



# **The Economic Underpinnings for Collective Bargaining**

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**Sponsored by:**

**Cox Hanson O'Reilly Matheson**

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Luncheon address to the seminar: "Interest-based Collective Bargaining: The Way of the Future?"

Sponsored by Cox Hanson O'Reilly Matheson (Halifax, Nova Scotia).

The slides have been subsequently revised and extended to make them more useful on a stand-alone basis.

## Who Needs What Information?

- **General Membership**
- **Managers and Non-union Employees**
- **Bargainers (union and employer representatives)**
- **Public**

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This question is raised since information flows can be important in obtaining support for settlements.

I have added the “public” to the list since their understanding of the basic economic situation and the nature of the settlement will determine their assessment.

Was it “fair”?

## Background Info

- **General**
  - Price level and Inflation
  - Real incomes
  - Labour market conditions
- **Sector-specific Elements**
- **Occupational Elements**
- **Employer-specific Elements**

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The information base for employers and employees and their representatives (unions) is quite similar. What is happening to overall economic developments? What is happening in the industry, the occupational group, and with the employer?

We will discuss each of these elements below.

## Price Level and Inflation

- **National CPI and “core” measures**
- **Regional versus national**
- **Spatial price indexes**

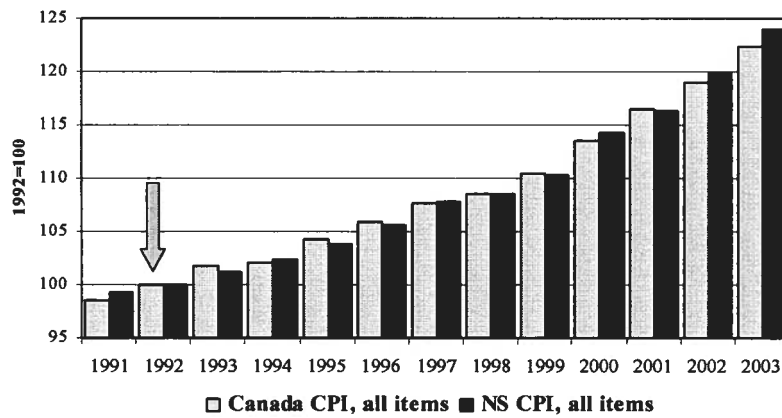
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The components of interest include the national picture for inflation, regional trends, and the difference in the cost of living between one location and another (spatial).

# National and NS CPI

## Nova Scotia and Canada CPI, Levels

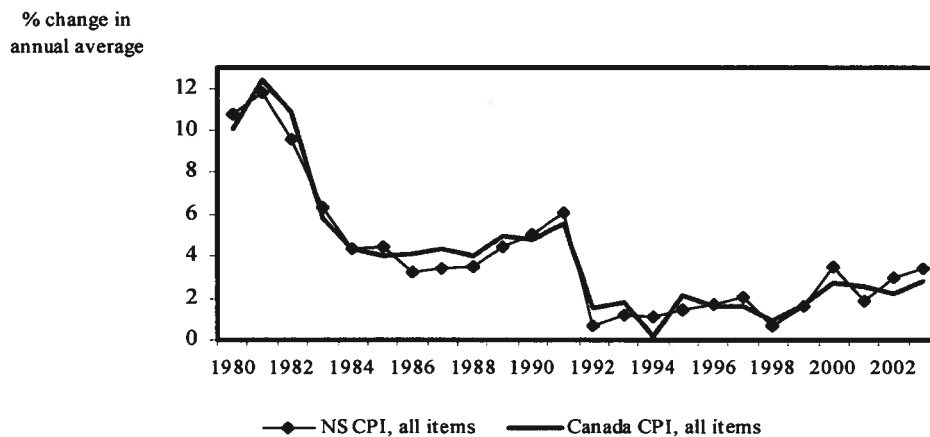


The price level shows a similar pattern, but it is more common to focus on the rate of change or percentage growth of each price index. Note that the price levels are the same in 1992 – the base year – at 100. Since that time, Nova Scotia prices have increased to an index of 124.2 in February 2004, compared to a national index value of 123.2.

But given the same value in 1992, clearly these indexes do not measure the differences in the cost of living in 1992. Rather it is only the **change** in the cost of living since that time.

In the next slide we examine the change from year to year.

## National and NS CPI % Historical Comparison of CPI, Canada and Nova Scotia



The percentage change in the CPI is one popular measure of **inflation**. The peak values in the early 1980s dropped to about 5% in the last half of the 1980s. The small peak in 1991 reflected the substitution of the GST for the manufacturers sales tax (MST), along with other tax increases at that time.

Since 1992, inflation has been around 2%. Since 1999, inflation has been somewhat more rapid in Nova Scotia than the Canadian average (except for 2001). In 2003, the Nova Scotia average was 3.4%, compared to 2.8% nationally.

The prospects for the next three years is that inflation will remain low. With the recent revaluation of the Canadian dollar there is substantial downward pressure on prices already in the pipeline. Every 10% revaluation translates into 3% or more decline in the CPI over a several year period. In addition, if oil prices drop to the OPEC target of about \$26.00 then further deflation is to be expected.

## Spatial Price Indexes

<b>Canada</b>	<b>100</b>	<b>Ottawa</b>	<b>104</b>
<b>St. John's</b>	<b>99</b>	<b>Toronto</b>	<b>110</b>
<b>Charlottetown</b>	<b>95</b>	<b>Winnipeg</b>	<b>92</b>
<b>HALIFAX</b>	<b>99</b>	<b>Regina</b>	<b>93</b>
<b>St. John</b>	<b>93</b>	<b>Edmonton</b>	<b>93</b>
<b>Montreal</b>	<b>94</b>	<b>Vancouver</b>	<b>106</b>

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Each location has its own “cost of living”. This is influenced by rent costs, heating fuel choices, costs of public transportation, etc. Using the standard CPI basket, Statistics Canada has produced a inter-city index of Retail Price Differentials. The Canadian average is selected as 100. Each location is relative to that average. Toronto is 10% higher, Winnipeg is 8% lower.

Halifax is close to the Canadian average at 99.

These indexes are as of October 2001. Current values can be approximated by multiplying the current CPI for each location by the ratio of the city spatial index to 100, and normalizing on the basis of October 2001. In other words, use the CPI change from October 2001 to update each series.

Another way to use this information, would be in comparing wages in one location with another. For example, St. John New Brunswick is about 6.5% less expensive than Halifax.

## Real Incomes

- **The notion of “real”**
- **Real wages**
- **Real disposable income**
- **Sales and commodity taxes**

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What do we mean by “real”? Assume that your monthly electric bill increases from \$100 to \$150. What is the first thing you do? You look at your bill and split the change into two parts – how much did my consumption in KWHs increase? How much did the price per KWH increase?

The volume of usage is the real part, the rate change (if any) is the price component. You still have to pay \$150 but you now have a sense of the underlying cause(s), and what to do about it. If the volume is up, it may be a seasonal blip or reflect the need to turn off some lights. If the price is up, then expect it next month again, unless the price is linked to oil prices.

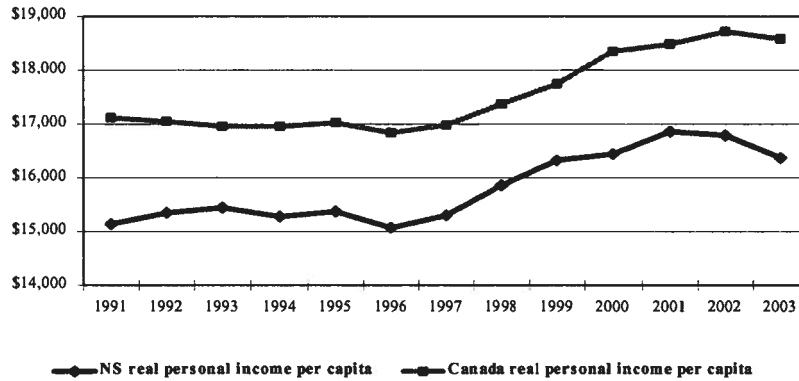
When we refer to real wages or real incomes we don't know what you are going to spend the income on. Instead we use a broad-based price index like the CPI to capture the price component. The ratio of  $(C/P)$  or “real” income gives us the real part of an income change.

By using the CPI we also pick up the effects of “indirect taxes” (GST, tobacco, alcohol, gasoline, etc.). Disposable income reflects transfers and direct taxes (social contributions and income taxes). Therefore, real disposable income embodies the net effect of all tax changes that affect the consumer.

A Cautionary Note: Using the CPI to deflate wages will lead to a decline when indirect taxes increase, but not when income taxes jump.

# Disposable Income

## Real Per Capita Disposable Income



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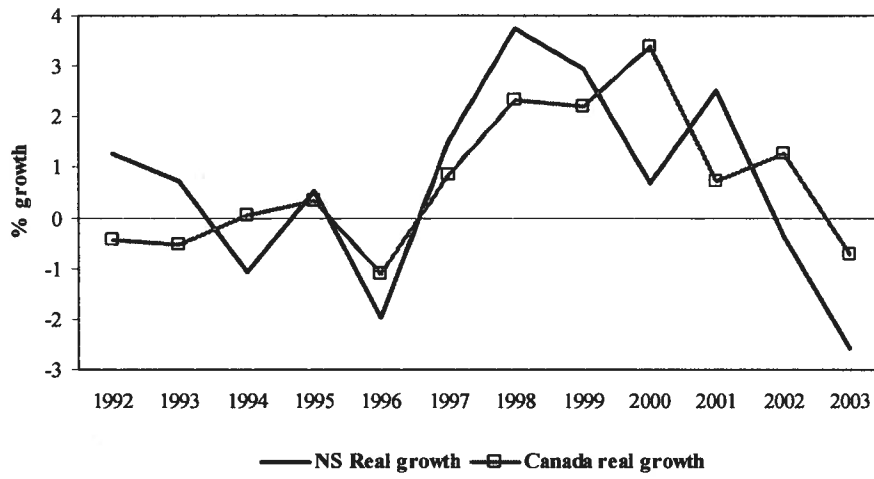
From the early 1980s through 1997 little progress was made in real disposable income per person. From 1998 through 2001, significant progress was made. Preliminary data suggest that 2003 was a disappointing year – both in Canada and Nova Scotia.

Looking ahead, some improvement should be evident. This will particularly be the case if real wage gains occur, requiring that wages grow more rapidly than inflation.

This chart emphasizes the level of income per person. The next chart examines the percentage change.

# % change

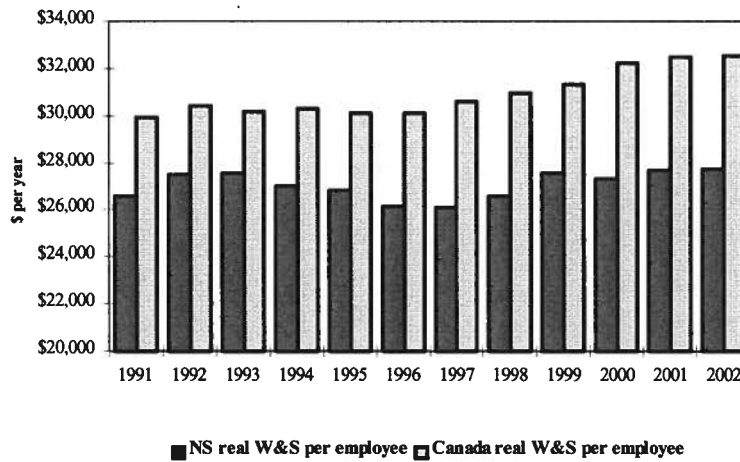
## Real disposable income per person



1996 was weak in both Nova Scotia and Canada. In 2003, preliminary data are dismal – recession-like. In 2002, Nova Scotia real incomes declined while the Canada-wide average grew modestly.

# Wage per employee

## Wages and Salaries per Employee



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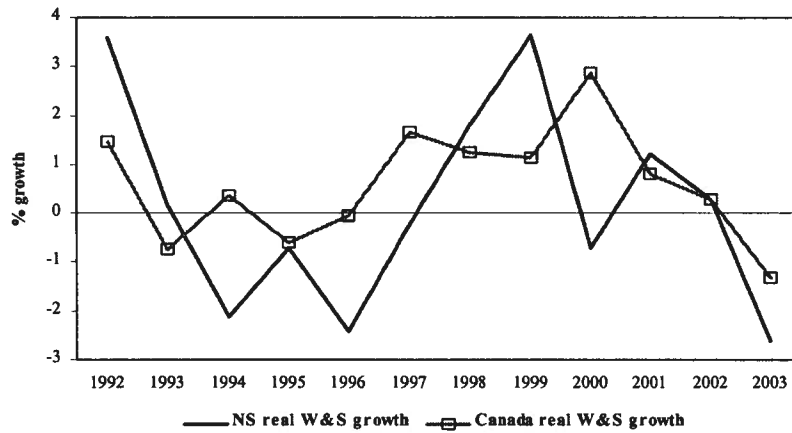
If we calculate the average wage per employee in real terms, we obtain the two series above. (We used the National CPI for Canada and the Nova Scotia CPI for Nova Scotia.)

In 2003, wages in Nova Scotia were about \$27,000 compared to the national average of \$32,100. Such differences may reflect occupational mixes, educational and skills backgrounds, and spatial costs of living. (We noted earlier that there is little difference between Halifax and the Canadian average of retail prices.) Such differences change slowly.

But annual variations can occur as a result of different collective agreements, changes in prices, etc.

# % change in wages per employee

## Wages and Salaries per Employee



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Wage increases in Nova Scotia are generally less than in Canada as a total. Only in 1992 and 1999 are there significantly higher increases in Nova Scotia. Since 2000, changes have been similar or lower than the Canadian average. To regain positive growth in real incomes, real wages must increase, implying wage gains in excess of inflation.

## More on real wages

- **Employer perspective**
  - All labour costs (wages, supplementary costs, etc.)
  - Deflator – “prices” received by employer
- **Employee perspective**
  - Take-home pay (net wages less taxes, EI, CPP)
  - Deflator – CPI for his/her basket of goods and services (indirect tax effects included)

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The employer considers all labour costs, particularly the variable ones.

His take on “real” is to consider wages relative to his/her prices, not the CPI. Alternatively, a measure like unit labour costs, with real output in the denominator may be the guide. The comparison is between the wage rate change and productivity growth.

The employee looks at the amount of the cheque, after deductions for social programs and taxes. Supplementary labour costs are not considered, unless he/she needs the services of the program.

## Labour Market Conditions

- **Unemployment rates**
- **Labour force trends**
- **Employment trends**
- **Regional versus national**

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Unemployment rates – both national and regional color the outlook for negotiations. If unemployment rates are rising then this signals weak demand for employment, difficult prospects for switching jobs, and heightened uncertainty for both employees and employers. It is not surprising that the number of strikes is usually lower when unemployment rates are higher.

Nationally, 2000 recorded an average of 6.8% with recent increases back to 7.6% in 2003 and 2004. In Nova Scotia, levels remain higher (2000- 9.1%), with 2003 levels of 9.3%.

Prospects are for some improvement in national unemployment rates, reflecting both rising employment and slowing growth in the labour force. There is every reason to believe that Nova Scotia will participate in that improvement.

## Sector-specific Elements - I

- **Sectoral wage rates (national and regional)**
- **Supplementary labour costs**
  - EI contribution rates
  - CPP/QPP
  - Supplementary health
  - Pensions
  - Workers Comp.
  - Training

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Supplementary labour costs are expected to grow less rapidly in the next few years, reflecting lower or stable contribution rates for social programs. The only exception may be pension contributions required to meet obligations for defined benefit pensions.

## Sector-specific Elements – II

- **Hours of work, vacations, holidays**
- **“Industry” prospects**
  - Expanding?
  - Margins?
- **Settlement history**
  - Catching up or widening gap?
  - Duration
- **Other Employers or Union contracts**

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Although we talk a lot about balance between work and family, little progress is expected in the next few years with hours of work remaining high.

What do you know about the other elements?

## Occupational Elements

- **Wage rates**
  - Path
  - Relative to other occupations
- **Skill and education requirements**
- **On-going training?**
- **Supply and demand balances**
  - Age-sex structure

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In most occupations and industries, we observe the number of people retiring exceeding the number entering at younger ages, raising the average age of employees. This trend will accelerate over the next decade.

There will be increased competition for young people, increased efforts to retain current workers, and to delay their retirement. Experiments with shorter hours for more senior workers will be tried.

Are you in an industry (e.g., construction, mining) that mainly hires men? Or women (e.g., education, health)? You may want to broaden your perspective!

## Employer-specific Elements

- **Existing contract performance**
  - On-track?
  - Surprises?
- **Prospects for Company/ Organization**
  - Absolute (if positive , share it!)
  - Relative to “Competitors”
- **Turnover of Employees (High/Low?)**
- **Absenteeism – Signal of Problems?**

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### Surprises?

- Has CPI change been more or less than expected?
- What has happened to wages paid by competitors?
- Was your performance better or worse than expected?

What do turnover increases do to those trained in IBN?

Maintaining confidentiality of information supplied during collective bargaining requires careful thought. Discuss this with your legal advisor.

## Government as Employer

- **Political Ideology (fads)**
- **Fiscal trends (revenue, expenditure, balances)**
- **Debt ratio**
- **Other settlements (history and prospects)**

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Broad information about government is available to all, publicly. But years of data manipulation has broken the trust between governments and the public. The history in some jurisdictions of freezes and rollbacks needs to be overcome. Otherwise trust will not be restored.

Fiscal trends are improving. Lower interest rates and low inflation should help federal and provincial governments to improve their fiscal position. Debt ratios will decline.

## Perspectives

- **Looking back (Has progress been made?)**
- **Looking forward**
  - Covering expected cost-of-living increases?
  - Real income gains?
- **Relative (Compared to other settlements)**

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This framework can be useful for summarizing information.

Historically, labour has not kept up with inflation and productivity gains.

Looking forward, the appreciation of the Canadian dollar may help regain some of it, with rising wages and declining inflation. If the dollar remains strong and the economy continues to expand, then some improvement is to be expected in the labour share of a growing pie.

## Key Points

- **Information about the Economy matters to Collective Bargaining**
- **IBB may encourage the sharing of information**
- **Exchanging information about the firm and union could help build trust**
- **All forms of collective bargaining can use timely information**

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Interest-based bargaining (IBB) or negotiations (IBN) are reliant on information and trust among the parties.

The development of more trust in our society can be a plus for all of us. There is substantial evidence that countries with high levels of trust grow more rapidly, over and above contributions from education, capital stock growth, and technological factors.