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CWA Wage Negotiations Following the Divestiture of AT&T

By James Peoples //

After more than 70 years of regulation, the 1984 divestiture of AT&T vastly transformed the structure of the telecommunications industry. It has gone from consisting of one dominant firm to a few regional operating companies and a number of competitors in long distance and in telecommunication equipment manufacturing. The change brought about by divestiture has overflowed into the industry's labor market and presents the industry's largest union, the CWA, with the challenge of sustaining its impressive wage growth and maintaining its national and regional wage advantage.

Financial Benefits from Regulation

Since 1913 AT&T has faced industry regulation of entry and of rates. Entry regulation prohibited potential competitors from providing telecommunication services. The use of underground cables to transmit voice signals made it cost efficient for only one company to provide transmission service. If more than one firm furnished telecommunication services and used cable transmission, unnecessary duplication of facilities would occur.

Organized workers in the industry were likely to have benefitted financially from entry regulation in two ways. First, entry regulation reduced the threat of non-union competition. Large unions are usually able to use their bargaining advantage to negotiate wage agreements that are superior to the wage gains granted to non-union workers. By 1977, 59.2 percent of the industry work force belonged to a labor union. The CWA

was the largest telecommunications union with over 550,000 members and the IBEW was second with nearly 100,000.

Entry regulation possibly contributed to high telecommunication wage levels by removing the cut throat pricing behavior, which usually increases companies' resistance to union wage requests. Protected from significant competition, AT&T paid its non-salaried workers on average \$280 a week as compared to \$220 for workers employed in non-regulated industries in 1977. Even though AT&T employees received above average wages, the Bell System amassed over \$6 billion in profits for the year.

AT&T also faced rate regulation. AT&T's rate of return on capital was set by state and federal agencies to assure the availability of sufficient capital for universal and affordable telecommunication service. Some economists suggest that before divestiture regulatory agencies did not seriously consider wage negotiations when setting rates. They contend a liberal view towards wage gains contributed to the above average wage levels in this industry. However, it is more likely that regulatory agencies believed that telecommunication wage gains were more than offset by the high average annual industry productivity growth of 4.9 percent during the 1970s. The high rate of productivity growth, coupled with declining numbers of non-salaried workers, contributed to a low average annual labor cost-total cost ratio. Information provided by the CWA reveals that on average only 30 percent of operating expenses passed on to customers were attributable to labor compensation.

Growing Competitiveness and the Break-up of the Bell System

Court rulings in favor of greater competition opened the door for non-Bell companies to enter long distance services and supply telecommunication equipment before the 1982 consent decree. The 1982 Antitrust Consent decree, however, presented non-Bell companies with a realistic chance at successfully competing with AT&T.

The 1982 consent decree required Bell operating companies (BOCs) to give non-Bell long distance companies the same local access to the Bell telecommunication network as

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AT&T's long distance carrier received. AT&T Long Lines was since renamed AT&T Communications and is the Bell company that provides long distance services. By making it easier for long distance customers to use non-Bell services, non-Bell companies improved their chances of competing in this market. However, AT&T Long Lines responded to the new competitive environment by filing for price reductions eight times since divestiture. Low long distance prices have made it difficult for MCI and other non-Bell competitors to maintain healthy profit margins. Considering that AT&T has a cost advantage in this market suggests that it is likely AT&T Communications will maintain its large market share in long distance telecommunication services and charge low service prices.

The major provision of the settlement stipulated the 1984 divestiture of the Bell operating companies from AT&T. Divestiture also provided the BOCs the option of purchasing telecommunication equipment from suppliers other than Western Electric, which is AT&T's manufacturing branch. This provision set forth a significant move towards greater competition in the manufacturing division of the industry and allowed non-Bell manufacturers to broaden their market base to include the BOCs as potential customers. These competitors have been quite successful. Notably, Northern Telecommunications had a 37 percent share of the U.S. market by 1985.

If regulation contributed to telecommunication wage premiums then, divestiture could initiate slowed wage growth. Unless the CWA is able to take wages out of competitive pricing by negotiating similar wage gains for AT&T and non-Bell companies, organized workers could encounter difficulty receiving wage gains similar to those obtained in the past. At first glance, the prospect of decelerated wage growth seems to only be a problem for workers employed in the long distance and manufacturing sectors, and not for the BOCs. Bell operating companies are virtually the only local providers of telecommunication transmission and can grant wage demands without fear of market share erosion. Closer examination reveals, however, that the bargaining structure evolving from divestiture could weaken the CWA's national influence by requiring the union to bargain with separate companies that have varying capabilities to grant wage gains like those received before divestiture.

The CWA's Response to Changes in the Bargaining Structure

The CWA took a three prong approach to contend with changes brought on by divestiture. First, the CWA attempted to bargain nationally with AT&T and regionally with the regional Bell operating companies (RBOCs). This proposed bargaining arrangement would reduce the chance of arriving at agreements that vary across the five companies represented by AT&T and the 22 Bell operating companies represented by the RBOCs. The CWA was able to continue national bargaining with AT&T. Efforts at bargaining with the seven RBOCs

rather than with the 22 BOCs were partially successful. Five of the seven RBOCs agreed to regional bargaining. The eight BOCs that form Ameritech and U.S. West bargained on an individual company basis.

Second, to enhance their negotiation effectiveness, the CWA changed its internal structure to match the Bell systems segmented market structure. The bargaining council was split into 2 separate councils: one for AT&T and one for the RBOCs. The number of representation districts were changed from 13 to 8, with one district for each RBOC except Bell Atlantic, which has 2.

Last, in reaction to the entrance of less unionized companies into the industry, the CWA placed high priority on organizing the unregulated sector of the industry. By 1987 the CWA won the right to represent a small group of technicians and service managers at Pacific Telesis Info Systems, a subsidiary of the Pacific Telesis operating company. The organization campaign at Pacific Telesis was the union's first in this sector of the industry. The CWA also explored the prospect of organizing MCI sales workers in Springfield Illinois.

1986 Wage Negotiation Outcomes

Negotiation results from 1986 yields information about the CWA's success at sustaining its admirable wage growth. Wage provisions of the AT&T contract set average *general* wage increase at 2 percent for the first year and 3 percent for each of the following years. General wage gains do not include COLAs, profit sharing or lump sum payments. The 1986 general gains are improvements over those secured in the 1983 wage negotiations. AT&T employees, however, lost the use of a COLA for the duration of the three year contract. The 1986 exclusion of the COLA clause resulted in smaller *total* wage gains in 1986 relative to the *total* wage gains CWA members received from the 1983 settlement. In the past, the CWA negotiated for COLAs that increased pay by an additional 80 percent of the rise in the CPI. Not using the COLA provision gives AT&T greater certainty about future wage expenses. This certainty is important because it allows AT&T to request lower rate changes with the use of accurate information about possible profit implications of price reductions.

General BOC wage settlements were smaller than AT&T's and ranged from a low of 3.5 percent at Mountain Bell and Northwestern Bell to a high of 7.75 percent for Ameritech operating companies. Attainment of profit sharing provisions, COLAs and lump sum payments also varied across regions. Other than Pacific Telesis and U.S. West, BOCs provided some cost of living adjustments. Slightly over half of the companies agreed to additional lump sum payments and four sevenths of the companies provided some form of profit sharing. Together with the general wage agreement these wage provisions make up the total wage package. Mountain Bell and Northwestern Bell workers received the smallest total wage packages. These two regions encompass mostly depressed agricultural economies and weak labor markets. By comparison, Pacific

Telesis workers received the best total wage package. The majority of these workers are employed in California, which had a vibrant economy and robust labor markets before the 1986 negotiations. All of the BOCs, except Mountain Bell and Northwestern Bell, provided their members with greater total wage gains than those received by their counterparts employed by AT&T. Total wage gains that surpassed those at AT&T are due primarily to the additional non-general wage payments provided by the BOCs. Negotiating for a non-general wage provision such as profit sharing from BOCs is likely to be potentially rewarding after considering that on average BOCs, profits per sale were 11 percent in 1985. AT&T's profits per share were 4.4 percent for the same year.

Overall, telecommunication workers were able to maintain their high national wage position. On average they received 17 to 34 percent higher wage levels than similar workers employed in non-telecommunication industries for 1987. Telecommunication wage premiums persisted across all operating regions. These impressive wage outcomes are indicative of the CWA's successful adjustment to the changing bargaining structure in this industry.

Prospects for Future Successful Wage Negotiations

The CWA's prompt reaction to divestiture played a key role in its wage negotiation success. Future negotiations pose new challenges, however. Organized workers employed at BOCs are susceptible to differing emphasis placed on wage rates in the rate determination process by state regulatory agencies. Even though labor costs were not seriously considered in rate reviews in the 1960s and 1970s, telecommunication wage gains have received greater attention from regulatory commissions in the 1980s. For example, in 1987, the Arkansas state regulatory agency ruled that telecommunication wage demands were abnormally higher than wage levels for compatible workers in the state. The commission ordered Southwestern Bell to not pass these wage gains on to customers in the form of higher prices. If regulation commissions become active participants in determining workers' wage levels, then stringent rate regulation could lead to smaller regional telecommunication premiums.

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