



WORKING PAPER SERIES - 274

PATTERN INDIFFERENCE:

THE RESPONSE OF PAY SETTERS TO THE 1993 GM-UAW SETTLEMENT
by

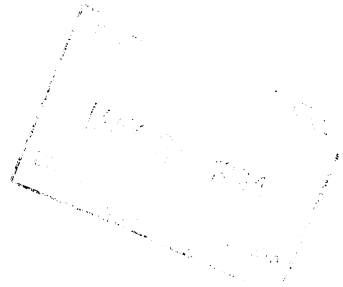
Christopher L. Erickson and Daniel J.B. Mitchell

Christopher L. Erickson

Assistant Professor, Anderson Graduate School of Management
University of California, Los Angeles
Los Angeles, CA 90024-1481
Telephone: (310) 825-1697

Daniel J.B. Mitchell

Professor, Anderson Graduate School of Management
University of California, Los Angeles
Los Angeles, CA 90024-1481
Telephone: (310) 825-1504



DRAFT: May 1994

**INSTITUTE OF INDUSTRIAL RELATIONS
UNIVERSITY OF CALIFORNIA
LOS ANGELES**

**Pattern Indifference:
The Response of Pay Setters to the 1993 GM-UAW Settlement**

Christopher L. Erickson
Assistant Professor

and

Daniel J.B. Mitchell
Professor
Anderson Graduate School of Management
U.C.L.A.
Los Angeles, California 90024-1481

Phone for Erickson: 310-825-1697
Phone for Mitchell: 310-825-1504
Fax for both: 310-206-2002

April 1994

Do major union wage settlements set patterns for wages elsewhere in the economy?¹ At one time, industrial relations experts were sure that they did. The federal government's anti-inflation wage guidelines and controls programs in the 1960s and 1970s under Kennedy-Johnson, Nixon, and Carter were based on this premise.² But in the 1980s, union wage concessions, the big losses of union membership, and the resultant drop in the influence of the union sector on the rest of the economy called this assumption increasingly into question. The matter continued to be debated into the 1990s.³

Surely, one method for resolving this issue is to find out from compensation executives what they know about union settlements. Knowledge of such settlements is a prerequisite for direct imitation. Compensation executives can also be asked what impact they think such settlements have on their employer's wage decisions. These are the approaches we took in appraising the impact of the fall 1993 settlement of the United Auto Workers and General Motors.

Within the auto industry there was a clear wage pattern in the 1993 round and we do not propose to challenge its existence. Ultimately, Ford, Chrysler, and GM signed agreements provided common wage adjustments and continuation of the cost-of-living escalator. Nor do our data permit us to challenge the idea that there is pattern following within UAW contracts outside autos.⁴ The question for us is whether this agreement had an impact outside the immediate borders of the auto/UAW sector. Our findings suggest that if it did, it was not through the direct knowledge of this settlement among wage setters throughout the economy.

We selected the General Motors contract because historically industrial

relations observers have regarded the UAW agreements in the auto industry as the superbowl of collective bargaining. A variety of innovations were linked to post-World War II bargains in the industry including escalators, long-term contracts, and supplemental unemployment benefits. Even in the context of the concession bargaining of the 1980s, profit sharing and various income security devices were introduced.⁵ Part of the reason for the newsworthy nature of UAW innovations is the large number of workers under the auto contracts. Thus, even in its downsized state in 1993, over 400,000 workers remained under UAW contracts at the big-3 producers, including 260,000 at GM.⁶

The GM-UAW contract was selected (rather than the Ford and Chrysler agreements) for our survey because it was the last of the three to be concluded in 1993. This meant that there had been considerable publicity leading up to the GM settlement related to bargaining at the other companies. Moreover, in 1993 there was much speculation that GM might insist on deviating from the pattern at the other companies because of its dismal profit situation. Indeed, it would have been hard for a reader of a major newspaper - or anyone who listened regularly to TV or radio news - to escape information about the ultimate GM settlement.⁷

With this in mind, we selected at random 450 names from the 1993 directory of the American Compensation Association (ACA).⁸ ACA members are professionals in the compensation field who, moreover, have demonstrated their interest in pay-related matters by paying annual dues of \$135. As soon as the GM contract was ratified, two research associates telephoned these persons. Ultimately, it was possible to reach 110 of them, a response rate of 24%.⁹ Most calls were completed within 2 weeks of the ratification. A series of questions was asked on the telephone about the respondent's employer, whether

the respondent had heard of the GM settlement, whether he/she knew of its terms, and whether he/she could describe the first year wage adjustment (a 3% wage increase).

Forty percent of the respondents said that they had not even heard of the GM settlement.¹⁰ Of the 60% who had, only 30% (18% of the total sample) claimed to know the terms of the settlement. And of those only 20% (less than 4% of the sample) could actually state the first-year wage increase. It might well be argued that given this low rate of diffusion of basic wage information, any significant pattern setting would be highly unlikely if its propagation requires the direct knowledge and awareness of the GM-UAW settlement by wage setters.

Nonetheless, the settlement was described to respondents and they were asked whether they thought it would ultimately have any impact on the non-exempt wage setting unit within their firms of which they were knowledgeable.¹¹ Specifically, they were given a choice of no impact, little impact, large impact, or pattern.¹² Only one respondent out of the 110 chose large impact and none chose pattern. Eighty-five percent chose no impact at all as their response.

Table 1 summarizes the basic results. Only 7% of those who did not know of the settlement thought it would have even a small effect on wage setting in their units. Among those who heard of the settlement but did not claim knowledge of its terms, 9% thought it might have even a small effect. Of the 20 respondents who claimed to know the terms, 40% said it would have a small effect and one respondent said a large effect.

There was some tendency in heavily unionized firms - those reporting unionization rates among non-exempt workers above 25% -to think there might be a small effect (as opposed to no effect). But only 22 respondents came from such firms. Of those, 4 thought there were be a small effect and one thought there would be a large effect.

Clearly, more precise information might have been elicited from a larger sample. Perhaps some more sophisticated analysis of the data would reveal hidden relationships.¹³ But even though this survey was confined to one big contract, the evidence seems overwhelming that patterns were not flowing directly from major union settlements into general wage determination in the early 1990s. How much influence such settlements may have had in the past is a question which cannot be answered with a 1993 telephone questionnaire.

It is possible - even likely - that major settlements have some indirect influence through their weight in aggregate wage surveys conducted by the Bureau of Labor Statistics and private consultants. Because of the large number of workers involved, the GM and other auto agreements might perceptibly affect the wage adjustment averages in such surveys; the reported averages might in turn affect the wage decisions of the firms we telephoned. But gearing pay decisions to market averages is not pattern following as that phrase has traditionally been used.¹⁴ It is not the conscious imitation of one wage setting unit by another. The direct effect on wages of the GM-UAW settlement outside the auto/UAW sector was minor.

Table 1: Results of Telephone Survey

	Reported Impact	Size of Employer (workers)	Non-exempt Unionization Rate (%)
Didn't know of settlement			
Reported impact			
No effect 0	93%		
Small effect 1	7%		
Large effect 2	0%		
Pattern 3	0%		
No. of respondents	44		
Mean	.068	8989	13%
Range	0-1	90-50000	0-80%

Said heard of settlement but did not know terms			
Reported impact			
No effect 0	91%		
Small effect 1	9%		
Large effect 2	0%		
Pattern 3	0%		
No. of respondents	46		
Mean	.087	10542	11%
Range	0-1	100-85000	0-100%

Said heard of settlement and claimed to know terms			
Reported impact			
No effect 0	55%		
Small effect 1	40%		
Large effect 2	5%		
Pattern 3	0%		
No. of respondents	20		
Mean	.592	15517	27%
Range	0-2	125-130000	0-100%

Source: Telephone survey by authors. See text for details.

Footnotes

1. The authors wish to thank Seongsu Kim and Tom Chandy for research assistance. Support of the UCLA Institute of Industrial Relations is gratefully acknowledged.
2. For example, the head of the Carter program declared: "(If) we could get the Teamsters to agree to 20% for three years, the United Auto Workers would sign a contract for the same thing. So would steel. Each of these unions wants what the other one has got." Quoted in Rowen (1978).
3. Discussions may be found in Freedman & Fulmer (1982), Ready (1990). Replies to Ready can be found in the same journal, October 1990 issue.
4. Budd (1992) finds evidence of such intra-UAW patterns although he also finds that pattern following had weakened by the late 1980s.
5. Labor historians will quickly point out that such contract innovations existed before the UAW adopted them. However, it was when the UAW adopted them that their use became widely discussed.
6. These figures do not include 22,000 workers under a pattern-following GM contract negotiated by the International Union of Electronic Workers (IUE).
7. The Nexis database (curnws file) was checked in April 1994 for the number of citations containing the key words "General Motors", "United Auto Workers," and "contract". In September, October, and November 1993, there were, respectively, 353, 304, and 109 references. Some of these may not have contained information on the GM-UAW contract negotiations. But, on the other hand, some accounts of the negotiations may not have contained the three key words.
8. We omitted individuals with foreign addresses, without a listed affiliation with an employer, and those who were management consultants. Thus, all persons in the survey were currently employed executives with titles ranging from "compensation analyst" to "vice president for human resources."
9. Generally, non-respondents were not available to take the initial call and were lost to "telephone tag."
10. Of the sixty percent who said they had heard of it, 80% cited newspapers as the information source. Most of the rest cited radio or TV.
11. We also asked about exempt employees. Not surprisingly even fewer respondents (9%) thought the GM settlement would have any impact on such employees. Thus, we do not further describe those results here.
12. Respondents were asked, "How much of an impact will the terms of (the GM-UAW) settlement have on your wage setting policies this year for your non-exempt workers?: None at all, small impact (one piece of information among many others), large impact (highly important relative to other factors), or will follow pattern exactly."
13. Probit equations suggested that those who claimed knowledge of the terms of the settlement were more likely to say it had a little influence. The other variables we collected such as firm size or unionization rate (or unionization rate > 25%) were not statistically significant.

14. Consider the statement of John T. Dunlop (quoted in Ross, 1948, p. 50): "We have reached the stage where a limited number of key bargains effectively influence the whole wage structure of the American economy... The number of key bargains may be placed in the neighborhood of twenty-five to fifty." Surely this quote does not suggest that GM workers would have no greater weight than any other group in the national average. Note, however, that our survey cannot rule out a "domino effect" such that the firms we surveyed were imitating other firms which in turn - or through some imitative chain - were following General Motors.

References

American Compensation Association, 1993 Membership Directory. Scottsdale, Ariz.: ACA, 1993.

Budd, John W., "The Determinants and Extent of UAW Pattern Bargaining," Industrial and Labor Relations Review, vol. 45, April 1992, pp. 523-539.

Eckstein, Otto, and Thomas A. Wilson, "The Determination of Money Wages in U.S. Industry," Quarterly Journal of Economics, vol. 76 (August 1962), pp. 379-414.

Freedman, Audrey, and William E. Fulmer, "Last Rites for Pattern Bargaining," Harvard Business Review, vol. 60, March-April 1982, pp. 30-48.

Ready, Kathryn J., "Is Pattern Bargaining Dead?," Industrial and Labor Relations Review, vol. 43, January 1990, pp. 272-279.

Ross, Arthur M. Trade Union Wage Policy. Berkeley: University of California Press, 1948.

Rowen, Hobart, "Bosworth Says U.S. Fumbles Rail Talks," Washington Post (June 16, 1978), p. A6.