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TWO-TIER WAGES

by Lisa Saunders

Increasingly over the last two years employers have been proposing two-tier wage agreements in an effort, they claim, to remain competitive with other firms in their respective industries. Unions that have agreed to two-tier plans argue their only choice was between two-tier wage contracts and across the board cuts in wages for current members. There is evidence that such agreements have serious implications for disharmony among members, difficulty in subsequent wage negotiations and overall loss of bargaining strength by the unions.

The BLS estimates one third of new contracts have wage tiers. The industries where two-tier pay scales have been instituted this year to the greatest degree include, airlines (35%), retail/wholesale (32%) and motor transportation (17%). The experience is varied by industry, location and firm.

Two-tier wage agreements allow employers to pay newly hired workers lower wages and/or benefits than workers hired under the previous contract. Often the new hires can expect to receive smaller salary increases and lower ceiling salaries than senior employees in the same positions. Sometimes the agreements allow new hires' salaries to catch up and other times they do not. The amount of time it takes to catch up ranges between 10-20 years in most cases.

A Few Recent Cases -- GM's Delco plant in Rochester recently negotiated a two-tier wage agreement with the IUE. The plant manufactures motors for electrical windows, windshield wipers, antennas, etc. The new wage scale includes pay and benefit cuts for new hires and retirement incentives for employees hired under the previous contract. The lower wage has been grudgingly accepted by new hires, who have few alternatives in the weak labor market in and around Rochester. The union (IUE) rationalizes the plan on the premise that the Delco operations and workers can be more easily replaced by competitors than other GM (UAW) workers who oppose the plan.

It has been estimated that 35 percent (up from 18 percent last year) of the airline contracts negotiated this year include two-tier agreements. Employees say morale has been low, and turnover high as a result. New hires feel their unions have sold them out and they have little hope of ever reaching parity with workers hired under the previous contract.

At American Airlines, which negotiated a two-tier agreement with pilots and flight attendants in 1983, one quarter of the carrier's flight attendants are new hires. It is believed that as this portion of the firm's labor force grows, decline in morale will begin to affect productivity and perhaps safety. This year American renegotiated new pilots' salaries upward to "ease worker dissatisfaction". In addition they are asking new hires to sign a pre-training agreement in order to prevent their switching to higher paying carriers immediately after training. Pilots who want to go elsewhere have to pay a $10,000 training fee. American admits to having so much trouble recruiting pilots that they have changed one of the applicant requirements related to vision.

The defense contractor, Hughes Aircraft, experienced similar morale problems at their Tucson plant. Poor morale resulted in a severe drop in product quality and the government suspension of a major contract. The firm then decided to revise their two-tier wage agreement which dated back to 1981. The new wage scheme includes broad pay scales for each employee grade. The company boasts it still takes an employee "forever to reach top salary", but the new plan was a large "morale factor."

Two-Tiers Are Not New -- The United Food and Commercial workers have signed more contracts with two-tiers than any other union. In an interview, Daniel Mitchell of UCLA discussed the results of his recent research on two-tier pay and discussed a bit of the history of this particular union's struggle over pay. Mitchell explained that there are wage agreements which date back to the early '60s between Southern California store owners and food and merchandise clerks. During the early 1960s, supermarkets began to stock nonfood items in competition with drug stores which paid lower salaries. Today, many UFCW merchandise clerks receive significantly less (up to $3 per hour less) than food clerks as a result of subsequent negotiations. Firms continue, Mitchell says, to try to formalize these agreements into what are now called two-tier wage agreements.

The union, however, now opposes two-tier plans because firms have also reacted with layoffs and reductions in hours for the higher paid employees. The local president for the UFCW at Thrifty Corporation says their local has almost eliminated a 16 year old wage gap which was negotiated between the merchandise clerks and Thrifty. As new hires at this Southern California drugstore chain became a majority, the firm slowed down the rate of increase in senior employees salaries. The firm claims they have saved 8-10 percent on labor costs since the agreement was first made.

Other groups that have added two tier wage agreements include the Postal Service letter carriers and postal clerks, truck drivers for the Teamsters, and ALCOA employees. There is no doubt that firms benefit from higher profits as a result of these plans.

Implications for Bargaining -- When asked about what to expect in future negotiations, Mitchell suggested the firms have an incentive to press for more two-tier agreements if only as a short run measure to cut costs. Mitchell explained that there have been instances where a two-tier wage agreement has been eliminated in the subsequent negotiation. The union alternatives, he says "are to accept across the board cuts for their current members or a cut for new hires who are not yet union members. For organized workers the two-tier system appears the lesser of two evils."

Most unions recognize that the result of this new type of wage concession is worker unrest. The tiers divide the union as the percent of new hires increases and they begin to resent the high wages of the veteran employees. New hires are hurt further because thay can not just quit without losing their pension benefits.

American's flight attendants' union claims they will try to eliminate the tiers in next year's contract. The IAM warns that qualified mechanics won't apply to low wage airlines. Owen Bieber, of the UAW, says his union opposes two-tiers because they go against a basic union principle: Equal pay for equal work.

The airline analyst for Merryll Lynch and Company was recently quoted in the Wall Street Journal for his statement: "This (two-tier approach) builds in a bias toward expansion in an industry (airlines) which has never needed an incentive to over-expand." This, he explains, could lead to overexpansion and fare wars. If that happens, it is likely that airline workers would suffer the consequences.

Unions face the threat of having to concede two-tier wage agreements most often at firms that are under attack by competitors and at those firms located in geographical areas where labor market conditions are poor. As employee morale breaks down and/or market conditions change, both unions and firms often have cause to regret the plans.

Unions are becoming aware that a bargaining strategy intended to avoid wage cuts in the short run, at the expense of new hires, lead to lower wages for all workers in the longrun. It has become clear to many workers for this reason, and also because they know solidarity is strength that two-tier wage contracts must be avoided.

- *Lisa Saunders*