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Assessing the Costs and Benefits of Collective Bargaining – the Potential Use of Costing L'argument du coût dans les négociations collectives

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[See table of contents](#)

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Article abstract

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Assessing the Cost and Benefits of Collective Bargaining: The Potential Use of Costing

Gilbert Levine

This paper presents the union point of view on collective bargaining costing.

With my background of labour research in the public sector, I must admit that I find it strange to write on « The potential use of costing ». I strongly suspect that the use of costing is much further advanced in private sector collective bargaining. Indeed, only in the last few years, as more public employer bargainers with an industrial background have entered the scene, has the matter of costing the settlement become an issue.

First, let me state my bias. As a committed trade unionist, I start from the premise that I want to see working people of Canada obtain a fair return for their labour. From what little I have observed about costing of collective agreement settlements, I am convinced that it has been used by management as a sophisticated device to deprive workers of a fair and just settlement. It is not so much the *use* of costing that concerns me, it is the *abuse*. My paper might better be entitled : « The Abuse of Costing ».

As some of the abuses of costing are cited, it should very quickly become clear why I am opposed to the present manner in which collective agreements are costed.

In recent years public employers have seized on a distorted form of the costing technique as one of the most effective tools of bargaining. The formula simply requires adding up all of the union's initial bargaining proposals, multiplying the amount by several thousand employees, and further multiplying that amount over two or three years. Depending on the size of the bargaining unit and the term of the collective agreement, employers can easily come up

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with cost figures on the millions of dollars in their attempts to depict the public employee as a selfish extortionist who is prepared to hold up his community for ransom and to upset the economic stability of the nation.

This new collective bargaining technique may be called the « new math » of labour relations. It consists of an attempt to create a public impression that a fairly modest union request is an outrageous one. The purveyors of this technique rely heavily on :

- a) « How to Lie with Statistics » — that famous little book appears to be a must on the reading list of all public employer negotiators.
- b) « The Big Lie » — the bigger the lie, the more likely it is to be believed by the public.

What are some of the major elements of this « new math » approach ?

COST EVERYTHING

Every union request must be charged at maximum cost. If a union requests one day's paid leave of absence in the case of the death of a grand-parent, the management cost analyst maximizes the cost of this request by assuming that every union member's grand-parents will die within the year. The same procedure may also be applied to union proposals for paid jury duty leave, time off for grievances, emergency call-in pay, etc. In this way the employer can easily inflate the union's request into a mythical million.

This technique was attempted by City and Metro Toronto in 1972 negotiations and resulted in a five week strike of Toronto's municipal manual workers, members of CUPE Local 43. In this instance, the Employers stated in a brief to an arbitration board which was subsequently established to resolve the dispute :

« The gross wage and benefit package for a labourer in the City of Toronto Streets Department before any adjustments in 1972 was in excess of \$10,000. »

The \$10,000 figure was arrived at by adding a fringe benefit amount of \$2,635. to a labourer's annual salary rate of \$7,475. to arrive at an amount of \$10,110. However, included in the \$2,635. amount for « non productive pay » were items such as vacation time, sick leave, holidays, etc., all of which were already included in the annual salary rate. It is obvious that an employee does not get paid twice for his vacation time, holiday, and sick leave. By eliminating this exercise in double counting, the real cost of the fringe benefits in this instance is reduced from \$2,635 to \$1,470 per annum. The fringes were worth 19.6% of the labourer's income and not 35% as claimed by the employers.

The « cost everything » and compound it approach in Toronto was used to scare taxpayers with statements that the union's demands would cost the average homeowner \$135. By the time double counting and other padding was eliminated, and the multiplier effect was removed, the union estimated the real cost of its proposals for 1972 amounted to just over \$10. per Metro Toronto household.

USE THE MULTIPLIER

This is very useful in large bargaining units. It consists of multiplying the wage request by the number of employees over the period of the collective agreement. An offered increase of \$1.00 per week in each year of a three year collective agreement may not appear like much. But surely the public will be impressed by an increase of \$1.3 million. That \$1.3 million proposal represents the same \$1.00 per week increase spread over three years for 5,000 employees.

The most glaring example of this multiplier technique occurred last year in negotiations between the Province of Quebec and the Common Front. Since the negotiations covered almost 250,000 public and para public employees, it was not difficult for the Government to make a mind-boggling offer which it stated was worth \$230,000,000 ! Since this seemingly large offer covered such a large group of employees and was spread over a period of three years, it was turned down. In the most elaborate public relations efforts in the history of Canadian industrial relations, the Quebec Government tried, and failed, to convince the union members and public that this was a generous offer. In fact, this quarter of a billion dollar wage offer did not meet the union's minimum wage goal of only \$100. per week. It did not even provide for a wage increase sufficient to cover the increases in the cost of living.

ONLY USE "GLOBAL" STATISTICS

The technique requires the employer to use total « cost » statistics and avoid any breakdown of cost estimates. This makes it easier for the employer to pad his figures. It makes it impossible to verify the information. It also helps to create the public impression that all of the « exorbitant » package costs will be in the form of wage increases.

INCLUDE THE "COSTS" OF ALL EMPLOYEES OF THE EMPLOYER

Although the bargaining unit may only include a relatively small proportion of all of the employees of the employer, the technique includes adding onto the « costs » at least a similar increase to all other employees excluded from the bargaining unit.

Public employers often state that any improvement in wages and benefits negotiated by manual or production employees must also be

passed on to supervisory, administrative and clerical staff. In this way the employer greatly inflates the impact of the union's position.

Possibly the most glaring example of compounding the impact of a wage increase occurred a decade ago when CUPE was attempting to negotiate for employees of the Western Memorial Hospital in Corner Brook, Newfoundland. A Royal Commission was established to investigate the problems arising out of a strike in which the hospital employees were attempting to win a wage increase above their magnificent rate of \$21. per week. The Provincial Government argued before the Commission that, if the few dollars per week requested by the maids were granted in this one instance, it would also have to be given to all other employees in the Hospital. If the Corner Brook hospital employees received this increase, the Government argued that an equal increase would also have to be given to all employees in 30 other Newfoundland hospitals at a cost of \$1,390,000. If all the hospital employees received a wage increase, then an equal increase would have to be given to all provincial civil servants, teachers, and others. By the time the Province made full use of the multiplier effect, the \$2.00 per week increase requested by the few maids in Corner Brook had snowballed into a \$3 million provincial wage bill.

MAKE THE MAXIMUM PROPOSAL APPEAR AS A MINIMUM DEMAND

The current ritual of collective bargaining requires the union to inflate its initial proposal well beyond what it expects the settlement to be. Continuing the ritual, the employer makes an equally ridiculous offer, well below the level at which he expects to settle. The technique requires the employer to take the union's first proposals very seriously and to consider the initial maximum proposal as a minimum demand. The anti-union news media, who are completely unable or unwilling to scrutinize the cost analysis of the employers, publicize these inflated « facts » not only to alienate the public from the union but also to neutralize the active support of the union members.

COST BOTH THE STATUTORY AND NON-STATUTORY BENEFITS

Included in the employee benefit package are many matters which the employer is required to pay as a result of federal and provincial statutes and not as a result of employee or union action. I contend that the statutory benefits such as Workmen's Compensation, Canada Pension Plan, unemployment insurance, 4% vacation pay, etc., should be segregated from payroll costs and *not* counted in any fringe benefit costing procedures.

For example, the laws of all labour jurisdictions provide for employers to pay for a minimum of two weeks vacation per year, or 4% of payroll. Let us assume that a union negotiates a standard three week

vacation with pay or 6% of payroll. The employer inevitably records this as 6% payroll costs arising out of union action. However, the facts are that 4% of the vacation benefit arises out of legislative action and only 2% of the benefit arises out of union action. Even though they are both real expenditures for any employer, any fair settlement costing procedure should only cost those matters which arise out of union action. If this was done, the cost of any settlement package would be drastically reduced.

In a review CUPE conducted of all fringe benefits available to employees of the City of Toronto, it was found that 42% of the cost of fringes resulted from statutory provisions. It is doubtful whether many employers would want to get involved in costing settlements if 42% of the costs were rightfully removed from the calculations.

It is because of these examples of misuse of costing that most unions refuse to get involved in the game. And it is just that — a game!

In spite of some recent attempts to do a more honest cost analysis most examples of costing by employers are simply a system of adding up the « cost » of each new union proposal. No effort is normally made to measure and deduct the value of any « savings » to the employer resulting from the implementation of the union's proposals. The following examples are cited to explain how this simplified method of costing grossly distorts the financial impact of union proposals :

Under the simplified costing method, reductions in actual paid time worked are merely costed as one day's pay for each additional holiday, one week's pay for each extra week of vacation, one half hour's pay for each half hour reduction in daily working hours, etc. But there is an abundance of evidence to prove that more leisure time has resulted in increased productivity. Yet employers who only cost the impact of the reduced time worked make no effort to measure the offsetting gains of increased productivity. Similarly, a 15 minute paid rest period which results in increased productivity and a lower accident rate cannot simply be costed at one-quarter of an hour's wages.

Employers often fully cost the value of increased pension costs resulting from an earlier retirement program. Little or no effort is made to put a value on the benefits resulting from a younger, more productive work force.

Similarly employers fully charge against a settlement, the cost of re-training programs without any compensation for the higher productivity resulting from the more highly skilled work force.

Employers will fully charge against their settlement costs any enrichment of premium pay for overtime work. However, most employees do not consider premium pay for overtime as an employee benefit. They consider it as a penalty against the employer for poor administration or

faulty planning and scheduling of production. If such is the case, why should the inadequate planning and administration be chalked up against the union as part of the settlement costs?

Is it fair for employers to merely cost the paid time spent in grievance handling without attempting to calculate the more than compensating gains in increased productivity resulting from a more satisfied work force?

Is it fair to cost the impact of wage increases for women workers resulting from the implementation of equal pay for equal work legislation? Since this has been considered a socially desirable goal for many years, should the union not deduct from the cost of this matter the money saved by the employer because of the previous years of cheating his female employees?

In costing the settlement package employers artificially inflate the value of employee benefits by not crediting returns arising from favourable experience. Insurance companies normally rebate a portion of the premium costs to the employers for favourable experience in group life plans, weekly indemnity plans, drug and dental insurance plans. These rebates should, but never are, deducted from the initial cost of the programs. A CUPE study of typical group life plans revealed that rebates ranged from 10% to 40% of gross premiums. By not crediting these rebates, the cost estimates of these plans are completely distorted.

The employee benefit which is probably most grossly over costed is the employer payment of pensions. Most employers who pay 4% of earnings towards pension would mark that down as a 4% payroll expenditure. But in actual fact, under Canadian tax laws, pension costs can be deducted from current operating revenue and deducted from corporation income tax. Further, many firms and governments invest the pension funds in their own firms and, in effect, are able to « loan » themselves money at greatly reduced rates of interest. In the case of the federal Superannuation Plan, a trust fund exists on paper only, with actual benefits being paid out of consolidated revenue. These practices would have the effect of reducing real pension costs by approximately one half. In other words, the 4% pension payroll cost charged against the union may only cost the employer 2% in real terms.

All systems of estimating settlement costs are based on two false assumptions, namely that:

- 1) there will be no other changes during the term of the collective agreement.
- 2) hourly compensation and labour costs are one and the same thing.

Let us examine how these assumptions distort the estimated costs of settlements.

It is obvious that changes during the term of the agreement in the sex, age, and occupational composition of the work force will have a strong effect on pension, vacation and other labour costs. Employers may also change work methods in response to negotiated penalties. For example, an employer who costed in his package settlement the value of an increase in overtime penalty pay from time and one half to double time, may as a result decide to eliminate all forms of overtime. This change in existing practices then results in lesser costs, not higher costs as was estimated in the settlement.

The false assumption is made that increased compensation in the form of wages and benefits will automatically result in increased labour costs. However, labour costs are influenced by changes in hourly wage rates and changes in productivity resulting from technological and other changes. There are of course, many examples of reductions in unit labour costs taking place concurrently with increased wage costs. Yet in these types of settlements the amount of the wage increase is costed against the union's requests, in spite of the reduced unit labour costs.

In the game of assessing the costs and benefits of a collective bargaining settlement, the employer is in a favoured position. The union normally does not have access to all the employment data on which any accurate costing information must be based. Most employers in Canada are reluctant to make this type of information fully available to unions, in a manner in which the information may be verified. Unions in such a disadvantaged position should never get caught in the costing game.

Should worst come to worst and the costing technique become a part of the industrial relations scene, it will be important for the disadvantaged unions to have legislative protection.

Most urgently needed is a Welfare Disclosures Act compelling employers to divulge full information on employee benefit costs prior to the commencement of bargaining. Such an Act has been in effect in the United States for many years and is long overdue in Canada.

Unions will also continue to press for a social security system more akin to the European pattern where these benefits are covered by legislation and are not a subject of collective bargaining. For example, in those provinces of Canada which have abolished medicare premiums and the cost of medicare is paid out of consolidated revenue, this issue is removed from the bargaining table. Aside from the obvious benefits of socializing the costs of these social security benefits, this removes the problem of costing the benefit as part of a package settlement. Unions believe the simplest formula for costing is to remove all of these social security benefits from bargaining and cover them by legislation. Unions then will concentrate their bargaining on wages and working conditions. This is by far the best formula to remove any controversy about costing techniques.

In the meantime, for all of the above reasons, and more, unions will remain very cautious about costing proposed or actual settlement packages. Unions will continue to look upon the costing technique as a management negotiating tool to inflate and distort the real cost of a union's bargaining proposals. Effective unions will bargain for *benefits* instead of bargaining on the basis of *costs*. They will bargain for collective agreement provisions and benefits on their merits and on the needs of their members, regardless of some distorted management cost estimates.

L'argument du coût dans les négociations collectives

Le recours à l'argument du « coût » dans les négociations collectives apparaît être nettement abusif. Au cours des dernières années, l'État-employeur a mis au point une technique d'évaluation du coût des négociations qui est singulièrement trompeuse. La formule est simple. Il ne s'agit que d'additionner les demandes initiales du syndicat, de multiplier la somme ainsi obtenue par le nombre des employés et de la multiplier une fois de plus par deux ou par trois selon la durée de la convention collective projetée. Suivant le cadre de l'unité de négociation et la durée de la convention, on peut arriver à des sommes astronomiques et faire croire aux contribuables que les employés des entreprises publiques veulent les extorquer et qu'ils sont à la veille de mettre la stabilité économique du pays en danger.

Au fond, la tactique consiste à tenter de créer dans l'opinion publique l'impression qu'une revendication plutôt modérée du syndicat est fort exagérée. Les tenants de cette technique s'appuient sur le « Comment mentir avec les statistiques ? » et le « Plus le mensonge est grossier plus il a de chance d'être cru ».

Pour atteindre ce but, on procédera ainsi : toute demande du syndicat doit être évaluée au prix fort. Si le syndicat demande une journée de congé de deuil payée à l'occasion du décès du grand-père ou de la grand-mère d'un employé, l'employeur estimera que chaque employé perdra ses grands-parents pendant l'année. En voici une illustration. Au cours des négociations à la communauté urbaine de Toronto, pour faire ressortir le taux élevé du salaire du manœuvre, on y avait ajouté une somme de \$2,635.00 qui était censée représenter le coût des avantages sociaux. Or, il s'est avéré que ceci comprenait les sommes accordées pour vacances, congés payés et congés de maladie qui étaient déjà incluses dans le taux de salaire. Une fois cette somme déduite, le montant initial s'est trouvé réduit à \$1,470.00 par année, et les avantages accessoires ne s'établissaient plus à 35 pour cent, mais à moins de 20 pour cent du revenu de l'employé.

Une autre façon d'impressionner le public, c'est le recours à l'effet multiplicateur, principalement dans le cas des grandes unités de négociation. Une augmentation de \$1.00 par semaine par année pour une convention de trois ans, c'est peu. Mais si le groupe compte 5,000 travailleurs, cela fait tout de même la jolie somme de \$1,300,000.00. Les négociations dans le secteur public au Québec sont une bonne illustration de la tactique. On a fait danser devant l'opinion publique le chiffre fabuleux de \$250,000,000.00. Mais on n'a guère insisté pour dire que 250,000 salariés étaient en cause dans l'affaire.

On recourt encore à l'utilisation des statistiques globales, ce qui permet d'éviter l'estimation de la valeur relative des coûts pour chaque demande. On inclut aussi dans ces estimations tous les salariés de l'entreprise sous prétexte qu'il faudra accorder des avantages identiques aux employés qui ne font pas partie de l'unité de négociation. Il arrive même que l'on pousse encore plus loin. À Terre-Neuve, il y a quelques années, on négociait à un hôpital de Corner Brook les salaires des femmes de ménage qui étaient alors en grève. Il était question d'une majoration de \$2.00 par semaine. Le gouvernement soutint qu'il devait accorder la même augmentation dans 30 autres hôpitaux et que le tout s'élèverait à \$1,390,000.00. À un moment donné même, ce chiffre a atteint la somme de trois millions, car il fallait accorder cette majoration à tous les employés du gouvernement. C'est l'argument de la boule de neige qu'on fait grossir en la roulant.

Une des tactiques utilisées consiste à considérer les demandes initiales du syndicat qui sont généralement un peu gonflées comme sa réclamation minimale. Les journaux antisyndicaux se hâtent de publier ces chiffres impressionnants, non seulement pour bernier les gens, mais aussi pour neutraliser l'appui des membres eux-mêmes.

Il importe de signaler d'autres points. On inclut aussi dans l'estimation le coût des contributions pour les accidents du travail, l'assurance-chômage, l'assurance-maladie, les rentes. Il est certain que ces montants ne devraient pas être inclus. Il devrait en être ainsi des deux premières semaines de vacances annuelles qui sont imposées par la loi partout au Canada. En effet, on estime à 42 pour cent du coût de l'ensemble des avantages sociaux ceux qui sont imposés par des mesures législatives.

Il s'agit là uniquement des facteurs à incidence directe qu'on peut compter. Jamais on ne fait entrer en ligne de compte l'accroissement de la productivité attribuable à la réduction de la durée du travail, à la retraite prématurée, à la meilleure formation professionnelle du personnel.

En réalité, le calcul des « coûts » dans la négociation collective repose sur deux hypothèses fausses : il ne se produira aucun changement dans le cours de la convention collective ; le taux de salaire et le coût du travail sont une seule et même chose.

Des changements se produisent en cours de convention dans le sexe, l'âge et la composition professionnelle des effectifs qui ne sont pas sans avoir beaucoup d'effet sur le coût du travail. Le changement dans les méthodes de travail doit aussi être considéré, car il y a nombre d'exemples où le coût par unité de travail a diminué même après la concession de majorations de salaire.

On peut conclure que l'employeur se trouve dans une situation privilégiée pour ce qui est de l'estimation du « coût » d'une négociation collective.

En guise de conclusion, deux suggestions concrètes : il devrait y avoir une loi qui oblige les employeurs à fournir aux syndicats dès le début des négociations collectives des renseignements exacts sur ces questions ; de même, les centrales syndicales devraient continuer à faire pression pour que le coût des mesures de sécurité sociale imposées par la loi soit assumé par les gouvernements à même leurs revenus ordinaires.