Alberta Federation of Labour

SEIZING THE TIME: COLLECTIVE BARGAINING IN A BOOM ECONOMY

WORKERS' WAGES, STICKY WAGES AND REAL WAGES

Boom times provide opportunities for workers and their unions, but they also raise the bar for those engaged in collective bargaining. Tight labour markets, where demand exceeds supply, put upward pressure on wages. On the other hand, booming economies tend to have higher rates of inflation, which erode wages.

While the media and a part of the general public seem to believe that unions are in a position to arbitrarily impose wage settlements on hapless employers, nothing could be further from the truth. While unions do try to intervene in the labour market on behalf of workers, when they negotiate they do so in the context and within the constraints of labour market realities.

During recessionary periods, employers try to cut their labour costs, and they are helped in doing so by the slack in the labour market. When layoffs are occurring, and unemployment is high, whether in a particular industry or in the economy as a whole, any trade unionist knows that it is difficult to win significant wage increases in negotiations. In boom times, on the other hand, rising demand for goods and services, combined with a relative shortage of labour, means strong upward pressure on wages.

So in periods of recession, unions try to exert what an economist might call a "countercyclical" effect on the labour market, trying to protect existing terms and conditions of employment. In boom times, on the other hand, we try to take advantage of the upward pressure on wages caused by economic growth and labour shortages to make economic gains.

These gains and losses are in the form of "real" wages – wage rates corrected to take inflation into account. Employers and governments have long been aware of the effects of inflation on wages, in fact they have relied on inflation to counter a problem known as "sticky wages."

According to the classical economic theory of labour markets, wages should rise and fall with the state of the economy. When recession hits and unemployment rises, wages should fall until they are so low that employers again start hiring, thus allowing the market to "clear". This was the conventional wisdom in economic circles for the first few decades of the 20th century.

It was a simple and elegant model – the only problem was that it didn't describe reality very well. Even in the midst of a depression, workers vigorously resisted attempts to drive down their wages, organizing unions and taking strike action. This resistance to wage rollbacks was successful enough that it created an ongoing problem for employers and for the classical economists.

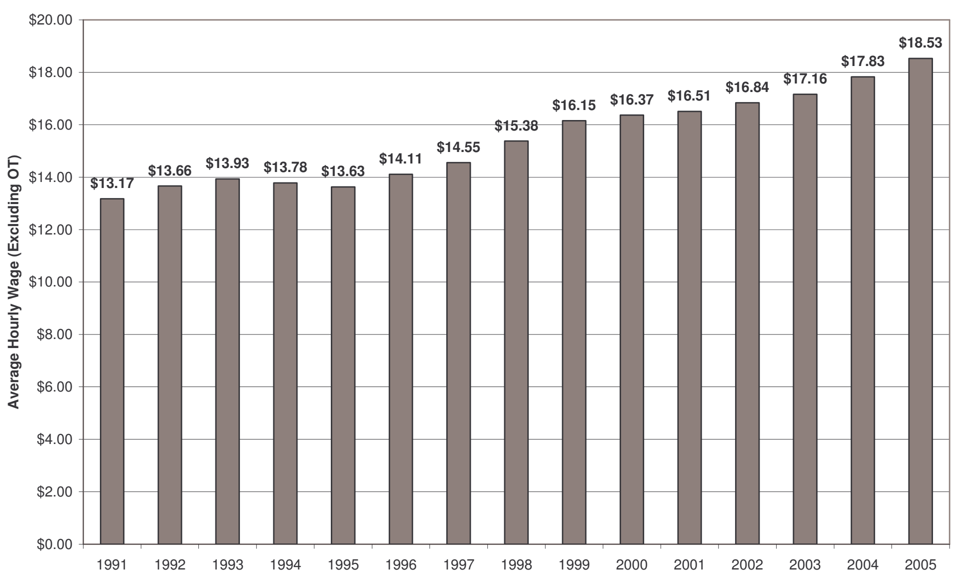
It was the Keynesian economic revolution of the 1940s and 50s that provided at least a partial solution for employers and economists. The Keynesians argued that a modest amount of inflation could actually help to solve the problem of sticky wages. If the price of goods and services in general rose while at the same time employers were able to prevent wages from increasing, then the price of labour would fall relative to other goods and services – in "real" terms, wages would have fallen.

Obviously the same mechanism works during periods of strong economic growth. Workers can gain apparent wage increases while losing ground in real terms if the rate of inflation is greater that the rate of wage increases. That's why unions, when they are engaged in collective bargaining, formulate their wage goals in terms of real wages. They don't, in most cases, call them "real wages", but in every round of bargaining the expected rate of inflation in the economy sets the minimum target for wage increases.

REAL WAGES IN ALBERTA

How have workers in Alberta fared in terms of their wages? Chart #1 shows average hourly wages (excluding overtime) in the province over the last fifteen years. [i]

Chart #1. Nominal Hourly Wages, Alberta 1991 - 2005

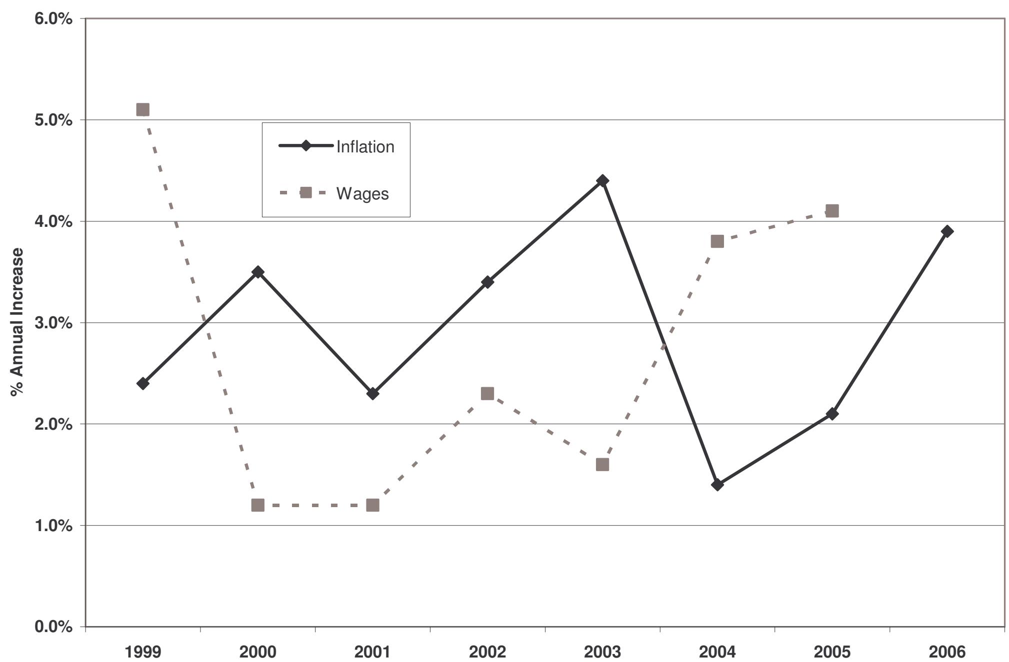


While this chart seems to show a steady increase in wages, it doesn't allow for the effects of inflation. Even so, there is one point worth noticing: in 1994 and 95 average hourly wages in Alberta actually fell in nominal terms. Decreasing nominal wages are a relatively rare phenomenon in recent North American history; in this case the drop reflects the effects of the Government of Alberta's wage rollbacks in the public sector. While the media and the public may have believed that these affected only public sector workers, the reality was that they had a depressing effect all across the provincial labour market.

Average nominal wages fell from $13.93/hr in 1993 to$13.63/hr in 1995, a drop of 2.2%. When the effects of inflation are factored in, however, real hourly wages fell by almost 6% in the same two year period.

While Alberta's economy has enjoyed significant growth in real terms for over a decade, the "boom" has been going on for at least the last four years. How have wages performed under these conditions? Chart #2 shows that while average wages have increase throughout this period, they grew more slowly than inflation for four out of the last six years. More worrisome is the fact that inflation rose sharply in 2006 (wage data for that year is not yet available), after showing relatively modest increases in 2004 and 2005.

Chart #2. Wage and Inflation Growth, Alberta 1999 - 2006



Overall wage rates are one thing – union settlement rates are another. How have unionized workers done compared to their non-union counterparts?

Chart #3 (next page) shows two kinds of wage measurements:

1. The average annual increase in the hourly wages of all workers (union and non-union) paid by the hour in Alberta.[ii]

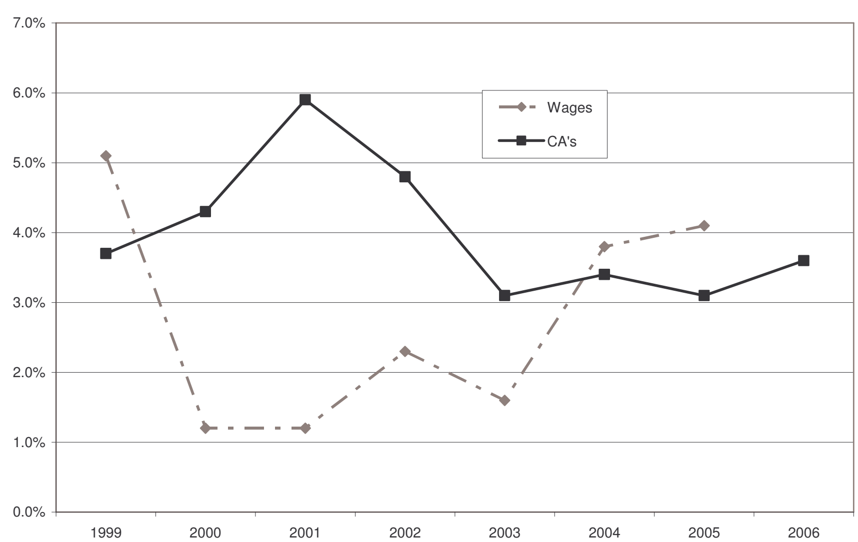
2. The average annual wage increase for collective agreements negotiated in each year.[iii]

For four out of the last six years, the rate of increase for unionized workers has been higher than the increase for all workers in the province. In 2004 and 2005, however, the wages of unionized workers grew more slowly than the provincial average.

This doesn't mean that the "union advantage" is disappearing. Unions typically negotiate multi-year collective agreements, whereas non-union workers wages can be adjusted at any time (at the employer's whim). When inflation rates jump or the labour market conditions change during the life of an agreement, the union usually has to wait until the agreement expires to respond to the new conditions.

Also, collective agreements negotiated by unions usually contain many non-wage monetary benefits such as superior vacation entitlements and benefit plans. These are areas where non-union employers often try to reduce labour costs, even when they are prepared to try to match union wages. They are also areas where individual workers may lack the expertise to evaluate and estimate the costs and monetary value of the benefits in question.

Chart #3. Hourly Wages and Collective Agreement Settlement Rates, Alberta



More importantly, terms and conditions of employment that are negotiated into a collective agreement are locked in for the duration of that agreement. In boom times, non-union employers may offer employees improved benefits as part of a "retention strategy". Once the boom is over, however, these benefits can be removed at the whim of the employer.

In fact, the labour market is currently so tight that even some unionized employers are prepared to open existing collective agreements to put in place programs to help retain employees. In this situation, of course, the benefits are written into the collective agreement, and are guaranteed for union members.

It's clear, however, that as trade unionists we don't want to see the wages of our members lag behind inflation, and there is no reason why they shouldn't be rising as fast as the wages of other Albertans. The "union wage advantage" us still very real in Alberta, and we want it to continue into the future.

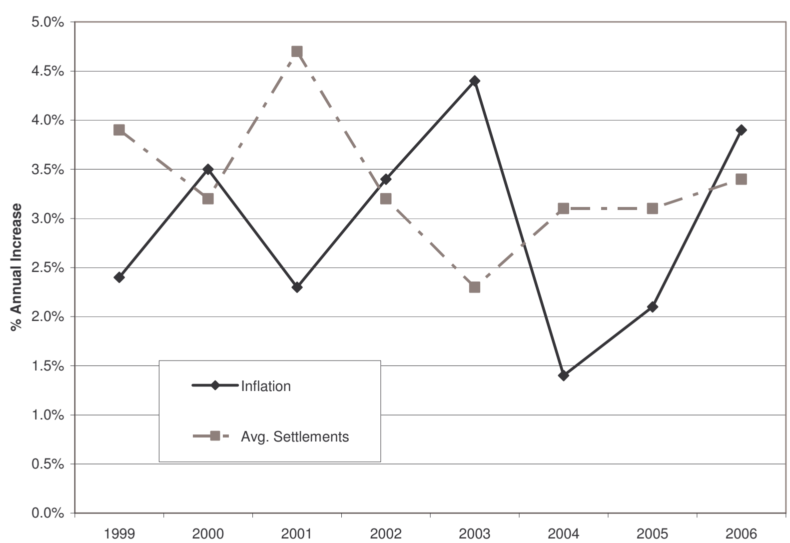
The current boom presents a golden opportunity for unions in Alberta, but it is an opportunity that must be seized when the time is ripe. When the inevitable bust follows the boom, we will face the same kinds of pressures we endured in the mid-1990s.

SECTORAL WAGE AND SETTLEMENT RATES

The volatility of Alberta's inflation rate (which, in turn, reflects the volatility of an economy based on energy exports) makes it difficult to bargain real wage increases on a consistent basis. As noted above, unions normally go into bargaining with a clear idea of current inflation, and an estimate of inflation rates over the proposed duration of the contract. Such estimates are only approximate, however, and the longer the proposed agreement, the farther ahead one has to estimate inflation. This means longer agreements carry an increased risk that inflation will exceed negotiated wage increases and real wages will fall.

As Chart #4 below shows, private sector settlements have exceeded inflation about half the time over the last eight years.[iv] Were it not for the inflation "spikes" in 2003 and 2006, this sector would have racked up six straight years of real wage increases.

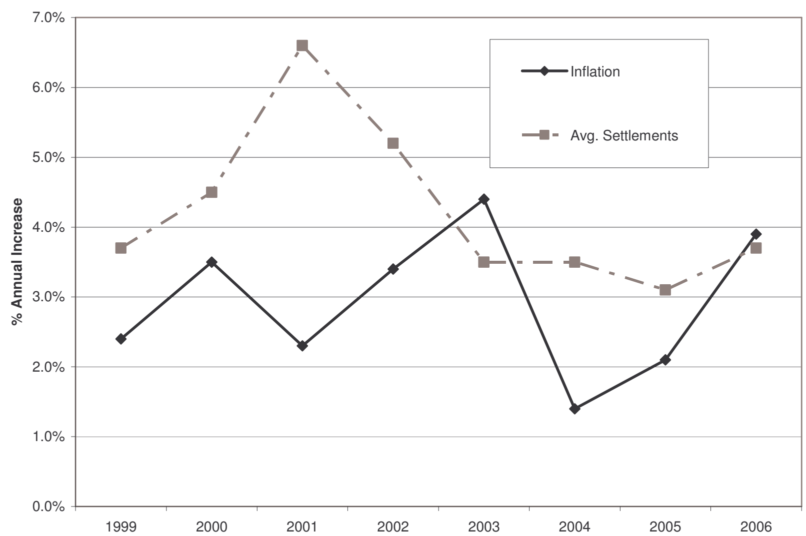
Chart #4. Private Sector Wage Settlements and Inflation, Alberta 1999 - 2006



In 2006, inflation surged to almost 4%, slightly above the average settlement rate of 3.4%.[v] This means that, in the middle of the greatest economic boom in the country's history, real average wages in the private sector actually fell slightly.

Chart #5 below shows that public sector settlements have exceeded inflation for six of the last eight years. Last year's sudden surge of inflation, however, meant a slight decrease in real wages on average. Again, this is difficult to reconcile with a booming economy.

Chart #5. Public Sector Wage Settlements and Inflation, Alberta 1999 - 2006



SECTORAL ANALYSIS

Obviously economic conditions vary over different sectors of the economy and the labour market. Even in the middle of a boom, some companies industries will be growing, others shrinking. The tables below detail settlement trends in the various sectors.

This information is vitally important in bargaining – only a union with exceptional leverage will can break an existing pattern of settlement and establish a new trend. Existing settlements therefore set the parameters of bargaining, along with inflation trends.

Trends, however, aren't always easy to identify. The tables below, which are taken from Alberta Employment, Immigration and Industry data, have to be interpreted with care, for a couple of reasons:

1. The data only reflects settlements that have been reported to AEI&I. Since bargaining can often drag on for months, and since unions and employers are often slow to report agreements, average settlement rates for recent periods have to be taken with a grain of salt. Data for 2006 may not yet reflect major settlements that will apply to that period.

2. Not all settlements are equal: a trend is established either by a large number of settlements, or by one or two that come from bargaining units that dominate a sector and are large enough to set a pattern. That's why the tables below list the number of contracts and the number of workers covered by those contracts for each year reported. An average settlement rate that reflects only a handful of agreements covering a small number of workers is probably not significant.

3. The data is broken down by industrial sectors, but each sector may include industries that are facing different conditions.

4. Industrial sectors include different kinds of jobs, unions, and bargaining units. An Education sector settlement rate that results from teachers' collective agreements, for example, may be of limited use to unions bargaining for support staff. The information contained in these tables has to be interpreted in the context of the industry and the characteristics of its labour market.

In Table #1, for example, the average settlement rate for Construction in 2006 is based on just 4 collective agreements covering only 167 workers. Thus, while the 5.8% average wage increase is encouraging, and probably reflects the shortage of skilled construction workers, it cannot be considered a genuine pattern of settlement.

For the Manufacturing sector, on the other hand, the 2006 average wage increase reflects 32 collective agreements covering about 3,200 workers. An average bargaining unit size of 100 employees isn't very big, but it probably reflects the reality of Alberta's manufacturing sector, which is largely composed of small to medium-sized firms. The average settlement rate of 3.2% for the year 2006 is probably, therefore, a reasonable reflection of conditions in that sector.

Table #1

	Construction			**Manufacturing**		
	# Contracts	# Workers	Avg. Increase	# Contracts	# Workers	Avg. Increase
2003	46	5,920	2.3%	58	5,686	3.2%
2004	38	24,019	3.2%	65	6,191	2.8%
2005	19	9,346	3.3%	29	4,969	3.0%
2006	4	167	5.8%	32	3,199	3.2%

In Table #2, the 2006 average increase figures are not reliable for either of the sectors listed. With one agreement covering 150 workers, there is simply no significant data for the Mining & Oil & Gas Extraction sector. The same is true of the 2 agreements covering just 92 workers in the Utilities sector. This sector does include some very large bargaining units, but the data for 2006 doesn't include any settlements from the companies in question.

Table #2

	Mining & Oil & Gas Extraction			Utilities		
	# Contracts	# Workers	Avg. Increase	# Contracts	# Workers	Avg. Increase
2003	1	150	3.6%	9	3,187	3.4%
2004	6	2,482	3.3%	11	4,330	3.9%
2005	11	1,295	3.6%	2	712	4.4%
2006	1	150	3.7%	2	92	3.0%

For Table #3, the 2006 data gives mixed results. The lone settlement in the Retail Trade sector is not meaningful. For the Education sector, however, 18 agreements covering over 9,000 workers does provide a significant pattern. This pattern will have to be further analyzed, however, to determine what kinds of bargaining units are included (teachers, support staff, custodians, etc.), and the average settlement rate of 3.8% interpreted by the results of that analysis.

Table #3

	Retail Trade			Education		
	# Contracts	# Workers	Avg. Increase	# Contracts	# Workers	Avg. Increase
2003	10	8,501	1.3%	52	11,894	3.4%
2004	1	37	1.7%	62	28,613	2.5%
2005	8	411	2.4%	46	15,460	2.8%
2006	1	35	3.5%	18	9,172	3.8%

Table #4 presents a more complicated picture. In the Health Care and Social Services sector, the 2006 average wage increase of 3.8% reflects 22 collective agreements covering 1,900 workers. Since this sector tends to be dominated by very large, province-wide bargaining units, the settlement data should be interpreted with caution. Similarly, the 2006 data for the Public Administration sector includes 20 collective agreements covering 6.500 workers. This gives an average bargaining unit size of just over 300 workers, which means that the large bargaining units employed by the provincial government and the large cities are not included. This means that the settlement rate of 3.7% may be most significant for smaller cities or large towns.

Table #4

	Health Care & Social Services			Public Administration		
	# Contracts	# Workers	Avg. Increase	# Contracts	# Workers	Avg. Increase
2003	62	17,657	3.9%	28	9,095	3.4%
2004	59	24,146	4.6%	28	3,285	3.5%
2005	37	9,533	3.0%	20	3,863	3.7%
2006	22	1,947	3.8%	20	6,439	3.7%

For every round of negotiations, raw sectoral settlement data just gives a starting point – numbers to be interpreted by trade unionists who know their employers, their industries, and their labour markets.

FACTORS AFFECTING COLLECTIVE BARGAINING OUTCOMES

There are a number of factors that hinder unions in Alberta when it comes to wage negotiation. As trade unionists, we are all too familiar with:

1. Anti-union bias in labour legislation and in labour tribunals. Restrictions on the right to picket, on the ability to take strike action, and even (in the case of the *Public Service Employee Relations Act)* on what matters can be negotiated, make it difficult for unions to put pressure on employers and negotiate optimal agreements.

2. Low union density that limits our economic leverage. The smaller the unionized sector, the less influence and economic leverage unions have. This makes it harder for them to negotiate strong collective agreements, and dilutes the impact of unionized settlements on the larger labour market.

3. A volatile economy given to sudden booms and recessions, and to sudden spikes in inflation rates.

POLICY PROPOSALS

In order to counter these structural weaknesses in our bargaining position, several measures are proposed:

I. Tools to support bargaining

The AFL should collect and provide to affiliates the economic data necessary to support negotiations. Concretely this would mean expanding and improving the current *Labour Economic Monitor*, published quarterly on the AFL web site, and making sure that affiliates are aware of these resources.

II. Seek better coordination in bargaining

The AFL should help to foster greater cooperation and coordination in collective bargaining. The Federation should offer to host a series of sectoral bargaining conferences, where affiliates working in the same sector can discuss matters of common interest as they prepare for negotiations.

In the past, unions have all too often tended to view each other either with indifference, or as competitors. We can no longer afford this kind of approach. We all know that the settlements reached by other unions in the same sector or industry have a very large impact on negotiations. In the case of unions that opt for interest arbitration, such other settlements are usually decisive for the award. In the case of unions that choose to avoid arbitration, the likelihood of a successful strike depends very much any existing pattern of settlements in the industry.

Bargaining preparation meetings including representatives of all the unions in an industry should become a regular feature of the Alberta labour scene. Unions should attempt to reach a common understanding on bargaining goals, timing, and tactics.

III. Develop a way to share information on bargaining outcomes

When affiliates negotiate an agreement that breaks new ground or which contains significant improvements that may serve as a model for other unions in bargaining, they should forward a copy of the new agreement to the Federation, along with an explanation of the more significant elements in the contract. The AFL should then circulate this information to other affiliates.

REFERENCES

[i] Data from Statistics Canada, *Annual Estimates of Employment, Earnings and Hours, 1991 - 2005*
[ii] Annual increases calculated on data from Statistics Canada, *Annual Estimates of Employment, Earnings and Hours, 1991 - 2005*
[iii] Data from Alberta Employment Immigration and Industry, *Bargaining Update, January 2007.*
[iv] All settlement data in the following tables are taken from Alberta Employment Immigration and Industry, *Bargaining Update, January 2007*
[v] All inflation data taken from Statistics Canada, *The Consumer Price Index, various releases*

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