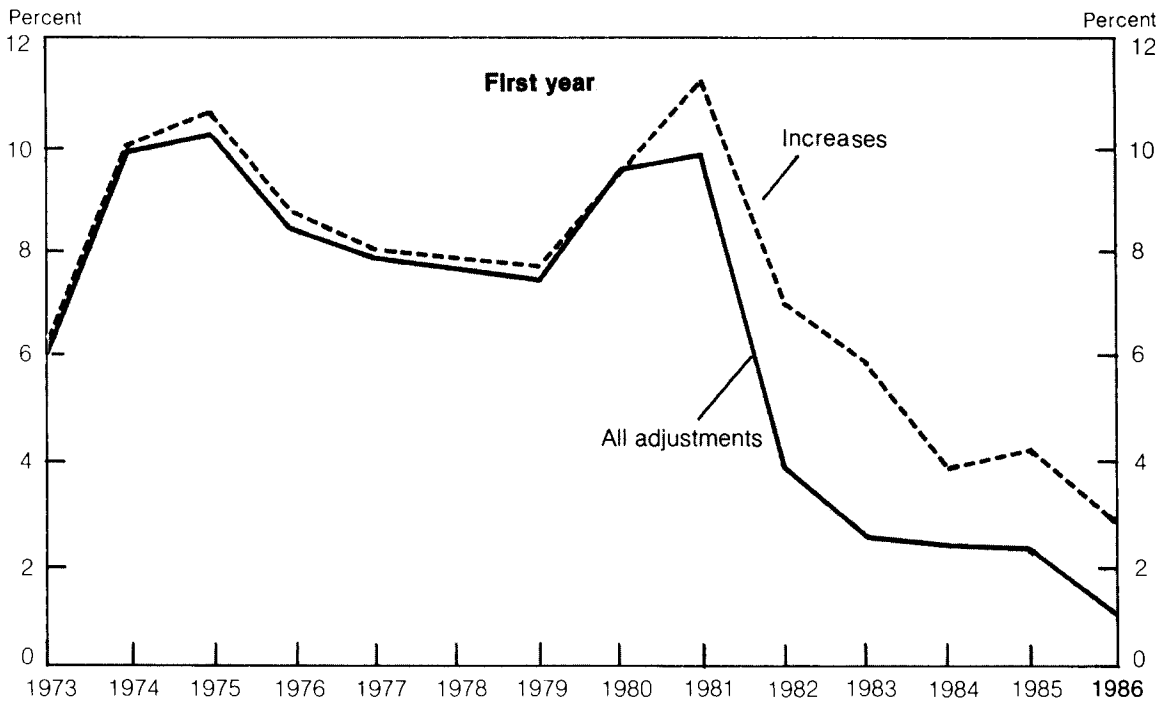
*Lump-sum payments.* The size of average adjustments was dampened because provisions for lump-sum payments were made in contracts covering two-fifths (988,000) of the workers under 1986 settlements. Lump-sum payments for 10 percent of these workers are linked to the profits or earnings of the firm. Lump sums were negotiated instead of wage increases or to offset pay decreases. These payments are excluded from this series. Lump-sum payments limit labor costs because they do not influence benefit levels that are based on wage rates, they eliminate the compounding effect of successive wage rate increases, and they do not raise the wage rate base from which future contracts will be negotiated.

Settlements with lump sums provided wage adjustments averaging 1.2 percent in the first contract year and 1.5 percent annually over the contract term. The corresponding averages for workers under settlements without lump sums were 1.2 and 1.9 percent. Lump-sum payments were negotiated in a variety of industries, including steel, communications, railroads, food stores, aerospace, health services, and petroleum refining.

**Table 1. Wage adjustments for collective bargaining settlements, covering 1,000 workers or more in private industry, 1986**

Measure	First year		Over life of contract		Measure	First year		Over life of contract	
	Average adjustment (percent)	Workers (in thousands)	Average annual adjustment (percent)	Workers (in thousands)		Average adjustment (percent)	Workers (in thousands)	Average annual adjustment (percent)	Workers (in thousands)
<b>All settlements</b>									
All industries	1.2	2,486	1.8	2,486	Manufacturing	3.0	258	2.1	360
With COLA clauses	1.9	780	1.7	780	With COLA clauses	3.0	147	1.6	157
Without COLA clauses	.9	1,706	1.8	1,706	Without COLA clauses	3.0	111	2.5	202
With lump sums	1.2	988	1.5	988	With lump sums	2.4	103	1.3	177
Without lump sums	1.2	1,498	1.9	1,498	Without lump sums	3.3	156	2.8	183
Manufacturing	-1.2	632	.2	632	Nonmanufacturing	2.9	1,472	2.8	1,604
With COLA clauses	1.3	239	.9	239	With COLA clauses	2.2	518	2.1	532
Without COLA clauses	-2.8	393	-2	393	Without COLA clauses	3.3	954	3.2	1,072
With lump sums	-9	286	.2	286	With lump sums	2.4	600	2.3	629
Without lump sums	-1.4	346	.2	346	Without lump sums	3.3	872	3.1	975
Nonmanufacturing	2.0	1,854	2.3	1,854	Construction	3.5	356	3.2	420
With COLA clauses	2.1	541	2.1	541	All industries excluding construction	2.8	1,374	2.5	1,544
Without COLA clauses	2.0	1,313	2.4	1,313	Nonmanufacturing excluding construction	2.8	1,116	2.7	1,184
With lump sums	2.0	702	2.1	702	Goods-producing	3.3	614	2.7	781
Without lump sums	2.0	1,152	2.4	1,152	Service-producing	2.8	1,116	2.7	1,183
Construction	2.2	522	2.5	522	<b>Settlements providing decreases</b>				
All industries excluding construction	.9	1,964	1.6	1,964	All industries	-9.2	230	-4.1	215
Nonmanufacturing excluding construction	1.9	1,332	2.2	1,332	With COLA clauses	-3.7	33	-1.2	27
Goods-producing	.2	1,161	1.2	1,161	With COLA clauses	-10.1	197	-4.5	188
Service-producing	2.0	1,325	2.3	1,325	With lump sums	-7.6	69	-2.4	72
<b>Settlements providing increases</b>					Without lump sums	-9.9	161	-5.0	143
All industries	2.9	1,730	2.7	1,963	Manufacturing	-9.2	167	-3.9	161
With COLA clauses	2.4	665	2.0	690	Nonmanufacturing	-9.3	63	-4.9	54
Without COLA clauses	3.3	1,065	3.1	1,274	Construction	-7.5	9	-9.4	6
With lump sums	2.4	703	2.1	806	All industries excluding construction	-9.3	221	-4.0	209
Without lump sums	3.3	1,027	3.1	1,157	Nonmanufacturing excluding construction	-9.6	54	-4.3	48
					Goods producing	-9.6	182	-4.2	173
					Service-producing	-7.9	48	-3.9	42

**Chart 1. Average wage adjustments in private industry settlements covering 1,000 workers or more, 1973-86**



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

**Backloaded contracts.** Backloading is another cost-limiting practice that has gained prominence recently. It provides lower specified wage adjustments in the first year than subsequent contract years. Nearly one-half of the workers under 1986 settlements were covered by such contracts. Prior to 1983, however, virtually all workers under multiyear settlements had their largest increases in the first year.

Wage adjustments in back-loaded contracts averaged -0.2 percent in the first year and 1.5 percent annually over the term. Of the 1,199,000 workers covered by back-loaded contracts, 751,000 received smaller increases in the first year than in following years, 225,000 received no wage increase in the first contract year, but received an increase in following years, and 223,000 sustained wage cuts in the first contract year, but no additional decreases over the life of their multiyear agreements. Back-loaded contracts occurred mainly in construction, railroads, steel, petroleum refining, electrical and electronic equipment manufacturing, health services, and food stores.

One-third (805,000) of the workers were covered by front-loaded settlements in which wage adjustments averaged 3.3 percent in the first year and 2.5 percent a year over the life of the contract. These contracts were in communication, construction, aerospace, and other industries. The remaining one-fifth of the workers were covered by either 1-year agreements or multiyear contracts which provided equal wage adjustments each year.

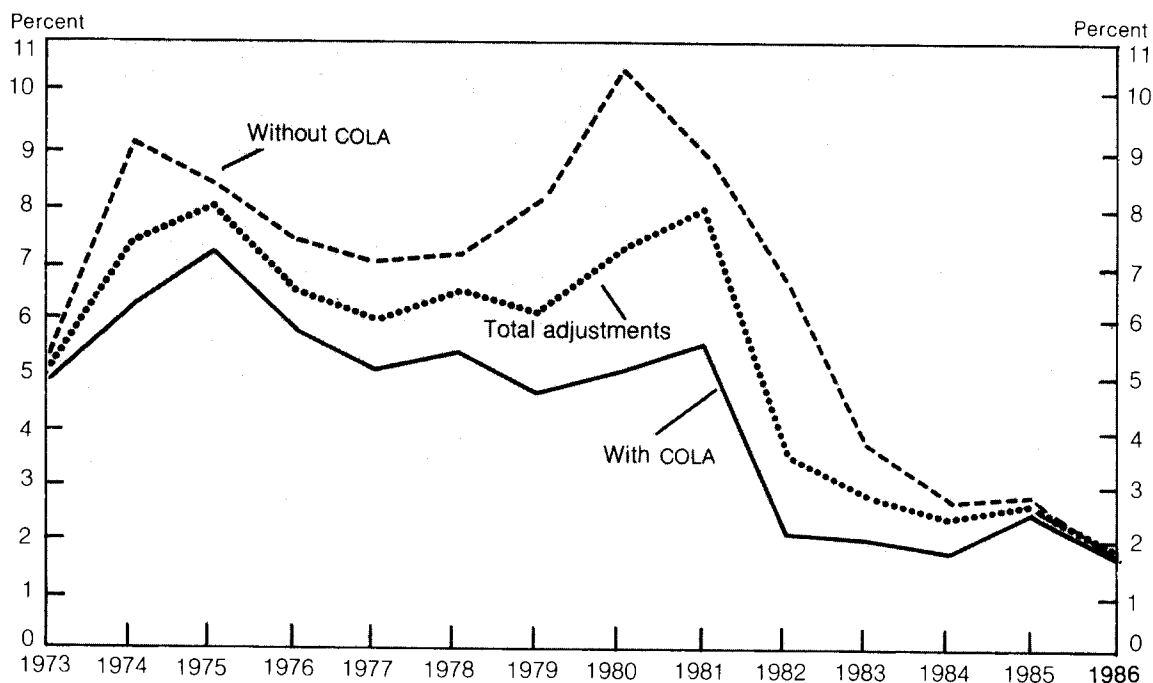
**COLA clauses.** Cost-of-living adjustment clauses were dropped or suspended in settlements covering 434,000 workers, or about 36 percent of those settling in 1986 who had such coverage in their previous agreements. These include 226,000 communication workers and 106,000 steel workers whose 1986 contracts do not provide any wage adjustments triggered by future changes in the CPI. COLA clauses were established in settlements covering 20,000 workers.

As a result of these developments and employment declines in industries with contracts that retained COLA clauses, the proportion of workers under major contracts with COLA's fell to 40 percent at the end of 1986 from 49 percent in the previous year. This compares with about three-fifths between 1976 and 1984.

This drop is attributable, in part, to the declining importance of COLA's as a source of wage increases. Some union negotiators were willing to trade COLA's for other contract improvements because relatively low price increases since 1982 triggered comparatively small wage increases and, in some cases, none at all.

Contracts with COLA clauses covered 31 percent of workers under 1986 settlements. They specified average wage adjustments of 1.9 percent in the first year and 1.7 percent annually over the contract life. (See chart 2.) These averages exclude any potential adjustments from COLA's because such adjustments depend on future changes in the Consumer

**Chart 2. Average annual wage adjustments over the life of contracts with and without COLA in private industry settlements covering 1,000 workers or more, 1973-86**



**Table 2. Proportion of workers with increases, decreases, or no wage change under settlements covering 1,000 workers or more in private industry, 1979-86**

[In percent]

Year	First year			Over the life of contract		
	Increases	Decreases	No change	Increases	Decreases	No change
1979 ..	96	0	4	100	0	0
1980 ..	100	0	0	100	0	0
1981 ..	92	5	3	94	5	1
1982 ..	56	2	42	64	1	35
1983 ..	63	15	22	73	13	14
1984 ..	77	5	18	84	4	12
1985 ..	63	3	33	85	3	12
1986 ..	70	9	21	79	9	13

Price Index that are unknown at the time of settlement. However, "guaranteed" COLA amounts (those specified when the agreement is reached) are included in settlement measures because they are not contingent on subsequent price increases. Wage adjustments for settlements without COLA clauses were 0.9 percent the first year and 1.8 percent a year over the term.

**Compensation adjustments.** The Bureau measures compensation (wages and employee benefit costs) adjustments in contracts for at least 5,000 workers. These contracts cover almost two-thirds of all workers under major settlements in 1986. Average compensation adjustments were the lowest since the series began—1.1 percent in the first contract year and 1.6 percent annually over the life of the contracts. (See table 3.) During the term of the agreement, 83 percent of the workers will receive increases, 12 percent decreases, and the remainder, no change in compensation.

### Major negotiations

Negotiations in 1986 were characterized by the dissolution of some historic pattern bargaining relationships (for example, in steel and telephone communication) as well as by major differences in contract terms among industries.<sup>2</sup>

Settlements in nonmanufacturing industries accounted for three-fourths of all workers under 1986 settlements. They provided wage adjustments of 2.0 percent in the first year and 2.3 percent annually over the life of the contract. The largest numbers of workers covered by settlements in nonmanufacturing were in telephone communications (531,000), construction (522,000), railroads (216,000), and retail trade (209,000)—primarily food stores. Settlements in these industries are detailed below. The remaining workers under nonmanufacturing settlements were in health services, electric and gas utilities, and a variety of other industries.

**Telephone communications.** Bargaining in telephone communications occurred in a new environment created by the January 1984 divestiture of American Telephone and Telegraph Co., which had provided both local and long distance services. Under the new configuration, AT&T Information Systems (ATTIS) provides national long distance and allied services and seven independent regional companies

provide local service through 22 local operating companies. The year (1986) witnessed the breakup of what had been uniform contracts throughout the Bell System.

The first accord was reached between the International Brotherhood of Electrical Workers (IBEW) and AT&T in May. The Communications Workers of America reached a similar agreement in June (ratified in August) after a 4-week strike. Contracts with the regional companies were negotiated in the third quarter of 1986 after the August 9 expiration of the prior agreement.

Although there were many similarities in the terms negotiated in the industry, contracts are no longer uniform. All the settlements provided for wage increases, but the size varied. On average, wage adjustments were 2.0 percent in both the first contract year and annually over the contract term.

There were other similarities in terms, such as improving job security and pension plans, but there were also differences. Some contracts eliminated COLA clauses, for example, while others modified the COLA formula; some contracts called for lump-sum payments or profit sharing, or both, while others provided neither.

**Construction.** Reflecting general economic improvements in the industry, 1986 settlements in construction provided average wage adjustments of 2.2 percent in the first contract year and 2.5 percent a year over their term. They replaced contracts generally reached 1 to 2 years earlier that provided wage adjustments averaging 1.9 percent a year over their term.

Settlements in construction covered one-fifth of the workers under 1986 settlements, and provided wage adjustments that were higher than the overall averages for the year.

Negotiations in the industry are concentrated in the spring and summer and usually reflect local economic conditions. Employers are generally represented by local or regional branches of national employer associations, while workers are usually organized along craft lines. Contracts for various crafts in a locality frequently provide similar size changes. Average wage adjustments negotiated in 1986 varied by region, as shown in the following tabulation (in percent):

	First year	Annual, over life of contract
All construction agreements .....	2.2	2.5
Northeast .....	2.2	2.5
New England .....	3.6	4.0
Middle Atlantic .....	2.1	2.4
Midwest .....	3.7	3.5
East North Central .....	4.2	4.0
West North Central .....	2.8	2.6
South .....	0.2	0.2
South Atlantic .....	2.5	2.1
South Central .....	-1.7	-1.3
West .....	1.5	2.2
Mountain .....	2.0	2.2
Pacific .....	1.4	2.2
Interregional .....	0.7	1.2

Wage cuts in the oil-producing South Central States reflect a depressed economy and declines in new construction, while settlements in New England took place during improved economic conditions.

Adjustments also varied by type of construction. Settlements in both general building construction and special trades provided wage adjustments averaging 2.6 percent in the first contract year and 2.8 percent annually over their contract term. Corresponding averages in general construction, other than building, were lower (1.5 and 1.8 percent).

**Railroads.** Although contracts in the railroad industry expired in June 1984, more than two-thirds of the workers under these agreements did not reach a settlement until 1986. Negotiations covering more than 200,000 workers were concluded during the year with the first settlements in May. Contract talks involved the National Railway Labor Conference (the management bargaining agent for Class I railroads and Conrail) and Amtrak, and various unions, which are organized by craft.

Shifting from the traditional practice of making all wage changes retroactive to the end of the previous contract, the 1986 contracts typically made the first-year wage increases retroactive only to December 1985. Wage adjustments for the industry averaged 2.3 percent in the first year and 2.5 percent a year over the contract term. Although all the contracts continued their COLA clauses, some limited potential COLA payments to specific groups of workers and also stipulated that they would be made only to the extent that they exceeded specified wage increases.

All of the 1986 railroad settlements provided for lump-sum payments. However, the size of the lump sum varied among contracts and within some contracts by type of workers. Some workers received lump-sum payments in lieu of any specified increases or COLA payments.

**Retail food stores.** Settlements covering 164,000 workers in retail food stores were reached in 1986. They provided average wage adjustments of 1.5 percent in the first contract year and 1.7 percent annually over the term of the agreement.

Almost two-thirds of the workers under these contracts will receive lump-sum payments in lieu of wage increases or to offset pay cuts. Settlements with lump sums provided wage adjustments averaging 0.4 percent in both the first year and annually over the life of the contract. Corresponding averages for settlements without lump sums were 3.6 and 4.1 percent.

**Manufacturing.** Settlements in manufacturing covered 623,000 workers, including 140,000 in primary metals, 98,000 in transportation equipment, and 145,000 about evenly divided among lumber and wood products, nonelectrical machinery, and electrical machinery, equipment and supplies. They called for wage adjustments averaging -1.2

percent the first contract year and 0.2 percent annually over the contract term.

**Primary metals.** Settlements in the primary metal industries (steel, aluminum, and copper) dampened overall manufacturing averages for the year. They provided wage adjustments averaging -5.2 percent in the first year and -1.5 percent a year over the term of the agreement.

Bargaining was affected by depressed economic conditions in the entire industry and the breakdown of coordinated bargaining in steel manufacturing. Prior to 1986, the largest steel companies bargained together on terms that set the pattern for the industry. Negotiations in 1986, however, were conducted separately for each company. Although the exact terms differed by contract, settlements in basic steel generally provided wage and benefit cuts, some of which were offset by lump-sum payments.

The most notable bargaining situation in basic steel was at USX (formerly U.S. Steel) where attempts to negotiate a new contract, before the expiration of the old one, failed and a work stoppage ensued, continuing into 1987.

The picture, however, was not bleak throughout the steel industry. Settlements with some profitable specialty steel producers increased wages.

Other negotiations in the primary metal industries produced wage cuts for workers in the copper industry and freezes for those in aluminum production.

**Transportation equipment.** Contrasting with the wage cuts negotiated in the primary metal industries, 1986 settlements in transportation equipment, covering 98,000 workers, provided wage adjustments averaging 2.5 percent in the first contract year and 1.0 percent a year over the life of the agreements. Eighty-two percent of these workers, primarily those employed in aerospace manufacturing, will receive lump-sum payments.

Negotiations in the aerospace industry in 1986 were conducted under economic conditions that were better than they were during the previous round of talks in 1983. In October

**Table 3. Average compensation (wage and benefit costs) adjustments in settlements covering 5,000 workers or more in private industry, 1986**

(In percent)

Industry	First-year adjustments	Annual adjustment over life of contracts	Number of workers (thousands) <sup>1</sup>
All industries .....	1.1	1.6	1,582
Contracts with COLA clauses .....	2.0	1.7	592
Contracts without COLA clauses .....	.5	1.5	991
Manufacturing .....	-2.4	-.7	332
Contracts with COLA clauses .....	2.3	1.0	123
Contracts without COLA clauses .....	-5.2	-1.7	209
Nonmanufacturing .....	2.0	2.2	1,251
Contracts with COLA clauses .....	1.9	1.9	468
Contracts without COLA clauses .....	2.1	2.3	782
Construction .....	2.2	2.3	238
All industries excluding construction ..	.9	1.4	1,345
Nonmanufacturing excluding construction .....	2.0	2.1	1,013

<sup>1</sup>Because of rounding, sums of individual employment items may not equal totals.

1986, a pattern-setting agreement covering 40,000 workers was reached between the International Association of Machinists and Boeing Co. Later in the month, similar terms were negotiated for 20,000 employees of Lockheed Corp.

These settlements continued the practice, introduced in the 1983 accords, of providing lump-sum payments in lieu of traditional wage increases. However, the lump sums set by the 1986 settlements were larger than those in the prior agreement. Under the 1986 contracts, workers receive an immediate 40 cents an hour prepaid COLA and lump-sum payments of 12 percent of their prior year's gross earnings in the first contract year and 5 percent of their prior year's gross earnings in both the second and third contract year. Under the previous Boeing agreement, workers received lump-sum payments of 3 percent of their prior year's gross earnings in each year of the 3-year contract. The prior Lockheed agreement provided the same lump-sum payments for the first 2 years, but had a 3-percent general wage increase the third year.

### Wage adjustments effective in 1986

Wage adjustments put into effect in 1986 were the lowest in the 19-year history of this series. (See table 4.) They averaged 2.3 percent for the 6.5 million workers under major agreements, as shown in the following tabulation:

	<i>Percent adjustment</i>
All adjustments .....	2.3
From new settlements .....	0.5
Deferred from prior settlements .....	1.7
COLA .....	0.2

The average was depressed for several reasons. Seventy-eight percent (5,117,000) of the workers had wage increases averaging 3.4 percent (the smallest on record), and 4 percent (250,000) had wage decreases averaging -7.9 percent, as the following tabulation shows. Increases and decreases stemmed from three sources: settlements reached during the year; deferred changes under agreements negotiated in earlier years; and COLA provisions. Some workers received pay changes from more than one source; thus, the number receiving increases and decreases does not equal the total.

**Table 4. Effective wage adjustments in collective bargaining agreements covering 1,000 workers or more, 1979-86**  
[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

	<i>Number of workers (in thousands)</i>	<i>Percent change</i>
Workers with wage changes:		
Total .....	5,367	2.8
Increases .....	5,117	3.4
From new settlements .....	1,685	3.1
Deferred from prior settlements ..	2,756	3.9
COLA .....	1,393	1.0
Decreases .....	250	-7.9
From new settlements .....	228	-9.4
Deferred from prior settlements ..	33	-1.9
COLA .....	12	-0.7
Workers with no wage changes .....	1,150	-

The remaining 18 percent of the workers (about 1,150,000) had no wage change. About 930,000 of these workers were covered by contracts that provided no wage change during 1986. An additional 220,000 workers, however, received no wage change because their contracts had expired but had not been renegotiated during the year.

Two million of the 2.6 million workers under contracts with COLA provisions were eligible for COLA's during 1986. About 1.4 million had COLA-triggered net wage increases averaging 1.0 percent over the year; of these, however, 963,000 had at least one COLA wage decrease during the year. An additional 12,000 workers had net COLA decreases in 1986. The remaining 619,000 workers did not receive COLA changes either because their contracts had no provisions for COLA decreases or the change in the CPI was insufficient to trigger a COLA pay change. Wage adjustments stemming from COLA reviews in 1986 averaged 51 percent of the change in the CPI during the COLA review period.

Effective wage adjustments under major collective bargaining agreements are reflected in the wage and salary series of the Bureau's Employment Cost Index (ECI), a broad measure of changes in labor costs. The ECI provides data on both union and nonunion workers in establishments of all employment sizes. It shows that wages and salaries rose 3.1 percent in private industry in the year ending December 1986, the smallest increase in the 10-year history of the series.

During 1986, wages rose 2.0 percent for union workers, compared with 3.5 percent for nonunion workers. This continues a relationship that began in 1983.

A discussion of this year's scheduled bargaining, "Collective bargaining in 1987: local, regional issues to set tone," appears in the January 1987 *Review*. □

—FOOTNOTES—

<sup>1</sup> The major collective bargaining agreement series for private industry covers 6.5 million workers in bargaining units with at least 1,000 workers. For definition of terms, see Current Labor Statistics, "Wage and Compensation Data," pp. 53-55. Additional tabulations from this series appear in the March 1987 issue of the Bureau's *Current Wage Developments*.

<sup>2</sup> For details of these settlements, see George Ruben, "Labor-management scene in 1986 reflects continuing difficulties," *Monthly Labor Review*, January 1987, pp. 37-48.