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The New Climate: Implications for Research on Public-Sector Wage Determination and Labor Relations*

by

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Contents

Much of the early literature on public-sector wage determination and collective bargaining was written in an era of expanding public employment and government unionization. But by the late 1970s the economic and political climate surrounding the public sector had changed. Initially, the change appeared to be a byproduct of the 1973-75 recession, i.e., the severe revenue shortfalls in New York City and certain other jurisdictions. However, the post-recession period was marked by a "taxpayer revolt" - notably California's Proposition 13. Public employment growth slowed relative to the private sector; unionization of government workers - while continuing to increase - did so at a more modest pace. This change in climate suggests a renewed agenda for public-sector wage research.

I. Recent Statistics on Government Pay

Pay trends in government show evidence of the new climate. Table 1 presents the ratio of government to private compensation levels over the period 1966-81. In the late 1960s, federal pay increases outpaced private, both for civil servants and federal-enterprise workers, the latter being mainly postal employees. A similar, but less dramatic, tendency appeared at the state and local level. However, during the early 1970s, this process halted except for postal workers who received private-style collective-bargaining rights in 1970. By the late 1970s, public wages were rising more slowly than private, causing the government-to-private pay ratios of Table 1 to decline.

In the late 1960s and early 1970s, much concern was expressed about the impact of unions on public wages. Some observers thought government managers, unconstrained by profit incentives and fearful of public demands to avoid strikes, would easily yield to excessive wage demands. Yet Table 2 suggests that these fears were grossly overstated. During the late 1970s, pay in jurisdictions located in states with a relatively high proportion of unionized public employees actually rose more slowly than pay for comparable workers in other states. Of course, private pay also appeared to rise more slowly in the highly-organized jurisdictions. Except for school districts, a similar pattern

Table 1

Comparisons of Government and Private Compensation, 1966 - 1981

Level of Government	Ratio of Government to Private Pay[a/] 1966	1971	1976	1981	Nonwage Compensation as Percent of Total Compensation 1966	1971	1976	1981
Federal government[b/]	1.31	1.43	1.43	1.36	7.6%	10.1%	14.7%	16.5%
Federal Enterprises	1.02	1.11	1.28	1.26	7.2	10.2	14.9	16.4
State and Local	.96	1.04	1.02	.98	9.8	10.9	14.4	17.3
Note: Private Sector	-	-	-	-	9.7	11.2	14.3	15.4

a/Total compensation per full-time equivalent employee.
b/Civilians excluding federal-enterprise workers.

Source: Survey of Current Business, vol. 62 (July 1982); U.S. Bureau of Economic Analysis, The National Income and Product Accounts of the United States, 1929-76 Statistical Tables (Washington: GPO, 1981), Tables 6.5B, 6.6B, 6.8B in both sources.

Table 2

Annualized Rates of Pay and Per-capita Income Increase in Heavily-Unionized (HU) and Lightly-Unionized (LU) Jurisdictions, 1975-1980

	States[a/]		Localities[b/]		School Districts[c/]	
	HU	LU	HU	LU	HU	LU
State Employees[d/]	7.0%	7.7%	-	-	-	-
Local Employees[d/]	-	-	7.3%	7.7%	-	-
School Employees[d/]	-	-	-	-	7.2%	7.5%
Manufacturing Employees[e/]	8.6	9.3	8.7	9.3	8.9	9.5
Per-capita Income[f/]	9.8	10.2	10.0	10.1	10.3	10.1

a/50-state sample.
b/Fifty states plus District of Columbia in sample.
c/Forty-five states which have school districts in sample.
d/October monthly earnings of full-time workers at state, local, or school-district level.
e/October hourly earnings of production workers.
f/Based on annual personal per-capita income.

Note: HU = heavily-unionized jurisdictions, i.e., those in states where the proportions of employees covered by collective bargaining at the jurisdictional level shown was above the all-state average for that level. LU = lightly-unionized industries, i.e., all other jurisdictions. All figures are simple averages.

Source: Employment and Earnings, various issues; Statistical Abstract of the United States, various issues; U.S. Bureau of the Census, Labor-Management Relations in State and Local Governments, 1980 and 1975 editions.

is seen for per-capita incomes. However, it is apparent that public-sector unions could not shield their members from the adverse shift in the external climate during 1975-80. This result is in marked contrast to the private sector where union pay rose faster than nonunion.

Table 1 shows that as in the private sector, nonwage (fringe) pay has been rising in importance in government. Social Security tax increases have played a role in boosting the fringe share of the compensation dollar in private employment. However, most federal workers are not covered by Social Security and many state and local workers are also uncovered. Hence, the increasing fringe share of the government compensation budget must be viewed as a largely "voluntary" decision of public authorities and - where bargaining occurs - public unions.

There are many reasons why public and private fringes are difficult to compare. Available data compare employer <u>outlays</u> for fringes rather than the <u>value</u> of the fringes to the employee. However, as Table 1 indicates, government employer outlays for nonwage pay as a percent of total compensation were generally below private levels in the 1960s. By the mid 1970s, the public and private sectors had equalized on a relative outlay basis. And during the inhospitable climate of the late 1970s, relative public fringe outlays clearly pulled ahead.

Readily-available data do not permit a union/nonunion breakdown of public fringes. Yet unionization may well have encouraged the fringe trend. Research in the private sector indicates a union affinity for fringes; there is no reason to believe that public-sector unions do not share these preferences.

But unions may not be the only factor encouraging fringe pay in government. In the pension area, public authorities are less constrained than private employers to avoid unfunded liabilities. As long as public pension trusts avoid deficits on a pay-as-you-go basis, they pose no immediate fiscal problem. Indeed, there is a temptation during hard times to dip into public pension funds to provide compensation improvements. In fiscal year 1983, for example, California state employees received no wage increase.

However, their take-home pay was raised by reducing the employee contributions for pensions without an offsetting employer appropriation or a reduction in promised benefits. Pension assets were also used to increase employer funding of health benefits, thus reducing deductions from employee paychecks.

II. The Taxpayer Revolt

In June 1978, public resistance to escalating California property taxes (due mainly to rising property values) led to the passage of Proposition 13. This amendment to the state constitution cut property tax rates to 1% of assessed value, rolled back assessments to 1975 levels (except when property changed hands), and put a 2% annual lid on assessment increases for property which is not sold. Property tax revenue as a proportion of state and local general revenue in California fell from 26.5% in fiscal 1978 to 15.3% in the following year.

The direct impact of the loss of property-tax revenue was on local authorities. However, to minimize drastic service cuts, the state government provided "bail-out" funds to localities. As a result, state and local government became a de facto combined fiscal unit. State employees were given no pay increase in 1978. Because it was now in a position to control local policy, the state legislature required that its zero wage increase program be applied locally as a condition for receiving bail-out money.[1]

The California experience provides a useful guide to the employment/pay options chosen by public officials (and unions where they bargain) when faced with severe cuts in revenue. State and local government employment had grown at an average annual rate of over 4% during 1973-78. From the second quarter of 1978 to the second quarter of 1979, California public employment dropped by over 4%. Since that time, the employment figures have shown no trend.[2] Hence, state and local authorities clearly used employment reduction as a means of adapting to a constrained budget.

On the wage side, however, the adaptation appeared to be more transitory. Table 3 shows the ratio of California government wages at various jurisdictional levels to average government wages paid nationally at those levels. The California wage freeze of 1978 appears clearly on the table as a fall in the ratios at most levels. But in the three-year period 1979-81, there is a tendency for the relative wage to recover. As Table 1 indicates, compared with private wages, public wages on average showed a lag in the late 1970s, and Proposition 13 and its spillover effects in other states may have contributed to this lag. Nevertheless, Table 3 suggests that public authorities are reluctant to let their wage levels fall "too" far below par, even if this means lower employment levels.

III. Implications for the Research Agenda

Research on public-sector wage determination and industrial relations has mushroomed. I have reviewed this literature in two recent papers and, hence, will confine my comments here to the needs for future research in the light of the empirical evidence presented above.[3] Clearly, a discrete change in the climate surrounding the governmental sector offers an opportunity to reassess previous findings.

Table 3

Ratio of California Government Wage to U.S. Public Sector Wage at Equivalent Level of Government[a]

Period[b]	State	Local	Counties	L.A. County[c]	Cities	L.A. City[c]	School Districts	Special Districts
1972-74	1.26	1.24	1.25	1.37	1.25	1.43	1.26	1.18
1975-77	1.29	1.25	1.33	1.50	1.24	1.40	1.26	1.14
1978	1.23	1.23	1.26	1.36	1.21	1.34	1.26	1.13
1979-81	1.32	1.25	1.29	1.40	1.27	1.45	1.26	1.19

a/ Figures derived from October monthly earnings of full-time employees.

b/ For three-year periods, figure shown is simple average of annual ratios for indiviual years.

c/ Noninstructional personnel.

Source: U.S. Bureau of the Census, various government employment (GE) publications.

i. Union/Nonunion Pay Differentials

The public-sector literature has generally paralleled private-sector research in estimation of union pay impacts. Typically, in the public sector, the union effect on pay has been found not to exceed that of the private sector; indeed, with some exceptions it has often been found to be smaller.[4] Table 2 suggests that whatever the government union/nonunion pay differentials were in the mid 1970s, some narrowing may well have taken place since. Or, at least, the differentials may have stabilized. A closer look using up-to-date data is warranted. Of special interest would be a comparison of recent private-sector union wage concessions with parallel situations in government employment.[5]

ii. Government/Private Pay Differentials

Since government is a nonprofit entity, the classical analysis of pay and employment determination - derived from profit maximization - cannot be easily applied. There has been considerable interest in whether government workers are "over-" or "underpaid" relative to their private counterparts. The answers from sophisticated studies have not been much different from what appears from the gross, unadjusted data of Table 1. Federal workers have tended to be classified as "overpaid;" state and local workers have not. Within groups, government is reported to have a union-type wage effect, even in the absence of collective bargaining. That is, the wages of low-paid groups - women and minorities - tend to be boosted more than those of other employees when they enter government employment.

Since Table 1 suggests a narrowing of government/private pay differentials, these conclusions need further examination. A detailed study by demographic group, skill level, and other relevant characteristics which compared the mid 1970s with the early 1980s would be useful. Apart from aggregate pay levels, it would be interesting to know how government wage structure reacted to an unfavorable economic and political climate. Were public managers inclined to re-examine traditional pay relations (such as police and fire parity) in a search for ways to stretch the budget dollar?

iii. Fringe Benefits

Much of the research in public-sector fringes has focused on pensions. As already noted, there are considerable technical problems in comparing the value of such fringes to employees. Apart from comparing promised benefits, questions arise concerning how employees view unfunded promises. In an era where the willingness of the general population to cover unfunded liabilities by future tax increases is uncertain, the matter becomes especially pressing. Have public-sector workers (and their union representatives) become more skeptical of future pension promises? If so, what implications might such an attitude change have for future bargaining demands concerning the mix of cash versus deferred compensation?[6]

iv. Resource Allocation

The classical private-sector model suggests that firms economize on inputs to production whose relative prices rise. Included in the model as an input is labor. In theory, relative wage changes trigger resource reallocation decisions. Although in the absence of profit incentives, the theory cannot be directly applied to government, there is some evidence that qualitatively similar reactions occur in the public sector. Whatever the goals of public managers may be, the budget limitations they face have certain parallels with private profit constraints.

In an environment of tightening budget restrictions, it might be hypothesized that relative wage movements could trigger sharper reactions with regard to employment levels. And the more tangible and plausible such reactions become, the greater the chance that they will affect collectively-bargained wage outcomes. In simple terms, if management can credibly establish an absolute budget constraint, the wage-employment trade-off faced by a union becomes "one for one," i.e., each one percent wage increase won at the bargaining table triggers a one percent employment or hours reduction. Such a trade-off is substantially greater than the normal short-run elasticity of labor demand found in the private sector. Hence, future research on public-sector resource allocation and on collective baragaining in an unfavorable economic climate needs to be linked.

v. The Labor Relations Climate

In the private sector, economic adversity has recently produced changes in traditional labor-management relations as well as wage concessions. There have been various cooperative experiments involving worker participation in management, quality of work life, and so on. Strike incidence has been at extremely low levels. In the public sector, however, the cooperative spirit has been less apparent. At the federal level, the air-traffic controllers strike of 1981 was broken and the strikers dismissed. The outcome of that dispute may have increased public management toughness elsewhere.7/ In Los Angeles County, for example, voters approved Proposition A in November 1982, a charter amendment submitted to the electorate by the County Board of Supervisors. Proposition A requires automatic firing of strikers, forbids amnesty, and imposes a wage freeze on nonstriking members of striking unions.

After Proposition 13 was enacted, California public-sector strike activity appeared to drop temporarily. Fifty such strikes were recorded in 1977, 23 in 1978 (the year Proposition 13 was passed), and 83 in 1979. Strike statistics are erratic but they suggest a lull during adversity and then a catch up, much like the wage data of Table 3. More work on the impact of economic adversity on public-sector labor disputes would be enlightening. Equally important would be a study of other indicators of labor-management relations such as grievance rates, litigation, and willingness to adopt some of the cooperative arrangements now attracting interest in the private sector.

IV. Conclusions

The shift in the economic and political climate in the public sector provides an opportunity to re-evaluate the large volume of research on government wage setting and industrial relations that has accumulated over the past two decades. Some research findings, made under more favorable economic circumstances, may have to be qualified or abandoned in view of recent evidence. As has been the case in the private sector of late, new circumstances produce new results.

Footnotes

1. Some workers who had previously-negotiated pay increases due them eventually received those adjustments.

2. Not all jurisdictions were expanding their employment levels prior to Proposition 13. In Los Angeles City and County, for example, employment contractions resulting from the mid-1970s recession were still underway when Proposition 13 was enacted. Proposition 13 led to continued contractions. See Gene Swimmer, "The Impact of Proposition 13 on Public Employee Relations: The Case of Los Angeles," Journal of Collective Negotiations, vol. 11(1), 1982, pp.13-22.

3. Daniel J.B. Mitchell, "The Impact of Collective Bargaining on Compensation in the Public Sector" in Benjamin Aaron, Joseph R. Grodin, and James L. Stern, eds., Public-Sector Bargaining (Washington: Bureau of National Affairs, 1979), pp.118-149; Daniel J.B. Mitchell, "Unions and Wages in the Public Sector: A Review of Recent Evidence," Journal of Collective Negotiations in the Public Sector, forthcoming. References to earlier research findings may be found in these papers.

4. An exception is William H. Bough and Joe A. Stone, "Teachers, Unions, and Wages in in the 1970s: Unionism Now Pays," Industrial and Labor Relations Review, vol. 35 (April 1982), pp.368-376.

5. A number of transit districts negotiated wage freezes in 1982, for example.

6. Government pensions are often contributory in contrast with private employment. They ignore federal tax incentives provided for employer pension contributions. It would be interesting to know if public wage authorities have been recently motivated to make their fringe packages more tax efficient in an effort to make maximum use out of their limited compensation dollars.

7. Unions may also be more reluctant to strike due to the air-traffic controllers example. "FMCS Chief Says Fate of PATCO Members Has Chilled Strikes in Public Sector." Daily Labor Report, August 12, 1982, p.A1.