

Will Wage Givebacks Be Reversed?

Over the past year and a half almost 50 percent of workers in major collective bargaining settlements have agreed to wage freezes or reductions. Indeed, these concessions may have lowered the average union wage settlement both in 1982 and in the first half of 1983 by more than 2 percentage points (table, top panel). However, despite the continued weakness in wage growth recently, some analysts have voiced concern that these earlier givebacks will be reversed as labor markets tighten, spiking wage settlements sharply upward. The recent Chrysler settlement, for example, is expected to raise wages more than 25 percent in just over two years. If such reversals became common, they could set the pattern for a resurgence of wage inflation.

The wage freezes and concessions of the past year and a half, however, may have a more durable effect on wage growth than many analysts expect, for several reasons. First, despite the recovery, givebacks have proceeded at a faster pace in 1983 than in 1982, with more than half of 1983 settlements thus far containing wage freezes or reductions (table, bottom panel). Overall, wage settlements have continued to slow in 1983, even among workers receiving pay increases (table, top panel).

Also, it is not the case that the workers make concessions for one year but obtain large increases in the second or third year of their contracts. In the vast majority of 1982 and 1983 contracts with givebacks, the concessions persist over the life of the contracts (table, bottom panel). While some of these contracts can be reopened after a certain date, they are relatively few in number and generally specify profits or sales targets which must be met before any reopening. Moreover, in several cases the reopening option is available to management which may require further concessions. Thus, the only likely wage gains in these contracts are

from cost-of-living adjustments (COLAs) But, even the COLAs have been weakened in many cases For example, some settlements now put a cap on COLA payments, while others have dropped COLAs entirely

The other major reason to expect the recent givebacks to persist relates to long-term structural changes in several major industries These structural changes may continue to exert downward pressure on wages even during the expansion For example, deregulation of the airline and trucking industries allows new, often nonunionized entrants to compete with the established firms Many of the newer carriers benefit from both lower wages and relaxed work rules These cost advantages put competitive pressure on the older firms in the industry to exact wage concessions The recent trucking industry proposals and the highly visible airline concessions reflect this competition

For other industries, increased competition also appears to be a major source of downward pressure on wages Part of that comes from abroad, reflecting the dollar's strength among other factors, but the competition arises from domestic sources as well For instance, technological competition from a few, highly mechanized meat-packing firms exerts downward pressure on the wage structure in firms which use more traditional methods Within such industries the need for wage and other concessions may remain for some time

In sum, many of the concessions negotiated by labor and management in the past year and a half probably have not been temporary responses to purely cyclical factors Instead, the concessions in these industries

Characteristics of Major Collective Bargaining Settlements

In percent

Provisions	1982	First half of 1983
Average wage change over life of contract		
Workers with increases	5.8	5.2
All workers	3.6	2.7
Difference due to givebacks	2.2	2.5
Percentage of workers with freezes or reductions:		
First-year contract	45	54
Life of contract	36	44

Source: Bureau of Labor Statistics (BLS) contribution of givebacks calculated by the Federal Reserve Bank of New York from BLS data

appear to stem from longer term structural developments which were exacerbated by the recession. Thus, the givebacks probably will hold and may even be extended in some cases.

A Steven Englander and Marie Chandoha