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7. THE WAGE-PRICE OUTLOOK FOR 1984

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Highlights:

1. The early 1980s could be a repeat of the early 1960s. In that period, two back-to-back recessions cut inflationary expectations, ushering in several years of economic expansion without accelerating inflation.

2. 1984 is a crucial year for firming expectations of nonaccelerating inflation. At present, wage and price setters do not appear to expect a further reduction of the inflation rate. They have a "wait and see" attitude about an acceleration.

3. Although the official consumer price index reported a lower rate, the underlying pace of inflation in 1983 has been about 5 to 6 percent. Thus, forecasts for 5 to 6 percent in 1984--a reasonable projection--do not suggest an increase in basic inflationary forces.

4. Union bargaining has bifurcated in recent years into a concession and a nonconcession sector. Much of the concession bargaining in 1983 was in the construction industry. A management hard line has become evident in a number of recent negotiations.

5. Key wage bargains in 1984 include oil refining, autos, postal services, longshoring, coal mining, and railroads.

6. In the labor market, total compensation increases of 6 to 7 percent can be expected in 1984.

The Reasons for Optimism.

It has become almost a cliche to point to the high price paid since 1979 to fight inflation. Unemployment, which was then under 6 percent, rose to well over 10 percent before the full impact on inflation was felt. Many have criticized the cost. However, that debate need not concern us in projecting the outlook for inflation. The fact is that the price was paid, and now it is time to assess what we bought.

There are similarities between circumstances in the early 1980s and those of the early 1960s. The early 1960s was a period of low inflation rates, below 2 percent per annum as measured by the consumer price index. This price stability had been preceded by two back-to-back recessions--considered severe by the standards of that period--which seemed in retrospect to have a prolonged effect on inflationary expectations. In the early 1980s we also had an episode of two severe back-to-back recessions. If they have had a similar impact on inflationary expectations, an extended period of moderate expansion with low inflation could be the result.

On the other hand, there is no indication that there is a general expectation that the inflation rate will be further reduced. Long-term interest rates remain high, although probably a portion of this interest-rate stickiness is accounted for by the prospects of high federal budget deficits.

The impression obtained from analysis of long-term union contracts (after allowance is made for unusual concession bargains) is that bargainers expect a continuation of present rates of wage change for the next year or so. However, there is uncertainty about future inflation rates, and 42 percent of workers under major union agreements made during the first nine months of 1983 had cost-of-living adjustment escalators (COLAs) built into their new contracts. If construction contracts are omitted (COLAs are rare in construction), the figure rises to 52 percent. It may well be that recent experience with reduced inflation rates has left wage and price setters with a "wait and see" attitude. Thus, 1984 is a crucial year for cementing lowered expectations of inflation.

Wage Trends Since 1979

Table 35 presents data on trends in several indexes of wage adjustments in both the union and nonunion sectors. Part A shows the results of surveys of the U.S. Bureau of Labor Statistics of "major" union settlements (denoted BLS on the table) and another survey taken by the Bureau of National Affairs, Inc. (BNA) which covers smaller units as well as major groups. Both series show declining trends in newly-negotiated wage rates after 1981. And both show the dramatic swing in union construction settlements. Construction was the high flyer in 1980-81, exceeding the average for other industries, but was the "low flyer" of 1983.

In the union sector, a bifurcation of the labor market has appeared in recent years, with some groups making wage concessions (freezes or cuts in wages), while others continue to bargain "normally." Part A of Table 35 shows what the average settlements would be if wage freezes and cuts were excluded. Both the BLS and the BNA series report increases of a little over 6 percent after such exclusions. Compared with a rate of consumer price increase of 4.3 percent for the first nine months of 1983, 6 percent settlements provide a margin of real wage improvement.

It is clear from Table 35 that an important influence on the downward trend of the settlement averages has been the presence of the concession-bargaining sector. Unions in this sector were confronted with dire economic circumstances and were forced to modify their normal behavior to save jobs. The precise story varied from industry to industry. Import competition (aggravated by the appreciation of the dollar) was a factor in some industries. De-regulation was a factor in others. In all cases,

Table 35. TRENDS IN WAGE ADJUSTMENTS, 1979-83

		1979	1980	1981	1982	Annual Rate First 9 Months of 1983[a]
Part A	First-Year Union Wage Settlements-BLS	7.4%	9.5%	9.8%	3.8%	1.7%
	Excluding Freezes and Decreases-BLS	7.7	9.5	11.2	7.0	6.1
	Constuction-BLS	8.8	13.6	13.5	6.5	1.3
	First-Year Union Wage Settlements-BNA	8.4	9.5	9.6	7.0	4.4
	Excluding Freezes and Decreases-BNA	8.4	9.5-9.8[c]	9.9	7.9	6.2
	Construction-BNA	8.5	11.3	11.8	6.2	0
Part B	Employment Cost Index					
	Private Wages and Salaries	8.7%	9.0%	8.8%	6.3%	5.1%
	Union	9.0	10.9	9.6	6.5	5.0
	Nonunion	8.5	8.0	8.5	6.1	5.1
	Private Total Compensation	n.a.	9.8	9.8	6.4	5.9
	Union	n.a.	n.a.	10.7	7.2	6.6
	Nonunion	n.a.	n.a.	9.4	6.0	5.8
	State and Local					
	Wages and Salaries	n.a.	n.a.	n.a.	6.5	6.1
	Total Compensation	n.a.	n.a.	n.a.	7.2	6.7
	Note: Consumer Price Index (CPI-U)	13.3	12.4	8.9	3.9	4.3

a/ Not seasonally adjusted

b/ Medians were treated as means to make adjustment

c/ Information provided by BNA permits specification of a range only.

Source: U.S. Bureau of Labor Statistics, Bureau of National Affairs, Inc.

the economic slump, which began in 1979, combined with industry-specific causes to foster the concessions.

Throughout the 1970s, union wage increases outpaced nonunion gains. With the advent of concession bargaining, one might expect this pattern to reverse quickly. In fact, on the basis of wage rates alone, Part B of Table 35 shows that not until 1983 did the two sectors even run neck and neck. Indeed, on a total compensation basis (including fringes and payroll taxes), union pay increases continued to outpace nonunion gains significantly.

For all private workers, pay increases ran in the 5 to 6 percent range during the first nine months of 1983. Surprisingly, wage gains in the government sector have not fallen behind the private sector over the last two years, despite the well-publicized fiscal problems of a number of jurisdictions. There were some pay freezes and cuts among private, nonunion workers and public workers. However, these appear to be less important than in the union sector.

<u>The Concessions of 1983</u>

Based on a survey maintained by the Bureau of National Affairs, it is possible to track those union settlements involving pay freezes or cuts. Table 36 presents a tabulation of such agreements by industry and union for the first 9 months of 1983. The table reveals that despite the high degree of publicity given to certain national settlements, concession bargaining was heavily concentrated in the largely local construction sector. In construction, unions have been faced with a steady rise of competition from nonunion contractors in an industry characterized by sharp reductions in employment during recessions. For all industries combined, concession bargains accounted for about 30 percent of all settlements in 1983.

During the 1970s, contracts with COLA clauses averaged higher rates of wage increases than non-COLA contracts. COLA clauses were retained in some form in 30 percent of concession contracts, as shown in Table 37. Only a few COLA eliminations occurred. More common was the inclusion of some form of limitation on the COLA.

Since COLA clauses assist in negotiating multi-year agreements, it is not surprising that the principle of long-term contracts has not been abandoned, even in the concession sector. Contract duration has shortened somewhat due to the general climate of uncertainty. But contract durations among the concession group still averaged almost 2.5 years.

While there is some scope for continued concession bargaining in 1984, it is unlikely that further concessions will be prevalent in some major industries. The auto industry is a prominent example. Yet, past concessions have encouraged management to take a hard line in several bargaining situations.

Table 36. SUMMARY OF UNION CONTRACTS WITH WAGE FREEZES OR DECREASES THROUGH THIRD QUARTER 1983

sector	Steelworkers	Food and Commercial Workers	Teamsters	Laborers	Carpenters	Operating Engineers	Plasterers	Auto Workers	Iron Workers	Plumbers	Other Unions	Percent of all wage freezes and decreases	Wage decreases as percent of freezes and decreases
construction			X	X	X	X	X		X	X	X	50.0%	25.4%
metals	X		X		X			X	X		X	12.8	37.2
machinery	X							X			X	7.5	23.1
retail foodstores		X	X								X	6.1	19.0
printing and publishing			X								X	3.8	0
lumber					X						X	3.5	0
meatpacking		X										2.8	100.0
paper					X						X	1.7	0
public transit											X	1.7	0
motor vehicles								X				1.2	0
other sectors	X		X								X	9.0	9.7
Percent of all wage freezes and decreases	8.7	7.5	7.2	7.2	6.9	6.6	6.4	5.8	4.9	4.6	34.1	100.0%	23.1%

Note: Details need not add to totals due to rounding.

Source: Daily Labor Report, various issues

Table 37. CHARACTERISTICS OF CONTRACTS CONTAINING WAGE FREEZES OR DECREASES THROUGH THIRD QUARTER 1983

	Freezes (1)	Decreases (2)	Total (3)
Number of Contracts	266	80	346
-Number with Active Escalator	84	20	104
Limitations on Escalator[a/]	46	15	61
Escalator Retained but Frozen	1	2	3
-Escalator Reported Eliminated	2	4	6
-Number of Contracts Resulting From Reopening of Prior Contract	11	11	22
-Mean Contract Duration (Months)	29.3	28.5	29.1

a/ Unusual features such as diversion of escalator money into fringes, corridors, formula changes less favorable to employees.

Source: Daily Labor Report, various issues.

The resort to bankruptcy in Wilson Foods and Continental Airlines was used to terminate existing union contracts. A Supreme Court decision due in 1984 is expected to clarify the legality of this tactic. But it is possible to take a hard line without engaging in legal exotica, as the replacement of striking bus drivers and other workers by Greyhound demonstrated.

The influence of the political climate on such hardline strategies is impossible to quantify. But it is there, and it explains why organized labor is placing so much emphasis on the 1984 presidential elections. It was, after all, President Reagan who took a hardline stance in the federal dispute with the air traffic controllers and replaced the striking workers. Organized labor assumes that a "friendly" candidate would set a different tone in industrial relations.

Major National Negotiations in 1984.

A diversified group of bargaining units will be re-negotiating their labor-management contracts in 1984. The more prominent of these are listed on Table 38. Two of these have a background of prior or companion concessions. In the railroad industry--where there is always the potential for economy-wide effects of a strike--special concessions were given to Amtrak and Conrail. Both of these negotiations now take place apart from the bargaining with the regular, private carriers. In the case of Conrail, the unions hope to buy the company and have submitted an offer to do so.

In the auto industry, concessions to the "Big-3" began with Chrysler in 1979 as part of a package to obtain federal loan guarantees. By early 1982, what had appeared initially to be the special problems of Chrysler had spread to GM and Ford. The GM and Ford negotiations resulted in wage freezes and COLA deferrals on the union side in exchange for various income and job security arrangements. A key question is the degree to which auto union leaders can restrain rank-and-file demands for a quick catch up to the old 3 percent plus COLA formula dropped in 1982. In late 1982 and early 1983, the union leadership had trouble controlling negotiations, and a strike ensued at Chrysler. Yet, the Chrysler case may serve as an example. To obtain a better wage deal in early 1983, the union gave up its profit-sharing plan just when the plan was about to pay off. In contrast, GM and Ford workers will have received payments under their profit-sharing schemes. The ability of the parties to come to an accommodation over the prospective reopening of a former GM plant in Northern California under a joint arrangement with Toyota is also a good sign.

Oil-industry negotiations will be among the first in 1984. Two years ago, negotiations went fairly smoothly, except at Texaco, where a prolonged strike erupted from a pension dispute. This year, observers have characterized union demands formulated over the summer as "less extensive" than those of the 1982 bargaining round. The union's proposals include various job security demands.

Two contracts which will expire in 1984 illustrate the potential cost to employers of not having a COLA clause. The West Coast longshore industry and the eastern coal mining industry both signed 3-year contracts in 1981, a period of declining inflation, without escalators. As a result, workers received adjustments of over 10 percent per annum, a rate which significantly exceeded average wage increases. The West Coast longshore industry has not been especially strike prone and past gains in real wages contribute to the prospect of a peaceful settlement. In contrast, leadership problems in the mineworkers union contributed to strikes in the 1970s. Efforts have been made to improve industrial relations in the industry, and the union's president, Richard Trumka, has described its stance as less confrontational than in the past. His employer counterpart has similarly characterized the new employer position as one of "problem solving." Both sides have been conscious of the impact of nonunion coal, especially from western strip mines.

The last Postal Service contract was in the process of ratification at the time of the PATCO strike of air traffic controllers in 1981. Some observers thought then that the PATCO example provided an incentive to ratify what otherwise appeared to be a modest settlement. In addition, the agreement itself carried a ratification bonus along with other lump-sum payments. There may be some membership dissatisfaction with the contract, however. In one of the major unions, the incumbent president barely survived a recent election challenge.

Price Trends

The official consumer price index (CPI-U) recorded increases of 13.3 percent in 1979, 12.4 percent in 1980, 8.9 percent in 1981, and 3.9 percent in 1982. For the first nine months of 1983, the annual rate of increase was 4.3 percent seemingly a modest acceleration. However, until 1983, the CPI was affected by an erratic housing component which was then replaced by a new methodology. The bottom row of Table 40 shows how the CPI would have performed under the new definitions. Even with this retroactive adjustment no acceleration occurred in 1983.

Despite the housing adjustment, the CPI is affected by certain commodities with volatile prices, notably food and energy. Table 39 presents an index of nonvolatile prices based on subcomponents of the CPI, both commodities and services. The combined index--and a companion index which has been weighted to reflect the overall importance of goods versus services--both show a steady decline in the inflation rate after 1980. But both suggest that the underlying rate of inflation has been in the 5 to 6 percent range rather than the official index's 4 to 5 percent range. Thus, forecasts of increases in the CPI in 1984 of 5 to 6 percent do not call for an acceleration of basic inflationary forces.

Table 38. MAJOR NATIONAL UNION CONTRACT EXPIRATIONS IN 1984

Month	Industry/Employer	Major Union (workers)	Annual Wage Increase Under Expiring Conference	COLA Clause Under Expiring Contract?
January	Oil Industry	Oil, Chemical, and Atomic Workers (27,800)	8%/year over 24 months	no
June	Railroads/Class-1[a]	United Transportation Union and others (287,100)	7%/year over 39 months[b]	yes (capped)
July	West Coast Longshore	Int'l Longshore and Warehousemen (11,000)	10.6%/year over 36 months	no
	U.S. Postal Service	Postal Workers, Letter Carriers, others (568,000)	5%/year[c] over 36 months	yes
September	Automobiles: GM, Ford[d]	United Auto Workers (430,000)	4%/year[e] over 30 months	yes
	Coal Mining	United Mine Workers (172,000)	10.6%/year over 39 months	no[f]

a/ Separate pacts must be negotiated with Conrail and Amtrak, both of which have received concessions.

b/ The first contracts were negotiated in Nov. 1981 retroactive to April 1981. An emergency board report led to a 4-day strike and a Congressionally-mandated settlement in September 1982.

c/ The Mailhandlers (Laborers Union) received a larger settlement under an arbitration award. Postal employees also received various lump-sum bonuses totaling $1200. Estimate on table includes projection of March 1984 COLA increase.

d/ Chrysler contract negotiated in 1982 expires in October 1985;
Volkswagen contract negotiated in 1983 expires in March 1986;
AMC contracts negotiated in 1982 expire in January and September 1985.

e/ Figure on table includes allowance for future COLA increases.

f/ Certain guaranteed increases are designated as "cost-of-living adjustments" but are not contingent on the CPI or any other index.

Table 39. SELECTED PRICE TRENDS, 1979-83
(ANNUAL PERCENT RATE OF CHANGE)

Components of Consumer Price Index	CPI-U Weight in Dec. 1979	1979	1980	1981	1982	First 9 Months of 1983
Commodities less food and energy	34.488%	8.8	9.9	5.9	5.8	5.1
Medical care services	4.015	10.6	10.0	12.7	11.2	6.3
Other services a/	4.285	8.1	10.1	9.4	8.2	6.2
Combined	42.788	8.9	9.9	6.9	6.5	5.3
Reweighted b/	-	9.8	10.0	8.0	7.4	5.6
Note: Adjusted CPI c/	-	10.8	10.8	8.5	5.0	4.3

a/ Excludes rent, household services less rent, and transportation services

b/ The two service components were combined using their weights. The combined service component was then weighted by 40.937% and the commodity component was weighted by 59.063%. These weights are respectively the December 1979 weights for all services and all commodities in CPI-U.

c/ Figures are for CPI-U-XI for 1979-82; CPI-U for 1983.

Source: U.S. Bureau of Labor Statistics.

The Wage-Price Outlook.

Table 40 reports the results of various surveys of salary intentions for 1984. Workers covered in the surveys are basically white-collar, a group which received above average pay increases during the past year. The surveys suggest that personnel managers are planning for pay increases in the 6 to 7 percent range in 1984.

Inclusion of blue-collar workers might well lower the average projected pay increases. But some allowance has to be made for fringe benefit creep and for increases in Social Security payroll taxes. Thus, total compensation adjustments of 6 to 7 percent seem to be a reasonable expectation.

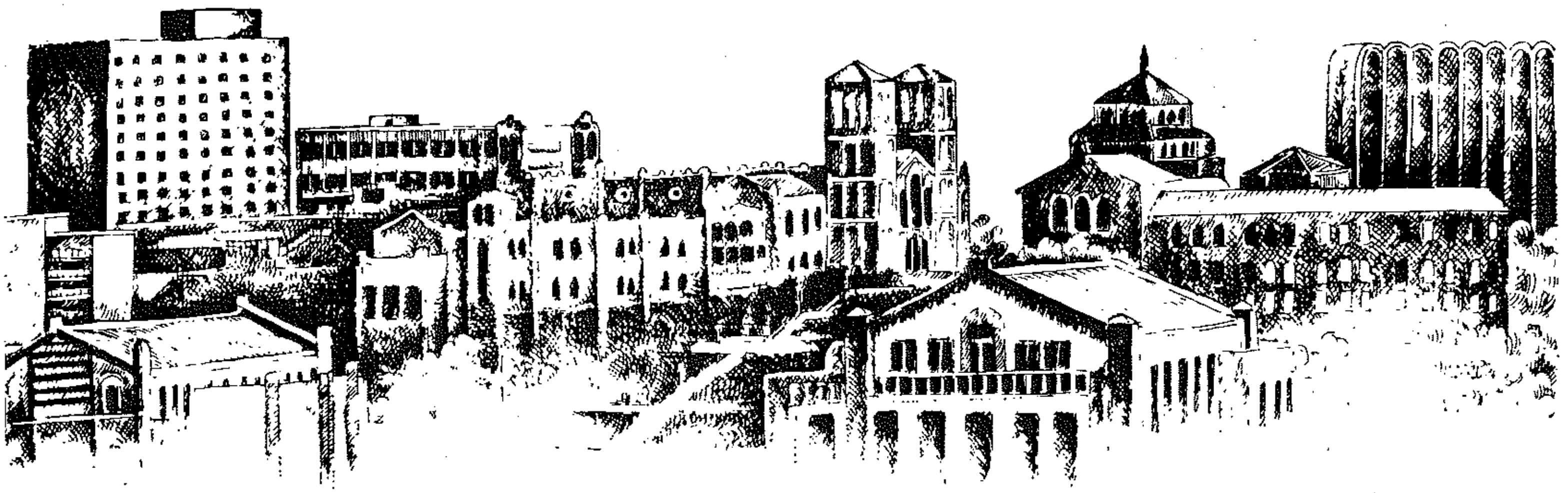
The rate of productivity improvement has been rapid as the economy recovers from the deep recession of 1981-82. This is a normal cyclical effect. However, most studies suggest that the trend in productivity--not current productivity changes-is the linkage between wages and prices. Hence, a continuation of the 5 to 6 percent trend in the underlying inflation rate is a reasonable expectation for 1984. This forecast is a refreshing contrast to standard forecasts made in the 1970s which assumed that any economic pickup had to bring with it a significant acceleration in inflation.

Table 40 SURVEY ESTIMATES OF SALARY INCREASES IN 1983 AND 1984

(Percent)

Survey Made By:	Employee Group	Estimated Increase in 1983	Planned Increase in 1984
American Compensation Association	Executive	6.9	6.7
	Exempt Salaried	6.9	6.7
	Non-exempt Salaried	6.8	6.6
Executive Compensation Service	All Salaried	N.A.	6.8
A.S. Hansen	Exempt Salaried	7.1	6.9
	Non-exempt Salaried	6.9	6.7
Hewitt Associates	Executive	6.6	6.6
	Exempt Salaried	6.2	6.3
	Non-exempt Salaried	6.1	6.2
Sibson & Company	All Salaried	6.7	6.6

Source: The Conference Board



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