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THE CARTER ADMINISTRATION'S WAGE AND PRICE GUIDELINES

October 1 starts the second year of the Carter administration's "voluntary" wage and price guidelines. Coupled with fiscal restraint and "tight money" policies, the guidelines form the centerpiece of President Carter's anti-inflation strategy. While higher interest rates and lower government spending are expected to cool off the economy as a whole, the guidelines are designed to lower inflation by "jawboning" excessive wage and price changes, especially in the highly visible sector of the 400 largest corporations. Presumably, by getting everyone to watch everyone else, firms will be less willing to raise prices and workers will be too embarrassed to ask for higher wages.

1. What was Proposed:

Originally, the guidelines were supposed to limit wage hikes to no more than 7% a year and 22.5% over three years. However, prices were allowed to rise up to 9.5% a year, a difference of 2.5%. The guidelines also provided for special "pass along" price increases reflecting rising raw materials or energy costs, and for other price hikes necessary to maintain profit margins. COWPS (Council on Wage and Price Stability), the agency in charge of implementing the guidelines, did exempt from coverage all workers earning less than $4.00 an hour; it also authorized exclusion of weak or unprofitable companies.

Firms had some incentive to stay within the guidelines, from the threat that the federal government would not contract with those who did not conform. What about workers? Here the carrot of real wage insurance was held out to encourage worker allegiance. This was a proposed rebate program which would kick back taxes to all workers, union or non-union, whose wage increases stayed within the 7% standard despite the existence of higher levels of inflation.

2. What Actually Happened:

The "voluntary" guidelines were plagued with trouble from the start. Sharp rises in energy costs led many firms to pass along price hikes. This placed added pressure on workers to obtain wage increases in order to cover their higher living costs. In addition, the real wage insurance program quickly died in Congress, and COWPS was left only with its policy of withholding federal contracts to enforce the guidelines. The AFL-CIO immediately questioned the legality of this tactic. Although labor was initially successful in court, the decision was reversed on appeal and the Supreme Court has refused to hear the case. At any rate, this policy of contract denial is of limited effectiveness, because many firms have no federal contracts or else are the only suppliers available to the government.

The result so far is that the guidelines have no teeth. To maintain the image of compliance, COWPS has been forced to make numerous exceptions for violators. More and more loopholes have been sanctioned, enabling firms to circumvent the guidelines. Some exceptions include those granted because of productivity--improving workrules, acute labor shortages, maintenance of interfirm wage parities, and the elimination of intrafirm wage inequities. As of July, over 250 exceptions had already been granted.

Labor unions have also forced COWPS to make concessions. The only major union to comply fully with the standards was OCAW, which had the dubious distinction of being the first union to start the 1979 round of collective bargaining. The IAM mechanics of United Airlines won a 37.5% three year package, which was declared in compliance because it followed an industry pattern established before the voluntary controls were implemented. COWPS then declared that wage hikes obtained from cost of living clauses were within the guidelines, although the existing inflation rate could result in a much higher wage increase. This rule enabled the Teamsters and the G.E. electrical workers to "stay within" the guidelines. The packinghouse workers and the rubber workers each bent the guidelines still more. The guidelines were never even mentioned during the recent UAW-GM negotiations.

3. Winners and Losers

In one sense, the losers have been those unions with weak cost of living clauses or with no coverage at all, and those workers employed in the non-union sector. Many workers feel that employers have used wage guidelines compliance as a strategy to keep wages down while raising prices. Rumblings from both groups, and from non-union employers, have now led COWPS to consider an upward revision of the 7% standard, a virtual admission of failure.

In a broader sense, all workers have been losing. Inflation still continues at a double digit rate of 12 - 13%. But price increases for basic goods--food, energy, housing and medical care--which are necessities but are not covered by the guidelines, have been rising at 16% or higher. Presently, almost two thirds of the typical worker's budget is spent on these items. The current inflation rate has battered the living standards of workers, since hourly earnings for production have been increasing at an annual rate of 7.5%.

High interest rates put an added burden on working people. Unemployment, already high, increased dramatically in August and the subsequent fall is regarded as temporary. The "voluntary" wage and price guidelines just haven't done the job of slowing inflation. What is needed is an expansionary program to provide jobs, coupled with an equitable but more compulsory wage and price control program to control inflation.

The White House, following an AFL-CIO recommendation, recently set up a 15 member tripartite board to consider wage policies and to handle appeals under the wage standard. A similar panel is being established to advise on price control policy. Only time will tell whether these new government boards will have any success in slowing inflation. The administration now feels that it must rely almost exclusively on voluntary cooperation and participation by labor and management, since it has agreed to drop the sanction of withholding federal contracts from noncomplying firms.

- Charlie Jeszeck