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UNION VERSUS NONUNION
Wage Norm Shifts

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Empirical investigations of wage determination have often produced autocorrelated residuals from time-series wage equations. Runs of over- or underprediction have usually been regarded as weaknesses in specification to be corrected or explained away. In 1980, however, George Perry suggested that such runs represent an important, if neglected, characteristic of American wage setting. He argued that "norms" of wage change develop in the labor market. These norms, according to Perry, change discretely; there are periods of more or less wage "pushiness."

Aggregate wage indexes can be influenced, even if norm shifts are not fully reflected everywhere, providing those sectors which are affected have sufficient weight in the indexes. An obvious division in the labor market is between the union and nonunion sectors. There is reason to believe that while there has been a (downward) shift in wage norms recently, the impact has been concentrated in the union sector. (Mitchell) Indeed, the union sector is probably inherently more prone to norm shifts than the nonunion.

I. Union Sector Developments.

Table 1 is supportive of this proposition. The table shows trends in wage determination trends major union agreements and in an index of selected nonunion wages over various subperiods covering the years 1961-84. Union wage settlements which appear on the table are those involving large numbers of workers and are often considered to be trend setters for other union negotiations. The industries selected for the nonunion series are those where there is very little unionization and union activity; they are "purely" nonunion in the sense that there is little likelihood of union spillover or threat effects in their wage decisions.

Union wages exhibit more variation than nonunion over the period covered. For example, the nonunion wage series shows less acceleration during the inflationary 1970s than the union series. In the most recent subperiod shown -- years when the union wage concession movement was in full swing -- the nonunion wage index shows less deceleration from the past and outpaces the union index.

First-year union wage freezes and cuts began to appear in significant numbers in 1981. During the first 9 months of 1985, 3 years after the 1982 recession trough, freezes and cuts still represented over a fifth of new union settlements. Various devices have been introduced in the union sector to accommodate a downward norm shift. These include introduction of "two-tier" pay plans (which provide lower wage schedules for new hires), and the substitution of lump-sum bonuses for increases in base wage rates. While elimination of cost-of-living adjustment clauses (COLAs) has not been especially common, the restriction of COLA formulas to provide less money has become widespread.

One characteristic of union wage setting is the use of long-duration contracts. So far there has been little evidence of a substantial shift to shorter contracts during the concession period. There has been a limited move toward profit sharing in union contracts during the concession era. Both developments represent management preferences; management dislikes like short contracts because of the strike-related uncertainty of frequent renegotiations. But management has evinced an interest in sharing product-market risk with workers via profit sharing.

II. Historical Evidence.

Economists generally view the labor market as dominated by an impersonal, invisible hand. Yet the norm concept suggests that shifts in the balance between organized labor and management -- sometimes supported by the external legal and political environment -- play an important role in union wage outcomes. Wage norms have shifted down after episodes in which management comes to feel that unions have gone "too" far in pressing their claims. Union/nonunion wage differentials are one index -- but not the exclusive index -- of such episodes. Three periods of management counterreaction are reported on Table 2. In the earliest case, management's reaction was mainly a drive for the nonunion alternative. The second case -- while not devoid of such goals -- was largely characterized by a management attempt to hold back labor costs in the context of a bargaining relationship. Finally, the most recent episode has featured strong management thrusts in both areas: holding down wage increases and seeking nonunion operations.

During World War I, union membership rapidly increased under protective federal policies aimed at avoiding industrial unrest. Management reacted with a considerable effort to professionalize personnel policy in order to avoid unionization and reduce quits. Despite membership gains, union real wages initially slipped in the face of accelerating inflation. But union resistance to nominal wage cuts led to real wage gains in the immediate postwar deflation and a large jump in the union/nonunion wage gap. Management responded in the early 1920s with an "open shop" drive. The primary goal was to avoid unions altogether rather than close the gap. Company unions were created and unions were pushed from many major industries. The legal and political system was no longer supportive of unionization; quite the contrary. Faced with adversity, however, unions emphasized cooperation with management in certain prominent, well-publicized situations. As in the 1980s, cooperative themes in some industries coexisted with a management drive in others to remain or become nonunion. Strike activity declined.

Perry identifies the early 1960s as a period of a downward wage norm shift. In terms of the political climate, there was a marked difference between the 1920s and 1960s. But, there were also some parallels. Prior to the norm downshift, union/nonunion wage differentials widened. The Landrum-Griffin Act, which regulates union conduct, was adopted over union objections in 1959. National Labor Relations Board (NLRB) data suggest that management became more willing to test the limits of the legal system at about the time the wage norm began to shift. Management also evidenced a growing concern to regain control of the workplace through reduction in retrictive workrules, e.g., in steel and railroads.

The beginnings of the relative slippage in unionization of the workforce were sufficiently marked by the early 1960s to spark an academic debate on the future of unionism. Concern about job loss led to numerous conferences on "automation," a foreshadowing of the "robotics" discussions of the 1980s. Foreign competition began to intrude in some industries, notably steel. Well-publicized cooperative experiments were undertaken, and strike activity declined. Federal wage guideposts reinforced the idea of wage moderation.

Demand pressure eventually overcame these tendencies during the Vietnam War era. Such pressures could have the same effect in the late 1980s, if they arise again. However, the legal and political environment in the 1980s is more adverse to unions in the current period than it was in the 1960s. The recent misfortunes of the labor movement have become such standard media fare that there is little need to cite them here. Suffice it to say that the administration of basic labor law has shifted substantially under the Reagan administration. Mondale's electoral debacle had a demoralizing effect on AFL-CIO leaders. Alternatives to conventional bargaining as the major function of unions and to use of the NLRB framework are now openly debated in union circles.

As in previous periods, especially the 1920s, management attitudes toward unions have been partly conditioned by earlier labor relations developments. In the late 1960s, there was a wave of strikes and rank-and-file rejections of tentative settlements. This wave was followed in the 1970s by a widening of union/nonunion wage differentials. Management's reaction to this previous militancy is now apparent.

Researchers have recently found evidence changes in management strategy in the late 1960s, i.e., in the period when wage norms were shifting up, toward more concentrated union avoidance. (Kochan et al) In some companies, these changes took the form of increased concern for "human resources." Substitutes for unions in the form of improved communications with employees were sought. It is hard to resist the parallels between the employee representation (company union) schemes of the 1920s and latter-day "quality circles"! In other cases, more overt actions were taken, ranging from citing new plants in nonunion areas to dismissals of union organizers. Management's efforts in the post-1979 economic slump were expanded to encompass concession bargaining as well as union avoidance.

III. Union Membership Losses.

During the 1970s, an underlying erosion of unionization was masked by economic expansion. Growth in public sector unionization also tended to compensate for private sector slippage. However, in the early 1980s, absolute membership losses became substantial. Unions represented about 2 million fewer workers under major agreements in the private sector in 1984 than they did in 1979. The usual explanation given is a decline of employment in "smokestack" industries. However, using a 41-industry breakdown of nonsupervisory employment trends, I find that only about one fourth of this drop was explicable by employment shifts. (Mitchell) Most of it stemmed from declining union representation WITHIN industries.

Given membership trends, the union wage norm shift of the 1980s must be viewed as part of a larger phenomenon with potentially more lasting effects than the 1960s episode. Indeed, the most lasting effect of the current period may be greater weight in total wage setting of nonunion employers. In that regard, the 1980s more closely resemble the 1920s than the early 1960s.

Despite the downward trend, the union sector is still large enough to influence the major wage indexes. That is why aggregate wage indexes -- especially hourly earnings -- have shown surprisingly low rates of wage inflation. (Hourly earnings data data exclude nonsupervisory workers who are largely nonunion). Union workers have higher average pay levels than nonunion and tend to work more hours. Their payroll weight is thus higher than their employment weight. While the frequency of wage freezes and cuts will undoubtedly decline, and while some predict that management will eventually overreach itself and produce a pro-union backlash, neither of these effects is likely to lead to a substantial upward shift in union wage norms in the near term.

IV. Nonunion Norm Shifts?

There are reasons to doubt that the norm concept is as applicable to nonunion wage setting as it is to union. Empirical research indicates that nonunion wages are more responsive to short-run demand fluctuations than union. During the economic slump of the early 1980s, survey data suggest that nonunion managers quickly revised downward their planned pay adjustments as demand for labor fell.

For example, Hewitt surveys indicated that wage increases planned for 1982 were revised downward from a projected 9.0-9.3% as of the summer of 1981 to an estimated 7.6-7.9% by mid-1982. Even this midstream estimate from the 1982 survey is higher than the actual 6.4% reported by the Bureau of Labor Statistics for white collar (largely nonunion) employees. Thus, the nonunion managers apparently made still further downward revisions during 1982. To the extent that nonunion wage freezes and cuts were used, they tended to be of short duration (less than a year).

Nonunion wages are not set in long-term contracts. And the strategic uncertainties of bargaining are not present in the nonunion sector. Long horizons of union contracts require the negotiators to look for estimates of future general wage trends, a requirement conducive to a wage norm mechanism. In addition, the parties must estimate the other sides' willingness to inflict costs in the event of an impasse in the union sector.

Since it is costly to determine this willingness experimentally, one side or the other may accumulate unexploited bargaining power. Thus, management may have had more bargaining clout that it realized in the 1970s, a period in which the union/nonunion wage differential was allowed to widen. Once a few managements were forced to discover their power by the economic slump of the early 1980s, other managements were induced to test their own ability to extract concessions. Thus, concessions spilled out into industries such as supermarkets where it is hard to tell tales of de-regulation, special cyclical sensitivity, or imports. Again, there is no counterpart to such phenomena in the nonunion sector.

Even if nonunion wage setting is not norm prone, it is sensitive to demand. Nonunion wage setting will reflect macro policy. So far, the monetary authorities have elected a policy of maintaining a loose labor market rather than risk renewed inflation. As long as that policy continues, the nonunion sector is unlikely to become a source of cost pressures.

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Table 1

Trends in Union and Nonunion Wages, 1961-84
(annualized percent changes)

Period	Median Adjustments in Major Union Agreements	Adjustments in Earnings of Selected Nonunion Industries
1961-64	2.8%	3.3%
1965-69	4.4	5.6
1970-75	7.8	5.6
1976-79	8.4	7.0
1980-82	9.3	7.3
1983-84	4.2	4.8

Note: Nonunion series is percent changes in annual average hourly earnings in SIC 533 (variety stores), SIC 56 (apparel stores), SIC 57 (furniture stores), and SIC 60 (banking). Figures for the four industries are averaged using 1979 nonsupervisory employment weights. Table figures are simple averages of yearly data for each period.

Table 2

Wage Trends and Related Indicators in Three Periods

Period	Ratio: Union-to-Average Wage, Percent Change	Annual Strike Index (First sub-period = 100)	Change in Union Membership (millions)
1917-20	1.5	100	+2.3
1921-22	25.1	47	-1.0
1923-26	4.7	35	-.5
1956-58	5.4	100	+.2
1959-60	.3	78	0.0
1961-64	-1.7	70	-.2
1976-79	2.0	100	+.2
1980-82	2.7	57	-2.8
1982-84	-1.1	32	-.4

Note: The union-to-average wage series refers to manufacturing for 1917-26 and to the private, nonfarm economy for later periods. For 1917-26, the Douglas union wage series has been divided by BLS average hourly earnings. For 1956-64, estimates based on BLS data for major union contracts have been divided by average hourly earnings. For 1976-84, data were drawn from the BLS Employment Cost Index for wages and salaries. The strike index refers to all reported disputes for 1917-26 and for major disputes (1,000 or more workers) for 1956-64 and 1976-84. Union membership changes are drawn from the Wolman series for 1917-26, from BLS membership surveys for 1956-64, and from a combination of data from the Current Population Survey and the Bureau of National Affairs for 1976-84. Details are available from the author.